

CITY OF FOREST HILL, TEXAS

ANNUAL FINANCIAL REPORT

**For the Fiscal Year Ended
September 30, 2017**

CITY OF FOREST HILL, TEXAS
ANNUAL FINANCIAL REPORT
Year Ended September 30, 2017

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the presentation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Forest Hill, Texas, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 8, budgetary comparison information on pages 40 to 42, and pension information on pages 43 to 44, and as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and 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. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining fund statements are the responsibility of management and are derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Whitley Penn LLP

Fort Worth, Texas
April 23, 2018

CITY OF FOREST HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2017

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, 2017. All amounts, unless otherwise indicated, are expressed in actual dollars.

Financial Highlights

- The assets and deferred outflows of the City of Forest Hill exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$19,221,390 (net position). Of this amount, \$4,303,781, (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$1,106,096.
- As of the close of the current fiscal year, the City of Forest Hill governmental funds reported combined ending fund balances of \$7,116,229, an increase of \$864,489 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,111,314 or 26% of total general fund expenditures.
- The City of Forest Hill's long-term debt increased by \$568,126 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).

**CITY OF FOREST HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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 9-10 of this report.

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

The City 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 debt service fund, and the motel tax 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, capital projects, and various police funds.

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

The governmental fund financial statements can be found on pages 11-14 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 proprietary fund financial statements can be found on pages 15-18 of this report.

**CITY OF FOREST HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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 20-39 of this report.

Other Information

The combining statements referred to earlier in connection with nonmajor governmental funds can be found on pages 46-49 of this report.

Government-Wide Financial Analysis

Total assets of the City are \$30,535,531. Capital assets, net of depreciation, represent the largest portion of the City's assets (\$18,823,175, or 61.6%) and include land, buildings, improvements, equipment, infrastructure, and construction-in-progress. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

As noted earlier, Net Position may serve as a useful indicator of a government's financial position. As of September 30, 2017, the City of Forest Hill's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$19,221,390 (Net Position).

A portion of the City of Forest Hill's net position (70 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 (7 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* of \$4,303,781 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, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Statement of Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016, restated	2017	2016, restated	2017	2016
Current and other assets	\$ 8,255,322	\$ 7,204,242	\$ 3,457,034	\$ 2,862,349	\$ 11,712,356	\$ 10,066,591
Capital assets	11,589,905	12,458,203	7,233,270	7,416,701	18,823,175	19,874,904
Total Assets	19,845,227	19,662,445	10,690,304	10,279,050	30,535,531	29,941,495
Deferred outflows of resources	1,047,113	1,269,761	184,114	189,735	1,231,227	1,459,496
Long-term liabilities outstanding	9,269,966	10,034,945	1,320,855	1,567,944	10,590,821	11,602,889
Other liabilities	717,818	413,814	907,340	1,154,934	1,625,158	1,568,748
Total Liabilities	9,987,784	10,448,759	2,228,195	2,722,878	12,215,979	13,171,637
Deferred inflows of resources	280,472	110,375	48,917	3,685	329,389	114,060
Net position:						
Net investment in capital assets	6,975,472	6,549,095	6,520,967	6,569,601	13,496,439	13,118,696
Restricted	1,421,170	1,258,028	-	-	1,421,170	1,258,028
Unrestricted	2,227,442	2,565,949	2,076,339	1,172,621	4,303,781	3,738,570
Total Net Position	\$ 10,624,084	\$ 10,373,072	\$ 8,597,306	\$ 7,742,222	\$ 19,221,390	\$ 18,115,294

Statement of Change in Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues						
Fees, fines and charges for services	\$ 1,870,673	\$ 2,182,531	\$ 5,973,725	\$ 4,717,927	\$ 7,844,398	\$ 6,900,458
Operating grants and contributions	1,252	2,622	-	-	1,252	2,622
General revenue						
Property taxes	4,093,542	3,562,485	-	-	4,093,542	3,562,485
Sales, franchise and other taxes	3,682,075	3,673,275	-	-	3,682,075	3,673,275
Interest on investments	34,502	22,839	2,863	1,186	37,365	24,025
Miscellaneous revenue	197,228	105,715	-	105,608	197,228	211,323
Total Revenues	9,879,272	9,549,467	5,976,588	4,824,721	15,855,860	14,374,188
Expenses						
General government	2,349,003	1,785,528	-	-	2,349,003	1,785,528
Public safety	4,835,170	5,286,702	-	-	4,835,170	5,286,702
Culture and recreation	97,038	81,841	-	-	97,038	81,841
Public works	2,044,030	2,048,906	-	-	2,044,030	2,048,906
Community development	532,757	440,793	-	-	532,757	440,793
Interest on long-term debt	183,262	197,217	-	-	183,262	197,217
Utilities Fund	-	-	4,708,504	4,330,113	4,708,504	4,330,113
Total Expenses	10,041,260	9,840,987	4,708,504	4,330,113	14,749,764	14,171,100
Increase (decrease) in net position before transfers	(161,988)	(291,520)	1,268,084	494,608	1,106,096	203,088
Transfers	413,000	372,270	(413,000)	(372,270)	-	-
Increase (decrease) in net position after transfers	251,012	80,750	855,084	122,338	1,106,096	203,088
Net position - beginning, restated	10,373,072	10,292,322	7,742,222	7,619,884	18,115,294	17,912,206
Net position - ending	\$ 10,624,084	\$ 10,373,072	\$ 8,597,306	\$ 7,742,222	\$ 19,221,390	\$ 18,115,294

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 \$251,012
- Total revenues increased by \$329,805 (3.5%).
- Total expenses increased by \$200,273(2.0%).

Business-Type Activities:

Business-Type activities increased the City of Forest Hill's net position by \$855,084.

- Total revenues increased by \$1,151,867(23.9%).
- Total operating expenses increased by \$378,391 (8.7%).

**CITY OF FOREST HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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.

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 \$7,116,230, an increase of \$864,489 from the prior year. Most of the increase is due to transfers from the water and sewer fund and 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 \$1,923,720. Total unreserved fund balance represents 23% of total general fund expenditures.

The debt service fund has a total fund balance of \$269,453, all of which is restricted for payment of debt service.

The motel tax fund has a total fund balance of \$2,538,156, all of which is committed for future uses in the community.

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 \$2,076,339. 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 \$71,198, primarily due to taxes and franchise fees and fines and forfeitures. Expenditures were under budget by \$222,303.

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, 2017, amounts to \$18,823,175 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, buildings, systems, and improvements and equipment.

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

Additional information on the City of Forest Hill's capital assets can be found in Note 3 to the financial statements of this report.

Long-Term Debt. At the end of the current fiscal year, the City of Forest Hill had bonded debt outstanding of \$5,450,000. All of this amount comprises debt backed by the full faith and credit of the government. The City also has outstanding capital lease obligations totaling \$460,423. The City of Forest Hill's long-term debt decreased by \$568,126 during the current fiscal year. Additional information can be found in Note 4 to the financial statements of this report.

**CITY OF FOREST HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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 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. Tourism remains a positive growth industry in Texas and the City of Forest Hill is aimed at attracting people to the City.

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 .990000 in fiscal year 2017-2018. By keeping the tax rate the same or lower as last year, the Council demonstrated leadership, foresight, and compassion for the citizens of our City.

Due to the positive economic outlook and the stabilization of economic factors, the General Fund's operating revenue increased significantly over the preceding year. The City's sales tax dollars increased by approximately 24.76%. This increase, combined with the revenue generated from the Forest Hill and Convention Center and the rental of the city buildings, will continue to improve the City's economic condition. The city was 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.

Additionally, management continues to work with the City Council in reshaping the budgetary focus towards reaching efficiency and effectiveness while maximizing service levels. However, relative to the economic climate within the region, the focus has remained in reducing spending.

These factors were considered in preparing the City of Forest Hill's budget for the 2018 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.

CITY OF FOREST HILL, TEXAS
GOVERNMENT WIDE - STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
Assets			
Cash and cash equivalents	\$ 7,133,171	\$ 2,264,653	\$ 9,397,824
Restricted cash and cash equivalents	-	522,091	522,091
Receivables, net of allowance for uncollectibles	1,057,094	672,795	1,729,889
Internal Balances	2,505	(2,505)	-
Prepaid items	62,552	-	62,552
Nondepreciable Capital Assets:			
Land	807,225	25,567	832,792
Construction in progress	34,131	-	34,131
Depreciable Capital Assets, Net			
Buildings and improvements	3,381,662	7,081,811	10,463,473
Equipment	475,399	125,892	601,291
Infrastructure	6,891,488	-	6,891,488
Total Capital Assets	<u>11,589,905</u>	<u>7,233,270</u>	<u>18,823,175</u>
Total Assets	<u>19,845,227</u>	<u>10,690,304</u>	<u>30,535,531</u>
Deferred Outflows of Resources			
Deferred charge on refunding	-	33,747	33,747
Deferred outflows - pension	1,047,113	150,367	1,197,480
Total deferred outflows of resources	<u>1,047,113</u>	<u>184,114</u>	<u>1,231,227</u>
Liabilities			
Accounts payable	315,688	433,934	749,622
Accrued liabilities	288,261	81,110	369,371
Accrued interest	25,621	3,275	28,896
Unearned revenues	85,711	-	85,711
Customer deposits	2,537	389,021	391,558
Long-term liabilities:			
Due within one year	675,496	131,050	806,546
Due in more than one year	5,781,682	777,452	6,559,134
Net pension liability	2,812,788	412,353	3,225,141
Total Liabilities	<u>9,987,784</u>	<u>2,228,195</u>	<u>12,215,979</u>
Deferred Inflows of Resources			
Deferred inflows - pension	280,472	48,917	329,389
Total deferred outflows of resources	<u>280,472</u>	<u>48,917</u>	<u>329,389</u>
Net Position			
Net investment in capital assets	6,975,472	6,520,967	13,496,439
Restricted for:			
Debt service	316,271	-	316,271
Public safety	33,928	-	33,928
Culture and recreation	806,599	-	806,599
Public works	264,372	-	264,372
Unrestricted	2,227,442	2,076,339	4,303,781
Total Net Position	<u>\$ 10,624,084</u>	<u>\$ 8,597,306</u>	<u>\$ 19,221,390</u>

See Notes to Basic Financial Statements.

CITY OF FOREST HILL, TEXAS
GOVERNMENT WIDE - STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Functions/Programs	Program Revenue				Primary Government			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total		
						Governmental Activities	Business-Type Activities	
Primary government								
Governmental activities								
General government	\$ 2,349,003	\$ 1,017,432	\$ 1,252	\$ (1,330,319)	\$ -	\$ -	\$ (1,330,319)	
Public safety	4,835,170	107,542	-	(4,727,628)	-	-	(4,727,628)	
Culture and recreation	97,038	-	-	(97,038)	-	-	(97,038)	
Public works	2,044,030	262,478	-	(1,781,552)	-	-	(1,781,552)	
Community development	532,757	483,221	-	(49,536)	-	-	(183,262)	
Interest on long-term debt	183,262	-	-	(183,262)	-	-	(183,262)	
Total governmental activities	<u>10,041,260</u>	<u>1,870,673</u>	<u>1,252</u>	<u>(8,169,335)</u>	<u>-</u>	<u>-</u>	<u>(8,169,335)</u>	
Business-type activities:								
Utilities	4,708,504	5,973,725	-	-	1,265,221	-	1,265,221	
Total business-type activities	<u>4,708,504</u>	<u>5,973,725</u>	<u>-</u>	<u>-</u>	<u>1,265,221</u>	<u>-</u>	<u>1,265,221</u>	
Total primary government	<u>\$ 14,749,764</u>	<u>\$ 7,844,398</u>	<u>\$ 1,252</u>	<u>(8,169,335)</u>	<u>1,265,221</u>	<u>-</u>	<u>(6,904,114)</u>	
General revenues:								
Taxes:								
Property taxes, levied for general purposes				4,093,542	-	-	4,093,542	
Sales and use taxes				3,098,599	-	-	3,098,599	
Franchise taxes				583,476	-	-	583,476	
Interest on investments				34,502	2,863	-	37,365	
Miscellaneous revenue				197,228	-	-	197,228	
Transfers				413,000	(413,000)	-	-	
Total general revenues and transfers				<u>8,420,347</u>	<u>(410,137)</u>	<u>855,084</u>	<u>8,865,294</u>	
Change in net position				251,012	7,742,222	-	8,010,210	
Net position - beginning, restated				<u>10,373,072</u>	<u>10,373,072</u>	<u>10,373,072</u>	<u>18,115,294</u>	
Net position - ending				<u>\$ 10,624,084</u>	<u>\$ 8,597,306</u>	<u>\$ 8,597,306</u>	<u>\$ 19,221,390</u>	

See Notes to Basic Financial Statements.

CITY OF FOREST HILL, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	General Fund	Debt Service	Motel Tax	Non Major Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 2,415,917	\$ 269,453	\$ 2,463,948	\$ 1,983,853	\$ 7,133,171
Receivables, net of allowance for uncollectibles					
Property taxes	374,457	72,439	-	-	446,896
Accounts receivable	341,211	-	74,208	195,050	610,469
Due from Other Funds	2,505	-	-	-	2,505
Prepays and deposits	56,663	-	-	5,889	62,552
Total Assets	\$ 3,190,753	\$ 341,892	\$ 2,538,156	\$ 2,184,792	\$ 8,255,593
Liabilities, Deferred Inflows and Fund Balances					
Liabilities:					
Accounts payable	\$ 273,645	\$ -	\$ -	\$ 41,349	\$ 314,994
Accrued liabilities	286,426	-	-	2,800	289,226
Deposits	2,537	-	-	-	2,537
Unearned revenue	85,711	-	-	-	85,711
Total Liabilities	648,319	-	-	44,149	692,468
Deferred Inflows of Resources:					
Unavailable revenue - Property Taxes	374,457	72,439	-	-	446,896
Total Deferred Inflows of Resources	374,457	72,439	-	-	446,896
Fund balances:					
Non-Spendable					
Prepaid items	56,663	-	-	5,889	62,552
Restricted					
Capital acquisitions and contractual obligations	-	-	-	549,940	549,940
Debt service	-	269,453	-	-	269,453
Culture and recreation	-	-	-	471,464	471,464
Public works	-	-	-	311,437	311,437
Public safety	-	-	-	33,928	33,928
Committed					
Unassigned	2,111,314	-	-	767,985	3,306,141
Total Fund balances	2,167,977	269,453	2,538,156	2,140,643	7,116,229
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 3,190,753	\$ 341,892	\$ 2,538,156	\$ 2,184,792	\$ 8,255,593

See Notes to Basic Financial Statements.

CITY OF FOREST HILL, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
September 30, 2017

Total fund balance - governmental funds \$ 7,116,229

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet 11,589,905

Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements. 446,896

Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the fund financial statements.

Interest payable	(25,621)
Compensated absences	(1,292,805)
Net pension liability	(2,812,788)
Bonds payable	(4,703,950)
Capital lease obligations	(460,423)

Deferred outflows represent a consumption of net position that applies to future periods and therefore will not be recognized as an outflow of resources until then 1,047,113

Deferred inflows related to Texas Municipal Retirement System (280,472)

Net position of governmental activities \$ 10,624,084

CITY OF FOREST HILL, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN

FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED SEPTEMBER 30, 2017

	General Fund	Debt Service	Motel Tax	Non Major Governmental Funds	Total Governmental Funds
Revenues					
Taxes and franchise fees	\$ 5,672,777	\$ 535,539	\$ 462,973	\$ 1,129,554	\$ 7,800,843
Licenses and permits	695,037	-	-	-	695,037
Charges for services	354,522	-	-	20,971	375,493
Fines and forfeitures	843,303	-	-	29,753	873,056
Interest income	20,504	14,309	3,485	8,220	46,518
Intergovernmental	1,252	-	-	-	1,252
Miscellaneous	99,426	-	-	-	99,426
Total Revenues	7,686,821	549,848	466,458	1,188,498	9,891,625
Expenditures					
Current:					
General government	1,753,162	826	-	-	1,753,988
Public safety	4,765,222	-	-	16,162	4,781,384
Culture and recreation	257,960	-	-	160,583	418,543
Public works	649,572	-	-	324,117	973,689
Parks and recreation	97,038	-	-	-	97,038
Community development	340,859	-	-	-	340,859
Capital outlay	167,084	-	-	-	167,084
Debt Service:					
Principal	152,785	793,950	-	-	946,735
Interest and other charges	14,211	173,784	-	-	187,995
Total Expenditures	8,197,893	968,560	-	500,862	9,667,315
Excess (deficiency) of revenues over expenditures	(511,072)	(418,712)	466,458	687,636	224,310
Other Financing Sources (Uses)					
Proceeds from capital lease	202,000	-	-	-	202,000
Proceeds from insurance	18,178	-	-	-	18,178
Proceeds from sale of assets	7,000	-	-	-	7,000
Transfers in	448,000	429,323	-	-	877,323
Transfers out	-	-	-	(464,323)	(464,323)
uses	675,178	429,323	-	(464,323)	640,178
Net change in fund balances	164,106	10,611	466,458	223,313	864,488
Fund balances - beginning	2,003,871	258,842	2,071,698	1,917,330	6,251,741
Fund balances - ending	\$ 2,167,977	\$ 269,453	\$ 2,538,156	\$ 2,140,643	\$ 7,116,229

See Notes to Basic Financial Statements.

CITY OF FOREST HILL, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2017

Net change in fund balances - total governmental funds	\$ 864,488
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report outlays for capital assets as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.	538,142
Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.	(1,406,440)
The issuance of long-term debt (e.g. bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.	744,735
Current year changes in long-term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	(269,879)
Pension contributions made to the pension plan are reported as expenditures in the governmental funds and are reported as a reduction in net pension liability on the face of the statement of net position	448,435
Accrued interest is not reported in the fund financial statements and the change is reported in the statement of activities	5,559
Certain unavailable revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.	(37,260)
Pension expense for the pension plan measurement year	<u>(636,768)</u>
Change in net position of governmental activities	<u>\$ 251,012</u>

See Notes to Basic Financial Statements.

CITY OF FOREST HILL, TEXAS
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
SEPTEMBER 30, 2017

	<u>Enterprise Fund</u>
	<u>Utilities</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 2,264,653
Restricted cash and cash equivalents	522,091
Accounts receivable, net	672,795
Total current assets	<u>3,459,539</u>
Non-current assets:	
Capital Assets:	
Land	25,567
Buildings and improvements	11,184,795
Equipment	1,137,913
Total noncurrent assets	<u>12,348,275</u>
Less Accumulated depreciation	<u>(5,115,005)</u>
Total noncurrent assets, net	<u>7,233,270</u>
Total assets	<u>10,692,809</u>
Deferred Outflows of Resources	
Deferred charge on refunding	33,747
Deferred outflows - pension	150,367
Total deferred outflows	<u>184,114</u>
Liabilities	
Current liabilities	
Payable from current assets	
Accounts payable	433,934
Accrued liabilities	81,110
Customer deposits	389,021
Accrued interest	3,275
Due to other funds	2,505
Current portion of bonds payable	131,050
Total current liabilities	<u>1,040,895</u>
Noncurrent liabilities:	
Bonds payable	615,000
Compensated absences	162,452
Net pension liability	412,353
Total non-current liabilities	<u>1,189,805</u>
Total liabilities	<u>2,230,700</u>
Deferred inflows of Resources	
Deferred inflows - pension	48,917
Total deferred outflows	<u>48,917</u>
Net Position	
Net investment in capital assets	6,520,967
Unrestricted	2,076,339
Total Net Position	<u>\$ 8,597,306</u>

See Notes to Basic Financial Statements.

CITY OF FOREST HILL, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2017

	<u>Enterprise Fund</u>
	<u>Utilities</u>
Operating revenues	
Water service	\$ 2,300,475
Sewer service	2,364,332
Drainage fees	295,858
Tap & collection fees	250,231
Delinquent charges	696,592
Service fees and miscellaneous	66,237
Total operating revenues	<u>5,973,725</u>
Operating expenses	
Personnel services	1,102,618
Supplies	121,129
Contractual services	3,219,763
Depreciation and amortization	240,751
Total operating expenses	<u>4,684,261</u>
Operating income (loss)	<u>1,289,464</u>
Non-operating revenues (expenses)	
Investment income	2,863
Interest expense	(24,243)
Total Non-operating revenue (expenses), net	<u>(21,380)</u>
Income (loss) before transfers	1,268,084
Transfers out	(413,000)
Change in net position	855,084
Total net position - beginning of the year	<u>7,742,222</u>
Total net position - ending of the year	<u>\$ 8,597,306</u>

See Notes to Basic Financial Statements.

CITY OF FOREST HILL, TEXAS
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2017

	<u>Fund</u>
	<u>Utilities</u>
Operating Activities	
Cash received from customers	\$ 5,868,628
Cash payments to suppliers for goods and services	(3,635,337)
Cash payments to employees for services	(1,100,115)
Net cash provided (used) by operating activities	<u>1,133,176</u>
Noncapital Financing Activities	
Transfers to other funds	<u>(410,723)</u>
Net cash provided by (used by) noncapital financing activities	<u>(410,723)</u>
Capital and Related Financing Activities	
Purchase of capital assets	(57,320)
Repayment of debt	(101,050)
Interest paid on debt	(19,096)
Net cash used in capital and related financing activities	<u>(177,466)</u>
Investment income	<u>2,863</u>
Net cash provided by (used by) investing activities	<u>2,863</u>
Net change in cash and cash equivalents	547,850
Cash and equivalents, beginning of year	<u>2,238,894</u>
Cash and equivalents, at end of year	<u>\$ 2,786,744</u>
Total cash and cash equivalents	\$ 2,786,744
	<u>\$ 2,786,744</u>

See Notes to Basic Financial Statements.

CITY OF FOREST HILL, TEXAS
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (continued)
YEAR ENDED SEPTEMBER 30, 2017

	Total Enterprise Funds
Reconciliation of operating income (loss) to net cash provided by operating activities	
Operating income (loss)	\$ 1,289,464
Adjustments to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation and amortization	240,751
(Increase) decrease in accounts receivable and unbilled revenue	(134,725)
(Increase) decrease in prepaids items	5,697
(Increase) decrease in deferred outflows - pensions	39,368
Increase (decrease) in deferred inflows - pension	45,232
Increase (decrease) in accounts payable	(302,695)
Increase (decrease) in accrued liabilities	(36,025)
Increase (decrease) in net pension liability	(51,300)
Increase (decrease) in compensated absences	7,781
Increase (decrease) in deposits	29,628
Net cash provided by operating activities	\$ 1,133,176

See Notes to Basic Financial Statements.

CITY OF FOREST HILL, TEXAS
STATEMENT OF ASSETS AND LIABILITIES - AGENCY FUND
September 30, 2017

<u>Data Control</u>		<u>Agency Fund</u>
<u>Codes</u>		
	Assets	
1110	Cash and cash equivalents	<u>90,852</u>
1000	Total Assets	<u>\$ 90,852</u>
	 Liabilities	
2190	Due to Others	<u>90,852</u>
2000	Total Liabilities	<u>\$ 90,852</u>

See Notes to Basic Financial Statements.

CITY OF FOREST HILL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The financial statements of the City of Forest Hill, 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.

Note 1. Summary of Significant Accounting Policies (continued)

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

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.

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. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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 major 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% tax on taxable room receipts.

The government reports the following major 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 stormwater 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.

Note 1. Summary of Significant Accounting Policies (continued)

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

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.

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 includes 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. 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."

3. 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.

CITY OF FOREST HILL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 1. Summary of Significant Accounting Policies (continued)

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. 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 acquisition 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
Equipment	5-10
Vehicles	5

5. 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, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 1. Summary of Significant Accounting Policies (continued)

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

6. 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.

7. 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. The City has committed \$2,538,156 for the Motel Tax fund (a major fund) as well as \$673,855 for the CDC fund (a nonmajor special revenue fund).
- 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, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

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, 2017, are classified in the accompanying financial statements as follows:

Governmental Activities	\$ 7,133,171
Business Type Activities	2,786,744
	<u>\$ 9,919,915</u>

Deposits and investments as of September 30, 2017, consist of the following:

Deposits with financial institutions	\$ 5,215,287
Texpool Investments	4,704,628
	<u>\$ 9,919,915</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, 2017, the City had the following investments:

Investment Type	Carrying Value	Weighted Average Maturity
TexPool	\$ 4,704,628	37 days
	<u>\$ 4,704,628</u>	

CITY OF FOREST HILL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

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.

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Minimum Rating Required</u>	<u>Actual Investment Rating</u>
TexPool	\$ 4,704,628	AAA	AAAm
	<u>\$ 4,704,628</u>		

The City reports restricted assets for the following items:

Customer Deposits	\$ 387,766
Accrued Interest Payable	3,275
Current Portion of Bonds Payable	<u>131,050</u>
	<u>\$ 522,091</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, 2017, 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, 2017, the carrying amount of the City's cash on hand and deposits was \$5,647,691 and the bank balance was \$2,150,026. Of the bank balance, \$250,000 was covered by federal depository insurance for depository, while the remaining \$4,897,691 was secured with securities held by the pledging financial institution's trust department or agent in the City's name.

CITY OF FOREST HILL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Deposits (Cash) and Investments (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 - Capital Assets

Capital asset activity for the year ended September 30, 2017, was as follows:

	Balance September 30, 2016	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2017
Governmental activities				
Capital assets not being depreciated				
Land	\$ 807,225	\$ -	\$ -	\$ 807,225
Construction in progress	-	34,131	-	34,131
Total capital assets not being depreciated	807,225	34,131	-	841,356
Capital assets being depreciated				
Buildings and improvements	4,042,727	-	-	4,042,727
Equipment	4,244,014	280,834	(23,246)	4,501,602
Infrastructure	38,114,227	223,177	-	38,337,404
Total capital assets being depreciated	46,400,968	504,011	(23,246)	46,881,733
Less accumulated depreciation				
Buildings and improvements	(557,531)	(103,534)	-	(661,065)
Equipment	(3,726,398)	(323,051)	23,246	(4,026,203)
Infrastructure	(30,466,061)	(979,855)	-	(31,445,916)
Total accumulated depreciation	(34,749,990)	(1,406,440)	23,246	(36,133,184)
Total capital assets being depreciated, net	11,650,978	(902,429)	-	10,748,549
Governmental activities capital assets, net	\$ 12,458,203	\$ (868,298)	\$ -	\$ 11,589,905

CITY OF FOREST HILL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 3 - Capital Assets (continued)

	Balance September 30, 2016	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2017
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 and improvements	11,127,475	57,320	-	11,184,795
Equipment	1,137,913	-	-	1,137,913
Total capital assets being depreciated	12,265,388	57,320	-	12,322,708
Less accumulated depreciation for				
Buildings and improvements	(3,891,652)	(211,332)	-	(4,102,984)
Equipment	(982,602)	(29,419)	-	(1,012,021)
Total accumulated depreciation	(4,874,254)	(240,751)	-	(5,115,005)
Total capital assets being depreciated, net	7,391,134	(183,431)	-	7,207,703
Business-type activities capital assets, net	\$ 7,416,701	\$ (183,431)	\$ -	\$ 7,232,270

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

Governmental activities	
General government	\$ 103,534
Public safety	323,051
Public works	979,855
Total depreciation expense - Governmental Activities	<u>\$ 1,406,440</u>
Business-Type activities	
Water and sewer	\$ 240,751
Total depreciation expense - Business-Type Activities	<u>\$ 240,751</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, 2017, the equipment leased under capital leases had a carrying value of \$277,031, all of which are classified with governmental activities equipment.

CITY OF FOREST HILL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 4 - Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2017:

	Balance Beginning of Year	Increase	Decrease	Balance End of Year	Due Within One Year
Governmental Activities					
General obligation bonds	\$ 2,717,900	\$ -	\$ (528,950)	\$ 2,188,950	\$ 313,850
Certificates of obligation	2,780,000	-	(265,000)	2,515,000	205,000
Capital lease obligations	411,208	202,000	(152,785)	460,423	156,646
Compensated absences	1,022,926	533,033	(263,154)	1,292,805	-
Total governmental activities	<u>6,932,034</u>	<u>735,033</u>	<u>(1,209,889)</u>	<u>6,457,178</u>	<u>675,496</u>
Business-Type Activities					
General obligation bonds	847,100		(101,050)	746,050	131,150
Compensated absences	154,671	121,767	(113,987)	162,451	-
Total Business-type Activities	<u>1,001,771</u>	<u>121,767</u>	<u>(215,037)</u>	<u>908,501</u>	<u>131,150</u>
Total government-wide activities	<u>\$ 7,933,805</u>	<u>\$ 856,800</u>	<u>\$ (1,424,926)</u>	<u>\$ 7,365,679</u>	<u>\$ 806,646</u>

Compensated absences will be liquidated from General Fund and the Utilities Fund.

Amounts payable at September 30, 2017, are comprised of the following individual issues:

2007 Certificates of Obligation; interest payable February 1 and August 1 at rate of 4.14%	\$ 1,560,000
2009 Certificates of Obligation; interest payable February 1 and August 1 at rates ranging from 2.00% to 4.375%	955,000
2011 General Obligation Refunding Bonds; interest payable February 1 and August 1 at rates ranging from 2.0% and 3.0%	1,735,000
2014 General Obligation Refunding Bonds; interest payable March 1 and September 1 at a rate of 2.45%	<u>1,200,000</u>
	<u>\$ 5,450,000</u>

CITY OF FOREST HILL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 4 - Long-Term Debt (continued)

Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for each bond type for the years subsequent to September 30, 2017, are as follows:

General Obligation Bonds

	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 313,850	\$ 54,379	\$ 131,150	\$ 20,087
2019	318,850	46,098	131,150	16,480
2020	326,700	37,217	133,300	12,513
2021	332,400	28,147	137,600	8,450
2022	338,100	18,905	141,900	4,257
2023 - 2027	559,050	19,033	70,950	1,064
	<u>\$ 2,188,950</u>	<u>\$ 203,779</u>	<u>\$ 746,050</u>	<u>\$ 62,851</u>

Certificates of Obligation

	Governmental Activities	
	Principal	Interest
2018	\$ 205,000	\$ 99,778
2019	220,000	91,096
2020	230,000	81,903
2021	235,000	72,404
2022	245,000	62,597
2023 - 2027	1,380,000	148,891
	<u>\$ 2,515,000</u>	<u>\$ 556,669</u>

The City's capital leases are for police and fire communication equipment (\$119,942) and police cars and fire trucks (\$340,481). The annual principal and interest requirements for capital leases are as follows:

September 30,	Principal Payments	Interest
2018	\$ 156,646	\$ 10,349
2019	160,618	6,377
2020	101,304	2,289
2021	41,855	753
	<u>\$ 460,423</u>	<u>\$ 19,768</u>

CITY OF FOREST HILL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 5 - Interfund Balances

For the year ended September 30, 2017, interfund balances consisted of:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>
General Fund	Enterprise Fund	\$ 2,505
		<u>\$ 2,505</u>

For the year ended September 30, 2017, interfund transfers consisted of:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amounts</u>
General Fund	CDC Fund	\$ 35,000
General Fund	Utilities Fund	413,000
Debt Service Fund	CDC Fund	429,323
		<u>\$ 877,323</u>

All interfund transfers between the various funds are approved supplements to the operations of those funds.

Note 6 – Accounts Receivable

Amounts recorded as receivables as of September 30, 2017, for the government’s individual major and non-major funds, including the applicable allowance for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Motel Tax</u>	<u>Other Non Major Funds</u>	<u>Enterprise Fund</u>	<u>Total</u>
Receivables						
Property taxes, including penalties and interest	\$ 394,165	\$ 76,252		\$ 195,050		\$ 470,417
Sales and other taxes	259,977		74,208			529,235
Franchise fees	62,131					62,131
Utility bills					1,791,895	1,791,895
Other	19,103					19,103
Allowance for uncollectibles	(19,708)	(3,813)			(1,119,100)	(1,142,621)
	<u>\$ 715,668</u>	<u>\$ 72,439</u>	<u>74,208</u>	<u>\$ 195,050</u>	<u>\$ 672,795</u>	<u>\$ 1,730,160</u>

Note 7 – Employee Retirement System

The City of Forest Hill, Texas participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of 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 (CAFR) that can be obtained at www.tmrs.com.

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

CITY OF FOREST HILL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 7 - Employee Retirement System (continued)

A. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated as if the sum of the employee’s contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member’s deposits and interest.

The plan provisions are adopted by the City Council, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

Employee deposit rate	7.00%
Matching ration (city to employee)	2 to 1
Years required for vesting	5
Updated Service Credit	100% Repeating Transfers
Annuity Increase (to retirees)	70% of CPI Repeating

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

Number of	
Inactive employees or beneficiaries currently receiving benefits	68
Inactive employees entitled to but not yet receiving benefits	77
Active employees	81
Total	<u><u>226</u></u>

B. 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 were required to contribute 7.00 percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.45 percent and 13.87 percent in calendar years 2016 and 2017, respectively. The City’s contributions to TMRS for the year ended September 30, 2017 were \$633,430, and were equal to the required contributions.

CITY OF FOREST HILL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 7 - Employee Retirement System (continued)

C. Net Pension Liability

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

Actuarial assumptions:

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.00% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014, first used in the December 31, 2015 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2016 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan’s policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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.

CITY OF FOREST HILL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 7 - Employee Retirement System (continued)

C. Net Pension Liability (continued)

Actuarial assumptions:

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100%	

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.

CITY OF FOREST HILL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 7 - Employee Retirement System (continued)

C. Net Pension Liability (continued)

Changes in Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at 12/31/2015	\$ 20,015,658	\$ 16,449,094	\$ 3,566,564
Changes for the year:			
Service cost	771,871	-	771,871
Interest (on the Total Pension Liability)	1,350,673	-	1,350,673
Difference between expected and actual experience	(418,501)	-	(418,501)
Changes of assumptions	-	-	-
Contributions - employer	-	621,952	(621,952)
Contributions - employee	-	324,901	(324,901)
Net investment income	-	1,111,844	(1,111,844)
Benefit payments, including refunds of employee contributions	(783,244)	(783,244)	-
Administrative expense	-	(12,555)	12,555
Other	-	(676)	676
Balance at 12/31/2016	\$ 20,936,457	\$ 17,711,316	\$ 3,225,141

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 be 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	Current Single Rate Assumption	1% Increase
5.75%	6.75%	7.75%
\$6,710,276	\$3,225,141	\$424,567

Pension Plan Fiduciary Net Position

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

CITY OF FOREST HILL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 7 - Employee Retirement System (continued)

D. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the city recognized pension expense of \$845,862.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference in expected and actual experience	\$ -	\$ 328,160
Difference in assumption changes	-	1,229
Difference in projected and actual earnings on pension plan investments.	749,045	-
Employer contributions made after the measurement date	<u>448,435</u>	<u>-</u>
Totals	<u>\$ 1,197,480</u>	<u>\$ 329,389</u>

\$ 448,435 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year</u>	<u>Net Deferred Outflows (Inflows) of Resources</u>
2018	\$ 147,213
2019	156,656
2020	120,238
2021	<u>(4,451)</u>
Total	<u>\$ 419,656</u>

CITY OF FOREST HILL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 8 - Other Postemployment Benefits

In fiscal year 2009, the City implemented Governmental Accounting Standards Board (“GASB”) Statement 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (“OPEB”) prospectively.

Supplemental Death Benefits Plan

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (“TMRS”) known as the Supplemental Death Benefits Fund (“SDBF”). See Note 6 for information on accessing the comprehensive annual financial report for TMRS. The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings for the 12-month period preceding the month of death); retired employees are insured for \$7,500. This coverage is an OPEB.

Funding Policy

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. Contributions are utilized to fund active member deaths on a pay-as-you-go basis. Any excess contributions over payments then become net position available for OPEB.

Contributions

Contribution requirements of the participating employers are established and may be amended by the TMRS Board of Trustees. The City is required to contribute at a rate assessed each year by the TMRS Board of Trustees, currently 0.03% of covered payroll. The TMRS Board of Trustees sets the employer contribution rate based on the mortality and service experience of all employees by the plan and the demographics specific to the workforce of the City. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect.

CITY OF FOREST HILL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 8 - Other Postemployment Benefits (continued)

Contributions are made monthly based on covered payroll of employee members of the City. The City contributes to the SDBF at the contractually required rate as determined by the annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The City’s contribution rates for the last three calendar/plan years are as follows:

Schedule of Contribution Rates (Retiree-only portion of the rate)

Plan Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	% of ARC Contributed
2014	0.02%	0.02%	100%
2015	0.02%	0.02%	100%
2016	0.03%	0.03%	100%

The City’s contributions to the TMRS SDBF for the years ended 2017 and 2016 were \$5,510 and \$3,632, respectively.

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 - Prior Period Adjustment

As of September 30, 2016, the City had reported the Storm Water as a governmental fund. However, during fiscal year 2017, the City determined it was more appropriate to report this as an enterprise fund as part of the Utilities Fund. As such, the beginning net position for the Utility fund was increased by \$593,620. In addition, business-type activities at the government-wide level was increased by the same amount, conversely, beginning net position for governmental activities was decreased by the same amount.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FOREST HILL, TEXAS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes and franchise fees	\$ 5,757,123	\$ 5,757,123	\$ 5,672,777	\$ (84,346)
Licenses and permits	373,000	373,000	695,037	322,037
Charges for services	430,000	430,000	354,522	(75,478)
Fines and forfeitures	985,000	985,000	843,303	(141,697)
Interest income	1,000	1,000	20,504	19,504
Intergovernmental	50,000	50,000	1,252	(48,748)
Miscellaneous	19,500	19,500	99,426	79,926
Total Revenues	7,615,623	7,615,623	7,686,821	71,198
Expenditures				
Current:				
General government	1,861,490	1,861,490	1,753,162	108,328
Public safety	4,782,950	4,782,950	4,765,222	17,728
Culture and recreation	299,400	299,400	257,960	41,440
Public works	682,750	682,750	649,572	33,178
Parks and recreation	264,000	264,000	97,038	166,962
Community development	300,847	300,847	340,859	(40,012)
Capital outlay	90,638	90,638	167,084	(76,446)
Debt Service:				
Principal	138,121	138,121	152,785	(14,664)
Interest and other charges			14,211	(14,211)
Total Expenditures	8,420,196	8,420,196	8,197,893	222,303
Excess (deficiency) of revenues over expenditures	(804,573)	(804,573)	(511,072)	293,501
Other Financing Sources (Uses)				
Proceeds from capital leases			202,000	202,000
Proceeds from insurance	10,000	10,000	18,178	8,178
Proceeds from sale of assets	-	-	7,000	7,000
Transfers in	793,000	793,000	448,000	(345,000)
Total other financing sources and uses	803,000	803,000	675,178	(127,822)
Net change in fund balances	(1,573)	(1,573)	164,106	165,679
Fund balance, beginning of year	2,003,871	2,003,871	2,003,871	-
Fund balance, end of year	\$ 2,002,298	\$ 2,002,298	\$ 2,167,977	\$ 165,679

CITY OF FOREST HILL, TEXAS

NOTES TO THE REQUIRED SUPPLEMENTARY BUDGET INFORMATION

Year Ended September 30, 2017

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. The nonmajor governmental funds are not budgeted.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Encumbered amounts lapse at year end. At year end, encumbrances are canceled or reappropriated as part of the following year budget and are included in the Fund Balance classifications in Governmental Funds.

B. Budget Variances

Expenditures related to community development, capital outlay and debt service exceeded budgeted amounts by \$40,012, \$76,446, and \$28,875, respectively. However, total expenditures within the General Fund (the legal level of budgetary control) were less than appropriations.

CITY OF FOREST HILL, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
MOTEL TAX
YEAR ENDED SEPTEMBER 30, 2017

	Budget Amounts		Actual Amounts	Variance Positive / (Negative)
	Original Budget	Final Budget		
Revenues				
Taxes	\$ 350,000	\$ 350,000	\$ 462,973	\$ 112,973
Interest income	500	500	3,485	2,985
Total Revenues	<u>350,500</u>	<u>350,500</u>	<u>466,458</u>	<u>115,958</u>
Expenditures				
Current:				
Culture and recreation	<u>10,000</u>	<u>10,000</u>	-	<u>10,000</u>
Total Expenditures	<u>10,000</u>	<u>10,000</u>	-	<u>10,000</u>
Net change in fund balances	340,500	340,500	466,458	125,958
Fund balances, beginning of year	<u>2,071,698</u>	<u>2,071,698</u>	<u>2,071,698</u>	<u>-</u>
Fund balances, end of year	<u>\$ 2,412,198</u>	<u>\$ 2,412,198</u>	<u>\$ 2,538,156</u>	<u>\$ 125,958</u>

CITY OF FOREST HILL, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last Three Measurement Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:			
Service cost	\$ 771,871	\$ 759,161	\$ 633,495
Interest	1,350,673	1,314,117	1,233,382
Difference between expected and actual experience	(418,201)	(8,297)	(42,513)
Change in assumptions	-	(2,517)	-
Benefit payments, including refunds of employee contributions	(783,244)	(880,658)	(587,027)
Net change in total pension liability	921,099	1,181,806	1,237,337
Total pension liability - beginning	20,015,658	18,833,852	17,596,515
Total pension liability - ending (a)	<u>\$ 20,936,757</u>	<u>\$ 20,015,658</u>	<u>\$ 18,833,852</u>
Plan fiduciary net position:			
Contributions - employer	\$621,952	\$641,548	\$560,850
Contributions - employee	324,901	325,222	299,234
Net investment income	1,111,844	24,134	870,744
Benefit payments, including refunds of employee contributions	(783,244)	(880,658)	(587,027)
Administrative expense	(12,555)	(14,699)	(9,090)
Other	(676)	(726)	(747)
Net change in plan fiduciary net position	1,262,222	94,821	1,133,964
Plan fiduciary net position - beginning	16,449,094	16,354,273	15,220,309
Plan fiduciary net position - ending (b)	<u>\$ 17,711,316</u>	<u>\$ 16,449,094</u>	<u>\$ 16,354,273</u>
Net pension liability - ending (a) - (b)	\$ 3,225,441	\$ 3,566,564	\$ 2,479,579
Plan fiduciary net position as a percentage of total pension liability	84.59%	82.18%	86.83%
Covered employee payroll	\$4,641,438	\$4,646,029	\$4,264,769
Net pension liability as a percentage of covered employee payroll	69.49%	76.77%	58.14%

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, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
Last Three Fiscal Years

	2017	Fiscal Year 2016	2015
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially Determined Contributions	\$ 633,430	\$ 629,783	\$ 605,850
Contributions in relation to the actuarially determined contribution	(633,430)	(629,783)	(605,850)
Contribution deficiency(excess)	-	-	-
Covered employee payroll	4,703,542	4,625,896	4,394,610
Contributions as a percentage of Covered employee payroll	13.47%	13.61%	13.79%

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation to an experience study for the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Other Information: Notes	There were no benefit changes during the year.

**COMBINING
FUND STATEMENTS**

CITY OF FOREST HILL, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	<u>Juvenile Case Manager</u>	<u>Court Technology</u>	<u>Court Safety</u>	<u>Park</u>
Assets				
Cash and cash equivalents	\$ 92,005	\$ 39,769	\$ 105,278	\$ 275,044
Accounts receivable	-	-	-	-
Prepays and deposits	-	-	-	207
Total assets	<u>\$ 92,005</u>	<u>\$ 39,769</u>	<u>\$ 105,278</u>	<u>\$ 275,251</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ 5,841	\$ -	\$ -
Accrued liabilities	2,752	-	-	-
Total liabilities	<u>2,752</u>	<u>5,841</u>	<u>-</u>	<u>-</u>
Fund Balances				
Non-spendable				
Prepaid items	-	-	-	207
Restricted				
Culture and recreation	89,253	-	105,278	275,044
Public works	-	-	-	-
Public safety	-	33,928	-	-
Capital acquisitions and contractual obligations	-	-	-	-
Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>89,253</u>	<u>33,928</u>	<u>105,278</u>	<u>275,251</u>
Total Liabilities and Fund Balances	<u>\$ 92,005</u>	<u>\$ 39,769</u>	<u>\$ 105,278</u>	<u>\$ 275,251</u>

<u>Library</u>	<u>CDC</u>	<u>Street Improvements</u>	<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 2,668	\$ 638,045	\$ 281,104	\$ 549,940	\$ 1,983,853
-	129,988	65,062	-	195,050
5,682	-	-	-	5,889
<u>\$ 8,350</u>	<u>\$ 768,033</u>	<u>\$ 346,166</u>	<u>\$ 549,940</u>	<u>\$ 2,184,792</u>
\$ 779	\$ -	\$ 34,729	\$ -	\$ 41,349
-	48	-	-	2,800
<u>779</u>	<u>48</u>	<u>34,729</u>	<u>-</u>	<u>44,149</u>
5,682	-	-	-	5,889
1,889	-	-	-	471,464
-	-	311,437	-	311,437
-	-	-	-	33,928
-	-	-	549,940	549,940
-	767,985	-	-	767,985
<u>7,571</u>	<u>767,985</u>	<u>311,437</u>	<u>549,940</u>	<u>2,140,643</u>
<u>\$ 8,350</u>	<u>\$ 768,033</u>	<u>\$ 346,166</u>	<u>\$ 549,940</u>	<u>\$ 2,184,792</u>

CITY OF FOREST HILL, TEXAS
COMBINING STATEMENT OF REVENUES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2017

	Juvenile Case Manager	Court Technology	Court Safety	Park
Revenues				
Taxes	\$ -	\$ -	\$ -	\$ -
Fines and forfeitures	-	17,007	12,746	-
Charges for services	20,971	-	-	-
Interest income	-	23	-	-
Total revenues	<u>20,971</u>	<u>17,030</u>	<u>12,746</u>	<u>-</u>
Expenditures				
Current:				
General government	-	-	-	-
Public safety	34	13,422	2,706	-
Culture and recreation	-	-	-	-
Public works	-	-	-	-
Total Expenditures	<u>34</u>	<u>13,422</u>	<u>2,706</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>20,937</u>	<u>3,608</u>	<u>10,040</u>	<u>-</u>
Other Financing Sources (Uses)				
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	20,937	3,608	10,040	-
Fund balances - beginning	<u>68,316</u>	<u>30,320</u>	<u>95,238</u>	<u>275,251</u>
Fund balances - ending	<u>\$ 89,253</u>	<u>\$ 33,928</u>	<u>\$ 105,278</u>	<u>\$ 275,251</u>

<u>Library</u>	<u>CDC</u>	<u>Street Improvements</u>	<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ 753,036	\$ 376,518	\$ -	\$ 1,129,554
-	-	-	-	29,753
-	-	-	-	20,971
-	1,865	1,441	4,891	8,220
-	754,901	377,959	4,891	1,188,498
-	-	-	-	-
-	-	-	-	16,162
-	160,583	-	-	160,583
-	-	324,117	-	324,117
-	160,583	324,117	-	500,862
-	594,318	53,842	4,891	687,636
-	(464,323)	-	-	(464,323)
-	(464,323)	-	-	(464,323)
-	129,995	53,842	4,891	223,313
7,571	637,990	257,595	545,049	1,917,330
<u>\$ 7,571</u>	<u>\$ 767,985</u>	<u>\$ 311,437</u>	<u>\$ 549,940</u>	<u>\$ 2,140,643</u>