ANNUAL FINANCIAL REPORT

of the

CITY OF
BUNKER HILL VILLAGE, TEXAS

For the Year Ended
December 31, 2009

(This page intentionally left blank.)

CITY OF BUNKER HILL VILLAGE, TEXAS

TABLE OF CONTENTS

December 31, 2009

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	5
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Assets	15
Statement of Activities	16
Fund Financial Statements	
Governmental Funds Financial Statements	
Balance Sheet – Governmental Funds	18
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	23
Proprietary Fund Financial Statements	
Statement of Net Assets	24
Statement of Revenues, Expenses, and Changes in Fund Net Assets	25
Statement of Cash Flows	27
Notes to Financial Statements	29
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual:	
General Fund	48
Metro Fund	49
Schedule of Funding Progress - Texas Municipal Retirement System	51

(This page intentionally left blank.)

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Bunker Hill Village, Texas (the "City"), as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City as of December 31, 2009 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

BELT HARRIS & ASSOCIATES, LLLP

Belt Harris & Associates, LLLP
Certified Public Accountants
Houston, Texas
March 25, 2010

Houston Office
730 North Post Oak Rd., Ste 401
Houston, TX 77024
PH: 713.263.1123
FX: 713.263.1550

AICPA

www.texasauditors.com
info@texasauditors.com

Governmental Audit Quality Center
AICPA

Austin Office
100 Congress Avenue
Suite 2000
Austin, TX 78701
PH: 512.381.0222

(This page intentionally left blank.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

(This page intentionally left blank.)

CITY OF BUNKER HILL VILLAGE, TEXAS

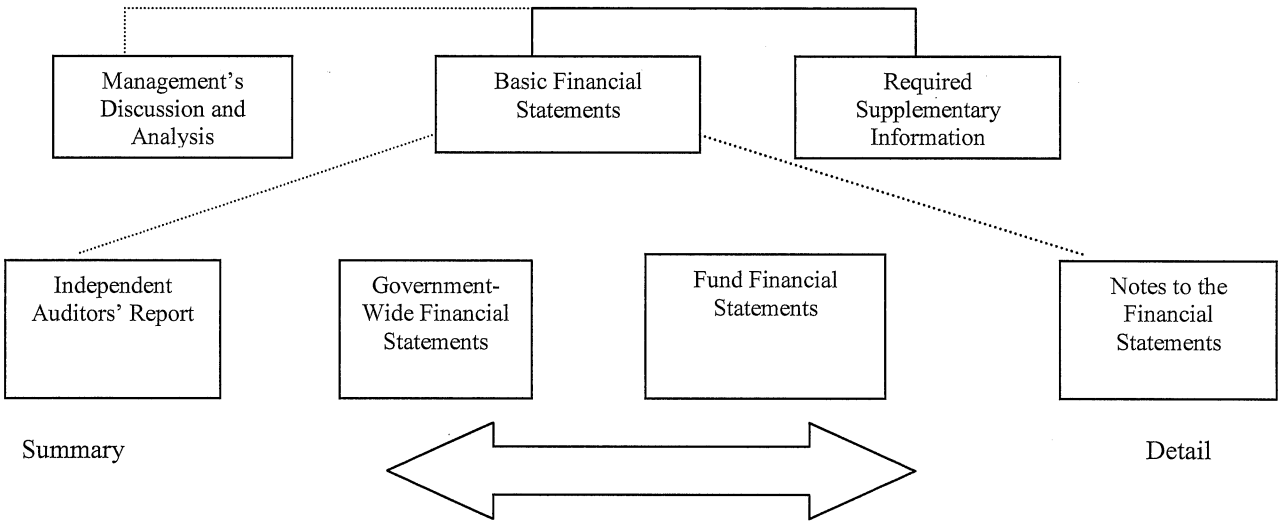
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

For the Year Ended December 31, 2009

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the City of Bunker Hill Village, Texas (the "City") financial activities for the year ending December 31, 2009. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Governmental Accounting Standards Board ("GASB") Statement No. 34 establishes the content of the minimum requirements for the MD&A. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

Components of the Financial Section



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

GOVERNMENT-WIDE STATEMENTS

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

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

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

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

1. Governmental Activities - Most of the City's basic services are reported here including police and fire protection, municipal court, streets, drainage, sanitation, and general administrative services. Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise taxes, municipal court fines and permit fees finance most of these activities.

2. Business-Type Activities - Services involving a fee for those services are reported here. These services include the City's water and sewer services.

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

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

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

Proprietary Funds

The City maintains one 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 the enterprise fund to account for its water distribution and wastewater collection. The proprietary fund financial

statements provide separate information for the water distribution and wastewater collection. The proprietary fund financial statements can be found in the basic financial statements of this report.

Notes to Financial Statements

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

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents RSI. The RSI includes budgetary comparison schedules for the general fund and major special revenue funds and a schedule of funding progress for Texas Municipal Retirement System. RSI can be found after the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. For the City, assets exceed liabilities by $9,899,860 as of December 31, 2009 in the primary government. As required by GASB Statement No. 34, a comparative analysis of government-wide data has been presented as a component of the MD&A. A portion of the City's net assets, 31.3 percent, reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets:

CONDENSED STATEMENT OF NET ASSETS

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Current and other assets	$ 8,668,448	$ 8,370,494	$ 2,102,446	$ 1,554,129	$ 10,770,894	$ 9,924,623
Capital assets, net	11,162,083	11,402,664	4,341,248	4,675,351	15,503,331	16,078,015
Total Assets	19,830,531	19,773,158	6,443,694	6,229,480	26,274,225	26,002,638
Long-term liabilities	12,409,188	12,365,000	-	-	12,409,188	12,365,000
Other liabilities	3,950,976	4,601,973	14,201	22,901	3,965,177	4,624,874
Total Liabilities	16,360,164	16,966,973	14,201	22,901	16,374,365	16,989,874
Net Assets:						
Invested in capital assets, net of related debt	(1,247,105)	(1,757,336)	4,341,248	4,675,351	3,094,143	2,918,015
Restricted	2,329,695	2,477,142	-	-	2,329,695	2,477,142
Unrestricted	2,387,777	2,086,379	2,088,245	1,531,228	4,476,022	3,617,607
Total Net Assets	$ 3,470,367	$ 2,806,185	$ 6,429,493	$ 6,206,579	$ 9,899,860	$ 9,012,764

A portion of the primary government's net assets, $2,395,278, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, $4,476,022 or 44.6 percent, may be used to meet the City's ongoing obligation to citizens and creditors.

The City's total net assets increased by $887,096 during the current fiscal year. This is primarily a result of an increase in property taxes.

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

Statement of Activities

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

CHANGES IN NET ASSETS

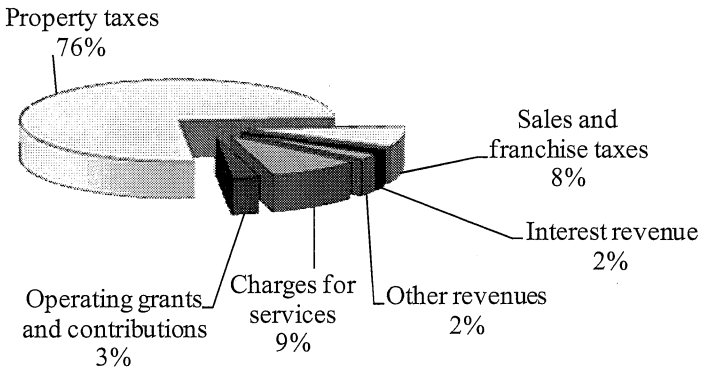
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Revenues						
Program revenues:						
Charges for services	$ 436,800	$ 377,035	$ 2,268,075	$ 1,838,351	$ 2,704,875	$ 2,215,386
Operating grants and contributions	129,000	1,501,100	-	-	129,000	1,501,100
General revenues:						
Property taxes	3,503,472	3,282,811	-	-	3,503,472	3,282,811
Sales, franchise, and other taxes	375,447	419,854	-	-	375,447	419,854
Interest revenue	74,594	103,897	16,886	14,131	91,480	118,028
Other revenues	110,771	135,212	-	-	110,771	135,212
Total Revenues	4,630,084	5,819,909	2,284,961	1,852,482	6,915,045	7,672,391
Expenses						
General government	517,555	462,010	-	-	517,555	462,010
Public safety	2,321,738	2,185,646	-	-	2,321,738	2,185,646
Public works	519,814	603,598	-	-	519,814	603,598
Interest and fiscal agent fees	555,898	613,188	-	-	555,898	613,188
Water and sewer	-	-	2,112,944	1,782,548	2,112,944	1,782,548
Total Expenses	3,915,005	3,864,442	2,112,944	1,782,548	6,027,949	5,646,990
Increase in Net Assets Before Transfers	715,079	1,955,467	172,017	69,934	887,096	2,025,401
Transfers	(50,897)	(414,752)	50,897	414,752	-	-
Change in Net Assets	664,182	1,540,715	222,914	484,686	887,096	2,025,401
Beginning net assets	2,806,185	1,265,470	6,206,579	5,721,893	9,012,764	6,987,363
Ending Net Assets	$ 3,470,367	$ 2,806,185	$ 6,429,493	$ 6,206,579	$ 9,899,860	$ 9,012,764

For the year ended December 31, 2009, revenues from governmental activities totaled $4,630,084. Property tax revenues are normally the City's largest revenue source. Property tax revenue increased by 6.7 percent because of the increase in assessed property values over the prior year.

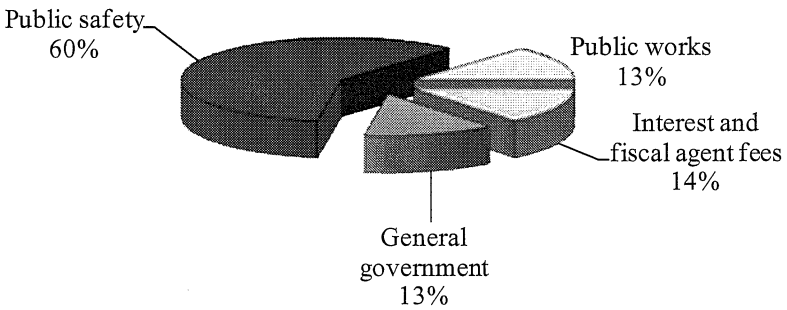
For the year ended December 31, 2009, expenses for governmental activities totaled $3,915,005. This represents an increase of $50,563 from last year primarily due to an increase in public safety expenses.

Business-type activities are shown comparing operating costs to revenues generated by related services. Operating revenues increased during the year due to the increase in utility rates resulting in an increase in net assets of $172,017 before transfers.

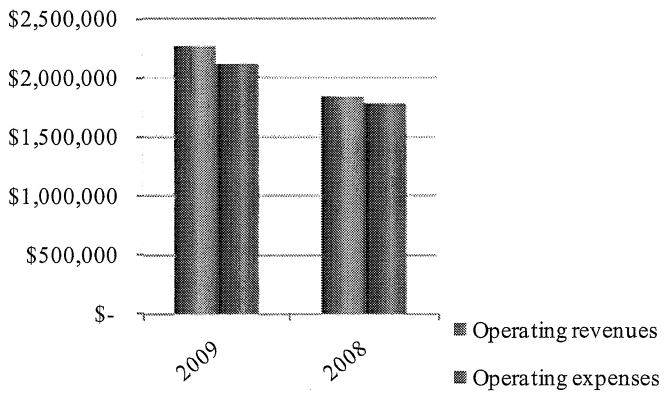
Governmental Activities - Revenues



Governmental Activities - Expenses



Business-Type Activities - Revenues and Expenses



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The City's governmental funds reflect a combined fund balance of $4,621,280. Of this $566,688 is reserved for debt service, $72,319 is reserved for court, $594,047 is reported in capital projects fund, and $1,187,342 is reported in the metro fund.

The general fund is the chief operating fund of the City. At the end of the current year, unreserved, undesignated fund balance of the general fund was $2,200,884. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 75.7 percent of total general fund expenditures.

The debt service fund has a total fund balance of $566,688, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was $29,522. This increase can be attributed to the growth in property tax revenues as well as investment earnings.

The capital projects fund has a total fund balance of $594,047, a decrease of $44,463 from the prior year as a result of completed capital projects.

The metro fund also experienced a decrease in fund balance of $74,596 as a result of planned project expenditures.

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

There had been a planned decrease in final budgeted fund balance in the amount of $122,045 in the general fund. However, the net change in fund balance increased by $147,577 resulting in a positive variance of $269,622 from final budgeted over actual, because expenditures were less than anticipated.

Actual revenues exceeded final budgeted revenues by $65,262 during 2009. This variance is a result of the City receiving more than expected for most revenue sources with the exception of interest revenue because of the decline in interest rates.

Final budgeted expenditures exceeded actual amounts by $204,360 for the year, which is a positive variance. The City anticipated more expenditures than reported for each department.

CAPITAL ASSETS

At the end of year 2009, the City's governmental activities funds had invested $11,162,083 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net decrease of $240,581. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34 with depreciation expense of $360,000.

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

- Blalock Lane Construction
- Gessner Road Construction

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

LONG-TERM DEBT

At the end of the current year, the City had total certificates of obligation outstanding of $7,390,000 and general obligation bonds of $5,030,000 in governmental activities.

During the year, the City had a net addition of $5,019,188 and net reduction in the long-term debt of $5,770,000 as a result of Series 2009 refunding bonds. More detailed information about the City's long-term liabilities is presented in note III. D to the financial statements.

Current underlying ratings on debt issues are as follows:

	Moody's Investors Service	Standard and Poor's
Tax supported debt	Aaa	AAA

ECONOMIC FACTORS

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

(This page intentionally left blank.)

CITY OF BUNKER HILL VILLAGE, TEXAS

STATEMENT OF NET ASSETS

December 31, 2009

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	$ 2,821,104	$ 1,083,998	$ 3,905,102
Investments	2,750,000	900,000	3,650,000
Cash with agent	815,015	-	815,015
Receivables, net	1,938,597	319,055	2,257,652
Internal balances	200,607	(200,607)	-
	8,525,323	2,102,446	10,627,769
Deferred charges	143,125	-	143,125
Capital assets:			
Nondepreciable	24,944	9,163	34,107
Depreciable capital assets, net	11,137,139	4,332,085	15,469,224
	11,305,208	4,341,248	15,646,456
Total Assets	19,830,531	6,443,694	26,274,225
Liabilities			
Account payable and other current liabilities	249,663	9,313	258,976
Accured interest payable	173,990	-	173,990
Deposits	-	4,888	4,888
Unearned revenue	3,527,323	-	3,527,323
	3,950,976	14,201	3,965,177
Noncurrent liabilities:			
Due within one year	868,798	-	868,798
Due in more than one year	11,540,390	-	11,540,390
	12,409,188	-	12,409,188
Total Liabilities	16,360,164	14,201	16,374,365
Net Assets			
Invested in capital assets, net of related debt	(1,247,105)	4,341,248	3,094,143
Restricted for:			
Debt service	541,570	-	541,570
Municipal court	6,736	-	6,736
Metro	1,187,342	-	1,187,342
Construction	594,047	-	594,047
Unrestricted	2,387,777	2,088,245	4,476,022
Total Net Assets	$ 3,470,367	$ 6,429,493	$ 9,899,860

See Notes to Financial Statements.

CITY OF BUNKER HILL VILLAGE, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2009

Functions/Programs	Expenses	Program Revenues: Charges for Sevices	Program Revenues: Operating Grants and Contributions
Primary Government			
Governmental Activities:			
General government	$ 517,555	$ -	$ -
Public safety	2,321,738	173,033	-
Public works	519,814	263,767	129,000
Interest on long-term debt	555,898	-	-
Total Governmental Activities	3,915,005	436,800	129,000
Business-Type Activities			
Water and sewer	2,112,944	2,268,075	-
Total Business-Type Activities	2,112,944	2,268,075	-
Total Primary Government	$ 6,027,949	$ 2,704,875	$ 129,000

General Revenues:

Property taxes

Sales and franchise taxes

Other

Interest revenue

Transfers

Total General Revenues and Transfers

Change in Net Assets

Beginning net assets

Ending Net Assets

See Notes to Financial Statements.

Net Revenue (Expense) and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
$ (517,555)	$ -	$ (517,555)
(2,019,705)	-	(2,019,705)
(256,047)	-	(256,047)
(555,898)	-	(555,898)
(3,349,205)	-	(3,349,205)
-	155,131	155,131
-	155,131	155,131
(3,349,205)	155,131	(3,194,074)
3,503,472	-	3,503,472
375,447	-	375,447
110,771	-	110,771
74,594	16,886	91,480
(50,897)	50,897	-
4,013,387	67,783	4,081,170
664,182	222,914	887,096
2,806,185	6,206,579	9,012,764
$ 3,470,367	$ 6,429,493	$ 9,899,860

CITY OF BUNKER HILL VILLAGE, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

December 31, 2009

	General	Debt Service	Capital Projects	Metro
ASSETS				
Current assets:				
Cash and cash equivalents	$ 875,717	$ 909,414	$ 594,047	$ 441,926
Investments	2,000,000	-	-	750,000
Cash with agent	507,256	307,759	-	-
Receivables, net	1,242,962	695,635	-	-
Due from other funds	205,191	-	-	-
Total Assets	$ 4,831,126	$ 1,912,808	$ 594,047	$ 1,191,926
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 249,663	$ -	$ -	$ -
Due to other funds	-	-	-	4,584
Deferred revenue	2,308,260	1,346,120	-	-
Total Liabilities	2,557,923	1,346,120	-	4,584
Fund Balances:				
Reserved for:				
Debt service	-	566,688	-	-
Municipal court	6,736	-	-	-
Equipment replacement	65,583	-	-	-
Unreserved, undesignated reported in:				
General fund	2,200,884	-	-	-
Special revenue funds	-	-	-	1,187,342
Capital projects funds	-	-	594,047	-
Total Fund Balances	2,273,203	566,688	594,047	1,187,342
Total Liabilities and Fund Balances	$ 4,831,126	$ 1,912,808	$ 594,047	$ 1,191,926

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

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

- Nondepreciable capital assets
- Depreciable capital assets, net

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

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

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

Net Assets of Governmental Activities

See Notes to Financial Statements

Total Governmental Funds
$ 2,821,104
2,750,000
815,015
1,938,597
205,191
$ 8,529,907

$ 249,663
4,584
3,654,380
3,908,627

566,688
6,736
65,583
2,200,884
1,187,342
594,047
4,621,280

24,944
11,137,139
127,057
(173,990)
143,125
(868,798)
(11,540,390)
$ 3,470,367

CITY OF BUNKER HILL VILLAGE, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2009

	General	Debt Service	Capital Projects	Metro
Revenues				
Property taxes	$ 2,100,663	$ 1,389,760	$ -	$ -
Sales, franchise and other taxes	375,447	-	-	-
Permits and licenses	263,767	-	-	-
Fines and forfeitures	173,033	-	-	-
Intergovernmental	-	-	-	129,000
Interest on investments	30,416	29,334	6,458	8,386
Other revenue	110,771	-	-	-
Total Revenues	3,054,097	1,419,094	6,458	137,386
Expenditures				
Current				
General government	477,580	-	-	20,000
Public safety	2,321,738	-	-	-
Public works	84,247	-	-	-
Debt service				
Principal	-	795,000	-	-
Interest and fiscal agent fees	-	528,827	-	-
Bond issuance costs	-	109,933	-	-
Capital outlay	22,955	-	50,921	191,982
Total Expenditures	2,906,520	1,433,760	50,921	211,982
Excess (Deficiency) of Revenues Over (Under) Expenditures	147,577	(14,666)	(44,463)	(74,596)
Other Financing Sources (Uses)				
Refunded bonds issued	-	5,030,000	-	-
Premium	-	27,704	-	-
Payment to refunded bond escrow agent	-	(5,013,516)	-	-
Total Other Financing Sources (Uses)	-	44,188	-	-
Net Change in Fund Balance	147,577	29,522	(44,463)	(74,596)
Beginning fund balances	2,125,626	537,166	638,510	1,261,938
Ending Fund Balances	$ 2,273,203	$ 566,688	$ 594,047	$ 1,187,342

See Notes to Financial Statements.

Total Governmental Funds
$ 3,490,423
375,447
263,767
173,033
129,000
74,594
110,771
4,617,035
497,580
2,321,738
84,247
795,000
528,827
109,933
265,858
4,603,183
13,852
5,030,000
27,704
(5,013,516)
44,188
58,040
4,563,240
$ 4,621,280

(This page intentionally left blank.)

CITY OF BUNKER HILL VILLAGE, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2009

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

Net changes in fund balances - total governmental funds	$	58,040
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital outlay		119,419
Depreciation		(360,000)
The issuance of long-term debt (e.g., bonds, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.		
Principal payments		795,000
Bonds issued		(5,030,000)
Premium		(27,704)
Payment to refunded bond escrow agent		5,013,516
Issuance costs		107,980
Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the funds.		13,049
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(25,118)
Change in Net Assets of Governmental Activities	$	664,182

See Notes to Financial Statements.

CITY OF BUNKER HILL VILLAGE, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUND

December 31, 2009

	Business - Type Activities Enterprise
Assets	
Current assets:	
Cash and cash equivalents	$ 1,083,998
Investments	900,000
Accounts receivable, net	319,055
Total Current Assets	2,303,053
Noncurrent assets:	
Nondepreciable capital assets	9,163
Depreciable capital assets	10,239,390
Less: accumulated depreciation	(5,907,305)
Total Capital Assets (Net of Accumulated Depreciation)	4,341,248
Total Noncurrent Assets	4,341,248
Total Assets	6,644,301
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	9,313
Customer deposits	4,888
Due to other funds	200,607
Total Current Liabilities	214,808
Total Liabilities	214,808
Net Assets	
Invested in capital assets	4,341,248
Unrestricted	2,088,245
Total Net Assets	$ 6,429,493

See Notes to Financial Statements.

CITY OF BUNKER HILL VILLAGE, TEXAS

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

PROPRIETARY FUND

For the Year Ended December 31, 2009

	Business - Type Activities Enterprise
Operating Revenues	
Water and sewer billings	$ 2,263,226
Other	4,849
Total Operating Revenues	2,268,075
Operating Expenses	
Maintenance and operating expenses	1,700,842
Depreciation	412,102
Total Operating Expenses	2,112,944
Operating Income	155,131
Non-operating Revenues	
Interest revenue	16,886
Total Nonoperating Revenues	16,886
Capital contribution	50,897
Change in Net Assets	222,914
Beginning net assets	6,206,579
Ending Net Assets	$ 6,429,493

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF BUNKER HILL VILLAGE, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended December 31, 2009

	Business-Type Activities Enterprise
Cash Flows from Operating Activities	
Receipts from customers	$ 2,268,404
Payments to suppliers	(1,280,869)
Payments to employees	(375,378)
Net Cash Provided by Operating Activities	612,157
Cash Flows from Investing Activities	
Interest received	16,886
Net Cash Provided by Investing Activities	16,886
Net Increase in Cash and Cash Equivalents	629,043
Beginning Cash and Cash Equivalents	1,354,955
Ending Cash and Cash Equivalents	$ 1,983,998
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	$ 155,131
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	412,102
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in Current Assets:	
Accounts receivable	441
Increase (Decrease) in Current Liabilities:	
Accounts payable and accrued liabilities	(5,897)
Customer deposits	(112)
Due to other funds	50,492
Net Cash Provided by Operating Activities	$ 612,157

See Notes to Financial Statements.

(This page intentionally left blank.)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

B. Financial Statement Presentation

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

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

GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a Statement of Net Assets and a Statement of Activities. It

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

- **Invested in capital assets, net of related debt** — This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- **Restricted** — This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted** — This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

C. Government-Wide and Fund Financial Statements

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

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

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

Governmental Funds

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

General Fund

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

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

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

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

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

Proprietary Fund Types

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

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

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

D. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

1. Deposits and Investments

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

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

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

2. Receivables

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

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

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

Property taxes

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

3. Inventories and Prepaid Items

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

4. Capital Assets

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

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

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

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

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

5. Compensated Employee Absences

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

6. Long-Term Obligations

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

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

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

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

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

7. Fund Equity

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

8. Estimates

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of December 31, 2009, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Certificates of deposit	$ 3,650,000	0.45

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

B. Receivables

The following comprise receivable balances at year end:

	General	Debt Service	Enterprise
Property taxes	$ 1,156,039	$ 695,635	$ -
Sales and franchise	74,556	-	-
Accounts	-	-	321,470
Other	12,367	-	1,185
Less allowance	-	-	(3,600)
	$ 1,242,962	$ 695,635	$ 319,055

C. Capital Assets

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

	Primary Government			
	Beginning Balance	Increases	(Decreases)	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 24,944	$ -	$ -	$ 24,944
Total capital assets not being depreciated	24,944	-	-	24,944
Other capital assets:				
Buildings and improvements	399,685	-	-	399,685
Machinery and equipment	133,032	-	-	133,032
Infrastructure	13,252,596	119,419	-	13,372,015
Total other capital assets	13,785,313	119,419	-	13,904,732
Less accumulated depreciation for:				
Buildings and improvements	(67,071)	(8,669)	-	(75,740)
Machinery and equipment	(83,472)	(15,267)	-	(98,739)
Infrastructure	(2,257,050)	(336,064)	-	(2,593,114)
Total accumulated depreciation	(2,407,593)	(360,000)	-	(2,767,593)
Other capital assets, net	11,377,720	(240,581)	-	11,137,139
Totals	$ 11,402,664	$ (240,581)	$ -	$ 11,162,083
		Less associated debt		(12,409,188)
		Invested in Capital Assets, Net of Related Debt		$ (1,247,105)

Depreciation was charged to governmental functions as follows:

General government	$ 23,936
Public works	336,064
Total Governmental Activities Depreciation Expense	$ 360,000

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

	Beginning Balance	Increases	(Decreases)/ Reclassifications	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 9,163	$ -	$ -	$ 9,163
Total capital assets not being depreciated	9,163	-	-	9,163
Other capital assets:				
Buildings	1,036,160	-	-	1,036,160
Water rights	446,890	-	-	446,890
Machinery and equipment	280,204	77,999	-	358,203
Infrastructure	8,398,137	-	-	8,398,137
Total other capital assets	10,161,391	77,999	-	10,239,390
Less accumulated depreciation for:				
Buildings	(953,991)	(21,924)	-	(975,915)
Water rights	(446,890)	-	-	(446,890)
Machinery and equipment	(97,971)	(26,916)	-	(124,887)
Infrastructure	(3,996,351)	(363,262)	-	(4,359,613)
Total accumulated depreciation	(5,495,203)	(412,102)	-	(5,907,305)
Other capital assets, net	4,666,188	(334,103)	-	4,332,085
Totals	$ 4,675,351	$ (334,103)	$ -	$ 4,341,248

Depreciation was charged to business-type functions as follows:

Water and sewer	$ 412,102
Total Business-Type Activities Depreciation Expense	$ 412,102

D. Long-Term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities					
Bonds, notes and other payables:					
Certificates of obligation	$ 9,150,000	$ -	$ 1,760,000	$ 7,390,000 *	$ 365,000
General obligation bonds	4,010,000	5,030,000	4,010,000	5,030,000 *	505,000
Premium	-	27,704	-	27,704 *	3,078
Refunding difference	-	(38,516)	-	(38,516) *	(4,280)
Total Governmental Activities	$ 13,160,000	$ 5,019,188	$ 5,770,000	$ 12,409,188	$ 868,798
Long-term debt due in more than one year				$ 11,540,390	
***Debt associated with governmental activity capital assets**				$ 12,409,188	

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

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

Description	Interest Rates	Balance
Governmental Activities		
Certificates of obligation		
Series 2002	4.00-4.65%	$ 4,675,000
Series 2005	3.50-5.50%	2,715,000
Total certificates of obligation		7,390,000
General obligation bonds		
Refunding Series 2009	2.00-3.38%	5,030,000
Total general obligation bonds		5,030,000
Total Governmental Activities Long-Term Debt		$ 12,420,000

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

	Governmental Activities		
Year Ending Dec 31	**Principal**	**Interest**	**Total**
2010	$ 870,000	$ 460,781	$ 1,330,781
2011	900,000	429,957	1,329,957
2012	930,000	398,770	1,328,770
2013	965,000	367,249	1,332,249
2014	1,000,000	334,851	1,334,851
2015-2019	4,990,000	1,095,422	6,085,422
2020-2024	2,315,000	302,148	2,617,148
2025-2026	450,000	19,338	469,338
Total	$ 12,420,000	$ 3,408,516	$ 15,828,516

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.

Refunding Bonds

The City issued $5,030,000 of general obligation refunding bonds, series 2009, to provide resources to purchase direct obligations of the United States of America that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments in the amount of $4,975,000 of portions of various outstanding long-term debt issues, including $3,680,000 in general obligation refunding bonds, series 1999 and $1,295,000 in combination tax and revenue certificates of obligation, series 1999. As a result, the refunded portions of the bonds are considered to be defeased and the pro-rata portions of the liability have been removed from the applicable governmental activities column in the Statement of Net Assets. The reacquisition price exceeded the net carrying amount of the old debt by $38,516. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt. This advance refunding resulted in an economic gain of $282,767.

Federal Arbitrage

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

E. Interfund Transactions

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

Due To:	Due From:	Amounts
General	Water	$ 200,607
General	Metro	4,584
		$ 205,191

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

IV. OTHER INFORMATION

A. Risk Management

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

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

B. Pension Plans

Texas Municipal Retirement System

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 833 administered by TMRS, an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and Required Supplementary Information (RSI) for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the system. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8611. In addition, the report is available on TMRS' website at *www.TMRS.com*.

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:

	2009	2008
Employee deposit rate	7.00%	7.00%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/25	60/5, 0/25
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Benefits

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

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually, the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 30-year amortization period. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2008 valuation is effective for rates beginning January 2010).

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

	2009	2008	2007
Annual Req. Contrib. (ARC)	$ 60,676	$ 37,825	$ 38,846
Contributions Made	60,676	37,825	38,846
NPO at the End of Period	$ -	$ -	$ -

The required contribution rates for fiscal year 2009 were determined as part of the December 31, 2007 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2008, also follows:

	2009	2008	2007
Actuarial Valuation Date	12/31/2008	12/31/2007	12/31/2006
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
Remaining Amortization Period	29 Years - Closed period	30 Years - Closed period	25 Years - Open period
Asset Valuation Method	Amortized cost	Amortized cost	Amortized cost
Investment Rate of Return	7.5%	7.0%	7.0%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation at	3.00%	3.00%	3.00%
Cost of Living Adjustments	2.1%	2.1%	NA

The funded status as of December 31, 2008, the most recent valuation date, is as follows:

	2009
Actuarial Valuation Date	12/31/2008
Actuarial Value of Assets	$ 1,555,624
Actuarial Accrued Liability	$ 1,830,441
Percentage Funded	85.0%
Unfunded Actuarial Accrued Liability (UAAL)	$ 274,817
Annual Covered Payroll	$ 481,208
UAAL as a Percentage of Covered Payroll	57.1%

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

C. Other Post Employment Benefits

TMRS - Supplemental Death Benefit Fund

Plan Description

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death), retired employees are insured for $7,500, this coverage is an "other post employment benefit," or OPEB. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund. For the year ended December 31, 2009, the City offered the supplemental death benefit to both active and retired employees.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year, the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contribution rate to the TMRS SDBF, for the retiree portion, for the year ended December 31, 2009 is shown below.

	2009	2008	2007
Annual Req. Contrib. (Rate)	0.04%	0.05%	0.03%
Actual Contribution Made	0.04%	0.05%	0.03%
Percentage of ARC Contrib.	100%	100%	100%

D. Agreement with Metro and Harris County

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

E. Interlocal Agreement for Water Conservation Credits

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

program to certain schools. The City pays the District $32.75 for each student sponsored. The City receives a water conservation credit equal to 84,000 gallons of groundwater for each student sponsored. The City may hold, transfer, sell or redeem the credits at any time. Groundwater credits earned through July 2001 have a lifespan of 40 years. Beginning with the 2001-2002 school year, the District issued a new series of groundwater certificates that will have a lifespan of 20 years and can only be applied to a maximum of 30 percent of a permittee's total water demand. At year end, the City has a total of 862,068,000 gallons of credit for use under this agreement: 269,760,000 gallons of original groundwater series credits and 592,308,000 gallons of new groundwater series B credits.

F. Related Organizations and Joint Ventures

Memorial Village Police Department – Health Insurance Benefits

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

Memorial Villages Water Authority

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

Village Fire Department

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

	VFD Total		City's Portion (19%)	
	Net Assets	Balance Sheet	Net Assets	Balance Sheet
Total assets	$ 2,171,454	$ 396,441	$ 412,576	$ 75,323
Total liabilities	551,554	38,868	104,795	7,385
Total participants' equity	$ 1,619,900	$ 357,573	$ 307,781	$ 67,938
	Change in Net Assets	Revenues and Expenditures	Change in Net Assets	Revenues and Expenditures
Total revenues	$ 5,320,039	$ 5,320,039	$ 1,010,807	$ 1,010,807
Total expenditures/expenses	5,112,067	5,050,964	971,293	959,683
Revenues over expenditures/expenses	207,972	269,075	39,515	51,124
Surplus refund to cities	(192,103)	(192,103)	(36,500)	(36,500)
Beginning participants' equity	1,604,031	280,601	304,766	53,314
Ending participants' equity	$ 1,619,900	$ 357,573	$ 307,781	$ 67,938
Unfunded actuarial accrued liability at 12/31/08 with TMRS	$ 2,644,542		$ 502,463	

Memorial Village Police Department

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

Consolidated financial information of the MVPD extracted from the its audited financial statement for the year ended December 31, 2008, on which their auditors expressed an unqualified opinion, is as follows:

	Total MVPD		City's Portion (33%)	
	Net Assets	Balance Sheet	Balance Sheet	Balance Sheet
Total assets	$ 2,518,220	$ 556,840	$ 831,013	$ 183,757
Total liabilities	437,406	207,527	144,344	68,484
Total participants' equity	$ 2,080,814	$ 349,313	$ 686,669	$ 115,273
	Change in Net Assets	Revenues and Expenditures	Revenues and Expenditures	Revenues and Expenditures
Total revenues	$ 4,282,895	$ 4,137,496	$ 1,413,356	$ 1,365,374
Total expenditures/expenses	4,418,417	4,126,217	1,458,078	1,361,652
Revenues over expenditures/expenses	(135,522)	11,279	(44,722)	3,722
Surplus refund to cities	-	-	-	-
Beginning participants' equity	2,216,336	338,034	731,391	111,551
Ending participants' equity	$ 2,080,814	$ 349,313	$ 686,669	$ 115,273
Unfunded actuarial accrued liability at 12/31/08 with TMRS	$ 5,791,063		$ 1,911,051	

(This page intentionally left blank.)

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BUNKER HILL VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

For the Year Ended December 31, 2009

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	$ 2,094,501	$ 2,094,501	$ 2,100,663	$ 6,162
Sales, franchise, and other taxes	350,000	350,000	375,447	25,447
Permits and licenses	232,420	232,420	263,767	31,347
Fines and forfeitures	139,264	139,264	173,033	33,769
Interest on investments	70,000	70,000	30,416	(39,584)
Other revenues	82,650	102,650	110,771	8,121
Total Revenues	2,968,835	2,988,835	3,054,097	65,262
EXPENDITURES				
General government	484,516	514,400	477,580	36,820
Public works	121,500	136,790	84,247	52,543
Public safety	2,384,332	2,354,107	2,321,738	32,369
Capital outlay	85,583	105,583	22,955	82,628
Total Expenditures	3,075,931	3,110,880	2,906,520	204,360
Net Change in Fund Balance	$ (107,096)	$ (122,045)	147,577	$ 269,622
Beginning fund balance			2,125,626	
Ending Fund Balance			$ 2,273,203	

Notes to Required Supplementary Information:

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

CITY OF BUNKER HILL VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

METRO FUND

For the Year Ended December 31, 2009

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental	$ 129,000	$ 129,000	$ 129,000	$ -
Interest on investments	2,580	2,580	8,386	5,806
Total Revenues	131,580	131,580	137,386	5,806
EXPENDITURES				
Current:				
General government	20,000	20,000	20,000	-
Capital outlay	104,365	211,305	191,982	19,323
Total Expenditures	124,365	231,305	211,982	19,323
Net Change in Fund Balance	$ 7,215	$ (99,725)	(74,596)	$ 25,129
Beginning fund balance			1,261,938	
Ending Fund Balance			$ 1,187,342	

Notes to Required Supplementary Information:

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

(This page intentionally left blank.)

CITY OF BUNKER HILL VILLAGE, TEXAS

SCHEDULE OF FUNDING PROGRESS

TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended December 31, 2009

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

Fiscal Year	2009	2008	2007	2006	2005
Actuarial Valuation Date	12/31/2008	12/31/2007	12/31/2006	12/31/2005	12/31/2004
Actuarial Value of Assets	$ 1,555,624	$ 1,421,953	$ 1,296,315	$ 1,267,794	$ 1,122,933
Actuarial Accrued Liability	$ 1,830,441	$ 1,521,344	$ 1,105,509	$ 1,109,935	$ 971,377
Percentage Funded	85.0%	93.5%	117.3%	114.2%	115.6%
Unfunded Actuarial Accrued Liability	$ 274,817	$ 99,391	$ (190,806)	$ (157,859)	$ (151,556)
Annual Covered Payroll	$ 481,208	$ 429,846	$ 358,145	$ 372,026	$ 356,103
Unfunded Actuarial Accrued Liability (UAAL) % of Covered Payroll	57.1%	23.1%	-53.3%	-42.4%	-42.6%