

CITY OF FOREST HILL, TEXAS

Annual Financial Report

For the Fiscal Year Ended September 30, 2020

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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, 2020, 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, 2020, 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 on pages 3 to 8, budgetary comparison information on pages 46 to 50, and pension and OPEB information on pages 51 to 53, as listed in the tables of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Forest Hill, Texas' basic financial statements. The combining and individual fund statements and schedules and other information such as the introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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.

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.

K. Evans & Associates

K. Evans & Associates, CPA's
Frisco, TX
April 1, 2021

CITY OF FOREST HILL, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2020

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, 2020. 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 \$16,718,449 (net position). Of this amount, \$7,417,345, (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 \$3,321,427.
- As of the close of the current fiscal year, the City of Forest Hill governmental funds reported combined ending fund balances of \$16,718,449, an increase of \$3,321,427 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,862,769 or 30 percent of total general fund expenditures.
- The City of Forest Hill's long-term liabilities decreased by \$791,305 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.

CITY OF FOREST HILL, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2020

The government-wide financial statements can be found on pages 10-12 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 motel tax fund, and the community development corporation fund, all of which are considered to be major funds. The non-major governmental funds are special revenue funds used to account for community development, motel taxes, and various police funds.

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

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-43 of this report.

CITY OF FOREST HILL, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2020

Other Information

The individual fund budgetary comparison statements can be found on pages 46-50 of this report. The combining statements referred to earlier in connection with nonmajor governmental funds can be found on pages 55-58 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 \$16,718,449 at the close of the most recent fiscal year.

A portion of the City of Forest Hill's net position (41 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 (14 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* of \$7,417,345 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	
	2020	2019	2020	2019	2020	2019
Current and Other Assets	\$ 13,541,515	\$ 11,115,380	\$ 6,829,523	\$ 5,623,478	\$ 20,371,038	\$ 16,738,858
Capital Assets	9,891,302	10,008,375	6,611,341	6,867,491	16,502,643	16,875,866
Total Assets	<u>23,432,817</u>	<u>21,123,755</u>	<u>13,440,864</u>	<u>12,490,969</u>	<u>36,873,681</u>	<u>33,614,724</u>
Deferred Outflows of Resources	540,167	1,464,176	58,874	196,417	599,041	1,660,593
Long-Term Liabilities	5,515,143	8,081,926	566,751	1,099,489	6,081,894	9,181,415
Other Liabilities	686,660	843,693	1,040,546	791,313	1,727,206	1,635,006
Total Liabilities	<u>6,201,803</u>	<u>8,925,619</u>	<u>1,607,297</u>	<u>1,890,802</u>	<u>7,809,100</u>	<u>10,816,421</u>
Deferred Inflows of Resources	1,052,732	265,290	158,752	70,273	1,211,484	335,563
Net Position:						
Invest in Capital Assets,						
Net of Related Debt	6,913,863	6,795,514	6,611,341	6,404,497	13,525,204	13,200,011
Restricted	2,387,241	1,755,253	-	-	2,387,241	1,755,253
Unrestricted	7,417,345	4,846,255	5,122,348	4,321,814	12,539,693	9,168,069
Total Net Position	<u>\$ 16,718,449</u>	<u>\$ 13,397,022</u>	<u>\$ 11,733,689</u>	<u>\$ 10,726,311</u>	<u>\$ 28,452,138</u>	<u>\$ 24,123,333</u>

CITY OF FOREST HILL, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2020

CITY OF FOREST HILL - Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,760,592	\$ 1,939,933	\$ 6,199,021	\$ 6,133,149	\$ 7,959,613	\$ 8,073,082
Operating Grants and Contributions	712,250	26,777	-	-	712,250	26,777
General Revenues:						
Property Taxes	6,188,112	5,178,536	-	-	6,188,112	5,178,536
Sales Franchise and Other Taxes	4,173,109	4,340,652	-	-	4,173,109	4,340,652
Investment Earnings	118,444	168,019	57,975	53,427	176,419	221,446
Other	169,449	188,346	72,815	-	242,264	188,346
Total Revenues	<u>13,121,956</u>	<u>11,842,263</u>	<u>6,329,811</u>	<u>6,186,576</u>	<u>19,451,767</u>	<u>18,028,839</u>
Expenses:						
General Government	2,283,792	1,944,464	-	-	2,283,792	1,944,464
Public Safety	5,320,132	5,304,616	-	-	5,320,132	5,304,616
Public Works & Streets	1,983,320	2,677,410	-	-	1,983,320	2,677,410
Library, Parks & Recreation	64,089	10,782	-	-	64,089	10,782
Community & Econ. Development	223,464	368,904	-	-	223,464	368,904
Interest on Long-Term Debt	118,922	155,306	-	-	118,922	155,306
Water & Sewer	-	-	4,761,918	4,729,156	4,761,918	4,729,156
Total Expenses	<u>9,993,719</u>	<u>10,461,482</u>	<u>4,761,918</u>	<u>4,729,156</u>	<u>14,755,637</u>	<u>15,190,638</u>
Increase/(Decrease) in Net Position Before Transfers	3,128,237	1,380,781	1,567,893	1,457,420	4,696,130	2,838,201
Transfers	193,190	674,186	(562,000)	(674,186)	(368,810)	-
Increase/(Decrease) in Net Position	3,321,427	2,054,967	1,005,893	783,234	4,327,320	2,838,201
Net Position - Beginning of Year	13,397,022	11,342,055	10,727,796	9,943,077	24,124,818	21,285,132
Net Position - End of Year	<u>\$ 16,718,449</u>	<u>\$ 13,397,022</u>	<u>\$ 11,733,689</u>	<u>\$ 10,726,311</u>	<u>\$ 28,452,138</u>	<u>\$ 24,123,333</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 \$3,321,427.
- Total revenues increased by \$1,279,693 (10.8%).
- Total expenses decreased by \$467,763 (-4.5%).

Business-Type Activities

Business-Type activities increased the City of Forest Hill's net position by \$1,005,893.

- Total revenues increased by \$143,235 (2.32%).
- Total operating expenses increased by \$32,762 (0.69%).

CITY OF FOREST HILL, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2020

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 \$16,718,449, an increase of \$3,321,427 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 \$2,862,769. Total unreserved fund balance represents 26% of total general fund expenditures.

The debt service fund has a total fund balance of \$466,373, 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 \$11,733,689. 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 \$693,904, primarily due to licenses and permits, intergovernmental and sales tax revenue. Expenditures were under budget by \$332,539, primarily related to reduced spending in public safety, parks and recreation, and non-departmental.

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, 2020, amounts to \$10,045,267 (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 4 on pages 31-33 of this report.

Long-Term Debt. At the end of the current fiscal year, the City of Forest Hill had bonded debt outstanding of \$3,481,854. All of this amount comprises debt backed by the full faith and credit of the government.

The City of Forest Hill's long-term liabilities decreased by \$791,305 during the current fiscal year.

Additional information on the City of Forest Hill's long-term debt can be found in Note 5 on pages 33-44 of this report.

CITY OF FOREST HILL, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2020

Economic Factors and Next Year's Budgets and Rates

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

Fiscal issues require constant vigilance. Bearing in mind achieving a long-term, stable, positive financial condition is paramount to the progress of the City of Forest Hill; the city has elected to set the tax rate at 0.992873 in FY 2019-2020. The positive economic outlook, the stabilization of economic factors, and the development of new housing estates in the city have contributed to the increase of property tax dollars by approximately 16.76%. Despite the negative effects of COVID-19, the City's economy and community development is on the upward outlook. The city was also able to keep spending at the budgeted amounts or below. Additionally, management continues to work with the City Council in reshaping the budgetary focus towards reaching efficiency and effectiveness while maximizing service levels.

These factors were considered in preparing the City of Forest Hill's budget for the 2021 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

CITY OF FOREST HILL, TEXAS
Government Wide – Statement of Net Position
September 30, 2020

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Cash & Cash Equivalents	\$ 12,166,737	\$ 5,605,806	\$ 17,772,543
Receivables (Net of Allowance for Uncollectables)	1,201,977	617,204	1,819,181
Restricted Cash and Cash Equivalents	-	567,977	567,977
Franchise Fees Receivable	-	13,988	13,988
Due From Other Funds	(12,720)	12,720	-
Prepays	31,556	-	31,556
Inventory	-	11,828	11,828
Capital Assets (Net of Accumulated Depreciation):			
Land	807,225	25,567	832,792
Construction in Progress	153,965	-	153,965
Equipment	447,428	123,447	570,875
Buildings, Systems and Improvements	3,087,923	50,215	3,138,138
Infrastructure	5,548,726	6,412,112	11,960,838
Total Assets	<u>23,432,817</u>	<u>13,440,864</u>	<u>36,873,681</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows - Pension	499,606	52,202	551,808
Deferred Outflows - OPEB	40,561	6,672	47,233
Total Deferred Outflows of Resources	<u>540,167</u>	<u>58,874</u>	<u>599,041</u>
Total Assets & Deferred Outflows of Resources	<u>\$ 23,972,984</u>	<u>\$ 13,499,738</u>	<u>\$ 37,472,722</u>
LIABILITIES			
Accounts Payable	\$ 186,709	\$ 357,883	\$ 544,592
Accrued Expense	290,609	64,370	354,979
Accrued Wages	-	14,741	14,741
Accrued Interest Payable	16,602	3,275	19,877
Deposits Payable	-	427,102	427,102
Noncurrent Liabilities:			
Due Within One Year	1,116,854	137,600	1,254,454
Due in More than One Year	3,022,922	403,247	3,426,169
Net Pension Liability	1,375,367	25,904	1,401,271
Net OPEB Liability	192,740	173,175	365,915
Total Liabilities	<u>6,201,803</u>	<u>1,607,297</u>	<u>7,809,100</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Other	84,731	-	84,731
Deferred Inflows - Pension	948,984	156,148	1,105,132
Deferred Inflows - OPEB	19,017	2,604	21,621
Total Deferred Inflows of Resources	<u>1,052,732</u>	<u>158,752</u>	<u>1,211,484</u>
Total Liabilities & Deferred Inflows of Resources	<u>7,254,535</u>	<u>1,766,049</u>	<u>9,020,584</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	6,913,863	6,611,341	13,525,204
Restricted	2,387,241	-	2,387,241
Unrestricted	7,417,345	5,122,348	12,539,693
Total Net Position	<u>\$ 16,718,449</u>	<u>\$ 11,733,689</u>	<u>\$ 28,452,138</u>

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

CITY OF FOREST HILL, TEXAS
Government Wide – Statement of Activities
For the Year Ended September 30, 2020

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities:			
General Government	\$ 1,915,479	\$ 275,779	\$ -
Public Safety	5,320,132	975,384	-
Public Works	1,580,477	509,429	-
Streets	402,843	-	-
Library	64,089	-	-
Community Development	223,464	-	712,250
Nondepartmental	368,313	-	-
Interest and Fiscal Charges	118,922	-	-
Total Governmental Activities	9,993,719	1,760,592	712,250
Business-Type Activities:			
Water and Sewer	4,761,918	6,199,021	-
Total Business-Type Activities	4,761,918	6,199,021	-
Total Primary Government	\$ 14,755,637	\$ 7,959,613	\$ 712,250

General Revenues:
Property Taxes
Sales Taxes
Franchise Taxes
Investment Earnings
Miscellaneous Revenue
Transfers
Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning of Year

Net Position - End of Year

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

Net (Expense)/Revenue and Change in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (1,639,700)	\$ -	\$ (1,639,700)
(4,344,748)	-	(4,344,748)
(1,071,048)	-	(1,071,048)
(402,843)	-	(402,843)
(64,089)	-	(64,089)
488,786	-	488,786
(368,313)	-	(368,313)
(118,922)	-	(118,922)
<u>(7,520,877)</u>	<u>-</u>	<u>(7,520,877)</u>
-	1,437,103	1,437,103
-	1,437,103	1,437,103
<u>(7,520,877)</u>	<u>1,437,103</u>	<u>(6,083,774)</u>
6,188,112	-	6,188,112
3,607,704	-	3,607,704
565,405	-	565,405
118,444	57,975	176,419
169,449	72,815	242,264
193,190	(562,000)	(368,810)
<u>10,842,304</u>	<u>(431,210)</u>	<u>10,411,094</u>
3,321,427	1,005,893	4,327,320
<u>13,397,022</u>	<u>10,727,796</u>	<u>24,124,818</u>
<u>\$ 16,718,449</u>	<u>\$ 11,733,689</u>	<u>\$ 28,452,138</u>

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

CITY OF FOREST HILL, TEXAS

Balance Sheet

Governmental Funds

September 30, 2020

	General Fund	Motel Tax	Community Development Corporation	Non Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 2,736,570	\$ 3,888,837	\$ 2,386,663	\$ 3,154,667	\$ 12,166,737
Receivables (Net of Allowance for Uncollectables):					
Property Taxes	314,472	-	-	24,861	339,333
Sales Taxes	326,909	-	163,454	81,728	572,091
Other Receivables	239,471	32,335	-	18,747	290,553
Due from Other Funds	(12,720)	-	-	-	(12,720)
Prepays	31,556	-	-	-	31,556
Total Assets	<u>\$ 3,636,258</u>	<u>\$ 3,921,172</u>	<u>\$ 2,550,117</u>	<u>\$ 3,280,003</u>	<u>\$ 13,387,550</u>
LIABILITIES					
Accounts Payable	\$ 175,258	\$ -	\$ 97	\$ 11,354	\$ 186,709
Accrued Expense	287,500	-	-	3,109	290,609
Total Liabilities	<u>462,758</u>	<u>-</u>	<u>97</u>	<u>14,463</u>	<u>477,318</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Other	279,175	-	-	30,684	309,859
Total Deferred Inflows of Resources	<u>279,175</u>	<u>-</u>	<u>-</u>	<u>30,684</u>	<u>309,859</u>
FUND BALANCES					
Nonspendable:					
Prepaid Items	31,556	-	-	-	31,556
Restricted:					
Debt Service	-	-	-	466,373	466,373
Capital Projects	-	-	-	581,801	581,801
Public Safety	-	-	-	307,791	307,791
Library	-	-	-	4,389	4,389
Capital Improvements	-	-	-	1,026,887	1,026,887
Committed:					
Community Development Corporation	-	-	2,550,020	-	2,550,020
Hotel-Motel Tax	-	3,921,172	-	-	3,921,172
Parks	-	-	-	269,268	269,268
COVID-19 Fund	-	-	-	578,347	578,347
Unassigned	2,862,769	-	-	-	2,862,769
Total Fund Balances	<u>2,894,325</u>	<u>3,921,172</u>	<u>2,550,020</u>	<u>3,234,856</u>	<u>12,600,373</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 3,636,258</u>	<u>\$ 3,921,172</u>	<u>\$ 2,550,117</u>	<u>\$ 3,280,003</u>	<u>\$ 13,387,550</u>

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

CITY OF FOREST HILL, TEXAS
 Reconciliation of Balance Sheet of Governmental Funds
 to the Statement of Net Position
 For the Year Ended September 30, 2020

Total Fund Balances - Government Funds \$ 12,600,373

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 \$48,510,130 and the accumulated depreciation was \$(38,501,755). In addition, long-term liabilities, including bonds payable of \$(3,646,250), and capital leases payable of \$(143,159), 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.

6,218,966

Current year capital outlays of \$1,088,046 and long-term debt principal payments of \$658,005 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.

1,746,051

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.

(16,602)

The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.

(1,051,154)

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 \$225,128 as revenue, and recognizing the liabilities associated with compensated absences of \$(1,008,372). The net effect of these reclassifications is to decrease net position.

(783,244)

Included in the noncurrent liabilities is the recognition of the City's net pension liability required by GASB 68 in the amount of \$(1,375,367), a deferred resource inflow in the amount of \$(948,984), and a deferred resource outflow in the amount of \$499,606. The net effect of including the GASB 68 adjustment is to decrease net position.

(1,824,745)

Included in the noncurrent liabilities is the recognition of the City's net OPEB liability required by GASB 75 in the amount of \$(192,740), a deferred resource inflow in the amount of \$(19,017), and a deferred resource outflow in the amount of \$40,561. The net effect of including the GASB 68 adjustment is to decrease net position.

(171,196)

Net Position of Governmental Activities

\$ 16,718,449

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

CITY OF FOREST HILL, TEXAS
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2020

	General Fund	Motel Tax	Community Development Corporation	Non Major Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Property	\$ 5,685,294	\$ -	\$ -	\$ 502,818	\$ 6,188,112
Sales	1,809,858	-	904,914	452,457	3,167,229
Hotel-Motel	-	440,475	-	-	440,475
Franchise Fees	565,405	-	-	-	565,405
Licenses and Permits	394,786	-	-	-	394,786
Fines and Forfeitures	975,384	-	-	-	975,384
Intergovernmental	46,654	-	-	67,989	114,643
Contributions and Donations	-	-	-	712,250	712,250
Rental	275,779	-	-	-	275,779
Interest	32,929	38,044	22,570	24,901	118,444
Miscellaneous	150,806	-	-	18,643	169,449
Total Revenues	<u>9,936,895</u>	<u>478,519</u>	<u>927,484</u>	<u>1,779,058</u>	<u>13,121,956</u>
EXPENDITURES					
Current:					
General Government	1,802,350	-	-	-	1,802,350
Public Safety	5,402,315	-	-	152,134	5,554,449
Public Works	1,602,642	-	-	-	1,602,642
Streets	-	-	-	120,249	120,249
Library	-	-	-	66,320	66,320
Parks and Recreation	-	-	-	-	-
Community Development	229,219	-	8,034	416	237,669
Nondepartmental	368,095	-	-	-	368,095
Capital Outlay	-	-	-	249,233	249,233
Debt Service:					
Principal	101,305	-	-	556,700	658,005
Interest and Fiscal Charges	8,026	-	-	119,915	127,941
Total Expenditures	<u>9,513,952</u>	<u>-</u>	<u>8,034</u>	<u>1,264,967</u>	<u>10,786,953</u>
Excess/(Deficiency) of Revenues					
Over/(Under) Expenditures	<u>422,943</u>	<u>478,519</u>	<u>919,450</u>	<u>514,091</u>	<u>2,335,003</u>
OTHER FINANCING SOURCES/(USES)					
Transfers Out	-	(64,000)	(270,630)	(2,494)	(337,124)
Transfers In	109,684	-	-	420,630	530,314
Total Other Financing Sources (Uses)	<u>109,684</u>	<u>(64,000)</u>	<u>(270,630)</u>	<u>418,136</u>	<u>193,190</u>
Net Change in Fund Balances	532,627	414,519	648,820	932,227	2,528,193
Fund Balances - Beginning of Year	<u>2,361,698</u>	<u>3,506,653</u>	<u>1,901,200</u>	<u>2,302,629</u>	<u>10,072,180</u>
Fund Balances - End of Year	<u>\$ 2,894,325</u>	<u>\$ 3,921,172</u>	<u>\$ 2,550,020</u>	<u>\$ 3,234,856</u>	<u>\$ 12,600,373</u>

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

CITY OF FOREST HILL, TEXAS
Reconciliation of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2020

Total Net Changes in Fund Balances - Governmental Funds	\$ 2,528,193
<p>Current year capital outlays of \$1,088,046 and long-term debt principal payments of \$658,005 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.</p>	1,746,051
<p>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.</p>	9,019
<p>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.</p>	(1,051,154)
<p>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 (\$0) as revenue, and recognizing the liabilities associated with compensated absences of (\$80,976). The net effect of these reclassifications is to increase net position.</p>	(80,976)
<p>The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/19 caused the change in the ending net position to increase in the amount of \$462,437. 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 \$(500,623). The City's reported TMRS net pension expense had to be recorded. The net pension expense increased the change in net position by \$221,133. The net effect of these changes is to increase net position.</p>	182,947
<p>The implementation of GASB 75 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/19 caused the change in the ending net position to increase in the amount of \$5,050. 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 \$(5,250). The City's reported TMRS net OPEB expense had to be recorded. The net OPEB expense decreased the change in net position by \$(12,453). The net effect of these changes is to decrease net position.</p>	<u>(12,653)</u>
Change in Net Position of Governmental Activities	<u>\$ 3,321,427</u>

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

CITY OF FOREST HILL, TEXAS

Statement of Net Position

Proprietary Fund

September 30, 2020

ASSETS

Current Assets:

Cash & Cash Equivalents	\$ 5,605,806
Restricted Cash and Cash Equivalents	567,977
Utility Bills Receivable (Net of Allowance for Uncollectables)	596,585
Franchise Fees Receivable	13,988
Other receivables	20,619
Due from Other Funds	12,720
Inventory	11,828
Total Current Assets	<u>6,829,523</u>

Noncurrent Assets:

Capital Assets:

Land	25,567
Building	214,693
Equipment	1,161,474
Infrastructure	10,994,247
Less: Accumulated Depreciation	<u>(5,784,640)</u>
Total Capital Assets (Net of Depreciation)	<u>6,611,341</u>
Total Noncurrent Assets	<u>6,611,341</u>

Total Assets 13,440,864

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows - Pension	52,202
Deferred Outflows - OPEB	<u>6,672</u>
Total Assets & Deferred Outflows of Resources	<u>\$ 13,499,738</u>

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 357,883
Accrued Expenses	14,741
Accrued Wages	64,370
Deposits	427,102
Accrued Interest	3,275
Due to Other Funds	0
Current Portion of Bonds Payable	<u>137,600</u>
Total Current Liabilities	<u>1,004,971</u>

Noncurrent Liabilities:

Compensated Absences	190,397
Bonds Payable	212,850
Net Pension Liability	25,904
Net OPEB Liability	<u>173,175</u>
Total Noncurrent Liabilities	<u>602,326</u>

Total Liabilities 1,607,297

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows - Pension	156,148
Deferred Inflows - OPEB	<u>2,604</u>
Total Liabilities & Deferred Inflows of Resources	<u>1,766,049</u>

NET POSITION

Invested in Capital Assets, Net of Related Debt	6,611,341
Unrestricted	<u>5,122,348</u>
Total Net Position	<u>\$ 11,733,689</u>

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

CITY OF FOREST HILL, TEXAS
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Year ended September 30, 2020

OPERATING REVENUES

Charges for Sales and Services:

Water Sales	\$ 2,524,611
Sewer Sales	2,429,729
Tap & Collection Fees	65,572
Delinquent Charges	71,434
Franchise Fees	182,728
Service Charges	924,947
Miscellaneous	<u>72,815</u>
Total Operating Revenues	<u>6,271,836</u>

OPERATING EXPENSES

Water Distribution & Wastewater Collection	4,112,985
Utility Billing	379,948
Depreciation	<u>256,149</u>
Total Operating Expenses	<u>4,749,082</u>

Operating Income (Loss)	<u>1,522,754</u>
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NONOPERATING REVENUES (EXPENSES)

Interest Revenue	57,975
Interest Expense and Fiscal Charges	<u>(12,836)</u>
Total Nonoperating Revenues (Expenses)	<u>45,139</u>

Net Income (Loss) Before Transfers	1,567,893
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Transfers Out	<u>(562,000)</u>
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Change in Net Position	1,005,893
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Net Position - Beginning	<u>10,727,796</u>
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Net Position - Ending	<u><u>\$ 11,733,689</u></u>
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The notes to the financial statements are an integral part of this statement.

CITY OF FOREST HILL, TEXAS
Statement of Cash Flows
Proprietary Fund
For the Year ended September 30, 2020

Cash Flows from Operating Activities:	
Cash Received from Customers and Users	\$6,239,492
Cash Payments to Suppliers	(3,581,542)
Cash Payments to Employees	(928,160)
Net Cash Provided by Operating Activities	1,729,790
Cash Flows from Noncapital Financing Activities:	
Transfers to Other Funds	(562,000)
Net Cash Used for Noncapital Financing Activities	(562,000)
Cash Flows from Capital & Related Financing Activities:	
Principal Paid on Long-Term Debt	(101,305)
Interest Paid on Debt	(12,836)
Net Cash Used for Capital & Related Financing Activities	(114,141)
Cash Flows from Investing Activities:	
Interest on Deposits and Investments	57,975
Net Cash Provided by Investing Activities	57,975
Net Decrease in Cash and Cash Equivalents	1,111,624
Cash & Cash Equivalents - Beginning	5,062,159
Cash & Cash Equivalents - Ending	\$6,173,783

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating Income	\$1,522,754
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	256,149
(Increase)/Decrease in Accounts Receivable	(73,664)
(Increase)/Decrease in Deferred outflows of Resources	116,786
Increase/(Decrease) in Accounts Payable	(11,674)
(Increase)/Decrease in Accrued Expenses	(34,268)
Increase/(Decrease) in Wages Payable	50,171
Increase/(Decrease) in Net Pension Liability	(226,263)
Increase/(Decrease) in Deferred Inflows of Resources	88,479
Increase/(Decrease) in Customer Deposits	41,320
Total Adjustments	207,036
Net Cash Provided by Operating Activities	\$1,729,790

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

CITY OF FOREST HILL, TEXAS

Statement of Asset and Liabilities

Agency Fund

September 30, 2020

	<u>Agency Fund</u>
ASSETS	
Cash & Cash Equivalents	\$ 4,278
Total Assets	<u>\$ 4,278</u>
LIABILITIES	
Due to Others	\$ 4,278
Total Liabilities	<u>\$ 4,278</u>

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

CITY OF FOREST HILL
Notes to the Financial Statements
For the Year Ended September 30, 2020

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.

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

CITY OF FOREST HILL
Notes to the Financial Statements
For the Year Ended September 30, 2020

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The government reports the following governmental funds:

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

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

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

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

The *nonmajor governmental funds* are listed on pages 55-58.

The government reports the following proprietary fund:

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

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CITY OF FOREST HILL
Notes to the Financial Statements
For the Year Ended September 30, 2020

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

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund, and of the government's internal service fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

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

2. Receivables

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

3. Short-Term Interfund Receivables/Payables

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

4. Transactions Between Funds

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

CITY OF FOREST HILL
Notes to the Financial Statements
For the Year Ended September 30, 2020

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

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

5. Prepaid Items

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

6. Inventories

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

7. Restricted Assets

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

8. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

CITY OF FOREST HILL
Notes to the Financial Statements
For the Year Ended September 30, 2020

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

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

8. Capital Assets *(continued)*

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

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

9. Compensated Absences

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

10. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

In the fund financial statements, governmental fund types, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

11. Fund Equity

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

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

CITY OF FOREST HILL
Notes to the Financial Statements
For the Year Ended September 30, 2020

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

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

11. Fund Equity *(continued)*

- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by an official to which the City Council delegates this authority.
- **Unassigned:** This classification includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

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

As of September 30, 2020, fund balances are composed of the following:

	General Fund	Motel Tax	Community Development Corporation	Non Major Governmental Funds	Total Governmental Funds
Nonspendable:					
Prepaid Items	\$ 31,556	\$ -	\$ -	\$ -	\$ 31,556
Restricted:					
Debt Service	-	-	-	466,373	466,373
Capital Projects	-	-	-	581,801	581,801
Public Safety	-	-	-	307,791	307,791
Library	-	-	-	4,389	4,389
Capital Improvements	-	-	-	1,026,887	1,026,887
Committed:					
Community Development Corporation	-	-	2,550,020	-	2,550,020
Hotel-Motel Tax	-	3,921,172	-	-	3,921,172
Parks	-	-	-	269,268	269,268
COVID-19 Fund	-	-	-	578,347	578,347
Unassigned	2,862,769	-	-	-	2,862,769
Total Fund Balances	<u>\$ 2,894,325</u>	<u>\$ 3,921,172</u>	<u>\$ 2,550,020</u>	<u>\$ 3,234,856</u>	<u>\$ 12,600,373</u>

CITY OF FOREST HILL
Notes to the Financial Statements
For the Year Ended September 30, 2020

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

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

12. Deferred Outflows/Inflows of Resources

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

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

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

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

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

CITY OF FOREST HILL
Notes to the Financial Statements
For the Year Ended September 30, 2020

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

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

13. Pension

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, GRS Retirement Consulting, in compliance with Governmental Accounting Standards Board (GASB) Statements No. 68 and No. 71.

14. Other Post-Employment Benefits

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

NOTE 2. DEPOSITS (CASH) AND INVESTMENTS

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

Deposits and investments as of September 30, 2020, are classified in the accompanying financial statements as follows:

Governmental Activities	\$ 12,166,737
Business- Type Activities	5,605,806
	<u>\$ 17,772,543</u>

CITY OF FOREST HILL
Notes to the Financial Statements
For the Year Ended September 30, 2020

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

Deposits and investments as of September 30, 2020, consist of the following:

Deposits with financial institutions	\$ 416,799
Investments	<u>17,355,744</u>
	<u>\$ 17,772,543</u>

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

Disclosures Relating to Interest Rate Risk

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

As of September 30, 2020, the City had the following investments:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Weighted Average Maturity</u>
TexPool	\$ 4,663,197	36 days
TexPool Prime	13,278,030	33 days
	<u>\$ 17,941,227</u>	

Disclosures Relating to Credit Risk

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

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Minimum Rating Required</u>	<u>Actual Investment Rating</u>
TexPool	\$ 4,663,197	AAA	AAAm
TexPool Prime	13,278,030	AAA	AAAm
	<u>\$ 17,941,227</u>		

The City reports restricted assets for the following items:

Customer Deposits	\$ 427,102
Accrued Interest Payable	3,275
Current Portion of Bonds Payable	<u>137,600</u>
Total Restricted Assets	<u>\$ 567,977</u>

CITY OF FOREST HILL
Notes to the Financial Statements
For the Year Ended September 30, 2020

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

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2020, other than external investment pools, the City did not have 5% or more of its investments with one issuer.

Custodial Credit Risk

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

At September 30, 2020, the carrying amount of the City's cash on hand and deposits was \$416,799 and the bank balance was \$885,259. Of the bank balance, \$500,000 was covered by federal depository insurance for depository. Moreover, bank balance of \$516,927 at First Financial Bank as of September 30, 2020 was secured with securities held by the pledging financial institution's trust department or agent in the City's name.

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

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

CITY OF FOREST HILL
Notes to the Financial Statements
For the Year Ended September 30, 2020

NOTE 3. ACCOUNT RECEIVABLE

Amounts recorded as receivables as of September 30, 2020, for the government's individual major and non-major funds, including the applicable allowance for uncollectible accounts, are as follows:

	General Fund	Motel Tax	Community Development Corporation	Nonmajor Governmental Funds	Enterprise Fund	Total
Receivables:						
Utility Bills	\$ -	\$ -	\$ -	\$ -	\$ 678,828	\$ 678,828
Delinquent Taxes	509,928	-	-	65,783	-	575,711
Sales Taxes	326,909	-	163,454	81,728	-	408,637
Other	560,699	32,335	-	18,747	13,988	625,769
Gross Receivables	<u>1,397,536</u>	<u>32,335</u>	<u>163,454</u>	<u>166,258</u>	<u>692,816</u>	<u>2,288,945</u>
Less: Allowance for Uncollectibles	<u>(516,684)</u>	<u>-</u>	<u>-</u>	<u>(40,922)</u>	<u>(82,243)</u>	<u>(639,849)</u>
Net Total Receivables	<u>\$ 880,852</u>	<u>\$32,335</u>	<u>\$ 163,454</u>	<u>\$ 125,336</u>	<u>\$ 610,573</u>	<u>\$ 1,649,096</u>

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2020 was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 807,225	\$ -	\$ -	\$ 807,225
Construction in Progress	112,252	153,965	(112,252)	153,965
Total Capital Assets, Not Being Depreciated	<u>919,477</u>	<u>153,965</u>	<u>(112,252)</u>	<u>961,190</u>
Capital Assets, Being Depreciated:				
Buildings	4,061,055	-	-	4,061,055
Equipment	4,751,683	225,684	(87,282)	4,890,085
Infrastructure	38,777,915	820,649	-	39,598,564
Total Capital Assets, Being Depreciated	<u>47,590,653</u>	<u>1,046,333</u>	<u>(87,282)</u>	<u>48,549,704</u>
Less: Accumulated Depreciation for:				
Buildings	(868,865)	(104,267)	-	(973,132)
Equipment	(4,331,096)	(198,843)	87,282	(4,442,657)
Infrastructure	(33,301,794)	(748,044)	-	(34,049,838)
Total Accumulated Depreciation	<u>(38,501,755)</u>	<u>(1,051,154)</u>	<u>87,282</u>	<u>(39,465,627)</u>
Total Capital Assets, Being Depreciated, Net	<u>9,088,898</u>	<u>(4,821)</u>	<u>-</u>	<u>9,084,077</u>
Governmental Activities Capital Assets, Net	<u>\$10,008,375</u>	<u>\$ 149,144</u>	<u>\$ (112,252)</u>	<u>\$10,045,267</u>

CITY OF FOREST HILL
Notes to the Financial Statements
For the Year Ended September 30, 2020

NOTE 4. CAPITAL ASSETS *(continued)*

	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	214,693	-	-	214,693
Transportation Equipment	1,197,368	-	(35,894)	1,161,474
Water Infrastructure Improvements	10,994,247	-	-	10,994,247
Total Capital Assets, Being Depreciated	<u>12,406,308</u>	<u>-</u>	<u>(35,894)</u>	<u>12,370,414</u>
Less: Accumulated Depreciation for:				
Buildings, Systems & Improvements	(161,861)	(2,617)		(164,478)
Transportation Equipment	(1,030,966)	(42,955)	35,894	(1,038,027)
Water Infrastructure Improvements	(4,371,558)	(210,577)		(4,582,135)
Total Accumulated Depreciation	<u>(5,564,385)</u>	<u>(256,149)</u>	<u>35,894</u>	<u>(5,784,640)</u>
Total Capital Assets, Being Depreciated, Net	<u>6,841,923</u>	<u>(256,149)</u>	<u>-</u>	<u>6,585,774</u>
Business-Type Activities Capital Assets, Net	<u>\$ 6,867,490</u>	<u>\$ (256,149)</u>	<u>\$ -</u>	<u>\$ 6,611,341</u>

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

Governmental Activities:	
General Government	\$ 104,267
Public Safety	198,843
Streets	748,044
Total Depreciation Expense - Governmental Activities	<u>\$ 1,051,154</u>
Business-Type Activities:	
Water & Sewer	\$ 256,149
Total Depreciation Expense - Business-Type Activities	<u>\$ 256,149</u>

Construction in progress and remaining commitments under construction related construction contracts at September 30, 2020 are as follows:

Project Name	Remaining Commitment	Total In Progress
Governmental Activities:		
Police Vehicles	N/A	\$ 153,965
Total Governmental Activities	<u>\$ -</u>	<u>\$ 153,965</u>

CITY OF FOREST HILL
Notes to the Financial Statements
For the Year Ended September 30, 2020

NOTE 4. CAPITAL ASSETS *(continued)*

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, 2020, the equipment leased under capital leases had a carrying value of \$41,854, all of which are classified with governmental activities equipment.

Capital lease expenditures for 2020 were \$101,305 of which \$2,289 represented interest. Effective interest rates range from 1.50% to 4.60%. Pursuant to the terms of the capital lease agreements, the government will be required to make future minimum payments as follows:

<u>Year Ending September 30</u>	<u>Governmental</u>
2021	<u>Activities</u>
Total Minimum Lease Payments	\$ 41,854
Less: Amount Representing Interest	41,854
Present Value of Future Minimum Lease Payments	<u> -</u>
	<u>\$ 41,854</u>

The capital leases will be repaid by the general fund.

NOTE 5. LONG-TERM DEBT

The following is a summary of long-term liability transactions of the City for the year ended September 30, 2020:

	<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u>	<u>Due Within</u>
	<u>Balance</u>			<u>Balance</u>	<u>One Year</u>
Governmental Activities:					
Capital Leases	\$ 143,159	\$ -	\$ (101,305)	\$ 41,854	\$ 41,854
Bonds Payable	3,646,250	-	(556,700)	3,089,550	705,000
Compensated Absences	<u>927,396</u>	<u>725,384</u>	<u>(644,408)</u>	<u>1,008,372</u>	<u>370,000</u>
Total governmental activities	<u>4,716,805</u>	<u>725,384</u>	<u>(1,302,413)</u>	<u>4,139,776</u>	<u>1,116,854</u>
	<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u>	<u>Due Within</u>
	<u>Balance</u>			<u>Balance</u>	<u>One Year</u>
Business-Type Activities:					
Bonds Payable	483,750	-	(133,300)	350,450	137,600
Compensated Absences	<u>190,397</u>	<u>67,107</u>	<u>(67,107)</u>	<u>190,397</u>	<u>63,000</u>
Total Business-type activities	<u>674,147</u>	<u>67,107</u>	<u>(200,407)</u>	<u>540,847</u>	<u>200,600</u>
Total government-wide activities	<u>\$5,390,952</u>	<u>\$ 792,491</u>	<u>\$ (1,502,820)</u>	<u>\$4,680,623</u>	<u>\$1,317,454</u>

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

CITY OF FOREST HILL
Notes to the Financial Statements
For the Year Ended September 30, 2020

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

Bonds payable at September 30, 2020 are comprised of the following issues for the debt service fund:

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

The annual requirements to amortize the bonded debt outstanding for the debt service fund as of September 30, 2020 are as follows:

	Principal	Interest	Total
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
	\$ 3,089,550	\$ 349,977	\$ 3,439,527

Bonds payable at September 30, 2020 are comprised of the following issue for the Water and Sewer Fund:

2011 General Obligation Refunding Bonds. Interest Payable on February 1 and August 1 at rates ranging from 2.00% to 3.00%.	\$ 350,450
	\$ 350,450

The annual requirements to amortize all bonded debt outstanding for the Water and Sewer Fund as of September 30, 2020 are as follows:

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

CITY OF FOREST HILL
Notes to the Financial Statements
For the Year Ended September 30, 2020

NOTE 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

For the year ended September 30, 2020, interfund transfers consist of:

	Transfers In:			Total
	General Fund	Debt Service Fund	Nonmajor Governmental Fund	
Transfers Out:				
General Fund	\$ -	\$ -	\$ (5,190)	(5,190)
Motel Tax	64,000	-	-	64,000
Community Development	100,000	-	-	100,000
Nonmajor Governmental Fund	-	-	(250,000)	(250,000)
Water & Sewer Fund	460,000	-	-	460,000
Total	\$ 624,000	\$ -	\$ (255,190)	\$ 368,810

NOTE 7. EMPLOYEE RETIREMENT SYSTEM – PENSION PLAN

Plan Description - The City of Forest Hill participates as one of 888 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report that can be obtained at www.tmr.com.

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

Benefits Provided - TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

CITY OF FOREST HILL
Notes to the Financial Statements
For the Year Ended September 30, 2020

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

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

	Plan Year 2020
Employee deposit rate	7%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated Service Credit	100%, Transfers
Annuity increase (to retirees)	0% of CPI

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

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	77
Inactive Employees Entitled to but Not Yet Receiving Benefits	94
Active Employees	88
	259

Contributions - The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Forest Hill were required to contribute 7.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 7.50% and 8.18% in calendar year 2019 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2020 were \$702,024 and were equal to required contributions.

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

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

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

CITY OF FOREST HILL
Notes to the Financial Statements
For the Year Ended September 30, 2020

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

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative), and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2020 are summarized in the following table:

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

Discount Rate – The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan’s Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

CITY OF FOREST HILL
Notes to the Financial Statements
For the Year Ended September 30, 2020

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

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2018	\$ 23,660,945	\$ 20,044,380	\$ 3,616,565
Changes for the Year:			
Service Cost	975,908		975,908
Interest	1,588,890		1,588,890
Change of Benefit Terms	-		-
Diff. Between Expected/Actual Experience	(417,196)		(417,196)
Changes of Assumptions	44,690		44,690
Contributions - Employer		772,918	(772,918)
Contributions - Employee		405,904	(405,904)
Net Investment Income		3,099,529	(3,099,529)
Benefit Payments, Including Refunds of Employee Contributions	(1,219,579)	(1,219,579)	-
Administrative Expenses		(17,510)	17,510
Other Changes		(526)	526
Net Changes	972,713	3,040,736	(2,933,925)
Balance at 12/31/2019	<u>\$ 24,633,658</u>	<u>\$ 23,085,116</u>	<u>\$ 2,541,545</u>

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	<u>\$ 5,556,777</u>	<u>\$ 1,548,542</u>	<u>\$ (1,677,553)</u>

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

CITY OF FOREST HILL
Notes to the Financial Statements
For the Year Ended September 30, 2020

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

Pension Expense and Deferred Outflows and Inflows of Resources - For the year ended September 30, 2020, the City recognized pension expense in the amount of \$523,943. At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected & Actual Economic Experience (net of current year amortization)	\$ -	\$ 399,862
Changes in Actuarial Assumptions	31,148	-
Differences Between Projected & Actual Investment Earnings (net of current year amortization)	-	705,270
Contributions Subsequent to the Measurement Date	520,808	-
Total	\$ 551,956	\$ 1,105,132

\$520,660 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	
2021	\$ (403,414)
2022	(336,679)
2023	15,414
2024	(349,305)
2025	-
Thereafter	-
	\$ (1,073,984)

NOTE 8. OTHER POST EMPLOYMENT BENEFITS

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

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

Benefits Provided – SDBF is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered another postemployment benefit and is a fixed amount of \$7,500.

CITY OF FOREST HILL
Notes to the Financial Statements
For the Year Ended September 30, 2020

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

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

Employees for the City of Forest Hill were not required to contribute to the SDBF. The contribution rates for the City were 0.14% and 0.14% in calendar year 2019 and 2020, respectively. The City’s contributions to TMRS for the year ended September 30, 2020 were \$7,508 and were equal to required contributions.

Employees Covered by Benefit Terms - At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	29
Inactive Employees Entitled to but Not Yet Receiving Benefits	12
Active Employees	88
	129

Actuarial Assumptions - The total OPEB liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50%	
Salary Increases	3.50% to 10.50% including inflation	
Discount Rate*	2.75%	
Retirees' share of benefit related costs	\$0	
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.	
Mortality Rates - service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.	
Mortality Rates - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.	

*The discount rate was based on the Fidelity Index’s “20-Year Municipal GO AA Index” rate as of December 31, 2019.

Note: The actuarial assumption used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period December 31, 2014 – December 31, 2018.

CITY OF FOREST HILL
Notes to the Financial Statements
For the Year Ended September 30, 2020

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

Total OPEB Liability - The City's Total OPEB Liability was determined by an actuarial valuation as of December 31, 2019.

	Increase/(Decrease)
	Total OPEB Liability
Balance at 12/31/2018	\$ 173,898
Changes for the Year:	
Service Cost	9,278
Interest	6,591
Change of Benefit Terms	-
Diff. Between Expected/Actual Experience	(7,982)
Changes of Assumptions	38,599
Contributions - Employer	-
Contributions - Employee	-
Net Investment Income	-
Benefit Payments, Including Refunds of Employee Contributions	(1,740)
Administrative Expenses	-
Other Changes	-
Net Changes	44,746
Balance at 12/31/2019	\$ 218,644

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

	1% Decrease (1.75%)	Discount Rate (2.75%)	1% Increase (3.75%)
City's total OPEB liability	\$ 271,626	\$ 218,644	\$ 178,260

OPEB Expense and Deferred Outflows and Inflows of Resources - For the year ended September 30, 2020, the City recognized OPEB expense in the amount of \$19,727. At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected & Actual Economic Experience (net of current year amortization)	\$ -	\$ 11,527
Changes in Actuarial Assumptions	41,547	10,094
Differences Between Projected & Actual Investment Earnings (net of current year amortization)	-	-
Contributions Subsequent to the Measurement Date	5,686	-
Total	\$ 47,233	\$ 21,621

CITY OF FOREST HILL
Notes to the Financial Statements
For the Year Ended September 30, 2020

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

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

Year Ended December 31,		
2021	\$	3,858
2022		3,858
2023		3,858
2024		3,146
2025		2,423
Thereafter		2,783
	\$	<u>19,926</u>

NOTE 9. RISK MANAGEMENT

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

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

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

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

NOTE 10. LITIGATION

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

CITY OF FOREST HILL
Notes to the Financial Statements
For the Year Ended September 30, 2020

NOTE 9. IMPLEMENTATION OF FUTURE GASB STATEMENT

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

GASB Statement No. 84, Fiduciary Activities. This statement establishes criteria for identifying fiduciary activities. It presents separate criteria for evaluating component units, pension and other postemployment benefit arrangements, and other fiduciary activities. The focus is on a government controlling the assets of the fiduciary activity and identification of the beneficiaries of those assets. Fiduciary activities are reported in one of four types of funds: pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, or custodial funds. Custodial funds are used to report fiduciary activities that are not held in a trust. The agency fund designation will no longer be used. GASB 84 also provides guidance on fiduciary fund statements and timing of recognition of a liability to beneficiaries. This standard becomes effective for the City in fiscal year 2020.

GASB Statement No. 87, Leases. This statement provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and non-lease components will need to be separated so each component is accounted for accordingly. This standard becomes effective for the City in fiscal year 2021.

NOTE 10. EVALUATION OF SUBSEQUENT EVENTS

The City has evaluated subsequent events through April 1, 2021, the date which the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FOREST HILL
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended September 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property	\$ 5,502,628	\$ 5,502,628	\$ 5,685,294	\$ 182,666
Sales	1,706,955	1,706,955	1,809,858	102,903
Franchise Fees	270,000	270,000	565,405	295,405
Licenses and Permits	355,000	355,000	394,786	39,786
Fines and Forfeitures	804,200	804,200	975,384	171,184
Intergovernmental	8,000	8,000	46,654	38,654
Rental	436,308	436,308	275,779	(160,529)
Interest	100,000	100,000	32,929	(67,071)
Miscellaneous	59,900	59,900	150,806	90,906
Total Revenues	<u>9,242,991</u>	<u>9,242,991</u>	<u>9,936,895</u>	<u>693,904</u>
EXPENDITURES				
Current				
General Government	1,719,174	1,719,174	1,802,350	(83,176)
Public Safety	5,232,942	5,232,942	5,511,646	(278,704)
Public Works	1,444,812	1,444,812	1,602,642	(157,830)
Community Development	707,627	707,627	229,219	478,408
Non Departmental	741,936	741,936	368,095	373,841
Total Expenditures	<u>9,846,491</u>	<u>9,846,491</u>	<u>9,513,952</u>	<u>332,539</u>
Excess (Deficiency) of Revenues over Expenditures	(603,500)	(603,500)	422,943	361,365
Other Financing Sources (Uses)				
Transfer in	857,500	857,500	109,684	747,816
Transfer out	(254,000)	(254,000)	-	(254,000)
Total Other Financing Sources (Uses)	<u>603,500</u>	<u>603,500</u>	<u>109,684</u>	<u>493,816</u>
Net Changes in Fund Balances	-	-	532,627	855,181
Fund Balances - Beginning of Year	2,361,694	2,361,694	2,361,694	-
Fund Balances - End of Year	<u>\$ 2,361,694</u>	<u>\$ 2,361,694</u>	<u>\$ 2,894,321</u>	<u>\$ 855,181</u>

CITY OF FOREST HILL
Notes to the Required Supplementary Budget Information
For the Year Ended September 30, 2020

A. Budgetary Information

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

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

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

2. Public hearings are conducted to obtain taxpayer comments.

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

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

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

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

B. Budget Variances

Expenditures related to public safety and public works exceeded budgetary amounts by \$278,704 and \$157,830, respectively. Within the General Fund (the legal level of budgetary control) actual total revenue exceeded budgetary revenues by \$693,904 and budgetary total expenditure exceeded actual by \$332,539, respectively, resulting in a net excess of \$361,365. Budget net transfers were \$603,500 versus actual transfers of \$109,684 resulting in a net change in fund balance of \$493,816. Employees pay and benefits resulted in expense of \$6,992,984 which exceeded the budgetary amount of \$6,203,669 by \$789,102.

CITY OF FOREST HILL
 Budgetary Comparison Schedule
 Motel Tax Fund
 For the Year Ended September 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 475,000	\$ 475,000	\$ 440,475	\$ (34,525)
Interest Income	38,482	38,482	38,044	(438)
Total Revenues	<u>513,482</u>	<u>513,482</u>	<u>478,519</u>	<u>(34,963)</u>
EXPENSES				
Parks and Recreation	-	-	-	-
Total Expenditure	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in Net Position	513,482	513,482	478,519	(34,963)
Net Position - Beginning of Year	<u>3,506,653</u>	<u>3,506,653</u>	<u>3,506,653</u>	<u>-</u>
Net Position - End of Year	<u>\$4,020,135</u>	<u>\$4,020,135</u>	<u>\$3,985,172</u>	<u>\$ (34,963)</u>

CITY OF FOREST HILL
 Budgetary Comparison Schedule
 Community Development Corporation Fund
 For the Year Ended September 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 750,000	\$ 750,000	\$ 904,914	\$ 154,914
Interest Income	15,000	15,000	22,570	7,570
Total Revenues	<u>765,000</u>	<u>765,000</u>	<u>927,484</u>	<u>162,484</u>
EXPENSES				
Community Development	92,250	92,250	8,034	(84,216)
Total Expenditure	<u>92,250</u>	<u>92,250</u>	<u>8,034</u>	<u>(84,216)</u>
Excess (Deficiency) of Revenues over Expenditure	672,750	672,750	919,450	246,700
OTHER FINANCING SOURCES (USES)				
Transfer out	(270,630)	(270,630)	(270,630)	-
Total Other Financing Sources (Uses)	<u>(270,630)</u>	<u>(270,630)</u>	<u>(270,630)</u>	<u>-</u>
Net Changes in Net Position	402,120	402,120	648,820	246,700
Net Position - Beginning of Year	<u>1,901,200</u>	<u>1,901,200</u>	<u>1,901,200</u>	<u>(246,700)</u>
Net Position - End of Year	<u><u>\$2,303,320</u></u>	<u><u>\$2,303,320</u></u>	<u><u>\$2,550,020</u></u>	<u><u>\$ -</u></u>

CITY OF FOREST HILL
 Budgetary Comparison Schedule
 Enterprise Fund
 For the Year Ended September 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for Sales & Services				
Water Sales	\$ 2,500,000	\$ 2,500,000	\$ 2,524,611	\$ 24,611
Sewer Sales	2,600,000	2,600,000	2,429,729	(170,271)
Tap & Collection Fees	84,500	84,500	65,572	(18,928)
Delinquent Charges	140,000	140,000	71,434	(68,566)
Franchise Fees	130,000	130,000	182,728	52,728
Service Charges	750,000	750,000	924,947	174,947
Miscellaneous	49,500	49,500	72,815	23,315
Total Operating Revenues	<u>6,254,000</u>	<u>6,254,000</u>	<u>6,271,836</u>	<u>17,836</u>
OPERATING EXPENSES				
Water Distribution & Wastewater Collection:				
Personnel Services	836,800	836,800	652,290	184,510
Materials & Supplies	978,667	978,667	84,046	894,621
Other Services	3,497,460	3,497,460	3,376,649	120,811
Total Water Distribution & Wastewater Collection	<u>5,312,927</u>	<u>5,312,927</u>	<u>4,112,985</u>	<u>1,199,942</u>
Utility Billing:				
Personnel Services	279,825	279,825	326,041	(46,216)
Materials & Supplies	49,500	49,500	11,058	38,442
Other Services	123,290	123,290	42,849	80,441
Total Utility Billing	<u>452,615</u>	<u>452,615</u>	<u>379,948</u>	<u>72,667</u>
Depreciation	-	-	256,149	(256,149)
Total Operating Expenses	<u>5,765,542</u>	<u>5,765,542</u>	<u>4,749,082</u>	<u>1,016,460</u>
Operating Income/(Loss)	<u>488,458</u>	<u>488,458</u>	<u>1,522,754</u>	<u>1,034,296</u>
NONOPERATING REVENUES (EXPENSES)				
Interest Revenue	19,150	19,150	57,975	38,825
Interest Expense & Fiscal Charges	(146,458)	(146,458)	(12,836)	133,622
Total Nonoperating Revenues (Expenses)	<u>(127,308)</u>	<u>(127,308)</u>	<u>45,139</u>	<u>172,447</u>
Net Income/(Loss) Before Transfers	361,150	361,150	1,567,893	1,206,743
Transfers Out	(602,000)	(602,000)	(562,000)	40,000
Changes in Net Position	(240,850)	(240,850)	1,005,893	1,246,743
Net Position - Beginning of Year	<u>10,727,796</u>	<u>10,727,796</u>	<u>10,727,796</u>	-
Net Position - End of year	<u>\$10,486,946</u>	<u>\$10,486,946</u>	<u>\$11,733,689</u>	<u>\$ 1,246,743</u>

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

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

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

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

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

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

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

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

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

Methods & Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 years
Asset Valuation Method	10 year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-Retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

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

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

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

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

COMBINING FUND STATEMENTS

CITY OF FOREST HILL
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2020

	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Parks</u>	<u>Street Improvement</u>
ASSETS				
Cash and Cash Equivalents	\$ 472,196	\$ 581,801	\$269,373	\$ 945,159
Property Tax Receivable	24,861	-	-	-
Sales Tax Receivable	-	-	-	81,728
Other Receivable	-	-	-	-
Total Assets	<u>\$ 497,057</u>	<u>\$ 581,801</u>	<u>\$269,373</u>	<u>\$ 1,026,887</u>
LIABILITIES & FUND BALANCES				
Liabilities:				
Accounts Payable	\$ -	\$ -	\$ 105	\$ -
Accrued Expense	-	-	-	-
Unavailable Revenue	30,684	-	-	-
Total Liabilities	<u>30,684</u>	<u>-</u>	<u>105</u>	<u>-</u>
Fund Balances:				
Restricted	466,373	581,801	-	1,026,887
Committed	-	-	269,268	-
Total Fund Balances	<u>466,373</u>	<u>581,801</u>	<u>269,268</u>	<u>1,026,887</u>
 Total Liabilities & Fund Balances	 <u>\$ 497,057</u>	 <u>\$ 581,801</u>	 <u>\$269,373</u>	 <u>\$ 1,026,887</u>

<u>Municipal Court Technology</u>	<u>Municipal Court Safety</u>	<u>Library</u>	<u>Juvenile Case Manager Fund</u>	<u>COVID-19 Fund</u>	<u>Total</u>
\$ 41,254	\$ 130,956	\$ -	\$ 135,581	\$ 578,347	\$ 3,154,667
-	-	-	-	-	24,861
-	-	-	-	-	81,728
-	-	18,747	-	-	18,747
<u>\$ 41,254</u>	<u>\$ 130,956</u>	<u>\$ 18,747</u>	<u>\$ 135,581</u>	<u>\$ 578,347</u>	<u>\$ 3,280,003</u>
\$ -	\$ -	\$ 11,249	\$ -	\$ -	\$ 11,354
-	-	3,109	-	-	3,109
-	-	-	-	-	30,684
<u>-</u>	<u>-</u>	<u>14,358</u>	<u>-</u>	<u>-</u>	<u>45,147</u>
41,254	130,956	4,389	135,581		2,387,241
-	-	-	-	578,347	847,615
<u>41,254</u>	<u>130,956</u>	<u>4,389</u>	<u>135,581</u>	<u>578,347</u>	<u>3,234,856</u>
<u>\$ 41,254</u>	<u>\$ 130,956</u>	<u>\$ 18,747</u>	<u>\$ 135,581</u>	<u>\$ 578,347</u>	<u>\$ 3,280,003</u>

CITY OF FOREST HILL
Combining Statement of Revenues, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2020

	Debt Service	Capital Projects	Parks	Street Improvement
REVENUES				
Property Taxes	\$ 502,818	\$ -	\$ -	\$ -
Sales Taxes	-	-	-	452,457
Donations	-	-	-	-
Interest	4,775	5,252	3,506	6,875
Intergovernmental	-	-	-	-
Miscellaneous	-	-	390	-
Total Revenues	<u>507,593</u>	<u>5,252</u>	<u>3,896</u>	<u>459,332</u>
EXPENDITURES				
Current:				
Public Safety	-	-	12,931	-
Streets	-	-	-	120,249
Library	-	-	-	-
Community Development	-	-	-	416
Capital Outlay	-	-	-	249,233
Debt Service:				
Principal	556,700	-	-	-
Interest and Fiscal Charges	119,915	-	-	-
Total Expenditures	<u>676,615</u>	<u>-</u>	<u>12,931</u>	<u>369,898</u>
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	<u>(169,022)</u>	<u>5,252</u>	<u>(9,035)</u>	<u>89,434</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	170,630	-	-	250,000
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>170,630</u>	<u>-</u>	<u>-</u>	<u>250,000</u>
Net Change in Fund Balances	1,608	5,252	(9,035)	339,434
Fund Balances - Beginning of Year	<u>464,765</u>	<u>576,549</u>	<u>278,303</u>	<u>687,453</u>
Fund Balances - End of Year	<u>\$ 466,373</u>	<u>\$ 581,801</u>	<u>\$ 269,268</u>	<u>\$1,026,887</u>

<u>Municipal Court Technology</u>	<u>Municipal Court Safety</u>	<u>Library</u>	<u>Juvenile Case Manager Fund</u>	<u>COVID-19 Fund</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 502,818
-	-	-	-	-	452,457
-	-	-	-	712,250	712,250
416	1,598	10	1,644	825	24,901
-	-	67,989	-	-	67,989
5,885	5,050	-	7,318	-	18,643
<u>6,301</u>	<u>6,648</u>	<u>67,999</u>	<u>8,962</u>	<u>713,075</u>	<u>1,779,058</u>
4,475	-	-	-	134,728	152,134
-	-	-	-	-	120,249
-	-	66,320	-	-	66,320
-	-	-	-	-	416
-	-	-	-	-	249,233
-	-	-	-	-	556,700
-	-	-	-	-	119,915
<u>4,475</u>	<u>-</u>	<u>66,320</u>	<u>-</u>	<u>134,728</u>	<u>1,264,967</u>
<u>1,826</u>	<u>6,648</u>	<u>1,679</u>	<u>8,962</u>	<u>578,347</u>	<u>514,091</u>
-	-	-	-	-	420,630
-	-	-	(2,494)	-	(2,494)
-	-	-	(2,494)	-	418,136
1,826	6,648	1,679	6,468	578,347	932,227
39,428	124,308	2,710	129,113	-	2,302,629
<u>\$ 41,254</u>	<u>\$ 130,956</u>	<u>\$ 4,389</u>	<u>\$ 135,581</u>	<u>\$ 578,347</u>	<u>\$3,234,856</u>



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

Board of Directors
City of Forest Hill
Forest Hill, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Forest Hill as of September 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Forest Hill's, basic financial statements, and have issued our report thereon dated September 9, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance & Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Forest Hill’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Forest Hill’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



K. Evans & Associates, CPA’s
Frisco, TX
April 1, 2021