

**CITY OF FOREST HILL, TEXAS**

Annual Financial Report

For the Fiscal Year Ended September 30, 2016

# TABLE OF CONTENTS

	<u>Page Number</u>
<b>FINANCIAL SECTION</b>	
Independent Auditor's Report.....	3
Management's Discussion and Analysis .....	5
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position .....	13
Statement of Activities .....	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position .....	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds .....	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	22
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund .....	23
Statement of Net Position - Proprietary Funds .....	26
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds .....	27
Statement of Cash Flows - Proprietary Funds.....	28
Notes to the Financial Statements .....	29
Individual Fund Statements and Schedules:	
Combining Balance Sheet - Nonmajor Governmental Funds .....	48
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds .....	50
Schedule of Revenues, Expenses, and Changes in Fund Net Position - Budget and Actual - Enterprise Fund.....	52
Required Supplementary Information:	
Schedule of Changes in Net Pension Liability and Related Ratios .....	55
Schedule of Contributions .....	56
Notes to Schedule of Contributions .....	57

## **FINANCIAL SECTION**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Forest Hill, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Forest Hill, Texas, as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Forest Hill, Texas' basic financial statements. The introductory section and Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual – Enterprise Fund are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections and Enterprise Fund Budgetary Comparison Schedule have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

DRAFT

March 31, 2017

Evans, Pingleton and Howard, PLLC  
Frisco, TX

## Management's Discussion and Analysis

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, 2016. All amounts, unless otherwise indicated, are expressed in actual dollars.

### Financial Highlights

- The assets of the City of Forest Hill exceeded its liabilities at the close of the most recent fiscal year by \$18,115,294 (net position). Of this amount, \$3,738,570, (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 \$203,088.
- As of the close of the current fiscal year, the City of Forest Hill governmental funds reported combined ending fund balances of \$6,845,361, an increase of \$641,634 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,950,543 or 26 percent of total general fund expenditures.
- The City of Forest Hill's long-term liabilities increased by \$385,067 during the current fiscal year.

### Overview of the Financial Statements

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

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

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused compensated absences).

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

The government-wide financial statements can be found on pages 13-15 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 more narrow than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Forest Hill maintains four governmental fund types. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, and the capital projects fund, all of which are considered to be major funds. The non-major governmental funds are special revenue funds used to account for community development, motel taxes, and various police funds.

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

The basic governmental fund financial statements can be found on pages 16-25 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 26-28 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-46 of this report.



## Other Information

The combining statements referred to earlier in connection with nonmajor governmental funds can be found on pages 48-51 of this report. The individual fund schedule provides a budgetary comparison for the enterprise fund. This statement can be found on pages 52-53 of this report.

## Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Forest Hill, assets exceed liabilities by \$18,115,294 at the close of the most recent fiscal year.

A portion of the City of Forest Hill's net position (72 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 \$3,738,570 may be used to meet the government's ongoing obligations to citizens and creditors.

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

### CITY OF FOREST HILL - Net Position

	Governmental		Business-Type		Total	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$ 7,900,382	7,109,425	2,166,209	1,799,246	10,066,591	8,908,671
Capital Assets	12,458,203	13,416,127	7,416,701	7,478,014	19,874,904	20,894,141
Total Assets	<u>20,358,585</u>	<u>20,525,552</u>	<u>9,582,910</u>	<u>9,277,260</u>	<u>29,941,495</u>	<u>29,802,812</u>
Deferred Outflows of Resources	1,269,761	533,724	189,735	85,980	1,459,496	619,704
Long-Term Liabilities	10,034,945	9,694,504	1,465,424	1,420,798	11,500,369	11,115,302
Other Liabilities	516,334	367,166	1,154,934	911,820	1,671,268	1,278,986
Total Liabilities	<u>10,551,279</u>	<u>10,061,670</u>	<u>2,620,358</u>	<u>2,332,618</u>	<u>13,171,637</u>	<u>12,394,288</u>
Deferred Inflows of Resources	110,375	111,664	3,685	4,358	114,060	116,022
Net Position:						
Invest in Capital Assets,						
Net of Related Debt	6,549,095	6,583,487	6,569,601	6,529,864	13,118,696	13,113,351
Restricted	1,258,028	1,266,802	-	-	1,258,028	1,266,802
Unrestricted	3,159,569	3,035,653	579,001	496,400	3,738,570	3,532,053
Total Net Position	<u>\$10,966,692</u>	<u>10,885,942</u>	<u>7,148,602</u>	<u>7,026,264</u>	<u>18,115,294</u>	<u>17,912,206</u>

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

	Governmental Activities		Business-Type Activities		Total	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>Revenues:</b>						
Program Revenues:						
Charges for Services	\$ 2,182,531	2,521,081	4,717,927	4,315,868	6,900,458	6,836,949
Operating Grants and Contributions	2,622	1,561	-	-	2,622	1,561
General Revenues:						
Property Taxes	3,562,485	3,793,266	-	-	3,562,485	3,793,266
Sales Franchise and Other Taxes	3,673,275	3,451,233	-	-	3,673,275	3,451,233
Investment Earnings	22,839	15,892	1,186	212	24,025	16,104
Other	105,715	338,991	105,608	80,192	211,323	419,183
Total Revenues	<u>9,549,467</u>	<u>10,122,024</u>	<u>4,824,721</u>	<u>4,396,272</u>	<u>14,374,188</u>	<u>14,518,296</u>
<b>Expenses:</b>						
General Government	1,785,528	1,478,610	-	-	1,785,528	1,478,610
Public Safety	5,286,702	4,603,541	-	-	5,286,702	4,603,541
Public Works & Streets	2,048,906	2,362,944	-	-	2,048,906	2,362,944
Library, Parks & Recreation	81,841	316,479	-	-	81,841	316,479
Community & Econ. Development	440,793	373,810	-	-	440,793	373,810
Interest on Long-Term Debt	197,217	252,594	-	-	197,217	252,594
Water & Sewer	-	-	4,330,113	3,939,882	4,330,113	3,939,882
Total Expenses	<u>9,840,987</u>	<u>9,387,978</u>	<u>4,330,113</u>	<u>3,939,882</u>	<u>14,171,100</u>	<u>13,327,860</u>
<b>Increase/(Decrease) in Net Position Before Transfers</b>						
	(291,520)	734,046	494,608	456,390	203,088	1,190,436
Transfers	<u>372,270</u>	<u>381,793</u>	<u>(372,270)</u>	<u>(381,793)</u>	<u>-</u>	<u>-</u>
Increase/(Decrease) in Net Position	80,750	1,115,839	122,338	74,597	203,088	1,190,436
Net Position - Beginning (as restated)	10,885,942	9,770,103	7,026,264	6,951,667	17,912,206	16,721,770
Net Position - Ending	<u>\$10,966,692</u>	<u>10,885,942</u>	<u>7,148,602</u>	<u>7,026,264</u>	<u>18,115,294</u>	<u>17,912,206</u>

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 \$80,750.
- Total revenues decreased by \$572,557 (5.7%).
- Total expenses increased by \$453,009 (4.8%).

## Business-Type Activities

Business-Type activities increased the City of Forest Hill's net position by \$122,338.

- Total revenues increased by \$428,449 (9.8%).
- Total operating expenses increased by \$390,231 (9.9%).

## **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 \$6,845,361, an increase of \$641,634 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 \$1,950,543. Total unreserved fund balance represents 26% of total general fund expenditures.

The debt service fund has a total fund balance of \$258,842, all of which is reserved for payment of debt service.

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

Unrestricted net position of the Enterprise Fund at the end of the year amounted to \$579,001. 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 \$567,509, primarily due to licenses and permits, intergovernmental, fines and forfeitures, and rental. Expenditures were under budget by \$5,853.

## **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, 2016, amounts to \$19,874,904 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, buildings, systems, and improvements and equipment.

The addition of 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 3C on pages 38-39 of this report.

**Long-Term Debt.** At the end of the current fiscal year, the City of Forest Hill had bonded debt outstanding of \$6,345,000. All of this amount comprises debt backed by the full faith and credit of the government.

The City of Forest Hill's long-term liabilities increased by \$385,067 during the current fiscal year.

Additional information on the City of Forest Hill's long-term debt can be found in note 3F on pages 40-42 of this report.

### **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 .996054 in FY 2015-2016. By keeping the same tax rate on taxable values, the resulting tax levy for General Revenue will be approximately \$180,758 more in FY 2015-2016. By keeping the same tax rate at .996054, 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 budget increased by 5.6% over the preceding year. The City's sales tax dollars increased by approximately 6.8% and due to the revenue generated from the Forest Hill Civic and Convention Center, and the rental of the city buildings, the economic condition of the City will continue to improve. The city was also able to keep spending at the budgeted amounts or below.

Additionally, management continues to work with the City Council in reshaping the budgetary focus towards reaching efficiency and effectiveness while maximizing service levels. 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 2016 fiscal year.

### **Request for Information**

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

## **BASIC FINANCIAL STATEMENTS**

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**CITY OF FOREST HILL**

## Statement of Net Position

September 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash & Cash Equivalents	\$ 6,658,839	1,182,783	7,841,622
Receivables (Net of Allowance for Uncollectibles)	1,182,522	482,984	1,665,506
Restricted Cash and Cash Equivalents	-	460,998	460,998
Prepays	58,793	39,444	98,237
Due From Other Funds	228	-	228
Capital Assets ( Net of Accumulated Depreciation):			
Land	807,225	25,567	832,792
Equipment	517,616	(54,018)	463,598
Buildings, Systems and Improvements	3,485,196	7,445,152	10,930,348
Infrastructure	7,648,166	-	7,648,166
Total Assets	<u>20,358,585</u>	<u>9,582,910</u>	<u>29,941,495</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflow Related to TMRS	1,269,761	189,735	1,459,496
Total Deferred Outflows of Resources	<u>1,269,761</u>	<u>189,735</u>	<u>1,459,496</u>
 Total Assets & Deferred Outflows of Resources	<u>21,628,346</u>	<u>9,772,645</u>	<u>31,400,991</u>
<b>LIABILITIES</b>			
Accounts Payable	445,573	774,997	1,220,570
Accrued Expense	39,581	19,761	59,342
Accrued Interest Payable	31,180	2,021	33,201
Deposits Payable	-	357,927	357,927
Due to Other Funds	-	228	228
Noncurrent Liabilities:			
Due Within One Year	907,764	101,050	1,008,814
Due in More than One Year	6,024,270	900,721	6,924,991
Net Pension Liability	3,102,911	463,653	3,566,564
Total Liabilities	<u>10,551,279</u>	<u>2,620,358</u>	<u>13,171,637</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue - Other	85,711	-	85,711
Deferred Inflow Related to TMRS	24,664	3,685	28,349
Total Deferred Inflows of Resources	<u>110,375</u>	<u>3,685</u>	<u>114,060</u>
 Total Liabilities & Deferred Inflows of Resources	<u>10,661,654</u>	<u>2,624,043</u>	<u>13,285,697</u>
<b>NET POSITION</b>			
Invested in Capital Assets, Net of Related Debt	6,549,095	6,569,601	13,118,696
Restricted	1,258,028	-	1,258,028
Unrestricted	3,159,569	579,001	3,738,570
Total Net Position	<u>\$ 10,966,692</u>	<u>7,148,602</u>	<u>18,115,294</u>

**CITY OF FOREST HILL**

Statement of Activities

September 30, 2016

<b>Functions/Programs</b>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
<b>Primary Government:</b>			
Governmental Activities:			
General Government	\$ 1,626,601	380,481	-
Public Safety	5,286,702	844,045	-
Public Works	655,919	899,510	-
Streets	1,392,988	-	-
Library	70,492	58,495	-
Parks	11,349	-	2,622
Community and Economic Development	440,793	-	-
Nondepartmental	158,927	-	-
Interest and Fiscal Charges	197,217	-	-
Total Governmental Activities	<u>9,840,987</u>	<u>2,182,531</u>	<u>2,622</u>
Business-Type Activities:			
Water and Sewer	<u>4,330,113</u>	<u>4,717,927</u>	<u>-</u>
Total Business-Type Activities	<u>4,330,113</u>	<u>4,717,927</u>	<u>-</u>
 Total Primary Government	 <u>\$ 14,171,100</u>	 <u>6,900,458</u>	 <u>2,622</u>

General Revenues:

    Property Taxes

    Sales Taxes

    Franchise Taxes

    Investment Earnings

    Miscellaneous Revenue

Transfers

    Total General Revenues and Transfers

    Change in Net Position

Net Position - Beginning - as restated

Net Position - Ending



Net (Expense)/Revenue and  
Change in Net Assets

Primary Government		
Governmental Activities	Business-Type Activities	Total
(1,246,120)	-	(1,246,120)
(4,442,657)	-	(4,442,657)
243,591	-	243,591
(1,392,988)	-	(1,392,988)
(11,997)	-	(11,997)
(8,727)	-	(8,727)
(440,793)	-	(440,793)
(158,927)	-	(158,927)
(197,217)	-	(197,217)
<u>(7,655,834)</u>	<u>-</u>	<u>(7,655,834)</u>
-	387,814	387,814
<u>-</u>	<u>387,814</u>	<u>387,814</u>
<u>(7,655,834)</u>	<u>387,814</u>	<u>(7,268,020)</u>
3,562,485	-	3,562,485
2,934,300	-	2,934,300
738,975	-	738,975
22,839	1,186	24,025
105,715	105,608	211,323
372,270	(372,270)	-
<u>7,736,584</u>	<u>(265,476)</u>	<u>7,471,108</u>
80,750	122,338	203,088
<u>10,885,942</u>	<u>7,026,264</u>	<u>17,912,206</u>
<u>\$ 10,966,692</u>	<u>7,148,602</u>	<u>18,115,294</u>

**CITY OF FOREST HILL**

Balance Sheet

Governmental Funds

September 30, 2016

	<u>General Fund</u>	<u>Debt Service Fund</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 2,053,499	258,842
Receivables (Net of Allowance for Uncollectibles):		
Property Taxes	391,976	92,180
Sales Taxes	266,467	-
Other Receivables	55,398	-
Note Receivable	-	-
Due from Other Funds	228	-
Prepays	53,328	-
Total Assets	<u>\$ 2,820,896</u>	<u>351,022</u>
<b>LIABILITIES</b>		
Accounts Payable	299,757	-
Accrued Expense	39,581	-
Total Liabilities	<u>\$ 339,338</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable Revenue - Property Taxes	391,976	92,180
Unavailable Revenue - Other	85,711	-
Total Deferred Inflows of Resources	<u>477,687</u>	<u>92,180</u>
<b>FUND BALANCES</b>		
Nonspendable:		
Prepaid Items	53,328	-
Restricted:		
Debt Service	-	258,842
Capital Projects	-	-
Public Safety	-	-
Library	-	-
Committed:		
Community Development	-	-
Hotel-Motel Tax	-	-
Parks	-	-
Stormwater	-	-
Assigned:		
Unassigned	1,950,543	-
Total Fund Balances	<u>2,003,871</u>	<u>258,842</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,820,896</u>	<u>351,022</u>

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

<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
545,049	3,801,449	6,658,839
-	-	484,156
-	321,410	587,877
-	55,091	110,489
-	-	-
-	-	228
-	5,465	58,793
<u>545,049</u>	<u>4,183,415</u>	<u>7,900,382</u>
-	145,816	445,573
<u>-</u>	<u>-</u>	<u>39,581</u>
<u>-</u>	<u>145,816</u>	<u>485,154</u>
-	-	484,156
<u>-</u>	<u>-</u>	<u>85,711</u>
<u>-</u>	<u>-</u>	<u>569,867</u>
-	5,465	58,793
-	-	258,842
545,049	257,595	802,644
-	193,874	193,874
-	2,668	2,668
-	637,428	637,428
-	2,071,698	2,071,698
-	275,251	275,251
-	593,620	593,620
<u>-</u>	<u>-</u>	<u>1,950,543</u>
<u>545,049</u>	<u>4,037,599</u>	<u>6,845,361</u>
<u>545,049</u>	<u>4,183,415</u>	<u>7,900,382</u>

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**CITY OF FOREST HILL**  
Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Position  
September 30, 2016

<b>Total Fund Balances - Government Funds</b>	<b>\$ 6,845,361</b>
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$46,820,307 and the accumulated depreciation was \$(33,404,180). In addition, long-term liabilities, including bonds payable of \$(6,276,850), and capital leases payable of \$(555,790), are not due and payable in the current period, and therefore, are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.	6,583,487
Current year capital outlays of \$387,886 and long-term debt principal payments of \$923,532 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the current year debt principal payments is to increase net position.	1,311,418
Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements, interest expenditures are reported when due. The net effect of including accrued interest is to decrease net position.	(31,180)
The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(1,345,810)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing \$484,156 of deferred revenue as revenue and recognizing the liabilities associated with compensated absences of \$(1,022,926). The net effect of these reclassifications is to decrease net position.	(538,770)
Included in the noncurrent liabilities is the recognition of the City's net pension liability required by GASB 68 in the amount of \$(3,102,911), a deferred resource inflow in the amount of \$(24,664), and a deferred resource outflow in the amount of \$1,269,761. The net effect of including the GASB 68 adjustment is to decrease net position.	<u>(1,857,814)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 10,966,692</u></b>

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

**CITY OF FOREST HILL**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended September 30, 2016

	<u>General Fund</u>	<u>Debt Service Fund</u>
<b>REVENUES</b>		
Taxes:		
Property	\$ 3,079,778	497,131
Sales	1,413,339	-
Franchise	738,975	-
Licenses and Permits	592,876	-
Fines and Forfeitures	807,828	-
Intergovernmental	4,962	-
Charges for Services	-	-
Contributions and Donations	1,030	-
Rental	380,481	-
Interest	4,634	13,398
Miscellaneous	34,773	-
Total Revenues	<u>7,058,676</u>	<u>510,529</u>
 <b>EXPENDITURES</b>		
Current:		
General Government	1,433,651	827
Public Safety	4,574,522	-
Public Works	640,773	-
Streets	237,074	-
Library	-	-
Parks and Recreation	11,349	-
Community & Economic Development	275,123	-
Nondepartmental	158,927	-
Capital Outlay	59,923	-
Debt Service:		
Principal	144,582	778,950
Interest and Fiscal Charges	14,143	196,557
Total Expenditures	<u>7,550,067</u>	<u>976,334</u>
 Excess/(Deficiency) of Revenues Over/(Under) Expenditures	 <u>(491,391)</u>	 <u>(465,805)</u>
 <b>OTHER FINANCING SOURCES/(USES)</b>		
Insurance Proceeds	26,076	-
Transfers Out	-	-
Transfers In	372,270	433,962
Sale of Asset	32,500	-
Total Other Financing Sources (Uses)	<u>430,846</u>	<u>433,962</u>
 Net Change in Fund Balances	 (60,545)	 (31,843)
 Fund Balances - Beginning - as restated	 <u>2,064,416</u>	 <u>290,685</u>
 Fund Balances - Ending	 <u>\$ 2,003,871</u>	 <u>258,842</u>

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

Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
-	-	3,576,909
-	1,520,961	2,934,300
-	-	738,975
-	-	592,876
-	31,255	839,083
-	-	4,962
-	365,129	365,129
-	1,592	2,622
-	-	380,481
2,039	2,768	22,839
-	12,366	47,139
<u>2,039</u>	<u>1,934,071</u>	<u>9,505,315</u>
-	-	1,434,478
-	61,282	4,635,804
-	-	640,773
-	166,986	404,060
-	67,493	67,493
-	-	11,349
134	144,268	419,525
-	-	158,927
19,980	307,983	387,886
-	-	-
-	-	923,532
-	-	210,700
<u>20,114</u>	<u>748,012</u>	<u>9,294,527</u>
<u>(18,075)</u>	<u>1,186,059</u>	<u>210,788</u>
-	-	26,076
-	(433,962)	(433,962)
-	-	806,232
-	-	32,500
-	<u>(433,962)</u>	<u>430,846</u>
(18,075)	752,097	641,634
<u>563,124</u>	<u>3,285,502</u>	<u>6,203,727</u>
<u>545,049</u>	<u>4,037,599</u>	<u>6,845,361</u>

**CITY OF FOREST HILL**  
 Reconciliation of the Statement of Revenues, Expenditures  
 and Changes in Fund Balances of Governmental Funds  
 to the Statement of Activities  
 September 30, 2016

**Total Net Changes in Fund Balances - Governmental Funds** \$ 641,634

Current year capital outlays of \$387,886 and long-term debt principal payments of \$923,532 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the current year debt principal payments is to increase net position. 1,311,418

Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements, interest expenditures are reported when due. The net effect of including accrued interest is to increase net position. 13,483

Depreciation is not recognized as an expense in governmental funds since it does not require the use of current resources. The net effect of the current year's depreciation is to decrease net position. (1,345,810)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue of (\$14,424) as revenue, and recognizing the liabilities associated with compensated absences of (\$296,615). The net effect of these reclassifications is to increase net position. (311,039)

The implementation of GASB 68 required that certain expenditures be expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/15 caused the change in the ending net position to increase in the amount of \$388,158. Contributions made before the measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling (\$403,648). The City's reported TMRS net pension expense had to be recorded. The net pension expense increased the change in net position by (\$213,446). The net effect of these changes is to decrease net position. (228,936)

**Change in Net Position of Governmental Activities** \$ 80,750



**CITY OF FOREST HILL**

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

General Fund

For the Fiscal Year Ended September 30, 2016

<b>REVENUES</b>	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>Taxes</b>				
Property	\$ 3,133,880	3,133,880	3,079,778	(54,102)
Sales	1,260,000	1,260,000	1,413,339	153,339
Franchise	837,950	837,950	738,975	(98,975)
Licenses and Permits	165,000	165,000	592,876	427,876
Donations	-	-	1,030	1,030
Fines and Forfeitures	800,000	800,000	807,828	7,828
Intergovernmental	70,000	70,000	4,962	(65,038)
Rental	285,000	285,000	380,481	95,481
Interest	1,000	1,000	4,634	3,634
Miscellaneous	72,654	72,654	34,773	(37,881)
Total Revenues	<u>6,625,484</u>	<u>6,625,484</u>	<u>7,058,676</u>	<u>433,192</u>
<b>EXPENDITURES</b>				
<b>General Government</b>				
City Council				
Personnel Services	53,900	53,900	59,469	(5,569)
Materials and Supplies	2,200	2,200	1,089	1,111
Other Services	64,800	64,800	86,565	(21,765)
Total City Council	<u>120,900</u>	<u>120,900</u>	<u>147,123</u>	<u>(26,223)</u>
City Administration				
Personnel Services	267,574	267,574	334,205	(66,631)
Materials and Supplies	20,450	20,450	5,957	14,493
Other Services	105,550	105,550	62,040	43,510
Total City Administration	<u>393,574</u>	<u>393,574</u>	<u>402,202</u>	<u>(8,628)</u>
Municipal Court				
Personnel Services	198,303	198,303	427,595	(229,292)
Materials and Supplies	4,100	4,100	3,254	846
Other Services	86,540	86,540	57,442	29,098
Total Municipal Court	<u>288,943</u>	<u>288,943</u>	<u>488,291</u>	<u>(199,348)</u>
Finance				
Personnel Services	224,553	224,553	178,890	45,663
Materials and Supplies	4,419	4,419	5,162	(743)
Other Services	75,900	75,900	81,261	(5,361)
Total Finance	<u>304,872</u>	<u>304,872</u>	<u>265,313</u>	<u>39,559</u>
Information Technology				
Personnel Services	53,200	53,200	67,272	(14,072)
Materials and Supplies	13,500	13,500	15,686	(2,186)
Other Services	63,000	63,000	47,764	15,236
Total Information Tech	<u>129,700</u>	<u>129,700</u>	<u>130,722</u>	<u>(1,022)</u>
Total General Government	<u>\$ 1,237,989</u>	<u>1,237,989</u>	<u>1,433,651</u>	<u>(195,662)</u>

**CITY OF FOREST HILL**  
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
General Fund  
For the Fiscal Year Ended September 30, 2016

<b>EXPENDITURES</b> <i>(continued)</i>	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>Public Safety</b>				
Police Department				
Personnel Services	\$ 2,230,280	2,230,280	2,675,462	(445,182)
Materials and Supplies	121,000	121,000	152,659	(31,659)
Other Services	133,825	133,825	148,626	(14,801)
Debt Service	66,039	66,039	66,038	1
Capital Outlay	22,500	22,500	10,923	11,577
Total Police Department	<u>2,573,644</u>	<u>2,573,644</u>	<u>3,053,708</u>	<u>(480,064)</u>
Animal Control				
Personnel Services	41,695	41,695	46,928	(5,233)
Materials and Supplies	6,600	6,600	4,706	1,894
Other Services	56,100	56,100	1,292	54,808
Capital Outlay	-	-	10,000	(10,000)
Total Animal Control	<u>104,395</u>	<u>104,395</u>	<u>62,926</u>	<u>41,469</u>
Fire Department				
Personnel Services	1,480,870	1,480,870	1,443,533	37,337
Materials and Supplies	35,555	35,555	23,742	11,813
Other Services	72,920	72,920	77,574	(4,654)
Debt Service	92,686	92,686	92,687	(1)
Capital Outlay	11,400	11,400	-	11,400
Total Fire Department	<u>1,693,431</u>	<u>1,693,431</u>	<u>1,637,536</u>	<u>55,895</u>
Total Public Safety	<u>4,371,470</u>	<u>4,371,470</u>	<u>4,754,170</u>	<u>(382,700)</u>
<b>Public Works</b>				
Public Works				
Personnel Services	42,103	42,103	31,389	10,714
Materials and Supplies	4,500	4,500	4,043	457
Other Services	15,900	15,900	7,461	8,439
Total Public Works	<u>62,503</u>	<u>62,503</u>	<u>42,893</u>	<u>19,610</u>
Garage				
Personnel Services	54,204	54,204	70,699	(16,495)
Materials and Supplies	1,000	1,000	2,541	(1,541)
Other Services	100,000	100,000	119,552	(19,552)
Total Garage	<u>155,204</u>	<u>155,204</u>	<u>192,792</u>	<u>(37,588)</u>
Building & Grounds				
Personnel Services	49,879	49,879	62,431	(12,552)
Materials and Supplies	25,900	25,900	22,151	3,749
Other Services	391,700	391,700	320,506	71,194
Capital Outlay	-	-	39,000	(39,000)
Total Building & Grounds	<u>467,479</u>	<u>467,479</u>	<u>444,088</u>	<u>23,391</u>
Total Public Works	<u>\$ 685,186</u>	<u>685,186</u>	<u>679,773</u>	<u>5,413</u>

**CITY OF FOREST HILL**  
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
General Fund  
For the Fiscal Year Ended September 30, 2016

<b>EXPENDITURES</b> <i>(continued)</i>	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Streets				
Personnel Services	84,663	84,663	97,275	(12,612)
Materials and Supplies	55,700	55,700	55,965	(265)
Other Services	113,500	113,500	83,834	29,666
Debt Service	29,338	29,338	-	29,338
Total Streets	<u>283,201</u>	<u>283,201</u>	<u>237,074</u>	<u>46,127</u>
Parks & Recreation				
Other Services	268,000	268,000	11,349	256,651
Total Parks & Recreation	<u>268,000</u>	<u>268,000</u>	<u>11,349</u>	<u>256,651</u>
Community & Economic Development				
Personnel Services	197,006	197,006	179,214	17,792
Materials and Supplies	4,650	4,650	8,928	(4,278)
Other Services	81,800	81,800	86,981	(5,181)
Total Community & Economic Development	<u>283,456</u>	<u>283,456</u>	<u>275,123</u>	<u>8,333</u>
Non Departmental				
Personnel Services	74,844	74,844	-	74,844
Other Services	140,500	140,500	158,927	(18,427)
Debt Service	13,000	13,000	-	13,000
Total Non Departmental	<u>228,344</u>	<u>228,344</u>	<u>158,927</u>	<u>69,417</u>
Total Expenditures	<u>7,357,646</u>	<u>7,357,646</u>	<u>7,550,067</u>	<u>(192,421)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(732,162)</u>	<u>(732,162)</u>	<u>(491,391)</u>	<u>240,771</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	427,386	427,386	372,270	(55,116)
Transfers Out	(20,000)	(20,000)	-	20,000
Insurance Proceeds	-	-	26,076	26,076
Sale of Assets	-	-	32,500	32,500
Total Other Sources (Uses)	<u>407,386</u>	<u>407,386</u>	<u>430,846</u>	<u>23,460</u>
Net Change in Fund Balances	(324,776)	(324,776)	(60,545)	264,231
Fund Balances - Beginning	<u>2,064,416</u>	<u>2,064,416</u>	<u>2,064,416</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 1,739,640</u>	<u>1,739,640</u>	<u>2,003,871</u>	<u>264,231</u>

**CITY OF FOREST HILL**

Statement of Net Position

Proprietary Fund

September 30, 2016

**ASSETS**

Current Assets:

Cash & Cash Equivalents	\$ 1,182,783
Restricted Cash and Cash Equivalents	460,998
Utility Bills Receivable (Net of Allowance for Uncollectibles)	482,984
Total Current Assets	<u>2,126,765</u>

Noncurrent Assets:

Other Prepaids	39,444
Capital Assets:	
Land	25,567
Systems and Improvements	11,127,475
Equipment	1,137,913
Less: Accumulated Depreciation	<u>(4,874,254)</u>
Total Capital Assets (Net of Depreciation)	<u>7,416,701</u>
Total Noncurrent Assets	<u>7,456,145</u>
Total Assets	<u>9,582,910</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflow Related to TMRS	<u>189,735</u>
Total Assets & Deferred Outflows of Resources	<u><u>9,772,645</u></u>

**LIABILITIES**

Current Liabilities:

Accounts Payable	774,997
Wages Payable	19,761
Deposits	357,927
Accrued Interest	2,021
Due to Other Funds	228
Current Portion of Bonds Payable	101,050
Total Current Liabilities	<u>1,255,984</u>

Noncurrent Liabilities:

Compensated Absences	154,671
Bonds Payable	746,050
Net Pension Liability	463,653
Total Noncurrent Liabilities	<u>1,364,374</u>
Total Liabilities	<u>2,620,358</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflow Related to TMRS	<u>3,685</u>
Total Liabilities & Deferred Inflows of Resources	<u><u>2,624,043</u></u>

**NET POSITION**

Invested in Capital Assets, Net of Related Debt	6,569,601
Unrestricted	579,001
Total Net Position	<u>\$ 7,148,602</u>

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

**CITY OF FOREST HILL**  
Statement of Revenues, Expenses and Changes in Fund Net Position  
Proprietary Funds  
For the Fiscal Year Ended September 30, 2016

**OPERATING REVENUES**

Charges for Sales and Services:

Water Sales	\$ 2,232,144
Sewer Sales	2,266,912
Tap & Collection Fees	83,904
Delinquent Charges	134,967
Miscellaneous	<u>105,608</u>
Total Operating Revenues	<u>4,823,535</u>

**OPERATING EXPENSES**

Water Distribution & Wastewater Collection	3,630,121
Utility Billing	434,731
Depreciation	<u>237,563</u>
Total Operating Expenses	<u>4,302,415</u>

Operating Income (Loss)	<u>521,120</u>
-------------------------	----------------

**NONOPERATING REVENUES (EXPENSES)**

Interest Revenue	1,186
Interest Expense and Fiscal Charges	<u>(27,698)</u>
Total Nonoperating Revenues (Expenses)	<u>(26,512)</u>

Net Income (Loss) Before Transfers	494,608
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Transfers Out	<u>(372,270)</u>
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Change in Net Position	122,338
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Net Position - Beginning - as restated	<u>7,026,264</u>
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Net Position - Ending	<u><u>\$ 7,148,602</u></u>
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The notes to the financial statement are an integral part of this statement.

**CITY OF FOREST HILL**  
Statement of Cash Flows  
Proprietary Funds  
For the Fiscal Year Ended September 30, 2016

Cash Flows from Operating Activities:	
Cash Received from Customers and Users	\$ 4,869,626
Cash Payments to Suppliers	(2,846,191)
Cash Payments to Employees	(971,907)
Net Cash Provided by Operating Activities	<u>1,051,528</u>
Cash Flows from Noncapital Financing Activities:	
Purchase of Capital Assets	(176,250)
Transfers to Other Funds	(372,270)
Net Cash Used for Noncapital Financing Activities	<u>(548,520)</u>
Cash Flows from Capital & Related Financing Activities:	
Principal Paid on Long-Term Debt	(101,050)
Interest Paid on Debt	(27,698)
Net Cash Used for Capital & Related Financing Activities	<u>(128,748)</u>
Cash Flows from Investing Activities:	
Interest on Deposits and Investments	<u>1,186</u>
Net Cash Provided by Investing Activities	<u>1,186</u>
Net Decrease in Cash and Cash Equivalents	375,446
Cash & Cash Equivalents - Beginning	<u>1,268,335</u>
Cash & Cash Equivalents - Ending	<u><u>\$ 1,643,781</u></u>

**Reconciliation of Operating Income to Net Cash Provided by Operating Activities**

Operating Income	<u>\$ 521,120</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	237,563
(Increase)/Decrease in Accounts Receivable	4,153
(Increase)/Decrease in Prepays	4,330
(Increase)/Decrease in Deferred outflows of Resources	(103,755)
Increase/(Decrease) in Accounts Payable	191,626
Increase/(Decrease) in Wages Payable	9,550
Increase/(Decrease) in Compensated Absences Payable	26,049
Increase/(Decrease) in Net Pension Liability	119,627
Increase/(Decrease) in Deferred Inflows of Resources	(673)
Increase/(Decrease) in Customer Deposits	41,938
Total Adjustments	<u>530,408</u>
Net Cash Provided by Operating Activities	<u><u>\$ 1,051,528</u></u>

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

**CITY OF FOREST HILL**  
Notes to the Financial Statements  
September 30, 2016

**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.

**CITY OF FOREST HILL**  
Notes to the Financial Statements  
September 30, 2016

**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.

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

The government reports the following governmental funds:

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

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

The *capital projects fund* accounts for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

The *nonmajor governmental funds* are listed on pages 48-51.

The government reports the following proprietary fund:

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



**CITY OF FOREST HILL**  
Notes to the Financial Statements  
September 30, 2016

**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 Assets 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."

**CITY OF FOREST HILL**  
Notes to the Financial Statements  
September 30, 2016

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

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

**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.

**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 estimated fair market value at the date of donation.

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

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

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

<u>Assets</u>	<u>Years</u>
Water/Sewer System	30-65
Buildings	25-30
Infrastructure	25
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**  
Notes to the Financial Statements  
September 30, 2016

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

**D. Assets, Liabilities, and Net Assets 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 assets.

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. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

**CITY OF FOREST HILL**  
Notes to the Financial Statements  
September 30, 2016

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

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

**6. Long-Term Obligations**

- **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.

As of September 30, 2016, fund balances are composed of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:					
Prepaid Items	\$ 53,328	-	-	5,465	58,793
Restricted:					
Debt Service	-	258,842	-	-	258,842
Capital Projects	-	-	545,049	257,595	802,644
Public Safety	-	-	-	193,874	193,874
Library	-	-	-	2,668	2,668
Committed:					
Community Development	-	-	-	637,428	637,428
Hotel-Motel Tax	-	-	-	2,071,698	2,071,698
Parks	-	-	-	275,251	275,251
Stormwater	-	-	-	593,620	593,620
Unassigned	<u>1,950,543</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,950,543</u>
Total Fund Balances	<u>\$ 2,003,871</u>	<u>258,842</u>	<u>545,049</u>	<u>4,037,599</u>	<u>6,845,361</u>

**CITY OF FOREST HILL**  
Notes to the Financial Statements  
September 30, 2016

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**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.
3. 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.
4. 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.
5. 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.
6. The budget approved for the Water and Sewer Fund follows similar approval procedures. No supplemental appropriations were made during the fiscal year.
7. 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. Excess of Expenditures over Appropriations**

For the year ended September 30, 2016, expenditures within the General Fund (the legal level of budgetary control) were less than appropriations. Water/Sewer expenses were more than budgeted by \$49,344.

**CITY OF FOREST HILL**  
Notes to the Financial Statements  
September 30, 2016

**NOTE 3. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

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 the Public Funds Investment Act of 1987 (Government Code – Chapter 2256).

At September 30, 2016, the government's carrying amount of deposits was \$4,591,433 and the bank balance of the government's deposits was \$4,770,909. Of the bank balance, \$509,083 was covered by federal depository insurance and \$4,261,826 was covered by collateral held by the pledging financial institution's trust department or agent in the government's name.

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy addresses the following risks:

- a. **Custodial Credit Risk - Deposits:** In the case of deposits this is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City's policy regarding types of deposits allowed and collateral requirements is: the Depository may be a state bank authorized and regulated under Texas law; a national bank, savings and loan association, or savings bank authorized and regulated by federal law; or a savings and loan association or savings bank organized under Texas law; but shall not be any bank the deposits of which are not insured by the Federal Deposit Insurance Corporation (FDIC) and pledged securities. The City is not exposed to custodial credit risk for its deposits, as all are covered by depository insurance and pledged securities.
- b. **Custodial Credit Risk - Investments:** For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The government investments are with the Texas Local Government Investment Pool ("TexPool"). The pool is a public funds investment pool created to provide a safe environment for the placement of local government funds in authorized short-term investments. Local investment pools operate in a manner consistent with the Security and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940. The reported value of the pool is the same as the fair value of the pool shares. The Texas Comptroller of Public Accounts exercises oversight responsibility over TexPool. The government is not exposed to custodial credit risk for its investments.
- c. **Credit Risk -** This is the risk that an issuer of an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. It is the government's policy to limit its investments to those investments rated at least AAAM. The credit quality rating for TexPool at year end was AAAM by Standard & Poor's.
- d. **Interest Rate Risk -** This is the risk that changes in interest rates will adversely affect the fair value of an investment. The City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for the City's investment in external investment pools is less than 60 days.
- e. **Foreign Currency Risk -** This is the risk that exchange rates will adversely affect the fair value of an investment. The government is not exposed to foreign currency risk.

**CITY OF FOREST HILL**  
Notes to the Financial Statements  
September 30, 2016

**NOTE 3. DETAILED NOTES ON ALL FUNDS (continued)**

**A. Deposits and Investments (continued)**

- f. Concentration of Credit Risk - This is the risk of loss attributed to the magnitude of the City's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. It is the government's policy to not allow for a concentration of credit risk. Investments issued by the U. S. Government and investments in investment pools are excluded from the 5 percent disclosure requirement. Since the City does not carry investments, it is not exposed to concentration of credit risk.

At year end, the government's investment balances were as follows:

	<u>Fair Value</u>
State Treasurer's Investment Pool	<u>\$ 3,709,242</u>

**B. Receivables**

Receivables at September 30, 2016 consisted of the following:

	General Fund	Debt Service	Nonmajor Governmental Funds	Water & Sewer	Total
Receivables:					
Utility Bills	\$ -	-	-	1,588,374	1,588,374
Delinquent Taxes	391,976	92,180	-	-	484,156
Sales Taxes	266,467	-	321,410	-	587,877
Other	55,398	-	55,091	-	110,489
Gross Receivables	713,841	92,180	376,501	1,588,374	2,770,896
Less: Allowance for Uncollectibles	-	-	-	(1,105,390)	(1,105,390)
Net Total Receivables	<u>\$ 713,841</u>	<u>92,180</u>	<u>376,501</u>	<u>482,984</u>	<u>1,665,506</u>

Taxes are levied on October 1 and are payable until February 1 without penalty. Property taxes attach as an enforceable lien on property as of February 1. No discounts are allowed for early payment. All taxpayers may elect to pay one half of their taxes prior to December 1<sup>st</sup> with the balance due prior to July 1<sup>st</sup>. Taxpayers over the age of 65 or with a disability may pay property taxes on their homestead only in four payments of equal amounts due by January 31<sup>st</sup>, March 31<sup>st</sup>, May 31<sup>st</sup> and July 31<sup>st</sup>. Penalty is calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 up to the date collected by the government at the rate of 1% per month. Under State Law, Chapter 33.05 Tax Code, a delinquent tax for more than the limitation period is presumed paid unless a suit to collect the tax is pending. If there is no pending litigation at the time of the cancellation and removal, the tax collector for the City of Forest Hill, Texas shall cancel and remove the delinquent tax from the tax roll if the tax on the real property has been delinquent for more than 10 years. The City of Forest Hill adheres to the State Law through its tax collector, Tarrant County Tax Office, Fort Worth, Texas.

**CITY OF FOREST HILL**  
Notes to the Financial Statements  
September 30, 2016

**NOTE 3. DETAILED NOTES ON ALL FUNDS** *(continued)*

**C. Capital Assets**

Capital asset activity for the year ended September 30, 2016 was as follows:

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 807,225	-	-	807,225
Total Capital Assets, Not Being Depreciated	<u>807,225</u>	<u>-</u>	<u>-</u>	<u>807,225</u>
Capital Assets, Being Depreciated:				
Buildings	4,003,727	39,000	-	4,042,727
Equipment	4,144,361	99,653	-	4,244,014
Infrastructure	37,864,994	249,233	-	38,114,227
Total Capital Assets, Being Depreciated	<u>46,013,082</u>	<u>387,886</u>	<u>-</u>	<u>46,400,968</u>
Less Accumulated Depreciation for:				
Buildings	(453,997)	(103,534)	-	(557,531)
Equipment	(3,459,514)	(266,884)	-	(3,726,398)
Infrastructure	(29,490,669)	(975,392)	-	(30,466,061)
Total Accumulated Depreciation	<u>(33,404,180)</u>	<u>(1,345,810)</u>	<u>-</u>	<u>(34,749,990)</u>
Total Capital Assets, Being Depreciated, Net	<u>12,608,902</u>	<u>(957,924)</u>	<u>-</u>	<u>11,650,978</u>
Governmental Activities Capital Assets, Net	<u>\$13,416,127</u>	<u>(957,924)</u>	<u>-</u>	<u>12,458,203</u>
	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	25,567	-	-	25,567
Total Capital Assets, Not Being Depreciated	<u>25,567</u>	<u>-</u>	<u>-</u>	<u>25,567</u>
Capital Assets, Being Depreciated:				
Buildings, Systems & Improvements	11,127,475	-	-	11,127,475
Equipment	961,663	176,250	-	1,137,913
Total Capital Assets, Being Depreciated	<u>12,089,138</u>	<u>176,250</u>	<u>-</u>	<u>12,265,388</u>
Less Accumulated Depreciation for:				
Buildings, Systems & Improvements	(3,474,179)	(208,144)	-	(3,682,323)
Equipment	(1,162,512)	(29,419)	-	(1,191,931)
Total Accumulated Depreciation	<u>(4,636,691)</u>	<u>(237,563)</u>	<u>-</u>	<u>(4,874,254)</u>
Total Capital Assets, Being Depreciated, Net	<u>7,452,447</u>	<u>(61,313)</u>	<u>-</u>	<u>7,391,134</u>
Business-Type Activities Capital Assets, Net	<u>\$ 7,478,014</u>	<u>(61,313)</u>	<u>-</u>	<u>7,416,701</u>



**CITY OF FOREST HILL**  
Notes to the Financial Statements  
September 30, 2016

**NOTE 3. DETAILED NOTES ON ALL FUNDS** *(continued)*

**C. Capital Assets** *(continued)*

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

Governmental Activities:	
General Government	\$ 103,534
Public Safety	266,884
Streets	975,392
Total Depreciation Expense - Governmental Activities	<u>\$ 1,345,810</u>
Business-Type Activities:	
Water & Sewer	\$ 237,563
Total Depreciation Expense - Business-Type Activities	<u>\$ 237,563</u>

**D. Interfund Receivables, Payables, and Transfers**

Interfund activity for the year ended September 30, 2016, was as follows:

	Transfers In:			Total
	General Fund	Debt Service Fund	Nonmajor Governmental Fund	
Transfers Out:				
Nonmajor Governmental Fund	\$ -	433,962	-	433,962
Water & Sewer Fund	<u>372,270</u>	<u>-</u>	<u>-</u>	<u>372,270</u>
Total	<u>\$ 372,270</u>	<u>433,962</u>	<u>-</u>	<u>806,232</u>

The transfer from the water and sewer fund to the general fund was to pay for city resources used by the water department. The transfer from the nonmajor governmental fund to the debt service fund was to pay bond payments.

**E. Leases**

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, 2016, the equipment leased under capital leases had a carrying value of \$348,577 which is included in the governmental activities on the Statement of Net Position.

**CITY OF FOREST HILL**  
Notes to the Financial Statements  
September 30, 2016

**NOTE 3. DETAILED NOTES ON ALL FUNDS** *(continued)*

**E. Leases** *(continued)*

Capital lease expenditures for 2016 were \$158,725 of which \$14,143 represented interest. Effective interest rates range from 1.50% to 4.60%. Pursuant to the terms of the capital lease agreements, the government will be required to make future minimum payments as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>
2017	\$ 124,387
2018	124,387
2019	124,387
2020	<u>60,986</u>
Total Minimum Lease Payments	434,147
Less: Amount Representing Interest	<u>(22,939)</u>
Present Value of Future Minimum Lease Payments	<u><u>\$ 411,208</u></u>

**F. Long-Term Debt**

Long-term liability activity for the year ended September 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Capital Leases	\$ 555,790	-	(144,582)	411,208	113,814
Bonds Payable	6,276,850	-	(778,950)	5,497,900	793,950
Compensated Absences	<u>726,311</u>	<u>492,988</u>	<u>(196,373)</u>	<u>1,022,926</u>	<u>-</u>
Totals	<u><u>\$ 7,558,951</u></u>	<u><u>492,988</u></u>	<u><u>(1,119,905)</u></u>	<u><u>6,932,034</u></u>	<u><u>907,764</u></u>

The capital leases will be repaid by the general fund. The bonds will be repaid by the debt service fund. Compensated absences will be liquidated by the operating funds.

**CITY OF FOREST HILL**  
Notes to the Financial Statements  
September 30, 2016

**NOTE 3. DETAILED NOTES ON ALL FUNDS** *(continued)*

**F. Long-Term Debt** *(continued)*

Bonds payable at September 30, 2016 are comprised of the following issues for the debt service fund:

2007 Certificates of Obligation. Interest payable February 1 and August 1 at 4.14%.	1,680,000
2009 Certificates of Obligation. Interest payable February 1 and August 1 at rates ranging from 2.00% to 4.375%.	1,100,000
2011 General Obligation Refunding Bonds. Interest payable February 1 and August 1 at rates ranging from 2.0% to 3.0%.	1,122,900
2014 General Obligation Refunding Bonds. Interest payable March 1 and September 1 at a 2.456% interest rate.	<u>1,595,000</u> <u>\$5,497,900</u>

The annual requirements to amortize the bonded debt outstanding for the debt service fund as of September 30, 2016 are as follows:

	Principal	Interest	Total
2017	\$ 793,950	173,783	967,733
2018	518,850	154,156	673,006
2019	538,850	137,194	676,044
2020	556,700	119,121	675,821
2021	567,400	100,551	667,951
2022	583,100	81,503	664,603
2023	499,050	63,331	562,381
2024	420,000	47,509	467,509
2025	440,000	32,353	472,353
2026	285,000	18,495	303,495
2027	295,000	6,235	301,235
	\$5,497,900	934,231	6,432,131

**CITY OF FOREST HILL**  
Notes to the Financial Statements  
September 30, 2016

**NOTE 3. DETAILED NOTES ON ALL FUNDS** *(continued)*

**F. Long-Term Debt** *(continued)*

During the year ended September 30, 2016, the following changes occurred in long-term liabilities reported in the Water and Sewer Fund.

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Business-Type Activities:					
Bonds Payable	\$ 948,150	-	(101,050)	847,100	\$ 101,050
Compensated Absences	128,622	128,687	(102,638)	154,671	-
Totals	<u>\$ 1,076,772</u>	<u>128,687</u>	<u>(203,688)</u>	<u>1,001,771</u>	<u>\$ 101,050</u>

Bonds payable at September 30, 2016 are comprised of the following issue for the Water and Sewer Fund:

2011 General Obligation Refunding Bonds. Interest Payable on February 1 and August 1 at rates ranging from 2.00% to 3.00%.	\$ 847,100
Combined Debt	<u>\$ 847,100</u>

The annual requirements to amortize all bonded debt outstanding for the Water and Sewer Fund as of September 30, 2016 are as follows:

	Principal	Interest	Total
2017	\$ 101,050	22,989	124,039
2018	131,150	20,087	151,237
2019	131,150	16,480	147,630
2020	133,300	12,513	145,813
2021	137,600	8,449	146,049
2022	141,900	4,257	146,157
2023	70,950	1,064	72,014
	<u>\$ 847,100</u>	<u>85,839</u>	<u>932,939</u>

**G. Restricted Assets**

The balances of the restricted asset accounts in the enterprise funds are as follows:

Customer Deposits	\$357,927
Accrued Interest Payable	2,021
Current Portion of Bonds Payable	<u>101,050</u>
Total Restricted Assets	<u>\$460,998</u>

**CITY OF FOREST HILL**  
Notes to the Financial Statements  
September 30, 2016

**NOTE 4. RISK MANAGEMENT**

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government is a participant in the Texas Municipal League Workers' Compensation Joint Insurance Fund (WC Fund) and the Texas Municipal League Joint Self-Insurance Fund (Property-Liability Fund), a public entity risk pool operated by the Texas Municipal League Board for the benefit of individual governmental units located with Texas. The government pays an annual premium to the Funds for its workers' compensation and property and liability insurance coverage. The WC Fund and Property-Liability Fund are considered self-sustaining risk pools that provide coverage for its members for up to \$2,000,000 per insured event. There was no significant reduction in insurance coverage from the previous year. Settled claims for risks have not exceeded insurance coverage for the past three years.

**NOTE 5. RETIREMENT SYSTEM**

**Texas Municipal Retirement System**

**Plan Description**

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at [www.TMRS.com](http://www.TMRS.com).

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

	<u>Plan Year 2015</u>	<u>Plan Year 2016</u>
Employee Deposit Rate	7%	7%
Matching Ratio (City to Employee)	2 to 1	2 to 1
Years Required for Vesting	5	5
Service Retirement Eligibility (Expressed as Age/Years of Service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	0%, Transfers	0%, Transfers
Annuity Increase (to Retirees)	70% of CPI Repeating	70% of CPI Repeating

**CITY OF FOREST HILL**  
Notes to the Financial Statements  
September 30, 2016

**NOTE 5. RETIREMENT SYSTEM** *(continued)*

**Contributions**

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

The government contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the government make contributions monthly. Since the government needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The required contribution rates for fiscal year 2016 were determined as part of the December 31, 2015 actuarial valuations. Employees were required to contribute 7.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.51% and 13.87% for the calendar year 2016 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2016 were \$629,783 and were equal to the required contributions.

**Net Pension Liability**

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/14	\$ 18,833,852	\$ 16,354,273	\$ 2,479,579
Changes for the year:			
Service cost	759,161	-	759,161
Interest	1,314,117	-	1,314,117
Change in benefit terms	-	-	-
Diff between expected/actual experience	(8,297)	-	(8,297)
Changes of assumptions	(2,517)	-	(2,517)
Contributions - employer	-	641,548	(641,548)
Contributions - employee	-	325,222	(325,222)
Net investment income	-	24,134	(24,134)
Benefit payments, including refunds of employee contributions	(880,658)	(880,658)	-
Administrative expenses	-	(14,699)	14,699
Other charges	-	(726)	726
Net changes	1,181,806	94,821	1,086,985
Balance at 12/31/15	<u>\$ 20,015,658</u>	<u>\$ 16,449,094</u>	<u>\$ 3,566,564</u>

**CITY OF FOREST HILL**  
Notes to the Financial Statements  
September 30, 2016

**NOTE 5. RETIREMENT SYSTEM** *(continued)*

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would have been if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate.

	1% Decrease (5.75%)	Discount Rate (6.75%)	1% Increase (7.75%)
City's net pension liability	\$ 6,952,185	\$ 3,566,564	\$ 849,207

**Pension Expense and Deferred Outflows and Inflows of Resources**

For the year ended September 30, 2016, the City recognized pension expense in the amount of \$867,879. At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	\$ -	\$ 26,476
Changes in actuarial assumptions	-	1,873
Differences between projected and actual investment earnings (net of current year amortization)	1,013,338	-
Contributions subsequent to the measurement date	446,158	-
Total	\$ 1,459,496	\$ 28,349

\$446,158 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31,	
2016	\$ 249,197
2017	\$ 251,108
2018	\$ 260,551
2019	\$ 224,133
2020	\$ -

**NOTE 5. EVALUATION OF SUBSEQUENT EVENTS**

The City has evaluated subsequent events through March 31, 2017, the date which the financial statements were available to be issued.

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**INDIVIDUAL FUND STATEMENTS AND SCHEDULES**

**CITY OF FOREST HILL**  
Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2016

	<u>Motel Tax</u>	<u>Community Development Corporation</u>	<u>Parks</u>	<u>Street Improvement</u>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 1,950,206	504,195	275,251	225,639
Sales Tax Receivable	121,492	133,233	-	66,685
Other Receivable	-	-	-	-
Prepays	-	562	-	-
Total Assets	<u>2,071,698</u>	<u>637,990</u>	<u>275,251</u>	<u>292,324</u>
<b>LIABILITIES &amp; FUND BALANCES</b>				
Liabilities:				
Accounts Payable	-	-	-	34,729
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,729</u>
Fund Balances:				
Nonspendable	-	562	-	-
Restricted	-	-	-	257,595
Committed	<u>2,071,698</u>	<u>637,428</u>	<u>275,251</u>	<u>-</u>
Total Fund Balances	<u>2,071,698</u>	<u>637,990</u>	<u>275,251</u>	<u>257,595</u>
Total Liabilities & Fund Balances	<u><u>\$ 2,071,698</u></u>	<u><u>637,990</u></u>	<u><u>275,251</u></u>	<u><u>292,324</u></u>

<u>Municipal Court Technology</u>	<u>Municipal Court Safety</u>	<u>Library</u>	<u>Juvenile Case Manager Fund</u>	<u>Stormwater Fund</u>	<u>Total</u>
36,135	95,238	2,668	71,068	641,049	3,801,449
-	-	-	-	-	321,410
-	-	-	-	55,091	55,091
-	-	4,903	-	-	5,465
<u>36,135</u>	<u>95,238</u>	<u>7,571</u>	<u>71,068</u>	<u>696,140</u>	<u>4,183,415</u>
<u>5,815</u>	<u>-</u>	<u>-</u>	<u>2,752</u>	<u>102,520</u>	<u>145,816</u>
<u>5,815</u>	<u>-</u>	<u>-</u>	<u>2,752</u>	<u>102,520</u>	<u>145,816</u>
-	-	4,903	-	-	5,465
30,320	95,238	2,668	68,316	-	454,137
-	-	-	-	593,620	3,577,997
<u>30,320</u>	<u>95,238</u>	<u>7,571</u>	<u>68,316</u>	<u>593,620</u>	<u>4,037,599</u>
<u>36,135</u>	<u>95,238</u>	<u>7,571</u>	<u>71,068</u>	<u>696,140</u>	<u>4,183,415</u>

**CITY OF FOREST HILL**  
Combining Statements of Revenues, Expenditures and Changes  
in Fund Balances - Nonmajor Governmental Funds  
For the Year Ended September 30, 2016

	<u>Motel Tax</u>	<u>Community Development Corporation</u>	<u>Parks</u>	<u>Street Improvement</u>
<b>REVENUES</b>				
Sales Taxes	\$ 460,959	706,668	-	353,334
Fines & Forfeitures	-	-	-	-
Charge for Services	-	-	-	-
Donations	-	-	1,592	-
Interest	1,405	773	-	581
Miscellaneous	7	6,906	-	3,453
Total Revenues	<u>462,371</u>	<u>714,347</u>	<u>1,592</u>	<u>357,368</u>
<b>EXPENDITURES</b>				
Current:				
Public Safety	-	-	-	-
Streets	-	-	-	47,403
Library	-	-	-	-
Community Development	-	144,268	-	-
Capital Outlay	-	-	-	249,233
Total Expenditures	<u>-</u>	<u>144,268</u>	<u>-</u>	<u>296,636</u>
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	<u>462,371</u>	<u>570,079</u>	<u>1,592</u>	<u>60,732</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	-	-	-
Transfers Out	-	(433,962)	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(433,962)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	462,371	136,117	1,592	60,732
Fund Balances - Beginning	<u>1,609,327</u>	<u>501,873</u>	<u>273,659</u>	<u>196,863</u>
Fund Balances - Ending	<u><u>\$ 2,071,698</u></u>	<u><u>637,990</u></u>	<u><u>275,251</u></u>	<u><u>257,595</u></u>

<u>Municipal Court Technology</u>	<u>Municipal Court Safety</u>	<u>Library</u>	<u>Juvenile Case Manager Fund</u>	<u>Stormwater Fund</u>	<u>Total</u>
-	-	-	-	-	1,520,961
17,869	13,386	-	-	-	31,255
-	-	58,495	22,054	284,580	365,129
-	-	-	-	-	1,592
9	-	-	-	-	2,768
2,000	-	-	-	-	12,366
<u>19,878</u>	<u>13,386</u>	<u>58,495</u>	<u>22,054</u>	<u>284,580</u>	<u>1,934,071</u>
40,155	1,618	-	19,509	-	61,282
-	-	-	-	119,583	166,986
-	-	67,493	-	-	67,493
-	-	-	-	-	144,268
-	-	-	-	58,750	307,983
<u>40,155</u>	<u>1,618</u>	<u>67,493</u>	<u>19,509</u>	<u>178,333</u>	<u>748,012</u>
<u>(20,277)</u>	<u>11,768</u>	<u>(8,998)</u>	<u>2,545</u>	<u>106,247</u>	<u>1,186,059</u>
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(433,962)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(433,962)</u>
(20,277)	11,768	(8,998)	2,545	106,247	752,097
<u>50,597</u>	<u>83,470</u>	<u>16,569</u>	<u>65,771</u>	<u>487,373</u>	<u>3,285,502</u>
<u>30,320</u>	<u>95,238</u>	<u>7,571</u>	<u>68,316</u>	<u>593,620</u>	<u>4,037,599</u>

**CITY OF FOREST HILL**

Schedule of Revenues, Expenses and Changes in Fund Net Position - Budget and Actual

Enterprise Fund

For the Fiscal Year Ended September 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>OPERATING REVENUES</b>				
Charges for Sales & Services				
Water Sales	\$ 2,343,705	2,343,705	2,232,144	(111,561)
Sewer Sales	2,127,245	2,127,245	2,266,912	139,667
Tap & Collection Fees	25,000	25,000	83,904	58,904
Delinquent Charges	131,120	131,120	134,967	3,847
Miscellaneous	174,386	174,386	105,608	(68,778)
Total Operating Revenues	<u>4,801,456</u>	<u>4,801,456</u>	<u>4,823,535</u>	<u>22,079</u>
<b>OPERATING EXPENSES</b>				
Water Distribution & Wastewater Collection:				
Personnel Services	637,147	637,147	780,957	(143,810)
Materials & Supplies	81,800	81,800	60,870	20,930
Other Services	<u>2,698,371</u>	<u>2,698,371</u>	<u>2,788,294</u>	<u>(89,923)</u>
Total Water Distribution & Wastewater Collection	<u>3,417,318</u>	<u>3,417,318</u>	<u>3,630,121</u>	<u>(212,803)</u>
Nondepartmental:				
Other Services	<u>19,000</u>	<u>19,000</u>	<u>-</u>	<u>19,000</u>
Total Nondepartmental	<u>19,000</u>	<u>19,000</u>	<u>-</u>	<u>19,000</u>
Utility Billing:				
Personnel Services	258,837	258,837	226,549	32,288
Materials & Supplies	49,500	49,500	74,413	(24,913)
Other Services	113,900	113,900	103,787	10,113
Bad Debts	-	-	29,982	(29,982)
Total Utility Billing	<u>422,237</u>	<u>422,237</u>	<u>434,731</u>	<u>(12,494)</u>
Depreciation	-	-	237,563	(237,563)
Total Operating Expenses	<u>3,858,555</u>	<u>3,858,555</u>	<u>4,302,415</u>	<u>(443,860)</u>
Operating Income/(Loss)	<u>\$ 942,901</u>	<u>942,901</u>	<u>521,120</u>	<u>(421,781)</u>

**CITY OF FOREST HILL**

Schedule of Revenues, Expenses and Changes in Fund Net Position - Budget and Actual

Enterprise Fund

For the Fiscal Year Ended September 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest Revenue	\$ 500	500	1,186	686
Interest Expense & Fiscal Charges	(31,541)	(31,541)	(27,698)	3,843
Total Nonoperating Revenues (Expenses)	(31,041)	(31,041)	(26,512)	4,529
Net Income/(Loss) Before Transfers	911,860	911,860	494,608	(417,252)
Transfers Out	(402,386)	(402,386)	(372,270)	30,116
Changes in Net Position	509,474	509,474	122,338	(387,136)
Net Position - Beginning	7,026,264	7,026,264	7,026,264	-
Net Position - Ending	\$ 7,535,738	7,535,738	7,148,602	(387,136)

**REQUIRED SUPPLEMENTARY INFORMATION**



**CITY OF FOREST HILL**  
Schedule of Changes in Net Pension Liability and Related Ratios  
For the Year Ended September 30, 2016

	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability</b>		
Service cost	\$ 759,161	\$ 633,495
Interest (on the total pension liability)	1,314,117	1,233,382
Changes of benefit terms	-	-
Difference between expected and actual experience	(8,297)	(42,513)
Change of assumptions	(2,517)	-
Benefit payments, including refunds of employee contributions	(880,658)	(587,027)
<b>Net Change in Total Pension Liability</b>	<u>1,181,806</u>	<u>1,237,337</u>
<b>Total Pension Liability - Beginning</b>	<u>18,833,852</u>	<u>17,596,515</u>
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 20,015,658</u>	<u>\$ 18,833,852</u>
<b>Plan Fiduciary Net Position</b>		
Contributions - employer	\$ 641,548	\$ 560,850
Contributions - employee	325,222	299,234
Net investment income	24,134	870,744
Benefit payments, including refunds of employee contributions	(880,658)	(587,027)
Administrative expense	(14,699)	(9,090)
Other	(726)	(747)
<b>Net Change in Plan Fiduciary Net Position</b>	<u>94,821</u>	<u>1,133,964</u>
<b>Plan Fiduciary Net Position - Beginning</b>	<u>16,354,273</u>	<u>15,220,309</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 16,449,094</u>	<u>\$ 16,354,273</u>
<b>Net Pension Liability - Ending (a) - (b)</b>	<u>\$ 3,566,564</u>	<u>\$ 2,479,579</u>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	82.18%	86.83%
<b>Covered Employee Payroll</b>	\$ 4,646,029	\$ 4,264,769
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	76.77%	58.14%

**CITY OF FOREST HILL**  
**Schedule of Contributions**  
**For the Year Ended September 30, 2016**

	Fiscal Year Ended September 30,	
	2015	2014
Actuarially determined contribution	\$ 629,783	\$ 605,850
Contributions in relation to actuarially determined contribution	(629,783)	(605,850)
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 4,625,896	\$ 4,394,610
Contributions as a percentage of covered employee payroll	13.61%	13.79%

**CITY OF FOREST HILL**  
Notes to Schedule of Contributions  
For the Year Ended September 30, 2016

**Valuation Date:** Actuarially determined contribution rates are calculated as of December 31, and become effective in January 13 months later.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	30 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

**Other Information:** There were no benefit changes during the year.