

ANNUAL COMPREHENSIVE FINANCIAL REPORT

City of Forest Hill, Texas

*Fiscal year ended September 30, 2021*

# City of Forest Hill, Texas

## Annual Financial Report For the year ended September 30, 2021

### Table of Contents

#### **FINANCIAL SECTION**

Report of Independent Auditors .....	1
Management's Discussion and Analysis .....	4

#### Basic Financial Statements

##### Government-wide Financial Statements

Statement of Net Position.....	10
Statement of Activities .....	11

##### Fund Financial Statements

###### Governmental Funds:

Balance Sheet – Governmental Funds .....	13
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position .....	14
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds .....	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities .....	16

###### Proprietary Funds:

Statement of Net Position.....	17
Statement of Revenues, Expenses, and Changes in Fund Net Position.....	18
Statement of Cash Flows.....	19

Notes to the Basic Financial Statements .....	20
-----------------------------------------------	----

#### Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios .....	48
Schedule of Contributions .....	49
Schedule of Changes in Total OPEB Liability and Related Ratios .....	50

#### Budgetary Comparison Information

Budgetary Comparison Schedule – General Fund.....	43
Notes to Required Supplementary Budget Information .....	44
Budgetary Comparison Schedule – Motel Tax Fund.....	45

Budgetary Comparison Schedule – Community Development Corporation Fund..	46
Budgetary Comparison Schedule – Enterprise Fund.....	47

#### Combining Nonmajor Fund Financial Statements

Combining Balance Sheet Nonmajor Governmental Funds .....	51
Combining Statement of Revenue, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds .....	53

### **COMPLIANCE AND INTERNAL CONTROLS SECTION**

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental</i> <i>Auditing Standards</i> .....	55
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----



## **Financial Section**

For the fiscal year ended  
September 30, 2021

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council  
City of Forest Hill, Texas

### Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Forest Hill, Texas (the "City"), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Forest Hill, Texas' basic financial statements as listed in the table of contents.

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Forest Hill, Texas, as of September 30, 2021, 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.

### Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Forest Hill, Texas, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures
- include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion, analysis and budgetary comparison information, and pension and OPEB information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

### **Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information 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. The 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 USA. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Information**

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

*Vail + Park, P.C.*

Richardson, Texas

August 10, 2022

City of Forest Hill, Texas  
Management's Discussion and Analysis  
For the Year Ended September 30, 2022

As management of the City of Forest Hill, we offer readers of the City of Forest Hill's financial statements this narrative overview and analysis of the financial activities of the City of Forest Hill for the fiscal year ended September 30, 2021. All amounts, unless otherwise indicated, are expressed in actual dollars.

### Financial Highlights

- The assets of the City of Forest Hill exceeded its liabilities at the close of the most recent fiscal year by \$35,024,808 (net position – includes both governmental and business-type activities). Of this amount, \$10,312,031, (unrestricted net position for governmental activities) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$6,572,670.
- As of the close of the current fiscal year, the City of Forest Hill governmental funds reported combined ending fund balances of \$21,782,881, an increase of \$5,064,432 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$4,913,962 or 56 percent of total general fund expenditures.
- The City of Forest Hill's long-term liabilities decreased by \$150,713 during the current fiscal year.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Forest Hill's basic financial statements. The City of Forest Hill's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Forest Hill's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City of Forest Hill's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Forest Hill is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal 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*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City of Forest Hill that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Forest Hill include general government, public safety, public works, and sanitation services. The business-type activities of the City of Forest Hill include the water and sewer system.

The government-wide financial statements can be found on pages 10-12 of this report.

City of Forest Hill, Texas  
Management's Discussion and Analysis  
For the Year Ended September 30, 2022

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Forest Hill, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Forest Hill can be divided into two categories: governmental funds and proprietary funds.

**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 *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is more narrow 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 of Forest Hill maintains four governmental fund types. 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 fund, the motel tax fund, and the community development corporation fund, all of which are considered to be major funds. The non-major governmental funds are special revenue funds used to account for community development, motel taxes, and various police funds.

The City of Forest Hill adopts an annual appropriated budget for its governmental funds and enterprise fund. A budgetary comparison statement has been provided for the general fund and enterprise fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 13-16 of this report.

**Proprietary Funds.** The City of Forest Hill maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Forest Hill uses an enterprise fund to account for its Water and Sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer operations, which is considered to be a major fund of the City of Forest Hill.

The basic proprietary fund financial statements can be found on pages 17-19 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-42 of this report.

#### **Other Information**

The individual fund budgetary comparison statements can be found on pages 43-47 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds can be found on pages 51-54 of this report.

City of Forest Hill, Texas  
Management's Discussion and Analysis  
For the Year Ended September 30, 2022

### Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Forest Hill, assets exceed liabilities by \$21,782,881 at the close of the most recent fiscal year.

A portion of the City of Forest Hill's net position (31 percent) reflects its investment in capital assets (e.g. land, building, machinery and equipment, infrastructure, and systems) less any related debt used to acquire those assets that is still outstanding. The City of Forest Hill uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Forest Hill'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 capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Forest Hill's net position (22 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* of \$10,312,031 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Forest Hill is able to report positive balances in all three categories of net position for the government as a whole.

#### CITY OF FOREST HILL - Net Position

	Governmental		Business-Type		Total	
	2021	2020	2021	2020	2021	2020
Current and Other Assets	\$ 18,344,103	\$ 13,541,515	\$ 8,269,141	\$ 6,829,523	\$ 26,613,244	\$ 20,371,038
Capital Assets	9,763,733	9,891,302	6,544,160	6,611,341	16,307,893	16,502,643
Total Assets	28,107,836	23,432,817	14,813,301	13,440,864	42,921,137	36,873,681
Deferred Outflows of Resources	562,666	540,167	76,728	58,874	639,394	599,041
Long-Term Liabilities	5,355,739	5,515,143	556,937	566,751	5,912,676	6,081,894
Other Liabilities	749,695	686,660	996,016	1,040,546	1,745,711	1,727,206
Total Liabilities	6,105,434	6,201,803	1,552,953	1,607,297	7,658,387	7,809,100
Deferred Inflows of Resources	782,187	1,052,732	95,149	158,752	877,336	1,211,484
Net Position:						
Invest in Capital Assets, Net of Related Debt	6,620,196	6,913,863	6,544,160	6,611,341	13,164,356	13,525,204
Restricted	4,850,654	2,387,241	-	-	4,850,654	2,387,241
Unrestricted	10,312,031	7,417,345	6,697,767	5,122,348	17,009,798	12,539,693
Total Net Position	\$ 21,782,881	\$ 16,718,449	\$ 13,241,927	\$ 11,733,689	\$ 35,024,808	\$ 28,452,138

City of Forest Hill, Texas  
Management's Discussion and Analysis  
For the Year Ended September 30, 2022

**CITY OF FOREST HILL - Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
<b>Revenues:</b>						
Program Revenues:						
Charges for Services	\$ 1,183,783	\$ 1,760,592	\$ 6,327,857	\$ 6,199,021	\$ 7,511,640	\$ 7,959,613
Operating Grants and Contributions	1,989,282	712,250	-	-	1,989,282	712,250
General Revenues:						
Property Taxes	6,836,092	6,188,112	-	-	6,836,092	6,188,112
Sales Franchise and Other Taxes	4,626,977	4,173,109	-	-	4,626,977	4,173,109
Investment Earnings	18,746	118,444	7,531	57,975	26,277	176,419
Other	914,903	169,449	260,902	72,815	1,175,805	242,264
<b>Total Revenues</b>	<b>15,569,783</b>	<b>13,121,956</b>	<b>6,596,290</b>	<b>6,329,811</b>	<b>22,166,073</b>	<b>19,451,767</b>
<b>Expenses:</b>						
General Government	2,745,979	2,283,792	-	-	2,745,979	2,283,792
Public Safety	6,298,882	5,320,132	-	-	6,298,882	5,320,132
Public Works & Streets	1,555,132	1,983,320	-	-	1,555,132	1,983,320
Library, Parks & Recreation	85,310	64,089	-	-	85,310	64,089
Community & Econ. Development	314,967	223,464	-	-	314,967	223,464
Interest on Long-Term Debt	110,081	118,922	-	-	110,081	118,922
Water & Sewer	-	-	4,483,052	4,761,918	4,483,052	4,761,918
<b>Total Expenses</b>	<b>11,110,351</b>	<b>9,993,719</b>	<b>4,483,052</b>	<b>4,761,918</b>	<b>15,593,403</b>	<b>14,755,637</b>
Increase/(Decrease) in Net Position Before Transfers	4,459,432	3,128,237	2,113,238	1,567,893	6,572,670	4,696,130
Transfers	605,000	193,190	(605,000)	(562,000)	-	(368,810)
Increase/(Decrease) in Net Position	5,064,432	3,321,427	1,508,238	1,005,893	6,572,670	4,327,320
Net Position - Beginning of Year	16,718,449	13,397,022	11,733,689	10,727,796	28,452,138	24,124,818
Net Position - End of Year	\$ 21,782,881	\$ 16,718,449	\$ 13,241,927	\$ 11,733,689	\$ 35,024,808	\$ 28,452,138

The following key elements influenced the changes in net position from the prior year:

Governmental Activities:

- Governmental activities increased the City of Forest Hill's net position by \$5,064,432.
- Total revenues increased by \$2,447,827 (18%).
- Total expenses increased by \$1,116,632 (11%).

Business-Type Activities

Business-Type activities increased the City of Forest Hill's net position by \$1,508,308.

- Total revenues increased by \$266,479 (4%).
- Total operating expenses decreased by \$278,866 (5%).

**Financial Analysis of the Government's Funds**

As noted earlier, the City of Forest Hill uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

City of Forest Hill, Texas  
Management's Discussion and Analysis  
For the Year Ended September 30, 2022

**Governmental Funds.** The focus of the City of Forest Hill'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 of Forest Hill's financing requirements. In particular, *unrestricted fund balance* may serve as a useful measure of a government's net resources available at the end of the fiscal year.

As the end of the current fiscal year, the City of Forest Hill's governmental funds reported combined ending fund balance of \$21,782,881, an increase of \$5,064,432 from the prior year. Most of the increase is due to excess revenues over expenditures.

The general fund is the chief operating fund of the City of Forest Hill. At the end of the current fiscal year, unassigned fund balance of the general fund was \$4,913,962. Total unreserved fund balance represents 56% of total general fund expenditures.

The debt service fund has a total fund balance of \$466,008, all of which is reserved for payment of debt service.

**Proprietary Funds.** The City of Forest Hill's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Enterprise Fund at the end of the year amounted to \$13,241,927. The factors concerning the finances of this fund have already been addressed in the discussion of the City of Forest Hill's business type activities.

### **General Fund Budgetary Highlights**

During the year, revenues were over budget by \$367,101, primarily due to fines and forfeitures, property taxes and sales tax revenue. Expenditures were under budget by \$1,764,901 primarily related to reduced spending in public safety, community development, offset by being higher than budget in Public Works.

### **Capital Asset and Debt Administration**

**Capital Assets.** The City of Forest Hill's investment in capital assets for its governmental and business-type activities as of September 30, 2021, amounts to \$16,345,893 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, buildings, systems, and improvements and equipment.

The addition of equipment and infrastructure were the major additions to governmental activities capital assets during the year.

Additional information on the City of Forest Hill's capital assets can be found in Note 4 on pages 30-31 of this report.

**Long-Term Debt.** At the end of the current fiscal year, the City of Forest Hill had bonded debt outstanding of \$3,394,387. All of this amount comprises debt backed by the full faith and credit of the government.

The City of Forest Hill's long-term liabilities decreased by \$169,218 during the current fiscal year.

Additional information on the City of Forest Hill's long-term debt can be found in Note 5 on pages 32-33 of this report.

City of Forest Hill, Texas  
Management's Discussion and Analysis  
For the Year Ended September 30, 2022

**Economic Factors and Next Year's Budgets and Rates**

Forest Hill is fortunate to have many dedicated community leaders who understand the importance of cohesive economic and community development. Efforts are being made to strengthen our business retention and expansion programs by re-establishing the Forest Hill Chamber of Commerce, reinvesting wealth within our local economy, and ultimately improving our economic position through the creation of jobs in our community.

Fiscal issues require constant vigilance. Bearing in mind achieving a long-term, stable, positive financial condition is paramount to the progress of the City of Forest Hill; the city has elected to set the tax rate at 0.99734 in FY 2020-2021. The positive economic outlook, the stabilization of economic factors, and the development of new housing estates in the city have contributed to the increase of property tax dollars by approximately 10%. Despite the negative effects of COVID-19, the City's economy and community development is on the upward outlook. The city was also able to keep spending at the budgeted amounts or below. Additionally, management continues to work with the City Council in reshaping the budgetary focus towards reaching efficiency and effectiveness while maximizing service levels.

These factors were considered in preparing the City of Forest Hill's budget for the 2022 fiscal year.

**Request for Information**

This financial report is designed to provide a general overview of the City of Forest Hill's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Manager, 3219 California Pkwy., Forest Hill, Texas 76119.



## **Basic Financial Statements**

For the fiscal year ended  
September 30, 2021

CITY OF FOREST HILL, TEXAS  
Government Wide – Statement of Net Position  
September 30, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash & Cash Equivalents	\$ 17,292,198	\$ 7,006,535	\$ 24,298,733
Receivables (Net of Allowance for Uncollectables)	998,068	689,615	1,687,683
Restricted Cash and Cash Equivalents	-	572,991	572,991
Due From Other Funds	11,475	-	11,475
Prepays	4,362	-	4,362
Capital Assets (Net of Accumulated Depreciation):			
Land	807,225	25,567	832,792
Construction in Progress	38,000	-	38,000
Equipment	550,822	97,974	648,796
Buildings, Systems and Improvements	3,097,290	15,300	3,112,590
Infrastructure	5,308,396	6,405,319	11,713,715
Total Assets	<u>28,107,836</u>	<u>14,813,301</u>	<u>42,921,137</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflows - Pension	505,044	68,870	573,914
Deferred Outflows - OPEB	57,622	7,858	65,480
Total Deferred Outflows of Resources	<u>562,666</u>	<u>76,728</u>	<u>639,394</u>
Total Assets & Deferred Outflows of Resources	<u>\$ 28,670,502</u>	<u>\$ 14,890,029</u>	<u>\$ 43,560,531</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 332,543	\$ 458,494	\$ 791,037
Accrued Expense	136,058	14,659	150,717
Accrued Wages	-	58,771	58,771
Accrued Interest Payable	27,613	-	27,613
Deposits Payable	-	431,091	431,091
Due to Other Funds	11,475	-	11,475
Noncurrent Liabilities:			
Due Within One Year	708,849	141,900	850,749
Due in More than One Year	3,385,793	243,069	3,628,862
Net Pension Liability	1,261,097	171,968	1,433,065
Net OPEB Liability	242,006	33,001	275,007
Total Liabilities	<u>6,105,434</u>	<u>1,552,953</u>	<u>7,658,387</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue - Other	84,435	-	84,435
Deferred Inflows - Pension	688,343	93,865	782,208
Deferred Inflows - OPEB	9,409	1,284	10,693
Total Deferred Inflows of Resources	<u>782,187</u>	<u>95,149</u>	<u>877,336</u>
Total Liabilities & Deferred Inflows of Resources	<u>6,887,621</u>	<u>1,648,102</u>	<u>8,535,723</u>
<b>NET POSITION</b>			
Invested in Capital Assets, Net of Related Debt	6,620,196	6,544,160	13,164,356
Restricted	4,850,654	-	4,850,654
Unrestricted	10,312,031	6,697,767	17,009,798
Total Net Position	<u>\$ 21,782,881</u>	<u>\$ 13,241,927</u>	<u>\$ 35,024,808</u>

CITY OF FOREST HILL, TEXAS  
Government Wide – Statement of Activities  
September 30, 2021

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary Government:</b>			
Governmental Activities:			
General Government	\$ 1,975,074	\$ 280,037	\$ -
Public Safety	6,298,882	450,725	-
Public Works	856,270	453,021	-
Streets	698,862	-	-
Library	85,310	-	-
Community Development	314,967	-	1,989,282
Nondepartmental	770,905	-	-
Interest and Fiscal Charges	110,081	-	-
Total Governmental Activities	11,110,351	1,183,783	1,989,282
Business-Type Activities:			
Water and Sewer	4,483,052	6,327,857	-
Total Business-Type Activities	4,483,052	6,327,857	-
Total Primary Government	\$ 15,593,403	\$ 7,511,640	\$ 1,989,282

General Revenues:

Property Taxes  
Sales Taxes  
Franchise Taxes  
Investment Earnings  
Miscellaneous Revenue

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning of Year

Net Position - End of Year

CITY OF FOREST HILL, TEXAS  
Government Wide – Statement of Activities  
For the Year Ended September 30, 2021

Net (Expense)/Revenue and Change in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (1,695,037)	\$ -	\$ (1,695,037)
(5,848,157)	-	(5,848,157)
(403,249)	-	(403,249)
(698,862)	-	(698,862)
(85,310)	-	(85,310)
1,674,315	-	1,674,315
(770,905)	-	(770,905)
(110,081)	-	(110,081)
<u>(7,937,286)</u>	<u>-</u>	<u>(7,937,286)</u>
-	1,844,805	1,844,805
<u>-</u>	<u>1,844,805</u>	<u>1,844,805</u>
<u>(7,937,286)</u>	<u>1,844,805</u>	<u>(6,092,481)</u>
6,836,092	-	6,836,092
4,101,953	-	4,101,953
525,024	-	525,024
18,746	7,531	26,277
914,903	260,902	1,175,805
605,000	(605,000)	-
<u>13,001,718</u>	<u>(336,567)</u>	<u>12,665,151</u>
5,064,432	1,508,238	6,572,670
<u>16,718,449</u>	<u>11,733,689</u>	<u>28,452,138</u>
<u>\$ 21,782,881</u>	<u>\$ 13,241,927</u>	<u>\$ 35,024,808</u>

The notes to the financial statements are an integral part of this statement.

CITY OF FOREST HILL, TEXAS  
Balance Sheet  
Governmental Funds  
September 30, 2021

	General Fund	Motel Tax	Community Development Corporation	Non Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 5,030,080	\$ 4,308,868	\$ 2,912,996	\$ 5,040,254	\$ 17,292,198
Receivables (Net of Allowance for Uncollectables):					
Property Taxes	214,308	-	-	27,462	241,770
Sales Taxes	361,555	-	180,777	90,389	632,721
Other Receivables	36,921	54,421	-	32,235	123,577
Due from Other Funds	-	-	-	11,475	11,475
Prepays	4,362	-	-	-	4,362
Total Assets	<u>\$ 5,647,226</u>	<u>\$ 4,363,289</u>	<u>\$ 3,093,773</u>	<u>\$ 5,201,815</u>	<u>\$ 18,306,103</u>
<b>LIABILITIES</b>					
Accounts Payable	\$ 310,043	\$ -	\$ 1,136	\$ 21,364	\$ 332,543
Accrued Expense	128,505	-	(2,106)	9,659	136,058
Due to Other Funds	11,475	-	-	-	11,475
Total Liabilities	<u>450,023</u>	<u>-</u>	<u>(970)</u>	<u>31,023</u>	<u>480,076</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue - Other	278,879	-	-	63,344	342,223
Total Deferred Inflows of Resources	<u>278,879</u>	<u>-</u>	<u>-</u>	<u>63,344</u>	<u>342,223</u>
<b>FUND BALANCES</b>					
Nonspendable:					
Prepaid Items	4,362	-	-	-	4,362
Restricted:					
Debt Service	-	-	-	466,008	466,008
Capital Projects	-	-	-	455,722	455,722
Public Safety	-	-	-	321,465	321,465
Library	-	-	-	3,358	3,358
Capital Improvements	-	-	-	1,524,173	1,524,173
Cable Franchise Fee	-	-	-	16,069	16,069
ARPA	-	-	-	1,609,122	1,609,122
Fund 53	-	-	-	380,423	380,423
Capital Equipments	-	-	-	74,314	74,314
Committed:					
Community Development Corporation	-	-	3,094,743	-	3,094,743
Hotel-Motel Tax	-	4,363,289	-	-	4,363,289
Parks	-	-	-	266,470	266,470
COVID-19 Fund	-	-	-	(9,676)	(9,676)
Unassigned	4,913,962	-	-	-	4,913,962
Total Fund Balances	<u>4,918,324</u>	<u>4,363,289</u>	<u>3,094,743</u>	<u>5,107,448</u>	<u>17,483,804</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 5,647,226</u>	<u>\$ 4,363,289</u>	<u>\$ 3,093,773</u>	<u>\$ 5,201,815</u>	<u>\$ 18,306,103</u>

CITY OF FOREST HILL, TEXAS  
Reconciliation of Balance Sheet of Governmental Funds  
to the Statement of Net Position  
For the Year Ended September 30, 2021

<b>Total Fund Balances - Government Funds</b>	\$ 17,483,804
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$49,510,894 and the accumulated depreciation was \$(39,465,627). In addition, long-term liabilities, including bonds payable of \$(3,089,550), and capital leases payable of \$(41,854), are not due and payable in the current period, and therefore, are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.	6,913,863
Current year capital outlays of \$855,188 and long-term debt principal payments of \$609,254 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the current year debt principal payments is to increase net position.	1,464,442
Current year capital lease additions are other sources/(uses) in the fund financial statements, but they are changes in long-term debt in the government wide financial statements. The net effect of including this transaction is a net increase in net position.	(659,387)
Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements, interest expenditures are reported when due. The net effect of including accrued interest is to decrease net position.	(27,613)
The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(1,054,950)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue of \$257,788 as revenue, and recognizing the liabilities associated with compensated absences of \$(913,105). The net effect of these reclassifications is to decrease net position.	(699,089)
Included in the noncurrent liabilities is the recognition of the City's net pension liability required by GASB 68 in the amount of \$(1,261,097), a deferred resource inflow in the amount of \$(688,343), and a deferred resource outflow in the amount of \$505,044. The net effect of including the GASB 68 adjustment is to decrease net position.	(1,444,396)
Included in the noncurrent liabilities is the recognition of the City's net OPEB liability required by GASB 75 in the amount of \$(242,006), a deferred resource inflow in the amount of \$(9,409), and a deferred resource outflow in the amount of \$57,622. The net effect of including the GASB 75 adjustment is to decrease net position.	(193,793)
<b>Net Position of Governmental Activities</b>	<u><u>\$ 21,782,881</u></u>

CITY OF FOREST HILL, TEXAS  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended September 30, 2021

	General Fund	Motel Tax	Community Development Corporation	Non Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes:					
Property	\$ 6,306,184	\$ -	\$ -	\$ 497,248	\$ 6,803,432
Sales	2,035,234	-	1,017,617	508,806	3,561,657
Hotel-Motel	-	540,296	-	-	540,296
Franchise Fees	508,955	-	-	16,069	525,024
Licenses and Permits	337,036	-	-	-	337,036
Fines and Forfeitures	450,725	-	-	-	450,725
Intergovernmental	36,392	-	-	79,593	115,985
Contributions and Donations	-	-	-	1,989,282	1,989,282
Rental	280,037	-	-	-	280,037
Interest	7,328	4,821	2,907	3,690	18,746
Miscellaneous	143,210	-	-	774,281	917,491
Total Revenues	<u>10,105,101</u>	<u>545,117</u>	<u>1,020,524</u>	<u>3,868,969</u>	<u>15,539,711</u>
<b>EXPENDITURES</b>					
Current:					
General Government	1,833,968	-	-	-	1,833,968
Public Safety	4,653,562	-	-	1,190,676	5,844,238
Public Works	854,012	-	-	-	854,012
Streets	-	-	-	167	167
Library	-	-	-	80,624	80,624
Parks and Recreation	5,914	-	-	-	5,914
Community Development	133,857	-	155,171	8,000	297,028
Nondepartmental	772,798	-	-	-	772,798
Capital Outlay	436,926	38,000	-	380,262	855,188
Debt Service:					
Principal	41,854	-	-	567,400	609,254
Interest and Fiscal Charges	6,711	-	-	101,378	108,089
Total Expenditures	<u>8,739,602</u>	<u>38,000</u>	<u>155,171</u>	<u>2,328,507</u>	<u>11,261,280</u>
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	<u>1,365,499</u>	<u>507,117</u>	<u>865,353</u>	<u>1,540,462</u>	<u>4,278,431</u>
<b>OTHER FINANCING SOURCES/(USES)</b>					
Transfers In	908,500	-	-	420,630	1,329,130
Transfers Out	(250,000)	(65,000)	(320,630)	(88,500)	(724,130)
Total Other Financing Sources (Uses)	<u>658,500</u>	<u>(65,000)</u>	<u>(320,630)</u>	<u>332,130</u>	<u>605,000</u>
Net Change in Fund Balances	2,023,999	442,117	544,723	1,872,592	4,883,431
Fund Balances - Beginning of Year	<u>2,894,325</u>	<u>3,921,172</u>	<u>2,550,020</u>	<u>3,234,856</u>	<u>12,600,373</u>
Fund Balances - End of Year	<u>\$ 4,918,324</u>	<u>\$ 4,363,289</u>	<u>\$ 3,094,743</u>	<u>\$ 5,107,448</u>	<u>\$ 17,483,804</u>

CITY OF FOREST HILL, TEXAS  
Reconciliation of Revenues, Expenditures and Changes in  
Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended September 30, 2021

<b>Total Net Changes in Fund Balances - Governmental Funds</b>	\$ 4,883,431
Current year capital outlays of \$855,188 and long-term debt principal payments of \$609,2545 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the current year debt principal payments is to increase net position.	1,464,442
Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements, interest expenditures are reported when due. The net effect of including accrued interest is to increase net position.	(1,992)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current resources. The net effect of the current year's depreciation is to decrease net position.	(1,054,950)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue of \$32,660 as revenue, and recognizing the liabilities associated with compensated absences of (\$95,267). The net effect of these reclassifications is to increase net position.	131,253
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/20 caused the change in the ending net position to increase in the amount of \$10,055. Contributions made before the measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling \$(276,134). The City's reported TMRS net pension expense had to be recorded. The net pension expense decreased the change in net position by \$(114,270). The net effect of these changes is to decrease net position.	(380,349)
The implementation of GASB 75 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/20 caused the change in the ending net position to increase in the amount of \$35,215. Contributions made before the measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling \$(61,884). The City's reported TMRS net OPEB expense had to be recorded. The net OPEB expense decreased the change in net position by \$49,266. The net effect of these changes is to increase net position.	22,597
<b>Change in Net Position of Governmental Activities</b>	<u>\$ 5,064,432</u>

CITY OF FOREST HILL, TEXAS  
Statement of Net Position  
Proprietary Fund  
September 30, 2021

**ASSETS**

Current Assets:

Cash & Cash Equivalents	\$ 7,006,535
Restricted Cash and Cash Equivalents	572,991
Utility Bills Receivable (Net of Allowance for Uncollectables)	675,925
Franchise Fees Receivable	0
Other receivables	13,690
Due from Other Funds	0
Inventory	0
Total Current Assets	<u>8,269,141</u>

Noncurrent Assets:

Capital Assets:

Land	25,567
Building	180,873
Equipment	1,118,603
Infrastructure	11,198,031
Less: Accumulated Depreciation	<u>(5,978,914)</u>
Total Capital Assets (Net of Depreciation)	<u>6,544,160</u>
Total Noncurrent Assets	<u>6,544,160</u>

Total Assets 14,813,301

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflows - Pension	68,870
Deferred Outflows - OPEB	7,858
Total Assets & Deferred Outflows of Resources	<u>\$ 14,890,029</u>

**LIABILITIES**

Current Liabilities:

Accounts Payable	\$ 458,494
Accrued Expenses	58,771
Accrued Wages	14,659
Deposits	431,091
Accrued Interest	-
Current Portion of Bonds Payable	141,900
Total Current Liabilities	<u>1,104,915</u>

Noncurrent Liabilities:

Compensated Absences	172,119
Bonds Payable	70,950
Net Pension Liability	171,968
Net OPEB Liability	33,001
Total Noncurrent Liabilities	<u>448,038</u>

Total Liabilities 1,552,953

**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows - Pension	93,865
Deferred Inflows - OPEB	1,284
Total Liabilities & Deferred Inflows of Resources	<u>1,648,102</u>

**NET POSITION**

Invested in Capital Assets, Net of Related Debt	6,544,160
Unrestricted	6,697,767
Total Net Position	<u>\$ 13,241,927</u>

CITY OF FOREST HILL, TEXAS  
Statement of Revenues, Expenses and Changes in Fund Net Position  
Proprietary Fund  
For the Year ended September 30, 2021

**OPERATING REVENUES**

Charges for Sales and Services:

Water Sales	\$ 2,494,450
Sewer Sales	2,506,831
Tap & Collection Fees	102,696
Delinquent Charges	129,039
Franchise Fees	162,186
Service Charges	932,655
Miscellaneous	<u>260,902</u>
Total Operating Revenues	<u>6,588,759</u>

**OPERATING EXPENSES**

Nondepartmental	42,703
Water Distribution & Wastewater Collection	3,946,747
Utility Billing	220,371
Depreciation	<u>257,540</u>
Total Operating Expenses	<u>4,467,361</u>

Operating Income (Loss)	<u>2,121,398</u>
-------------------------	------------------

**NONOPERATING REVENUES (EXPENSES)**

Interest Revenue	7,531
Interest Expense and Fiscal Charges	<u>(15,691)</u>
Total Nonoperating Revenues (Expenses)	<u>(8,160)</u>

Net Income (Loss) Before Transfers	2,113,238
------------------------------------	-----------

Transfers Out	<u>(605,000)</u>
---------------	------------------

Change in Net Position	1,508,238
------------------------	-----------

Net Position - Beginning	<u>11,733,689</u>
--------------------------	-------------------

Net Position - Ending	<u><u>\$ 13,241,927</u></u>
-----------------------	-----------------------------

CITY OF FOREST HILL, TEXAS  
Statement of Cash Flows  
Proprietary Fund  
For the Year ended September 30, 2021

Cash Flows from Operating Activities:	
Cash Received from Customers and Users	\$ 6,592,556
Cash Payments to Suppliers	(3,359,913)
Cash Payments to Employees	(856,238)
Net Cash Provided by Operating Activities	<u>2,376,405</u>
Cash Flows from Noncapital Financing Activities:	
Purchase of Capital Assets	(224,179)
Transfers to Other Funds	(605,000)
Net Cash Used for Noncapital Financing Activities	<u>(829,179)</u>
Cash Flows from Capital & Related Financing Activities:	
Principal Paid on Long-Term Debt	(137,600)
Interest Paid on Debt	(15,691)
Net Cash Used for Capital & Related Financing Activities	<u>(153,291)</u>
Cash Flows from Investing Activities:	
Interest on Deposits and Investments	7,531
Net Cash Provided by Investing Activities	<u>7,531</u>
Net Decrease in Cash and Cash Equivalents	1,401,466
Cash & Cash Equivalents - Beginning	<u>6,178,061</u>
Cash & Cash Equivalents - Ending	<u>\$ 7,579,527</u>

CITY OF FOREST HILL  
Notes to the Financial Statements  
For the Year Ended September 30, 2021

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Forest Hill, Texas, Texas, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

**A. Reporting Entity**

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. There are three specific tests for determining whether a particular legally separate entity is a component unit of a primary government's financial reporting entity. Those tests involve 1) appointment of the unit's governing board (accompanied by either the potential imposition of will or ongoing financial benefit/burden), 2) fiscal dependence on the primary government, and 3) the potential that exclusion would result in misleading financial reporting. For this last test, special attention must be paid 1) to certain special financing authorities and 2) to the nature and significance of a legally separate, tax-exempt entity's relationship with the primary government and its component units. Based upon the application of these tests, the City of Forest Hill does not have any component units.

**B. Government-Wide and Fund Financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of activities of the primary government. 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 demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead 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.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF FOREST HILL  
Notes to the Financial Statements  
For the Year Ended September 30, 2021

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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 government 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.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *motel tax fund* accounts for all taxes received from hotel/motel taxable receipts. The City assesses a 7% on taxable room receipts.

The *Community development Corporation fund* accounts for a portion of sales tax revenues.

The *nonmajor governmental funds* are listed on pages 56-59.

The government reports the following proprietary fund:

The *enterprise fund* is used to account for those operations that are financed and operated in a manner similar to private business or where the council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The government's enterprise fund accounts for water and sewer, sanitation, and storm water activities.

The government reports on type of fiduciary fund, an agency fund, which accounts for water impact fees for the City of Fort Worth. The government only reports the cash and the amount due to the City of Fort Worth.

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 and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

CITY OF FOREST HILL  
Notes to the Financial Statements  
For the Year Ended September 30, 2021

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation** *(continued)*

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, and of the government's internal service 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 enterprise funds and internal service funds 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.

**D. Assets, Liabilities, and Net Position or Equity**

**1. Deposits and Investments**

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by the government. Other short-term investments are included in investments. Investments are stated at fair value.

**2. Receivables**

All trade and property receivables are shown net of allowance for uncollectibles. Property taxes are levied for appropriation for the fiscal year beginning on October 1, and due October 1, attach as an enforceable lien on property as of January 1, and become delinquent on February 1. Property taxes are accrued based on the period for which they are levied and available. Delinquent taxes estimated not to be available are treated as deferred revenue in the governmental fund financial statements. Property tax for cities, including those applicable to debt service, are limited by the Texas Constitution to \$2.50 per \$100 of assessed value. The City's current tax rate is \$0.992873 per \$100 of assessed valuation and assessed valuation is approximately 100% of estimated value.

**3. Short-Term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables."

**4. Transactions Between Funds**

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both governmental and proprietary funds. Interfund transfers in the fund statements are reported as other financing sources (uses) in governmental funds and after non-operating revenues (expenses) in the proprietary funds.

**5. Prepaid Items**

Prepaid balances are for payments made by the City in the current year to provide service occurring in the subsequent fiscal year. Prepaid balances are reported in governmental funds using the purchase method instead of consumption method. Payments for prepaid items are fully recognized as expenditures in the year of payment.

CITY OF FOREST HILL  
Notes to the Financial Statements  
For the Year Ended September 30, 2021

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**D. Assets, Liabilities, and Net Position or Equity** *(continued)*

**6. Inventories**

Inventories, which are recognized as expenditures as they are consumed, are stated at cost (first-in, first-out method). Inventories consist primarily of expendable supplies. Inventories are offset by a fund balance reserve account in applicable governmental funds to indicate the inventory values are not available for appropriation and are not expendable financial resources.

**7. Restricted Assets**

Certain resources are set aside on the balance sheet because their use is limited. When the government incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first.

**8. 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. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) 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.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

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

<u>Assets</u>	<u>Years</u>
Water/Sewer System	30-65
Buildings	25-30
Infrastructure	25-50
Equipment	5-10
Vehicles	5

**9. Compensated Absences**

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Employees can earn vacation up to a maximum of 20 days per year and are required to use or request buy back for a minimum of 80 hours per year. Any remaining vacation balances may be carried forward. Upon termination, vacation accrual would be paid. Sick leave will be accrued up to a maximum of 15 days per year and would be accrued without limit; however, upon termination unused sick leave will be compensated at a lump sum, up to a maximum of 90 days. The vacation limitation may be waived by the City Manager under certain circumstances. All vacation pay and sick leave benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

CITY OF FOREST HILL  
Notes to the Financial Statements  
For the Year Ended September 30, 2021

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**D. Assets, Liabilities, and Net Position or Equity** *(continued)*

**10. 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.

In the fund financial statements, governmental fund types, 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.

**11. Fund Equity**

Fund Balance Classification: The governmental fund financial statements present fund balance classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by an official to which the City Council delegates this authority.
- Unassigned: This classification includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of unassigned funds, then assigned funds, and finally committed funds, as needed.

CITY OF FOREST HILL  
Notes to the Financial Statements  
For the Year Ended September 30, 2021

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**D. Assets, Liabilities, and Net Position or Equity** *(continued)*

**11. Fund Equity** *(continued)*

As of September 30, 2021, fund balances are composed of the following:

	General Fund	Motel Tax	Community Development Corporation	Non Major Governmental Funds	Total Governmental Funds
Nonspendable:					
Prepaid Items	\$ 4,362	\$ -	\$ -	\$ -	\$ 4,362
Restricted:					
Debt Service	-	-	-	466,008	466,008
Capital Projects	-	-	-	455,722	455,722
Public Safety	-	-	-	321,465	321,465
Library	-	-	-	3,358	3,358
Capital Improvements	-	-	-	1,524,173	1,524,173
Cable Franchise Fee	-	-	-	16,069	16,069
ARPA	-	-	-	1,609,122	1,609,122
Fund 53	-	-	-	380,423	380,423
Capital Equipment	-	-	-	74,314	74,314
Committed:					
Community Development Corporation	-	-	3,094,743	-	3,094,743
Hotel-Motel Tax	-	4,363,289	-	-	4,363,289
Parks	-	-	-	266,470	266,470
COVID-19 Fund	-	-	-	(9,676)	(9,676)
Unassigned	4,913,962	-	-	-	4,913,962
Total Fund Balances	<u>\$ 4,918,324</u>	<u>\$ 4,363,289</u>	<u>\$ 3,094,743</u>	<u>\$ 5,107,448</u>	<u>\$ 17,483,804</u>

**12. Deferred Outflows/Inflows of Resources**

Deferred outflows and inflows of resources are reported in the statement of net position as described below:

A deferred outflow of resources is a consumption of a government's net assets (a decrease in assets excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The City has two items that qualify for reporting in this category reported in the government-wide statement of net position:

- Deferred outflows of resources for other post-employment benefits "OPEB" – these deferred outflows result from OPEB plan contributions made after the measurement date of the net OPEB liability and the results of changes in assumptions and other inputs. The deferred outflows of resources resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the next fiscal year. The other OPEB related outflow will be amortized over the expected remaining service lives of all employees (active and inactive employees) who are provided with OPEB benefits, which is currently between 5.75 and 8.5 years, depending on the plan.
- Deferred outflows of resources for pension – this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between projected and actual earnings on pension plan investments. The deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related outflow will be amortized over a closed five-year period.

CITY OF FOREST HILL  
Notes to the Financial Statements  
For the Year Ended September 30, 2021

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**D. Assets, Liabilities, and Net Position or Equity** *(continued)*

**12. Deferred Outflows/Inflows of Resources** *(continued)*

A deferred inflow of resources is an acquisition of a government's net assets (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The City has three items that qualify for this category:

- Deferred inflows of resources for unavailable revenues – reported in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflows of resources for other post-employment benefits (“OPEB”) – reported in the government wide financial statement of net position, these deferred inflows result primarily from 1) changes in actuarial assumptions and 2) differences between expected and actual actuarial experiences. These OPEB related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) who are provided with OPEB which is currently between 5.75 and 8.5 years, depending on the plan.
- Deferred inflows of resources for pension – Reported in the government-wide statement of net position, these deferred inflows result primarily from differences between expected and actual experience. These amounts will be amortized over the expected remaining service lives of all employees (active and inactive employees) who are provided with pension through the pension plan, which is currently 3.45 years.

**13. Pension**

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Fiduciary Net Position have been determined 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. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, GRS Retirement Consulting, in compliance with Governmental Accounting Standards Board (GASB) Statements No. 68 and No. 71.

**14. Other Post-Employment Benefits**

The City participates in a defined benefit group-term life insurance plan, both for current and retired employees, administered by the Texas Municipal Retirement System (TMRS). The City reports the total liability for this plan on the government-wide and proprietary fund financial statements. Information regarding the City's total OPEB liability is obtained from TMRS through a report prepared for the City by TMRS' consulting actuary, GRS Retirement Consulting, in compliance with GASB Statement No. 75.

CITY OF FOREST HILL  
Notes to the Financial Statements  
For the Year Ended September 30, 2021

**NOTE 2. DEPOSITS (CASH) AND INVESTMENTS**

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity, allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. The City may invest in obligations of the U.S. Treasury or the State of Texas, certain U.S. agencies, certificates of deposit, money market savings accounts, certain municipal securities, repurchase agreements, common trust funds and other investments specifically allowed by State law.

Deposits and investments as of September 30, 2021, are classified in the accompanying financial statements as follows:

Governmental Activities	\$ 17,292,198
Business- Type Activities	7,006,535
	<u>\$ 24,298,733</u>

Deposits and investments as of September 30, 2021, consist of the following:

Deposits with financial institutions	\$ 416,799
Investments	23,881,934
	<u>\$ 24,298,733</u>

For the purposes of the statement of cash flows, the City considers all highly liquid investments with maturities at the date of purchase of three months or less to be cash equivalents.

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter-term investments with an average maturity of less than 365 days thus reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

As of September 30, 2021, the City had the following investments:

Investment Type	Carrying Value	Weighted Average Maturity
TexPool	\$ 7,315,835	36 days
TexPool Prime	13,141,965	33 days
	<u>\$ 20,457,800</u>	

CITY OF FOREST HILL  
Notes to the Financial Statements  
For the Year Ended September 30, 2021

**NOTE 2. DEPOSITS (CASH) AND INVESTMENTS** *(continued)*

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the City's investment policy or debt agreements and the actual rating as of year-end for each investment type.

Investment Type	Carrying Value	Minimum Rating Required	Actual Investment Rating
TexPool	\$ 7,315,835	AAA	AAAm
TexPool Prime	13,141,965	AAA	AAAm
	<u>\$ 20,457,800</u>		

The City reports restricted assets for the following items:

Customer Deposits	\$ 431,091
Accrued Interest Payable	-
Current Portion of Bonds Payable	141,900
Total Restricted Assets	<u>\$ 572,991</u>

**Concentration of Credit Risk**

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2021, other than external investment pools, the City did not have 5% or more of its investments with one issuer.

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance of \$250,000 at all times.

At September 30, 2021, the carrying amount of the City's cash on hand and deposits was \$416,799 and the bank balance was \$885,259. Of the bank balance, \$500,000 was covered by federal depository insurance for depository. Moreover, bank balance of \$516,927 at First Financial Bank as of September 30, 2021 was secured with securities held by the pledging financial institution's trust department or agent in the City's name.

CITY OF FOREST HILL  
Notes to the Financial Statements  
For the Year Ended September 30, 2021

**NOTE 2. DEPOSITS (CASH) AND INVESTMENTS** *(continued)*

**Custodial Credit Risk** *(continued)*

The City is a voluntary participant in the TexPool external investment pools. TexPool policies require that local government deposits be used to purchase investments authorized by the Public Funds Investment Act (PFIA) of 1987, as amended. The Texas State Comptroller of Public Accounts has oversight responsibility for TexPool. TexPool is a public funds investment pool created by the Texas Treasury Safekeeping Trust Company (Trust Company) to provide a safe environment for the placement of local government funds in authorized short-term, fully collateralized investments, including direct obligations or, or obligations guaranteed by, the United States or State of Texas or their agencies; federally insured certificates of deposit issued by Texas banks or savings and loans; and fully collateralized direct repurchase agreements secured by United States Government agency securities and placed through a primary government securities dealer. The Trust Company was incorporated by the State Treasurer by authority of the Texas Legislature as a special purpose trust company with direct access to the services of the Federal Reserve Bank to manage, disburse, transfer, safe keep, and invest public funds and securities more efficiently and economically. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. TexPool uses amortized cost rather than fair value to report net position to compute share prices. The fair value of the position in TexPool is the same as the value of TexPool shares. Accordingly, the City's investments in TexPool are stated at cost, which approximates fair value. TexPool is currently rated AAAM by Standard and Poor's. This rating indicates excellent safety and superior capacity to maintain principal value and limit exposure to loss.

The City's external pooled funds are reported at amortized cost as permitted by GASB Statement No. 79, Certain External Investment Pools and Pool Participants. Amortized cost for the investment pools approximates fair value. In addition, The City's investment pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. The pools do not impose any liquidity fees or redemption gates.

**NOTE 3. ACCOUNT RECEIVABLE**

Amounts recorded as receivables as of September 30, 2021, for the government's individual major and non-major funds, including the applicable allowance for uncollectible accounts, are as follows:

	General Fund	Motel Tax	Community Development Corporation	Nonmajor Governmental Funds	Enterprise Fund	Total
Receivables:						
Utility Bills	\$ -	\$ -	\$ -	\$ -	\$ 763,299	\$ 763,299
Delinquent Taxes	420,145	-	-	68,083	-	488,228
Sales Taxes	361,555	-	180,777	90,389	-	451,944
Other	60,921	54,421		32,235	31,912	179,489
Gross Receivables	842,621	54,421	180,777	190,707	795,211	1,882,960
Less: Allowance for Uncollectables	(229,837)	-	-	(40,621)	(119,287)	(389,745)
Net Total Receivables	<u>\$ 612,784</u>	<u>\$ 54,421</u>	<u>\$ 180,777</u>	<u>\$ 150,086</u>	<u>\$ 675,924</u>	<u>\$ 1,493,215</u>

#### NOTE 4. CAPITAL ASSETS

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 807,225	\$ -	\$ -	\$ 807,225
Construction in Progress	153,965	38,000	(153,965)	38,000
Total Capital Assets, Not Being Depreciated	961,190	38,000	(153,965)	845,225
Capital Assets, Being Depreciated:				
Buildings	4,061,055	118,368	-	4,179,423
Equipment	4,890,085	407,626	(258,232)	5,039,479
Infrastructure	39,598,564	445,159	-	40,043,723
Total Capital Assets, Being Depreciated	48,549,704	971,153	(258,232)	49,262,625
Less: Accumulated Depreciation for:				
Buildings	(973,132)	(109,001)	-	(1,082,133)
Equipment	(4,442,657)	(260,460)	214,460	(4,488,657)
Infrastructure	(34,049,838)	(685,489)	-	(34,735,327)
Total Accumulated Depreciation	(39,465,627)	(1,054,950)	214,460	(40,306,117)
Total Capital Assets, Being Depreciated, Net	9,084,077	(83,797)	(43,772)	8,956,508
Governmental Activities Capital Assets, Net	\$ 10,045,267	\$ (45,797)	\$ (197,737)	\$ 9,801,733

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 25,567	\$ -	\$ -	\$ 25,567
Total Capital Assets, Not Being Depreciated	25,567	-	-	25,567
Capital Assets, Being Depreciated:				
Buildings, Systems & Improvements	214,693	-	(33,820)	180,873
Transportation Equipment	1,161,474	20,395	(63,266)	1,118,603
Water Infrastructure Improvements	10,994,247	203,784	-	11,198,031
Total Capital Assets, Being Depreciated	12,370,414	224,179	(97,086)	12,497,507
Less: Accumulated Depreciation for:				
Buildings, Systems & Improvements	(164,478)	(1,095)		(165,573)
Transportation Equipment	(1,038,027)	(45,868)	63,266	(1,020,629)
Water Infrastructure Improvements	(4,582,135)	(210,577)		(4,792,712)
Total Accumulated Depreciation	(5,784,640)	(257,540)	63,266	(5,978,914)
Total Capital Assets, Being Depreciated, Net	6,585,774	(33,361)	(33,820)	6,518,593
Business-Type Activities Capital Assets, Net	\$ 6,611,341	\$ (33,361)	\$ (33,820)	\$ 6,544,160

CITY OF FOREST HILL  
Notes to the Financial Statements  
For the Year Ended September 30, 2021

**NOTE 4. CAPITAL ASSETS** *(continued)*

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General Government	\$ 109,001
Public Safety	260,460
Streets	685,489
Total Depreciation Expense - Governmental Activities	<u>\$ 1,054,950</u>
Business-Type Activities:	
Water & Sewer	\$ 257,540
Total Depreciation Expense - Business-Type Activities	<u>\$ 257,540</u>

Construction in progress and remaining commitments under construction related construction contracts at September 30, 2021 are as follows:

<u>Project Name</u>	<u>Remaining Commitment</u>	<u>Total In Progress</u>
Governmental Activities:		
Police Vehicles	\$ -	\$ 38,000
Total Governmental Activities	<u>\$ -</u>	<u>\$ 38,000</u>

**Capital Leases**

The government has entered into various lease agreements as lessee for financing the acquisition of vehicles and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. As of September 30, 2021, the equipment leased under capital leases had a carrying value of \$125,749, all of which are classified with governmental activities equipment.

Capital lease expenditures for 2021 were \$101,305 of which \$2,289 represented interest. Effective interest rates range from 1.50% to 4.60%. Pursuant to the terms of the capital lease agreements, the government will be required to make future minimum payments as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>
2021	
Total Minimum Lease Payments	<u>\$ 125,749</u>
Less: Amount Representing Interest	125,749
Present Value of Future Minimum Lease Payments	<u>\$ 125,749</u>

The capital leases will be repaid by the general fund.

CITY OF FOREST HILL  
Notes to the Financial Statements  
For the Year Ended September 30, 2021

**NOTE 5. LONG-TERM DEBT**

The following is a summary of long-term liability transactions of the City for the year ended September 30, 2021:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
Capital Leases	\$ 41,854	\$ 659,387	\$ (41,854)	\$ 659,387	\$ 125,749
Bonds Payable	3,089,550	-	(567,400)	2,522,150	583,100
Compensated Absences	1,008,372	532,304	(627,571)	913,105	-
Total governmental activities	4,139,776	1,191,691	(1,236,825)	4,094,642	708,849
	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
<b>Business-Type Activities:</b>					
Bonds Payable	350,450	-	(137,600)	212,850	141,900
Compensated Absences	190,397	80,267	(98,545)	172,119	-
Total Business-type activities	540,847	80,267	(236,145)	384,969	141,900
Total government-wide activities	\$ 4,680,623	\$ 1,271,959	\$ (1,472,970)	\$ 4,479,611	\$ 850,749

The bonds will be repaid by the debt service fund. Compensated absences will be liquidated from General Fund and Utilities Fund.

Bonds payable at September 30, 2021 are comprised of the following issues for the debt service fund:

2007 Certificates of Obligation. Interest payable February 1 and August 1 at 4.14%.	\$ 1,160,000
2009 Certificates of Obligation. Interest payable February 1 and August 1 at rates ranging from 2.00% to 4.375%.	700,000
2011 General Obligation Refunding Bonds. Interest payable February 1 and August 1 at rates ranging from 2.0% to 3.0%.	464,550
2014 General Obligation Refunding Bonds. Interest payable March 1 and September 1 at a 2.456% interest rate.	765,000
	<u>\$ 3,089,550</u>

CITY OF FOREST HILL  
Notes to the Financial Statements  
For the Year Ended September 30, 2021

**NOTE 5. LONG-TERM DEBT** *(continued)*

The annual requirements to amortize the bonded debt outstanding for the debt service fund as of September 30, 2021 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 567,400	\$ 100,551	\$ 667,951
2022	583,100	81,503	664,603
2023	499,050	63,331	562,381
2024	420,000	47,509	467,509
2025	440,000	32,353	472,353
2026	285,000	18,495	303,495
2027	295,000	6,235	301,235
	<u>\$ 3,089,550</u>	<u>\$ 349,977</u>	<u>\$ 3,439,527</u>

Bonds payable at September 30, 2021 are comprised of the following issue for the Water and Sewer Fund:

2011 General Obligation Refunding Bonds. Interest Payable on  
February 1 and August 1 at rates ranging from 2.00% to 3.00%.

\$ 350,450
<u>\$ 350,450</u>

The annual requirements to amortize all bonded debt outstanding for the Water and Sewer Fund as of September 30, 2021 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 137,600	\$ 8,449	\$ 146,049
2022	141,900	4,257	146,157
2023	70,950	1,064	72,014
	<u>\$ 350,450</u>	<u>\$ 13,770</u>	<u>\$ 364,220</u>

CITY OF FOREST HILL  
Notes to the Financial Statements  
For the Year Ended September 30, 2021

**NOTE 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

For the year ended September 30, 2021, interfund transfers consist of:

<b>Primary Government</b>	<b>Transfers To Funds</b>	<b>Transfers From Funds</b>
<b>01 General Fund</b>		
04 - Juvenile Case Manager	\$ -	\$ 3,500
10 - Hotel Motel	-	65,000
30 - Debt Service	-	-
52 - Streets	-	85,000
52 - Streets	250,000	-
60 - Water & Sewer Utility O&M	-	500,000
62 - Sanitation	-	65,000
65 - Storm Water drainage Fund	-	40,000
<b>04 Juvenile Case Manager</b>		
01- Gen Fund	3,500	-
<b>10 Hotel Motel</b>		
01- Gen Fund	65,000	-
<b>30 Debt Service</b>		
49 - CDC	-	170,630
<b>49 CDC</b>		
01- Gen Fund	150,000	-
30 - Debt Service	170,630	-
<b>52 Streets</b>		
01- Gen Fund	85,000	-
01- Gen Fund	-	250,000
<b>60 Water &amp; Sewer Utility O&amp;M</b>		
	<u>\$ 1,329,130</u>	<u>\$ 1,329,130</u>

**NOTE 7. EMPLOYEE RETIREMENT SYSTEM – PENSION PLAN**

**Plan Description** - The City of Forest Hill, Texas participates as one of 888 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 the System 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.tmrs.com](http://www.tmrs.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.

CITY OF FOREST HILL  
Notes to the Financial Statements  
For the Year Ended September 30, 2021

**NOTE 7. EMPLOYEE RETIREMENT SYSTEM – PENSION PLAN** *(continued)*

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% 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>Plan Year 2021</u>
Employee deposit rate	7%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated Service Credit	100%, Transfers
Annuity increase (to retirees)	0% of CPI

**Employees Covered by Benefit Terms** - Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age.

At the December 31, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	82
Inactive Employees Entitled to but Not Yet Receiving Benefits	98
Active Employees	<u>82</u>
	262

**Contributions** - The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city 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 of Forest Hill, Texas were required to contribute 7.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 12.8% and 12.8% in calendar year 2020 and 2021, respectively. The City's contributions to TMRS for the year ended September 30, 2021 were \$752,424 and were equal to required contributions.

**Net Pension Liability** - The City's Net Pension Liability (NPL) was measured as of December 31, 2019, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

CITY OF FOREST HILL  
Notes to the Financial Statements  
For the Year Ended September 30, 2021

**NOTE 7. EMPLOYEE RETIREMENT SYSTEM – PENSION PLAN** *(continued)*

**Actuarial Assumptions** – The Total Pension Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

- Inflation – 2.5% per year
- Overall payroll growth – 2.75% per year, adjusted down for population declines, if any
- Investment Rate of Return – 6.75%, net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees, and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disable annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. 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, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative), and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.00%	5.30%
Core Fixed Income	10.00%	1.25%
Non-Core Fixed Income	20.00%	4.14%
Real Return	10.00%	3.85%
Real Estate	10.00%	4.00%
Absolute Return	10.00%	3.48%
Private Equity	10.00%	7.75%
	100.00%	

CITY OF FOREST HILL  
Notes to the Financial Statements  
For the Year Ended September 30, 2021

**NOTE 7. EMPLOYEE RETIREMENT SYSTEM – PENSION PLAN** *(continued)*

**Discount Rate** – The discount rate used to measure the Total Pension Liability was 6.75%. 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 Total Pension Liability.

***Changes in the Net Pension Liability***

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2019	\$ 24,633,658	\$ 23,085,116	\$ 1,548,542
Changes for the Year:			
Service Cost	973,981	-	973,981
Interest	1,667,419	-	1,667,419
Change of Benefit Terms	-	-	-
Diff. Between Expected/Actual Experience	91,456	-	91,456
Changes of Assumptions	-	-	-
Contributions - Employer	-	716,335	(716,335)
Contributions - Employee	-	391,157	(391,157)
Net Investment Income	-	1,752,623	(1,752,623)
Benefit Payments, Including Refunds of Employee Contributions	(836,294)	(836,294)	-
Administrative Expenses	-	(11,339)	11,339
Other Changes	-	(442)	442
Net Changes	1,896,562	2,012,040	(115,478)
Balance at 12/31/2020	\$ 26,530,220	\$ 25,097,156	\$ 1,433,064

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*** - The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would have been if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate.

	1% Decrease (5.75%)	Discount Rate (6.75%)	1% Increase (7.75%)
City's Net Pension Liability	\$ 5,712,813	\$ 1,433,065	\$ (2,013,048)

CITY OF FOREST HILL  
Notes to the Financial Statements  
For the Year Ended September 30, 2021

**NOTE 7. EMPLOYEE RETIREMENT SYSTEM – PENSION PLAN** *(continued)*

**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](http://www.tmrs.com).

**Pension Expense and Deferred Outflows and Inflows of Resources** - For the year ended September 30, 2021, the City recognized pension expense in the amount of \$523,943. At September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected & Actual Economic Experience (net of current year amortization)	\$ -	\$ 124,210
Changes in Actuarial Assumptions	17,606	-
Differences Between Projected & Actual Investment Earnings (net of current year amortization)	-	657,998
Contributions Subsequent to the Measurement Date	556,308	-
Total	<u>\$ 573,914</u>	<u>\$ 782,208</u>

\$520,660 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 net pension liability for the year ending September 30, 2020. 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,	
2021	\$ (345,569)
2022	6,524
2023	(386,683)
2024	(38,874)
Thereafter	-
	<u>\$ (764,602)</u>

**NOTE 8. OTHER POST EMPLOYMENT BENEFITS**

**Plan Description** - The City participates in a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). SDBF is an unfunded multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Texas Municipal Retirement System (TMRS).

**OPEB Plan Fiduciary Net Position** - Detailed information about the TMRS SDBF’s fiduciary net position is available in a separately issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. This report may be obtained at [www.tmrs.com](http://www.tmrs.com).

**Benefits Provided** – SDBF is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including retirees. 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). The death benefit for retirees is considered another postemployment benefit and is a fixed amount of \$7,500.

CITY OF FOREST HILL  
Notes to the Financial Statements  
For the Year Ended September 30, 2021

**NOTE 8. OTHER POST EMPLOYMENT BENEFITS** *(continued)*

**Contributions** – City contribution rates for the SDBF are established 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.

Employees for the City of Forest Hill, Texas were not required to contribute to the SDBF. The contribution rates for the City were 0.14% and 0.14% in calendar year 2020 and 2021, respectively. The City's contributions to TMRS for the year ended September 30, 2021 were \$8,216 and were equal to required contributions.

**Employees Covered by Benefit Terms** - At the December 31, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	31
Inactive Employees Entitled to but Not Yet Receiving Benefits	14
Active Employees	82
	127

**Actuarial Assumptions** - The total OPEB liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

SUMMARY OF ACTUARIAL SUMPTIONS	
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Discount Rate*	2.00%
Retirees' share of benefit related costs	\$0
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality Rates - service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality Rates - disabled retirees	2020 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

\*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2020.

Note: The actuarial assumption used in the December 31, 2020 valuation were based on the results of an actuarial experience study for the period December 31, 2014 – December 31, 2018.

CITY OF FOREST HILL  
Notes to the Financial Statements  
For the Year Ended September 30, 2021

**NOTE 8. OTHER POST EMPLOYMENT BENEFITS** *(continued)*

**Total OPEB Liability** - The City's Total OPEB Liability was determined by an actuarial valuation as of December 31, 2020.

	Increase/(Decrease)
	Total OPEB Liability
Balance at 12/31/2018	\$ 218,644
Changes for the Year:	
Service Cost	12,852
Interest	6,166
Change of Benefit Terms	-
Diff. Between Expected/Actual Experience	(1,655)
Changes of Assumptions	40,676
Contributions - Employer	-
Contributions - Employee	-
Net Investment Income	-
Benefit Payments, Including Refunds of Employee Contributions	(1,676)
Administrative Expenses	-
Other Changes	-
Net Changes	56,363
Balance at 12/31/2019	\$ 275,007

**Discount Rate Sensitivity Analysis** - The following presents the total OPEB liability of the City, calculated using the discount rate of 2.75%, as well as what the City's total OPEB liability would have been if it were calculated using a discount rate that is 1-percentage-point lower (1.75%) or 1-percentage-point higher (3.75%) than the current rate.

	1% Decrease (1.75%)	Discount Rate (2.75%)	1% Increase (3.75%)
City's total OPEB liability	\$ 344,294	\$ 275,007	\$ 222,574

**OPEB Expense and Deferred Outflows and Inflows of Resources** - For the year ended September 30, 2021, the City recognized OPEB expense in the amount of \$19,727. At September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected & Actual Economic Experience (net of current year amortization)	\$ -	\$ 10,692
Changes in Actuarial Assumptions	59,405	-
Differences Between Projected & Actual Investment Earnings (net of current year amortization)	-	-
Contributions Subsequent to the Measurement Date	6,075	-
Total	\$ 65,480	\$ 10,692

CITY OF FOREST HILL  
Notes to the Financial Statements  
For the Year Ended September 30, 2021

**NOTE 8. OTHER POST EMPLOYMENT BENEFITS** *(continued)*

\$5,686 reported as deferred outflows of resources related to OPEBs resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year Ended December 31,		
2021	\$	10,234
2022		10,234
2023		9,522
2024		8,799
2025		9,159
Thereafter		765
	\$	48,713

**NOTE 9. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts such as: theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City participates in the Texas Municipal League Intergovernmental Risk Pool (Risk Pool) to provide general liability and property insurance and workers' compensation.

The City, along with other participating entities, contributes annual amounts determined by the Risk Pool. Contributions to the Risk Pool for workers' compensation are based on the City's payroll. As claims arise they are submitted to and paid by the Risk Pool.

The liability of the Texas Municipal League Intergovernmental Risk Pool is limited to a \$2,000,000 annual aggregate for general liability, errors and omissions, and law enforcement. The automobile liability limit for the risk pool is \$1,000,000 for each occurrence.

There have been no significant changes in insurance coverage as compared to last year. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**NOTE 10. LITIGATION**

Various claims and lawsuits are pending against the City of Forest Hill. In the opinion of the City's Legal Counsel and Management, the potential losses will not have a material effect on the City's financial statements.

**NOTE 11. IMPLEMENTATION OF FUTURE GASB STATEMENT**

The Governmental Accounting Standards Board ("GASB") has issued the following new statements to be implemented in future years.

CITY OF FOREST HILL  
Notes to the Financial Statements  
For the Year Ended September 30, 2021

**NOTE 11. IMPLEMENTATION OF FUTURE GASB STATEMENT** *(continued)*

GASB Statement No. 87, Leases. This statement provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and non-lease components will need to be separated so each component is accounted for accordingly. This standard becomes effective for the City in fiscal year 2022.

**NOTE 12. EVALUATION OF SUBSEQUENT EVENTS**

The City has evaluated subsequent events through August 10, 2022, the date which the financial statements were available to be issued.



## **Required Supplementary Information**

For the fiscal year ended  
September 30, 2021

CITY OF FOREST HILL  
 Budgetary Comparison Schedule  
 General Fund  
 For the Year Ended September 30, 2021

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				Positive
				(Negative)
Taxes				
Property	\$ 5,500,000	\$ 5,500,000	\$ 6,306,184	\$ 806,184
Sales	1,750,000	1,750,000	2,035,234	285,234
Franchise Fees	350,000	350,000	508,955	158,955
Licenses and Permits	308,000	308,000	337,036	29,036
Fines and Forfeitures	493,000	493,000	450,725	(42,275)
Intergovernmental	8,000	8,000	36,392	28,392
Rental	417,000	417,000	280,037	(136,963)
Interest	70,000	70,000	7,328	(62,672)
Miscellaneous	842,000	842,000	143,210	(698,790)
Total Revenues	<u>9,738,000</u>	<u>9,738,000</u>	<u>10,105,101</u>	<u>367,101</u>
 EXPENDITURES				
Current				
General Government	1,865,500	1,865,500	1,833,968	31,532
Public Safety	5,618,440	5,618,440	5,138,782	479,658
Public Works	1,298,463	1,298,463	854,012	444,451
Community Development	855,100	855,100	133,857	721,243
Non Departmental	858,000	858,000	773,069	84,931
Total Expenditures	<u>10,504,503</u>	<u>10,504,503</u>	<u>8,739,602</u>	<u>1,764,901</u>
Excess (Deficiency ) of Revenues				
over Expenditures	(766,503)	(766,503)	1,365,499	2,132,002
 Other Financing Sources (Uses)				
Transfer in	108,500	108,500	908,500	(800,000)
Transfer out	(532,630)	(532,630)	(250,000)	(282,630)
Total Other Financing Sources (Uses)	<u>(424,130)</u>	<u>(424,130)</u>	<u>658,500</u>	<u>(1,082,630)</u>
 Net Changes in Fund Balances	(1,190,633)	(1,190,633)	2,023,999	1,049,372
 Fund Balances - Beginning of Year	2,894,325	2,894,325	2,894,325	
 Fund Balances - End of Year	<u>\$ 1,703,692</u>	<u>\$ 1,703,692</u>	<u>\$ 4,918,324</u>	

CITY OF FOREST HILL  
Notes to the Required Supplementary Budget Information  
For the Year Ended September 30, 2021

**A. Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted for the general fund and water and sewer fund. All annual appropriations lapse at fiscal year-end. Project-length financial plans are adopted for all capital projects funds.

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to September 1, the City Manager and staff meet with the City Council in a series of workshops to work on the budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.

2. Public hearings are conducted to obtain taxpayer comments.

No later than August 10, the City Manager officially presents the budget to the City Council for consideration. A second Council meeting is scheduled before October 1 to finalize the adoption of the new budget.

3. The City Manager is authorized to transfer budgeted amounts within departments in any fund; however, any revisions that alter expenditures between departments of any fund, must be approved by the City Council.

4. Formal budgetary integration, using the modified accrual basis, is employed as a management control device during the year for the General Fund. No supplemental appropriations were made during the fiscal year.

5. The Debt Service and Capital Project Funds do not have formal budgets since all are controlled by contractual obligations approved at inception or as part of the General Fund on an annual basis.

**B. Budget Variances**

Expenditures related to community development and public safety were below budgetary amounts by \$721,243 and \$479,658, respectively. Within the General Fund (the legal level of budgetary control) actual total revenue exceeded budgetary revenues by \$367,101 and budgetary total expenditures were below actual by \$1,764,901, resulting in a net positive variance of \$2,132,002. Budget net transfers out were \$424,130 versus actual net transfers in of \$658,500.

CITY OF FOREST HILL  
 Budgetary Comparison Schedule  
 Motel Tax Fund  
 For the Year Ended September 30, 2021

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 400,000	\$ 400,000	\$ 540,296	\$ 140,296
Interest Income	35,000	35,000	4,821	(30,179)
Total Revenues	<u>435,000</u>	<u>435,000</u>	<u>545,117</u>	<u>110,117</u>
<b>EXPENSES</b>				
Parks and Recreation	-	-	-	-
Total Expenditure	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in Net Position	435,000	435,000	545,117	110,117
Net Position - Beginning of Year	<u>3,921,172</u>	<u>3,921,172</u>	<u>3,921,172</u>	<u>-</u>
Net Position - End of Year	<u>\$ 4,356,172</u>	<u>\$ 4,356,172</u>	<u>\$ 4,466,289</u>	<u>\$ 110,117</u>

CITY OF FOREST HILL  
 Budgetary Comparison Schedule  
 Community Development Corporation Fund  
 For the Year Ended September 30, 2021

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
<b>REVENUES</b>				
Taxes	\$ 740,000	\$ 740,000	\$ 1,017,617	\$ 277,617
Interest Income	20,000	20,000	2,907	(17,093)
Total Revenues	<u>760,000</u>	<u>760,000</u>	<u>1,020,524</u>	<u>260,524</u>
<b>EXPENSES</b>				
Community Development	240,370	240,370	155,171	(85,199)
Total Expenditure	<u>240,370</u>	<u>240,370</u>	<u>155,171</u>	<u>(85,199)</u>
Excess (Deficiency) of Revenues over				
Expenditure	519,630	519,630	865,353	345,723
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer out	(320,630)	(320,630)	(320,630)	-
Total Other Financing Sources (Uses)	<u>(320,630)</u>	<u>(320,630)</u>	<u>(320,630)</u>	<u>-</u>
Net Changes in Net Position	199,000	199,000	544,723	345,723
Net Position - Beginning of Year	<u>2,550,020</u>	<u>2,550,020</u>	<u>2,550,020</u>	<u>(345,723)</u>
Net Position - End of Year	<u>\$ 2,749,020</u>	<u>\$ 2,749,020</u>	<u>\$ 3,094,743</u>	<u>\$ -</u>

CITY OF FOREST HILL  
Budgetary Comparison Schedule  
Enterprise Fund  
For the Year Ended September 30, 2021

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
<b>OPERATING REVENUES</b>				
Charges for Sales & Services				
Water Sales	\$ 2,500,000	\$ 2,500,000	\$ 2,494,450	\$ (5,550)
Sewer Sales	2,600,000	2,600,000	2,506,831	(93,169)
Tap & Collection Fees	90,000	90,000	102,696	12,696
Delinquent Charges	100,000	100,000	129,039	29,039
Franchise Fees	130,000	130,000	162,186	32,186
Service Charges	900,000	900,000	932,655	32,655
Miscellaneous	117,000	117,000	260,902	143,902
Total Operating Revenues	<u>6,437,000</u>	<u>6,437,000</u>	<u>6,588,759</u>	<u>151,759</u>
<b>OPERATING EXPENSES</b>				
Water Distribution & Wastewater Collection:				
Personnel Services	847,000	847,000	667,346	179,654
Materials & Supplies	744,500	744,500	65,451	679,049
Other Services	3,301,050	3,301,050	3,254,110	46,940
Total Water Distribution & Wastewater Collection	<u>4,892,550</u>	<u>4,892,550</u>	<u>3,986,907</u>	<u>905,643</u>
Nondepartmental:				
Other Services	-	-	42,703	(42,703)
Total Nondepartmental	<u>-</u>	<u>-</u>	<u>42,703</u>	<u>(42,703)</u>
Utility Billing:				
Personnel Services	366,200	366,200	120,833	245,367
Materials & Supplies	26,100	26,100	40,359	(14,259)
Other Services	65,600	65,600	58,949	6,651
Total Utility Billing	<u>457,900</u>	<u>457,900</u>	<u>220,141</u>	<u>237,759</u>
Depreciation	-	-	257,540	(257,540)
Total Operating Expenses	<u>5,350,450</u>	<u>5,350,450</u>	<u>4,507,291</u>	<u>843,159</u>
Operating Income/(Loss)	<u>1,086,550</u>	<u>1,086,550</u>	<u>2,081,468</u>	<u>994,918</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest Revenue	55,000	55,000	7,531	(47,469)
Interest Expense & Fiscal Charges	(8,450)	(8,450)	(15,691)	(7,241)
Total Nonoperating Revenues (Expenses)	<u>46,550</u>	<u>46,550</u>	<u>(8,160)</u>	<u>(54,710)</u>
Net Income/(Loss) Before Transfers	1,133,100	1,133,100	2,073,308	940,208
Transfers Out	(605,000)	(605,000)	(565,000)	40,000
Changes in Net Position	528,100	528,100	1,508,308	980,208
Net Position - Beginning of Year	11,733,689	11,733,689	11,733,689	-
Net Position - End of year	<u>\$ 12,261,789</u>	<u>\$ 12,261,789</u>	<u>\$ 13,241,997</u>	<u>\$ 980,208</u>

**CITY OF FOREST HILL**  
**Required Supplementary Information**  
**Schedule of Changes in Net Pension Liabilities and Related Ratios**  
**Last Five Measurement Years**

	Plan Year Ended December 31,						
	2020	2019	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>							
Service Cost	\$ 973,981	\$ 975,908	\$ 897,913	\$ 812,138	\$ 771,871	\$ 759,161	\$ 633,495
Interest (on the Total Pension Liability)	1,667,419	1,588,890	1,505,217	1,417,740	1,350,673	1,314,117	1,233,382
Changes of Benefit Terms	-	-	-	-	-	-	-
Difference Between Expected & Actual Experience	91,456	(417,196)	(163,536)	(208,646)	(418,501)	(8,297)	(42,513)
Change of Assumptions	-	44,690	-	-	-	(2,517)	-
Benefit Payments, Including Refunds of Employee Contributions	(836,294)	(1,219,579)	(858,395)	(677,943)	(783,244)	(880,658)	(587,027)
Net Change in Total Pension Liability	1,896,562	972,713	1,381,199	1,343,289	920,799	1,181,806	1,237,337
Total Pension Liability - Beginning	24,633,658	23,660,945	22,279,746	20,936,457	20,015,658	18,833,852	17,596,515
Total Pension Liability - Ending (a)	<u>\$ 26,530,220</u>	<u>\$ 24,633,658</u>	<u>\$ 23,660,945</u>	<u>\$ 22,279,746</u>	<u>\$ 20,936,457</u>	<u>\$ 20,015,658</u>	<u>\$ 18,833,852</u>
<b>Plan Fiduciary Net Position</b>							
Contributions - Employer	\$ 716,335	\$ 772,918	\$ 704,139	\$ 642,100	\$ 621,952	\$ 641,548	\$ 560,850
Contributions - Employee	391,157	405,904	369,873	337,187	324,901	325,222	299,234
Net Investment Income	1,752,623	3,099,529	(612,299)	2,454,229	1,111,844	24,134	870,744
Benefit Payments, Including Refunds of Employee Contributions	(836,294)	(1,219,579)	(858,395)	(677,943)	(783,244)	(880,658)	(587,027)
Administrative Expense	(11,339)	(17,510)	(11,841)	(12,721)	(12,555)	(14,699)	(9,090)
Other	(442)	(526)	(620)	(645)	(676)	(726)	(747)
Net Change in Plan Fiduciary Net Position	2,012,040	3,040,736	(409,143)	2,742,207	1,262,222	94,821	1,133,964
Plan Fiduciary Net Position - Beginning	23,085,116	20,044,380	20,453,523	17,711,316	16,449,094	16,354,273	15,220,309
Plan Fiduciary Net Position - Ending (b)	<u>\$ 25,097,156</u>	<u>\$ 23,085,116</u>	<u>\$ 20,044,380</u>	<u>\$ 20,453,523</u>	<u>\$ 17,711,316</u>	<u>\$ 16,449,094</u>	<u>\$ 16,354,273</u>
Net Pension Liability - Ending (a) - (b)	\$ 1,433,064	\$ 1,548,542	\$ 3,616,565	\$ 1,826,223	\$ 3,225,141	\$ 3,566,564	\$ 2,479,579
Plan Fiduciary Net Position as Percentage of Total Pension Liability	94.60%	93.71%	84.72%	91.80%	84.60%	82.18%	86.83%
Covered Payroll	\$ 5,587,955	\$ 5,798,622	\$ 5,241,759	\$ 4,816,953	\$ 4,641,438	\$ 4,646,029	\$ 4,264,769
Net Pension Liability as Percentage of Covered Payroll	25.65%	26.71%	69.00%	37.91%	69.49%	76.77%	58.14%

Note: GASB Codification, Vol. 2, P20.183 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates. For example: as of December 31, 2019 for fiscal year 2020.

This schedule shows only the years for which this information is available. Additional information will be added until 10 years of data are available and reported.

The amounts presented are for each measurement year, which ends the preceding December 31st of the City's fiscal year end. Net pension liability is calculated using a new methodology and will be presented prospectively in accordance with GASB 68. Ten years of data should be presented in this schedule but data was unavailable prior to 2014.

**CITY OF FOREST HILL**  
**Required Supplementary Information**  
**Schedule of Contributions**  
**Last Five Fiscal Years**

	Fiscal Year Ended September 30,					
	2020	2019	2018	2017	2016	2015
Actuarially Determined Contribution	\$ 694,456	\$ 771,398	\$ 698,363	\$ 633,430	\$ 629,783	\$ 605,850
Contributions in Relation to the Actuarially Determined Contribution	(694,456)	(771,398)	(698,363)	(633,430)	(629,783)	(605,850)
Contribution Deficiency/(Excess)	-	-	-	-	-	-
Covered Payroll	\$ 5,363,156	\$ 5,722,745	\$ 5,193,289	\$ 4,703,542	\$ 4,625,896	\$ 4,394,610
Contributions as Percentage of Covered Payroll	12.95%	13.48%	13.45%	13.47%	13.61%	13.79%

Note: GASB Codification, Vol. 2, P50.238 states that the information on this schedule should be determined as of the measurement date. Therefore the amounts reported for FY 2020 are for the measurement date of December 31, 2019. This scheduled shows only the years for which this information is available. Additional information will be added until 10 years of data are available and reported.

**Valuation Date:** Actuarially determined contribution rates are calculated as of December 31 and

**Methods & 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; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-Retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

**Other Information:** Granted 100% ad hoc USC with transfer.

CITY OF FOREST HILL  
Required Supplementary Information  
Schedule of Changes in Total OPEB Liability and Related Ratios  
Last Three Measurement Years

	2020	Plan Year Ended December 31,		
		2019	2018	2017
<b>Total OPEB Liability</b>				
Service Cost	\$ 12,852	\$ 9,278	\$ 10,484	\$ 8,189
Interest (on the Total OPEB Liability)	6,166	6,591	6,107	5,855
Changes of Benefit Terms	-	-	-	-
Difference Between Expected & Actual Experience	(1,655)	(7,982)	(6,776)	-
Change of Assumptions	40,676	38,599	(14,388)	15,927
Benefit Payments, Including Refunds of Employee Contributions	(1,676)	(1,740)	(1,573)	(1,445)
Net Change in Total OPEB Liability	56,363	44,746	(6,146)	28,526
Total OPEB Liability - Beginning	218,644	173,898	180,044	151,518
Total OPEB Liability - Ending	<u>\$ 275,007</u>	<u>\$ 218,644</u>	<u>\$ 173,898</u>	<u>\$ 180,044</u>
Covered Payroll	\$ 5,587,955	\$ 5,798,622	\$ 5,241,756	\$ 4,816,953
Total OPEB Liability as a Percentage of Covered Payroll	4.92%	3.77%	3.32%	3.74%

The amounts presented are for each measurement year, which end the preceding December 31 of the City's fiscal year end. Net OPEB liability is calculated using a new methodology and will be presented prospectively in accordance with GASB 75. Ten years of data should be presented in this schedule, but data was unavailable prior to 2017.



## **Combining Nonmajor Fund Financial Statements**

For the fiscal year ended  
September 30, 2021

CITY OF FOREST HILL  
Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2021

	Debt Service	Capital Projects	Parks	Street Improvement	Municipal Court Technology	Municipal Court Safety
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 496,106	\$ 475,722	\$ 266,470	\$ 1,433,870	\$ 42,332	\$ 138,502
Property Tax Receivable	27,462	-	-	-	-	-
Sales Tax Receivable	-	-	-	90,389	-	-
Other Receivable	5,784	-	-	-	-	-
Due from Other Funds	-	-	-	-	-	-
Total Assets	<u>\$ 529,352</u>	<u>\$ 475,722</u>	<u>\$ 266,470</u>	<u>\$ 1,524,259</u>	<u>\$ 42,332</u>	<u>\$ 138,502</u>
<b>LIABILITIES &amp; FUND BALANCES</b>						
Liabilities:						
Accounts Payable	\$ -	\$ 20,000	\$ -	\$ 86	\$ 270	\$ -
Accrued Expense	-	-	-	-	-	-
Unavailable Revenue	63,344	-	-	-	-	-
Total Liabilities	<u>63,344</u>	<u>20,000</u>	<u>-</u>	<u>86</u>	<u>270</u>	<u>-</u>
Fund Balances:						
Restricted	466,008	455,722	-	1,524,173	42,062	138,502
Committed	-	-	266,470	-	-	-
Total Fund Balances	<u>466,008</u>	<u>455,722</u>	<u>266,470</u>	<u>1,524,173</u>	<u>42,062</u>	<u>138,502</u>
Total Liabilities & Fund Balances	<u>\$ 529,352</u>	<u>\$ 475,722</u>	<u>\$ 266,470</u>	<u>\$ 1,524,259</u>	<u>\$ 42,332</u>	<u>\$ 138,502</u>

Library	Cable Franchise Fund	Juvenile Case Manager Fund	COVID-19 Fund	Tree Mitigation Fund	American Rescue Plan Act	Capital Equipments	Total
\$ (12,803)	\$ -	\$ 140,901	\$ (4,705)	\$ 380,423	1,609,122	74,314	5,040,254
-	-	-	-	-	-	-	27,462
-	-	-	-	-	-	-	90,389
21,857	4,594	-	-	-	-	-	32,235
-	11,475	-	-	-	-	-	11,475
<u>\$ 9,054</u>	<u>\$ 16,069</u>	<u>\$ 140,901</u>	<u>\$ (4,705)</u>	<u>\$ 380,423</u>	<u>\$ 1,609,122</u>	<u>\$ 74,314</u>	<u>\$ 5,201,815</u>
1,008	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	21,364
4,688	-	-	4,971	-	-	-	9,659
-	-	-	-	-	-	-	63,344
<u>5,696</u>	<u>-</u>	<u>-</u>	<u>4,971</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>94,367</u>
3,358	16,069	140,901	-	380,423	1,609,122	74,314	4,850,654
-	-	-	(9,676)	-	-	-	256,794
<u>3,358</u>	<u>16,069</u>	<u>140,901</u>	<u>(9,676)</u>	<u>380,423</u>	<u>1,609,122</u>	<u>74,314</u>	<u>5,107,448</u>
<u>\$ 9,054</u>	<u>\$ 16,069</u>	<u>\$ 140,901</u>	<u>\$ (4,705)</u>	<u>\$ 380,423</u>	<u>\$ 1,609,122</u>	<u>\$ 74,314</u>	<u>\$ 5,201,815</u>

CITY OF FOREST HILL  
Combining Statement of Revenues, and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended September 30, 2021

	Debt Service	Capital Projects	Parks	Street Improvement	Municipal Court Technology	Municipal Court Safety
<b>REVENUES</b>						
Property Taxes	\$ 497,248	\$ -	\$ -	\$ -	\$ -	\$ -
Sales Taxes	-	-	-	508,806	-	-
Franchise Fees	-	-	-	-	-	-
Fines & Forfeitures	-	-	-	-	-	-
Charge for Services	-	-	-	-	-	-
Donations	-	-	160	-	-	-
Interest	535	289	286	1,603	52	147
Intergovernmental	-	-	-	-	-	-
Miscellaneous	-	-	140	-	7,011	7,399
Total Revenues	<u>497,783</u>	<u>289</u>	<u>586</u>	<u>510,409</u>	<u>7,063</u>	<u>7,546</u>
<b>EXPENDITURES</b>						
Current:						
Public Safety	-	-	3,384	-	6,255	-
Streets	-	-	-	167	-	-
Library	-	-	-	-	-	-
Community Development	-	8,000	-	0	-	-
Capital Outlay	-	118,368	-	177,956	-	-
Debt Service:						
Principal	567,400	-	-	-	-	-
Interest and Fiscal Charges	101,378	-	-	-	-	-
Total Expenditures	<u>668,778</u>	<u>126,368</u>	<u>3,384</u>	<u>178,123</u>	<u>6,255</u>	<u>-</u>
Excess/(Deficiency) of Revenues						
Over/(Under) Expenditures	<u>(170,995)</u>	<u>(126,079)</u>	<u>(2,798)</u>	<u>332,286</u>	<u>808</u>	<u>7,546</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers In	170,630	-	-	250,000	-	-
Transfers Out	-	-	-	(85,000)	-	-
Total Other Financing Sources (Uses)	<u>170,630</u>	<u>-</u>	<u>-</u>	<u>165,000</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(365)	(126,079)	(2,798)	497,286	808	7,546
Fund Balances - Beginning of Year	<u>466,373</u>	<u>581,801</u>	<u>269,268</u>	<u>1,026,887</u>	<u>41,254</u>	<u>130,956</u>
Fund Balances - End of Year	<u>\$ 466,008</u>	<u>\$ 455,722</u>	<u>\$ 266,470</u>	<u>\$ 1,524,173</u>	<u>\$ 42,062</u>	<u>\$ 138,502</u>

Library	Cable Franchise Fund	Juvenile Case Manager Fund	COVID-19 Fund	Tree Mitigation Fund	American Rescue Plan Act	Capital Equipment	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 497,248
-	-	-	-	-	-	-	508,806
-	16,069	-	-	-	-	-	16,069
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	380,000	1,609,122	-	1,989,282
-	-	150	-	423	-	205	3,690
79,593	-	-	-	-	-	-	79,593
-	-	8,670	2,824	-	-	748,237	774,281
<u>79,593</u>	<u>16,069</u>	<u>8,820</u>	<u>2,824</u>	<u>380,423</u>	<u>1,609,122</u>	<u>748,442</u>	<u>3,868,969</u>
-	-	-	506,909	-	-	674,128	1,190,676
-	-	-	-	-	-	-	167
80,624	-	-	-	-	-	-	80,624
-	-	-	-	-	-	-	8,000
-	-	-	83,938	-	-	-	380,262
-	-	-	-	-	-	-	567,400
-	-	-	-	-	-	-	101,378
<u>80,624</u>	<u>-</u>	<u>-</u>	<u>590,847</u>	<u>-</u>	<u>-</u>	<u>674,128</u>	<u>2,328,507</u>
<u>(1,031)</u>	<u>16,069</u>	<u>8,820</u>	<u>(588,023)</u>	<u>380,423</u>	<u>1,609,122</u>	<u>74,314</u>	<u>1,540,462</u>
-	-	-	-	-	-	-	420,630
<u>-</u>	<u>-</u>	<u>(3,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(88,500)</u>
<u>-</u>	<u>-</u>	<u>(3,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>332,130</u>
(1,031)	16,069	5,320	(588,023)	380,423	1,609,122	74,314	1,872,592
<u>4,389</u>	<u>-</u>	<u>135,581</u>	<u>578,347</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,234,856</u>
<u>\$ 3,358</u>	<u>\$ 16,069</u>	<u>\$ 140,901</u>	<u>\$ (9,676)</u>	<u>\$ 380,423</u>	<u>\$ 1,609,122</u>	<u>\$ 74,314</u>	<u>\$ 5,107,448</u>



## **Compliance and Internal Control Section**

For the fiscal year ended  
September 30, 2021

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS*

To the Honorable Mayor and Members of the City Council  
City of Forest Hill, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Forest Hill, Texas (the "City"), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated August 10, 2022.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal

control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Vail + Park, P.C.*

Richardson, Texas  
August 10, 2022