

**CITY OF FOREST HILLS, TENNESSEE**

Annual Financial Report

For the Year Ended June 30, 2022

# CITY OF FOREST HILLS, TENNESSEE

## Table of Contents

	<u>Page Number</u>
INTRODUCTORY SECTION:	
Officials of the City of Forest Hills, Tennessee . . . . .	I
FINANCIAL SECTION:	
Independent Auditor's Report . . . . .	1-3
Management's Discussion and Analysis . . . . .	4-10
Basic Financial Statements:	
Government-Wide Financial Statements	
Statement of Net Position . . . . .	11
Statement of Activities . . . . .	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds . . . . .	14
Reconciliation of Balance Sheet to Statement of Net Position of Governmental Activities . . .	15
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds . . .	16
Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balance Of Governmental Funds to the Statement of Activities . . . . .	17
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (GAAP Basis) And Actual:	
General Fund . . . . .	18- 20
Notes to Financial Statements . . . . .	21-35
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Changes in Net Pension Liability (Asset) . . . . .	37
Schedule of Contributions to the Employee Pension Plan . . . . .	38

**CITY OF FOREST HILLS, TENNESSEE**

Table of Contents, Continued

	<u>Page Number</u>
Supplemental Information:	
Schedule of Changes in Capital Assets .....	40
Schedule of Cash and Certificate of Deposits .....	41
Schedule of State and Federal Financial Assistance .....	42
 COMPLIANCE AND INTERNAL CONTROL:	
 INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	43-44
 Schedule of Findings and Responses .....	45
Schedule of Disposition of Prior Year Comments .....	46
Management's Corrective Action Plan .....	47

# INTRODUCTORY SECTION

**CITY OF FOREST HILLS, TENNESSEE**

Officials of the City of Forest Hills, Tennessee

June 30, 2022

<u>Name</u>	<u>Title</u>
Elected Officials:	
Landson J. Hyde III	Mayor
Henry Trost	Vice Mayor
James C. Gardner	Commissioner
Management:	
Mark Hill	City Manager
Charlotte Hunter	City Recorder
Aspen Collins	CMFO

# FINANCIAL SECTION

**JOHN R. POOLE, CPA**  
**CERTIFIED PUBLIC ACCOUNTANT**

134 NORTHLAKE DRIVE  
HENDERSONVILLE, TN 37075

(615) 822-4177

**Independent Auditor's Report**

Mayor and Commissioners of the  
City of Forest Hills, Tennessee  
Forest Hills, Tennessee

I have audited the financial statements of the governmental activities and each major fund of the City of Forest Hills, Tennessee (the "City"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In my opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City, as of June 30, 2022, and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended and, in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinions***

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the City and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

***Responsibilities of Management for the Financial Statements***

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

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

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

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

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, I:

- ❖ Exercise professional judgment and maintain professional skepticism throughout the audit.
- ❖ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- ❖ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- ❖ Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- ❖ Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information, which includes the Management's Discussion and Analysis and the Schedule of Changes in Net Pension Liability (Asset) and the Schedule of Contributions to the Employee Pension Plan, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other

knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

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

### ***Other Information***

Management is responsible for the other information included in the annual report. The other information section, as listed in the table of contents, does not include the basic financial statements and my auditor's report thereon. My opinion on the basic financial statements does not cover the other information, and I do not express an opinion or any other assurance thereon.

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, I have also issued my report dated September 15, 2022, on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.



September 15, 2022

MANAGEMENT'S  
DISCUSSION AND  
ANALYSIS

***CITY OF FOREST HILLS, TENNESSEE***  
***Management's Discussion and Analysis***  
***For the Year Ending June 30, 2022***

This section of the City's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ending June 30, 2022. Please read and consider the information in conjunction with the financial statements, which follow this section. The City implemented Governmental Accounting Standards Board Statement 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments (Statement 34) for the first time in fiscal year 2004.

**FINANCIAL HIGHLIGHTS**

Management believes the City of Forest Hills' financial condition is strong. Revenues exceeded expenses and operated within its budget. Stringent financial policies and guidelines are set by the Board of Commissioners and Management. The following are key financial highlights.

The City's total Net Position increased by \$408,403 over the course of this year's operations. The assets of the City of Forest Hills exceeded liabilities at the close of the most recent fiscal year by \$25,330,263. Of this amount, \$16,860,524 (unrestricted Net Position) may be used to meet the government's obligations to citizens and creditors. At June 30, 2022, the City's governmental funds reported combined ending fund balances of \$16,874,271 and an increase of \$160,649 over the prior year. The increase in the governmental funds was reduced by capital assets (primarily infrastructure improvements) purchases of \$586,976.

The City had no debt during the year ending June 30, 2022.

The City's total capital assets increased \$586,976 for the year ending June 30, 2022.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of four parts—management's discussion and analysis (this section), the basic financial statements, notes to the financial statements, and required supplementary information. This report also contains other supplementary information in addition to the basic financial statements themselves.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

**Government-wide Statements**

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The Statement of Net Position includes all of the City's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to City creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the City and assessing the liquidity and financial flexibility of the City. All of the current year's revenues and expenses are accounted for in the Statement of Activities. This statement measures the success of the City's operations over the past year and can be used to determine whether the City has controlled its expenditures, profitability, and credit worthiness.

## **Government-wide Statements (continued)**

The two government-wide statements report the City's Net Position and how they have changed. Net Position—the difference between the City's assets and liabilities—is one way to measure the City's financial health, or position.

Over time, increases or decreases in the City's Net Position are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the City, the Reader needs to consider additional nonfinancial factors such as changes in the City's income, sales tax base, and the condition of the City's roads.

The government-wide financial statements of the City are divided into two categories:

**General Governmental activities**—The City's basic services being provided include street maintenance, with capital expenditures for related improvements as needed, public works, drainage, public improvements, planning and zoning, parks and general and administrative services. The City's revenues are derived mostly from the State of Tennessee via an income tax called the Hall income tax, a sales tax, three kinds of gas and fuel taxes, beer and mixed drink taxes, building permit fees, and the payment in lieu of property tax (aka TVA tax). The City also derives revenue from interest on its investments.

**Notes to basic 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 21-35.

**Other information** – In addition to the basic financial statements and accompanying notes, required supplementary information presents a budgetary comparison schedule for the General Fund to demonstrate compliance with the budget. The combining statements referred to earlier in connection with the other information related to the individual funds are presented immediately following the required supplementary information. General fund statements can be found on pages 18-20 of this report.

## **FINANCIAL ANALYSIS OF THE CITY**

Our analysis of the City begins on page 11 of the Financial Statements. One of the most important questions the Reader might ask is “Was the City as a whole better off or worse off as a result of the year's activities?” The Statement of Net Position and the Statement of Activities report information about the City's activities in a way that will help answer this question. These two statements report the Net Position of the City and changes in them. The Reader can think of the City's Net Position - the difference between assets and liabilities - as one way to measure financial health or financial position. In the case of the City of Forest Hills, assets exceed liabilities by \$25,330,263. Over time, increases or decreases in the City's Net Position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, population growth, and zoning and new or changed government legislation. As shown, total assets increased by \$408,403 for the year ending June 30, 2022. This increase in total assets is attributed to a larger than expected collection in local revenues and the City spent less than budgeted amounts.

**NET POSITION**

<b>City of Forest Hills' Net position</b>	2021 Governmental <u>Activities</u>	2022 Governmental <u>Activities</u>
Current assets	\$ 17,109,910	17,877,380
Capital assets	<u>8,230,931</u>	<u>8,469,739</u>
Total assets	25,340,841	26,347,119
Deferred outflows	3,882	2,580
Other liabilities	<u>422,863</u>	<u>274,593</u>
Total liabilities	422,863	274,593
Deferred inflows	-	744,843
Net position:		
Investment in capital assets	8,230,931	8,469,739
Unrestricted	<u>16,690,929</u>	<u>16,860,524</u>
Total net position	\$ 24,921,860	25,330,263

The assets of the City of Forest Hills exceeded liabilities at the close of the most recent fiscal year by \$25,330,263. Of this amount, \$16,860,524 (unrestricted Net Position) may be used to meet the government's obligations to citizens and creditors.

## Government-wide comparison of revenues of expenses

	2022 Governmental Activities	2021 Governmental Activities	Change Between Years
Revenues:			
Program revenues:			
Charges for services	315,327	275,537	39,790
Operating grants and contributions	737,726	617,593	120,133
Capital grants and contributions	0	137,386	(137,386)
General revenues:			
Sales taxes	1,259,286	1,321,306	(62,020)
State income tax	52,279	191,959	(139,680)
In lieu of taxes	52,308	57,610	(5,302)
Beer and mixed drink tax	32,178	31,946	232
Interest and investment income	188,114	186,385	1,729
Other	5,314	4,871	443
Total revenues	<u>2,642,532</u>	<u>2,824,593</u>	<u>(182,061)</u>
Expenses:			
General government	654,098	621,753	32,345
Streets and Highways	60,826	1,181,587	(1,120,761)
Codes	1,512,348	66,049	1,446,299
Parks	6,857	20,828	(13,971)
Total expenses	<u>2,234,129</u>	<u>1,890,217</u>	<u>343,912</u>
Change in net position	<u>408,403</u>	<u>934,376</u>	<u>(525,973)</u>

The City's total Net Position increased by \$408,403 over the course of this year's operations. The assets of the City of Forest Hills exceeded liabilities at the close of the most recent fiscal year by \$25,330,263. Of this amount, \$16,860,524 (unrestricted Net Position) may be used to meet the government's obligations to citizens and creditors. At June 30, 2022, the City's governmental funds reported combined ending fund balances of \$16,874,271 and an increase of \$160,649 over the prior year. The increase in the governmental funds was reduced by capital assets (primarily infrastructure improvements) purchases of \$586,976.

## BUDGETARY HIGHLIGHTS

As required by State law, the City adopts an Operating budget prior to the start of its Fiscal Year. The budget is updated throughout the year as information becomes available. A Fiscal 2021-2022 budget comparison and analysis is presented in financial statements (See pages 18-20).

## CAPITAL ASSETS

The City of Forest Hills' investment in capital assets from its governmental activities at June 30, 2022, amounts to \$8,469,739 (net of accumulated depreciation). This investment in capital assets is in buildings, infrastructure, machinery and equipment.

### City of Forest Hills' Capital Assets

	2021	2022
	Governmental	Governmental
	Activities	Activities
Land	\$ 114,157	114,157
Building	1,988,863	1,988,863
Infrastructure	8,758,556	9,156,249
Equipment	<u>131,357</u>	<u>320,640</u>
Less accumulated depreciation	(2,762,002)	(3,110,170)
Net Capital Assets	\$ <u>8,230,931</u>	<u>8,469,739</u>

Additional information on the City of Forest Hills' capital assets can be found in the notes to the financial statements section of this report.

The largest capital expenditures for infrastructure for fiscal year ending June 30, 2022 were for street paving and road improvements.

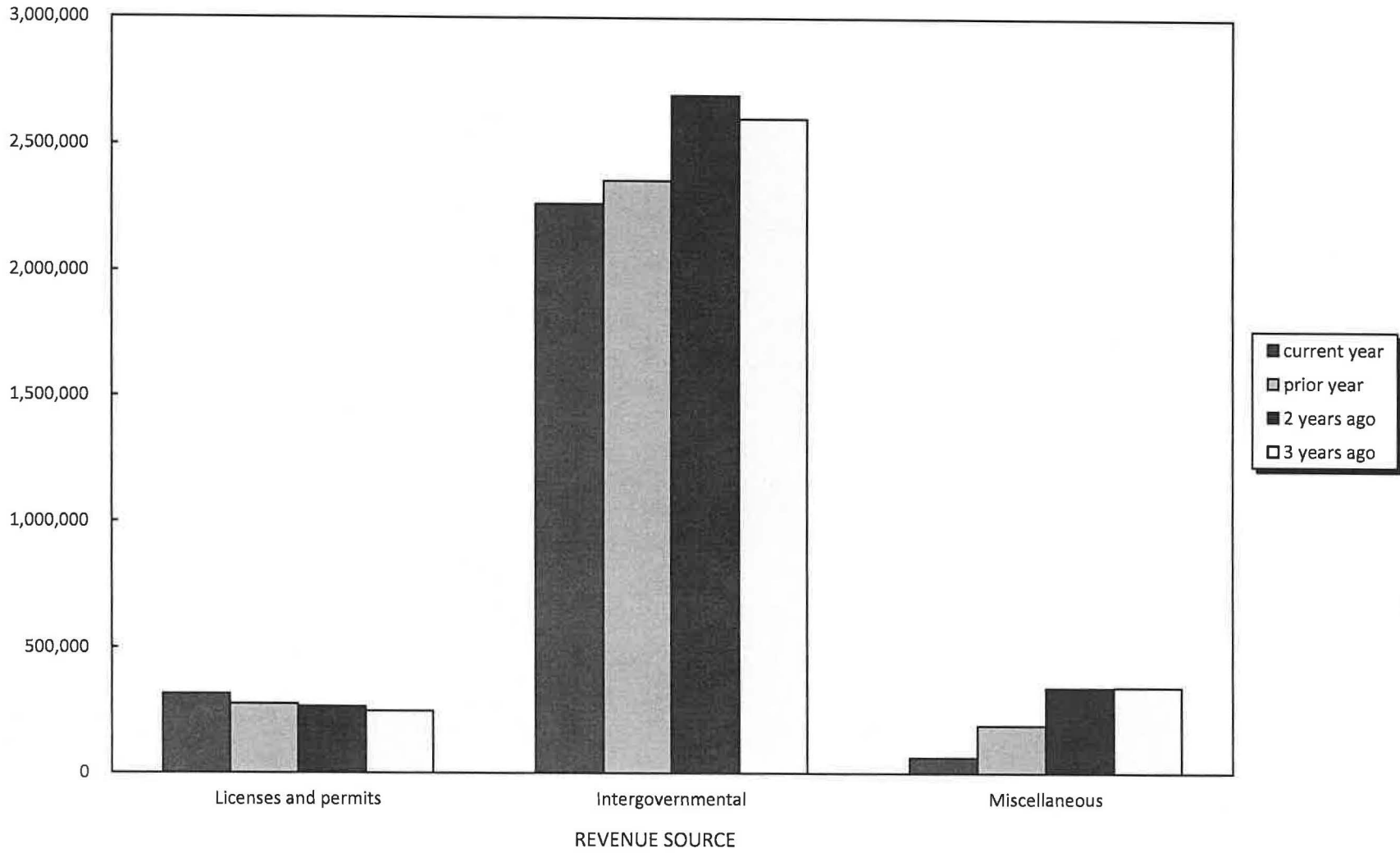
## Economic Factors and Next Year's Budget and Rates

The City's local economy continues to grow producing higher local revenues. These amounts will offset the loss of the Hall – State Income tax. The only revenue item over which the City has control is building permits. The construction and real estate markets improved, causing an increase in building permit fees.

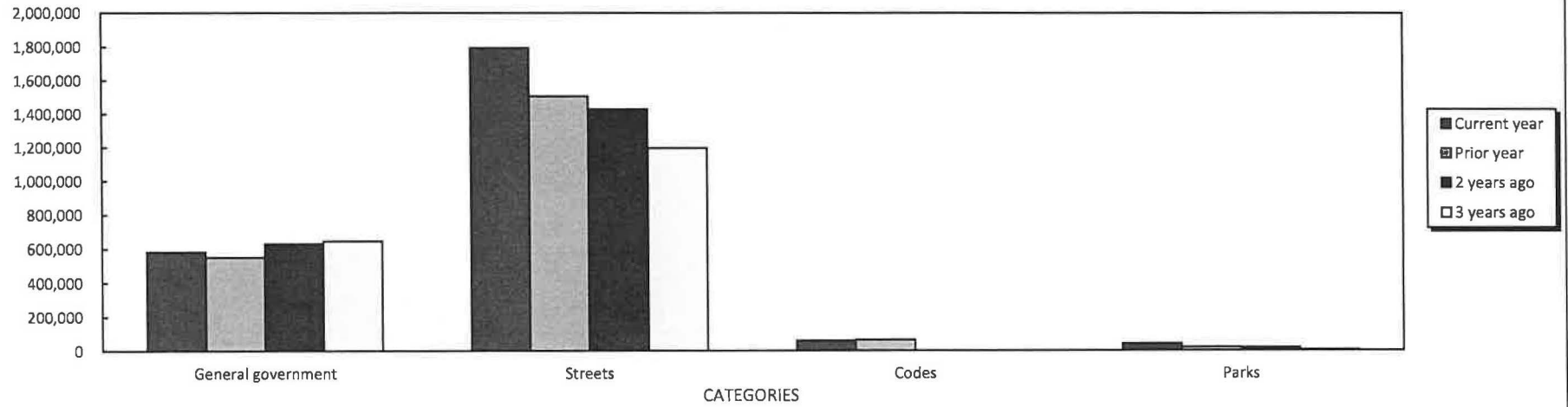
## CONTACTING THE CITY'S FINANCIAL MANAGER

This financial report is designed to provide our citizens and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the City of Forest Hills, City Manager, 6300 Hillsboro Pike, Nashville, Tennessee 37215.

**CITY OF FOREST HILLS, TENNESSEE  
GOVERNMENTAL FUND REVENUES**



**CITY OF FOREST HILLS  
TENNESSEE  
GOVERNMENTAL FUND EXPENDITURES**



# BASIC FINANCIAL STATEMENTS

CITY OF FOREST HILLS, TENNESSEE

Statement of Net Position

June 30, 2022

<u>Assets</u>	<u>Governmental Activities</u>	<u>Total</u>
Cash and cash equivalents	\$5,163,280	5,163,280
Certificate of deposits	12,485,000	12,485,000
Accounts receivable from other governments	198,573	198,573
Prepaid assets	14,210	14,210
Net pension asset	16,317	16,317
Capital assets not being depreciated	114,157	114,157
Capital asset, net of accumulated depreciation	<u>8,355,582</u>	<u>8,355,582</u>
Total Assets	<u>\$26,347,119</u>	<u>26,347,119</u>
Deferred outflows- pension	<u>\$2,580</u>	<u>2,580</u>
Liabilities:		
Accounts payable	121,073	121,073
Accrued expenses	2,880	2,880
Deposit payable	<u>150,640</u>	<u>150,640</u>
Total Liabilities	<u>274,593</u>	<u>274,593</u>
Deferred Inflows:		
Deferred Inflows - unused grant funds	715,079	715,079
Deferred Inflows - pension	<u>29,764</u>	<u>29,764</u>
Total Deferred Inflows	<u>744,843</u>	<u>744,843</u>
Net Position:		
Investment in capital assets	8,469,739	8,469,739
Unrestricted	<u>16,860,524</u>	<u>16,860,524</u>
Total Net Position	<u>25,330,263</u>	<u>25,330,263</u>

See accompanying notes to financial statements.

**CITY OF FOREST HILLS, TENNESSEE**

**Statement of Activities**

**For the Year Ended June 30, 2022**

<u>Function/Programs</u>	Program Revenues				<u>Net (Expenses) Revenue and Changes in Net Position</u>	
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Total</u>	
<b>Government Activities:</b>						
General government	654,098	0	567,735	0	(86,363)	(86,363)
Codes	60,826	315,327	0	0	254,501	254,501
Highways and streets	1,512,348	0	169,991	0	(1,342,357)	(1,342,357)
Parks	6,857	0	0	0	(6,857)	(6,857)
Total Governmental Activities	2,234,129	315,327	737,726	0	(1,181,076)	(1,181,076)
General Revenues						
Sales taxes					1,259,286	1,259,286
State income tax					52,279	52,279
In lieu of taxes					52,308	52,308
State alcohol taxes					32,178	32,178
Franchise taxes					131,074	131,074
Unrestricted investment earnings					57,040	57,040
Other					5,314	5,314
Total general revenues					1,589,479	1,589,479
Changes in net position					408,403	408,403
Net position - beginning of year					24,921,860	24,921,860
Net position - ending of year					25,330,263	25,330,263

See accompanying notes to financial statements.

FUND FINANCIAL  
STATEMENTS

**CITY OF FOREST HILLS, TENNESSEE**

**Balance Sheet**

**Governmental Funds**

**June 30, 2022**

<u>Assets</u>	<u>General Fund</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$5,163,280	\$5,163,280
Certificate of deposits	12,485,000	12,485,000
Accounts receivable: Other governments	198,573	198,573
Prepaid assets	<u>14,210</u>	<u>14,210</u>
 Total Assets	 <u><u>\$17,861,063</u></u>	 <u><u>\$17,861,063</u></u>
 <u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	\$121,073	121,073
Deposit payable	150,640	150,640
Total Liabilities	<u>271,713</u>	<u>271,713</u>
Deferred inflow- unspent ARPA funds	<u>715,079</u>	<u>715,079</u>
 Fund balance:		
Non-spendable	14,210	14,210
Unassigned	16,860,061	16,860,061
Total Fund Balance	<u>16,874,271</u>	<u>16,874,271</u>
Total Liabilities and Fund Balance	<u><u>\$17,861,063</u></u>	<u><u>\$17,861,063</u></u>

The notes accompanying the financial statements are an integral part of these financial statements.

CITY OF FOREST HILLS, TENNESSEE

Reconciliation of the Balance Sheet to the Statement of Net Position  
of Governmental Activities

June 30, 2022

Amounts reported for fund balance - total governmental funds	\$ 16,874,271
Amounts reported for governmental activities in the statement of net position are different because:	
Long-term liabilities, including bonds payable and accrued contingencies are not due and payable in the current period and therefore are not recorded in the funds	
Accrued vacation time	(2,880)
Pension related accounts - governmental funds to not record these post-benefit obligations	
Net pension asset	16,317
Deferred outflow - pension	2,580
Deferred inflow - pension	(29,764)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	<u>8,469,739</u>
Net position of governmental activities	\$ <u><u>25,330,263</u></u>

See accompanying notes to financial statements.

**CITY OF FOREST HILLS, TENNESSEE**

**Statement of Revenues, Expenditures  
and Changes in Fund Balances**

**Governmental Funds**

**For the Year Ended June 30, 2022**

	<u>General Fund</u>	<u>Total</u>
Revenues:		
Licenses and permits	\$315,327	315,327
Intergovernmental	2,264,851	2,264,851
Miscellaneous	62,354	62,354
Total Revenue	<u>2,642,532</u>	<u>2,642,532</u>
Expenditures:		
Current:		
General government	583,214	583,214
Streets and highways	1,244,010	1,244,010
Codes	60,826	60,826
Parks	6,857	6,857
Capital Outlay:		
Streets and highways	551,778	551,778
Parks	35,198	35,198
Total Expenditures	<u>2,481,883</u>	<u>2,481,883</u>
Excess (deficiency) of revenues over expenditures	<u>160,649</u>	<u>160,649</u>
Fund Balance, July 1, 2021	16,713,622	16,713,622
Fund Balance, June 30, 2022	<u>\$16,874,271</u>	<u>16,874,271</u>

See accompanying notes to financial statements.

CITY OF FOREST HILLS, TENNESSEE

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance  
of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2022

Net change in fund balances - total governmental funds: \$ 160,649

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

Expenses reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the governmental funds

Change in pension plan accrual 253  
Change in employee vacation accrual 8,693

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Acquisition of capital assets 586,976  
Depreciation expense (348,168)

Change in net position of governmental activities \$ 408,403

See accompanying notes to financial statements.

**CITY OF FOREST HILLS, TENNESSEE**

**Statement of Revenues, Expenditures  
and Changes in Fund Balance - Budget (GAAP Basis) and Actual**

**General Fund**

**For the Year Ended June 30, 2022**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:				
Licenses and permits	<u>256,736</u>	<u>275,586</u>	<u>315,327</u>	<u>39,741</u>
Total Licenses and permits	<u>256,736</u>	<u>275,586</u>	<u>315,327</u>	<u>39,741</u>
Intergovernmental:				
TVA in lieu	59,472	52,466	52,308	(158)
State sales tax	514,080	559,440	522,588	(36,852)
Local sales tax	463,000	500,000	734,433	234,433
Metro MOU payment	500,000	500,000	500,000	0
State income tax	0	0	52,279	52,279
State beer tax	2,419	2,318	2,301	(17)
Franchise tax	120,000	120,000	131,074	11,074
State mixed drink	30,000	30,000	29,877	(123)
Governors appropriation	67,735	782,814	67,735	(715,079)
State sportsbetting	5,040	5,040	2,265	(2,775)
Gasoline .03 tax	22,197	21,472	23,932	2,460
Gasoline 1989 tax	16,315	15,782	12,916	(2,866)
Gasoline 2017 tax	42,215	31,134	41,704	10,570
Gasoline and motor fuel	102,165	107,348	82,909	(24,439)
Special petroleum tax	<u>11,098</u>	<u>10,736</u>	<u>8,530</u>	<u>(2,206)</u>
Total Intergovernmental Revenue	<u>1,955,736</u>	<u>2,738,550</u>	<u>2,264,851</u>	<u>(473,699)</u>
Miscellaneous:				
Interest and investment income	150,000	75,000	57,040	(17,960)
Miscellaneous	<u>6,200</u>	<u>6,200</u>	<u>5,314</u>	<u>(886)</u>
Total Miscellaneous	<u>156,200</u>	<u>81,200</u>	<u>62,354</u>	<u>(18,846)</u>
 Total Revenues	 <u>2,368,672</u>	 <u>3,095,336</u>	 <u>2,642,532</u>	 <u>(452,804)</u>

The notes accompanying the financial statements are an integral part of these financial statements.

**CITY OF FOREST HILLS, TENNESSEE**

**Statement of Revenues, Expenditures  
and Changes in Fund Balance - Budget (GAAP Basis) and Actual, Continued**

**General Fund**

**For the Year Ended June 30, 2022**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Expenditures:				
General Government:				
Current:				
Salaries and wages	175,187	168,000	169,415	(1,415)
Employee benefits	55,017	70,329	71,413	(1,084)
City hall buildings/grounds	29,825	31,225	25,934	5,291
Professional services	9,000	17,500	18,475	(975)
City attorney	81,300	81,300	69,369	11,931
Information technology	23,300	23,700	24,918	(1,218)
Engineer	114,000	131,500	124,153	7,347
Public relations	28,000	30,000	24,472	5,528
Office expense	9,600	4,600	2,291	2,309
Insurance	28,128	28,128	30,854	(2,726)
Legal notices	1,000	1,000	3,514	(2,514)
Dues and subscriptions	7,900	7,900	5,269	2,631
Training	6,000	6,000	2,962	3,038
Travel and vehicle expense	5,400	6,500	8,179	(1,679)
Miscellaneous	18,400	11,400	1,996	9,404
	<u>592,057</u>	<u>619,082</u>	<u>583,214</u>	<u>35,868</u>
Capital outlay	0	0	0	0
Total General Government	<u>592,057</u>	<u>619,082</u>	<u>583,214</u>	<u>35,868</u>
Streets and Highway:				
Chipper and tree service	190,800	190,800	210,300	(19,500)
Street maintenance	605,000	979,358	739,073	240,285
Street supplies	131,500	160,000	16,611	143,389
Recycling and clean-up	8,500	3,500	8,390	(4,890)
	<u>935,800</u>	<u>1,333,658</u>	<u>974,374</u>	<u>359,284</u>
Capital outlay	599,000	770,255	551,778	218,477
Total Highways and Streets	<u>1,534,800</u>	<u>2,103,913</u>	<u>1,526,152</u>	<u>577,761</u>

The notes accompanying the financial statements are an integral part of these financial statements.

**CITY OF FOREST HILLS, TENNESSEE**

**Statement of Revenues, Expenditures  
and Changes in Fund Balance - Budget (GAAP Basis) and Actual, Continued**

**General Fund**

**For the Year Ended June 30, 2022**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Expenditures:				
State Street Aid:				
Street lights	35,000	41,103	34,098	7,005
Debris removal	63,000	73,000	235,538	(162,538)
Capital outlay	0	0	0	0
Total State Street Aid	<u>98,000</u>	<u>114,103</u>	<u>269,636</u>	<u>(155,533)</u>
Parks:				
Utilities and supplies	4,400	4,400	1,676	2,724
Repair and maintenance	15,610	15,610	5,181	10,429
Capital outlay	35,000	35,200	35,198	(2)
Total Parks	<u>55,010</u>	<u>55,210</u>	<u>42,055</u>	<u>13,151</u>
Building and Codes:				
Salaries	56,650	39,000	34,570	4,430
Employee benefits	31,666	24,415	24,035	380
Contracted services	0	0	2,221	2,221
Total Building and Codes	<u>88,316</u>	<u>63,415</u>	<u>60,826</u>	<u>7,031</u>
Total Expenditures	<u>2,368,183</u>	<u>2,955,723</u>	<u>2,481,883</u>	<u>471,247</u>
Excess (deficiency) of Revenues over Expenditures	489	139,613	160,649	18,443
Fund Balance, July 1, 2021	16,713,622	16,713,622	16,713,622	0
Fund Balance, June 30, 2022	<u>16,714,111</u>	<u>16,853,235</u>	<u>16,874,271</u>	<u>18,443</u>

The notes accompanying the financial statements are an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

# CITY OF FOREST HILLS, TENNESSEE

## Notes to Financial Statements

June 30, 2022

### (1) Summary of Significant Accounting Policies

The City of Forest Hills, Tennessee, located in Davidson County, Tennessee was incorporated in 1957, under the statutes of the State of Tennessee. The City operates under a Mayor-Commissioner form of government. The City provides the following services, as authorized by its charter and duly passed ordinances: streets, public improvements, and general administrative services. The majority of the City's revenues consist principally of allocations of tax revenues from state and local governments. The accounting policies of the City of Forest Hills, Tennessee conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

#### Reporting Entity:

In evaluating the City as a reporting entity, management follows all applicable GASB statements and has addressed all potential component units (traditionally separate reporting entities) for which the City may be financially accountable and, as such, should be included within the City's financial statements. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit or to impose specific financial burden on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The City has no component units at yearend.

#### Government -Wide and Fund Financial Statements

The Government-wide financial statements, the statement of Net Position and the statement of changes in Net Position, report information on all of the nonfiduciary activities of the primary government and its component units. For the most part the effect of the interfund activity has been removed from these statements. Government 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 (i) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and (ii) 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 as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

# CITY OF FOREST HILLS, TENNESSEE

## Notes to Financial Statements

June 30, 2022

### (1) Summary of Significant Accounting Policies, Continued

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund revenues are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers most governmental revenues as available if received within 60 days of years' end. Expenditures are recorded generally 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.

State shared revenues, 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 using the criteria specified in the paragraph above. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources of the general government except those required to be accounted for in another fund.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

# CITY OF FOREST HILLS, TENNESSEE

## Notes to Financial Statements

June 30, 2022

### (1) Summary of Significant Accounting Policies, Continued

#### Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets consisting of certain improvements other than buildings, including roads, bridges, streets and sidewalks, and drainage systems are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an individual cost of \$5,000 and an estimated useful life in excess of three years. All capital assets are valued at historical cost or estimated useful life in excess of three years. All capital assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is provided over the estimated useful lives using the straight-line method.

Interest incurred during the construction phase of capital assets of business-type activities is expensed when paid and thus not a part of the capitalized cost.

The estimated useful lives are as follows:

Infrastructure	5-40 years
Buildings	39 years
Furniture and Equipment	5 years

#### Credit Risk

Financial instruments that potentially subject the City to significant concentrations of credit risk consist principally of cash and accounts receivable. The City places its cash with federally-insured financial institutions, institutions participating in the State collateral pool. With respect to accounts receivable, credit risk is limited to two governmental agencies, the State of Tennessee and the City of Nashville, Tennessee, and as such the credit is deemed not significant.

#### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Cash and Cash Equivalents

Cash and cash equivalents consist primarily of savings accounts, certificates of deposit with original maturities three months or less and amounts held by the State Local Government Investment Pool.

# CITY OF FOREST HILLS, TENNESSEE

## Notes to Financial Statements

June 30, 2022

### (1) Summary of Significant Accounting Policies, Continued

#### Fund Balance

The City implemented GASB 54 which addresses issues related to how fund balances are reported. Fund balances are now reported in the following manner:

**Nonspendable Fund Balance** - This classification includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes terms that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

**Restricted Fund Balance** - This classification includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted with the consent of resource providers.

**Committed Fund Balance** - This classification includes amounts that can only be used for the specific purposes determined by a formal action of the City’s highest level of decision-making authority, the City Council of the City of Forrest Hills, Tennessee. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally (for example: ordinance).

**Assigned Fund Balance** - This classification included amounts intended to be used by the City for specific purposes that are neither restricted nor committed. The City Council and its designee, the Recorder, have the authority to assign amounts to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted, or committed.

**Unassigned Fund Balance** - This fund balance is the residual classification for the general fund. It is also used to report negative fund balances in other governmental funds.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

#### Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

# CITY OF FOREST HILLS, TENNESSEE

## Notes to Financial Statements

June 30, 2022

### (1) Summary of Significant Accounting Policies, Continued

#### Budgets and Budgetary Accounting

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

- a. Formal budgets are adopted and approved by Council vote on an annual basis for all the Funds. These budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- b. The City Council approves, by ordinance, total budget appropriations by department only. The Mayor and/or the City Manager is authorized to transfer budget amounts between line items within each department; however, any revisions that alter the total appropriations of any fund must be approved by the City Council.
- c. The budget amounts shown in the financial statements are the final authorized amounts as amended during the year.

#### Restricted Funds

It is the City's policy to use restricted funds when an expense is incurred for purposes for which both restricted and unrestricted Net Position are available. When unrestricted funds are used the City uses committed, assigned then unassigned funds.

#### Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has one item (pension) that qualify for reporting in this category.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has items that qualify for reporting in this category. Accordingly, the items are reported in the government-wide Statement of Net Position and the governmental funds balance sheet. These revenues are from the following sources: various receivables for intergovernmental shared revenues, which do not meet the availability criteria in governmental funds. The City has deferred inflows related to pension plan reporting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Additionally, the City has two items (Pension and unspent grant receipts) that qualifies for reporting in this category.

# CITY OF FOREST HILLS, TENNESSEE

## Notes to Financial Statements

June 30, 2022

### (1) Summary of Significant Accounting Policies, Continued

#### Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Forest Hills' participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from Forest Hills' fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

#### Government Wide – Net Position

Net position is a component of equity and is displayed in the following three components:

Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.

Restricted – Consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates, less any related liabilities. The restrictions are evident from the classification titles.

Unrestricted – All other net position that does not meet the description of the above categories.

**CITY OF FOREST HILLS, TENNESSEE**

Notes to Financial Statements

June 30, 2022

**(2) Cash and Cash Equivalents**

All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public fund accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. Cash and cash equivalents were adequately covered by federal depository insurance, insured by the depository bank's participation in the State of Tennessee Bank Collateral Pool or collateralized by securities, pledged for deposits, held by an independent third-party financial institution under the terms of a safekeeping collateral agreement in the City's name. Investment policies of the City follow state law and bond requirements prohibiting investments that are not secured or insured by the U.S. Government.

**(3) Accounts Receivable**

Accounts receivable at June 30, 2022, consist of the following:

<u>Fund</u>	<u>Other Governments</u>
General Fund	\$ <u>198,573</u>

**CITY OF FOREST HILLS, TENNESSEE**

Notes to Financial Statements

June 30, 2022

**(4) Capital Assets**

A summary of changes in capital assets as presented in the governmental activities column of the government-wide financial statement is as follows:

	<u>Balance</u> <u>July 1, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2022</u>
Land	\$ 114,157	-	-	114,157
Building	1,988,863	-	-	1,988,863
Infrastructure	8,758,556	397,693	-	9,156,249
Equipment	<u>131,357</u>	<u>189,283</u>	<u>-</u>	<u>320,640</u>
Total	<u>\$10,992,933</u>	<u>586,976</u>	<u>-</u>	<u>11,579,909</u>
Accumulated depreciation	<u>(2,762,002)</u>			<u>(3,110,170)</u>
Capital Assets - net	<u>8,230,931</u>			<u>8,469,739</u>

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

General Fund:	
General Government	79,830
Highways and streets	<u>268,338</u>
Total	<u>348,168</u>

All assets except land of \$114,157 are being depreciated.

**(5) Risk Management**

The City of Forest Hills is exposed to various risks to general liability and property and casualty losses. The City has decided it is more economically feasible to be in a public entity risk pool as opposed to purchasing commercial insurance for general liability and property and casualty coverage. The City participates in the Public Entity Partners (formerly TML Insurance Pool), which is a public entity risk pool established by the Tennessee Municipal League, an association of member cities. The City pays an annual premium to the PEP for its general liability and property and casualty insurance coverage. The pool reinsures through commercial insurance companies.

The City has not had claims in excess of insurance coverage during the last three years.

CITY OF FOREST HILLS, TENNESSEE

Notes to Financial Statements

June 30, 2022

(6) Pension

**General Information about the Pension Plan**

*Plan description.* Employees of Forest Hills are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at <http://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies>.

*Benefits provided.* Tennessee Code Annotated, Title 8, Chapter 34-37, establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years or service credit after 30 years of service credit regardless of age. Benefits are determined by formula using the member’s highest five consecutive year average compensation and the member’s years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2<sup>nd</sup> of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

*Employees covered by benefit terms.* At the measurement date of June 30, 2021, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	0
Active employees	<u>0</u>
Total	<u>2</u>

The City of Forest Hills closed membership to new employees in a previous year.

# CITY OF FOREST HILLS, TENNESSEE

## Notes to Financial Statements

June 30, 2022

### (6) Pension

*Contributions.* Contributions for employees are established in the statutes governing the TCRS and may only be charged by the Tennessee General Assembly. Forest Hills makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2022, employer contributions for Forest Hills were (\$2,580) based on a rate of (0.00%) percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Forest Hills' state shared taxes if required employer contributions are not remitted. The employers actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

#### Net Pension Liability (Asset)

Forest Hills' net pension liability (asset) was measured as of June 30, 2021, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

*Actuarial assumptions.* The total pension liability as of June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

*Inflation* 2.25 percent

*Salary increases* Graded salary ranges from 8.72 to 3.44 percent based on age, including inflation averaging 4.00 percent.

*Investment rate of return* 6.75 percent, net of pension plan investment expenses, including inflation.

*Cost-of-Living Adjustment* 2.125 percent

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2021 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2016 through June 30, 2020. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

*Changes of assumptions.* In 2021, the following assumptions were changed: decreased inflation rate from 2.50 percent to 2.25 percent; decreased the investment rate of return from 7.25 percent to 6.75 percent; decreased the cost-of-living adjustment from 2.25 percent to 2.125 percent; and modified mortality assumptions.

## CITY OF FOREST HILLS, TENNESSEE

### Notes to Financial Statements

June 30, 2022

#### (6) Pension

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2020 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates by return by the target asset allocation percentage and by adding expected inflation of 2.25 percent. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

<u>Asset class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	4.88%	31%
Developed market international equity	5.37%	14%
Emerging market international equity	6.09%	4%
Private equity and strategic lending	6.57%	20%
U.S. fixed income	1.20%	20%
Real Estate	4.38%	10%
Short-term securities	0.00%	<u>1%</u>
Total		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 6.75 percent based on a blending of the three factors described above.

*Discount rate.* The discount rate used to measure the total pension liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from Forest Hills will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. 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 HILLS, TENNESSEE**

Notes to Financial Statements

June 30, 2022

**(6) Pension, Continued**

Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
Total Pension Liability (Asset)	Plan Fiduciary Net Position	Net Pension Liability (Asset)	(a) - (b)
(a)	(b)		
<b>Balance at 6/30/20</b>	\$238,824	\$223,822	\$15,002
<b>Changes for the Year:</b>			
Service Cost	-	-	-
Interest	16,709	-	16,709
Differences between expected and actual experience	(987)	-	(987)
Changes of Benefit Terms	-	-	-
Changes in Assumptions	11,457	-	11,457
Contributions-employer	-	2,580	(2,580)
Contributions-employees	-	-	-
Net investment income	-	55,918	(55,918)
Benefit payments, including refunds of employee contributions	(16,706)	(16,706)	-
Administrative expense	-	-	-
Other changes	-	-	-
<b>Net changes</b>	10,473	41,792	(31,319)
<b>Balance at 6/30/21</b>	<u>\$ 249,297</u>	<u>\$ 265,614</u>	<u>\$ (16,317)</u>

*Sensitivity of the net pension liability (asset) to changes in the discount rate.* The following presents the net pension liability (asset) of Forest Hills calculated using the discount rate of 6.75 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75 percent) or 1-percentage-point higher (7.75 percent) than the current rate:

	1% Decrease <u>(5.75%)</u>	Current Discount Rate <u>(6.75%)</u>	1% Increase <u>(7.75%)</u>
Forest Hills' net pension Liability (asset)	13,320	(16,317)	(40,672)

**CITY OF FOREST HILLS, TENNESSEE**

Notes to Financial Statements

June 30, 2022

**(6) Pension, Continued**

**Pension Expense (Negative Pension Expense) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

*Pension expense (negative pension expense).* For the year ended June 30, 2022, Forest Hills recognized pension expense of \$2,327.

*Deferred outflows of resources and deferred inflows of resources.* For the year ended June 30, 2022, Forest Hills reported deferred outflows or resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and Actual experience	-	-
Net difference between projected and Actual earning on pension plan		
Investments	-	29,764
Changes in Assumptions	-	-
Contributions subsequent to the Measurement date of June 30, 2021	<u>2,580</u>	<u>-</u>
Total	<u>2,580</u>	<u>29,764</u>

The amounts shown above for ‘Contributions subsequent to the measurement date of June 30, 2021’, will be recognized as a reduction (increase) to net position liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2023	(7,569)
2024	(7,119)
2025	(7,034)
2026	(8,041)
2027	-
Thereafter	-

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

**CITY OF FOREST HILLS, TENNESSEE**

Notes to Financial Statements

June 30, 2022

**(7) Simple IRA Plan**

The City has a SIMPLE IRA plan for its employees. The Plan allows employees to defer income by withholding amounts from gross pay on their paychecks which are matched with employer contributions (up to three percent) and remitted to the employees' retirement accounts. After payment amounts are made by the City, the City has no further responsibilities related to the Plan. Payment related to the Plan totaled \$15,095 in the current year. The City Manager of the City serves as administrator of the Plan.

**(8) Compensated Absences**

The City has accrued a liability for unused sick and vacation pay which is earned, but not taken by City employees.

	<u>July 1,</u> <u>2021</u>	<u>Addi-</u> <u>tions</u>	<u>Retire-</u> <u>ments</u>	<u>June 30,</u> <u>2022</u>
Governmental activities	<u>11,573</u>	<u>-</u>	<u>8,693</u>	<u>2,880</u>

**(9) Accounting Pronouncement – GASB 75 -Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions**

The City had a health insurance plan that offered certain postemployment benefits. The City has reviewed the pronouncement and reviewed the actuarial study related to that former insurance plan, and has determined that these amounts are immaterial to the financial statements and as such no amounts have been recorded related to the former insurance plan.

# CITY OF FOREST HILLS, TENNESSEE

## Notes to Financial Statements

June 30, 2022

### (10) Commitments and Contingencies

#### Litigation:

The City from time to time, is involved in various lawsuits arising in the ordinary course of its business. The City maintains insurance coverage to minimize the risk of loss from threatened or pending litigation. It is management's opinion that any pending or threatened litigation will have no significant effect on the City's results of operations.

The City's management and their attorneys are not aware of any pending or threatened actions which would have a material adverse effect on the City's accompanying financial statements.

#### Grants:

Amounts received from Grantor agencies are subject to audit and adjustment by Grantor agencies, principally the State of Tennessee and the Federal government. Any disallowed claims including amounts already collected, could become a liability of the applicable fund.

REQUIRED  
SUPPLEMENTARY  
INFORMATION

**CITY OF FOREST HILLS, TENNESSEE**

**Schedule of Required Supplementary Information**

**Schedule of Changes in Net Pension Liability (Asset) and Related Ratios Based on Participation in the Public Employee Pension Plan of TCRS**

**Last Fiscal Year ending June 30**

	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total pension liability (asset)</b>								
Service cost	\$ 8,076	\$ 6,001	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	\$ 14,135	\$ 15,090	\$ 15,974	\$ 16,461	\$ 16,564	\$ 16,617	\$ 16,642	\$ 16,709
Changes in benefit terms	-	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Differences between actual & expected experience	\$ 1,214	\$ 5,453	\$ 1,722	\$ 4,766	\$ 18	\$ (93)	\$ 806	\$ (987)
Change of assumptions	-	-	-	\$ 2,411	-	-	-	\$ 11,457
Benefit payments, including refunds of employee contributions	\$ (8,505)	\$ (8,712)	\$ (8,799)	\$ (13,605)	\$ (15,696)	\$ (16,026)	\$ (16,330)	\$ (16,706)
<b>Net change in total pension liability (asset)</b>	<b>\$ 14,920</b>	<b>\$ 17,832</b>	<b>\$ 8,897</b>	<b>\$ 10,033</b>	<b>\$ 886</b>	<b>\$ 498</b>	<b>\$ 1,118</b>	<b>\$ 10,473</b>
<b>Total pension liability (asset)-beginning</b>	<b>\$ 184,640</b>	<b>\$ 199,560</b>	<b>\$ 217,392</b>	<b>\$ 226,289</b>	<b>\$ 236,322</b>	<b>\$ 237,208</b>	<b>\$ 237,706</b>	<b>\$ 238,824</b>
<b>Total pension liability (asset)-ending (a)</b>	<b>\$ 199,560</b>	<b>\$ 217,392</b>	<b>\$ 226,289</b>	<b>\$ 236,322</b>	<b>\$ 237,208</b>	<b>\$ 237,706</b>	<b>\$ 238,824</b>	<b>\$ 249,297</b>
<b>Plan fiduciary net position</b>								
Contributions-employer	\$ 5,394	\$ -	\$ -	\$ 846	\$ -	\$ 2,364	\$ 2,580	\$ 2,580
Contributions-employee	\$ 2,333	\$ 2,400	\$ 2,363	\$ 846	\$ -	\$ -	\$ -	\$ -
Net investment income	\$ 30,152	\$ 6,422	\$ 5,530	\$ 23,209	\$ 17,782	\$ 16,181	\$ 10,902	\$ 55,918
Benefit payments, including refunds of employee contributions	\$ (8,505)	\$ (8,712)	\$ (8,799)	\$ (13,605)	\$ (15,696)	\$ (16,026)	\$ (16,330)	\$ (16,706)
Administrative expense	\$ (50)	\$ (51)	\$ (76)	\$ (13)	\$ -	\$ -	\$ -	\$ -
Other	-	-	-	-	-	-	-	-
<b>Net change in plan fiduciary net position</b>	<b>\$ 29,324</b>	<b>\$ 59</b>	<b>\$ (982)</b>	<b>\$ 11,283</b>	<b>\$ 2,086</b>	<b>\$ 2,519</b>	<b>\$ (2,848)</b>	<b>\$ 41,792</b>
<b>Plan fiduciary net position-beginning</b>	<b>\$ 182,381</b>	<b>\$ 211,705</b>	<b>\$ 211,764</b>	<b>\$ 210,782</b>	<b>\$ 222,065</b>	<b>\$ 224,151</b>	<b>\$ 226,670</b>	<b>\$ 223,822</b>
<b>Plan fiduciary net position-ending (b)</b>	<b>\$ 211,705</b>	<b>\$ 211,764</b>	<b>\$ 210,782</b>	<b>\$ 222,065</b>	<b>\$ 224,151</b>	<b>\$ 226,670</b>	<b>\$ 223,822</b>	<b>\$ 265,614</b>
<b>Net Pension Liability (asset)-ending (a) - (b)</b>	<b>\$ (12,145)</b>	<b>\$ 5,628</b>	<b>\$ 15,507</b>	<b>\$ 14,257</b>	<b>\$ 13,057</b>	<b>\$ 11,036</b>	<b>\$ 15,002</b>	<b>\$ (16,317)</b>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	106.09%	97.41%	93.15%	93.97%	94.50%	95.36%	93.72%	106.55%
<b>Covered payroll</b>	\$ 46,653	\$ 47,991	\$ 47,252	\$ 16,914	\$ -	\$ -	\$ -	\$ -
<b>Net pension liability (asset) as a percentage of covered payroll</b>	-26.03%	11.73%	32.82%	84.29%	0.00%	0.00%	0.00%	0.00%

*Changes of assumptions.* In 2021, amounts reported as changes of assumptions resulted from changes to the inflation rate, investment rate of return, cost-of-living adjustment, salary growth and mortality improvements. In 2017, amounts reported as changes of assumptions resulted from changes to the inflation rate, investment rate of return, cost-of-living adjustment, salary growth and mortality improvements.

GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from TCRS GASB website for prior years' data, if needed.

CITY OF FOREST HILLS, TENNESSEE

Schedule of Contributions Based on Participation in the  
Public Employee Pension Plan of TCRS

For the Year Ended June 30, 2022

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Actuarially determined contribution	5,394	0	0	294	0	2,364	2,580	2,580	2,580
Contributions in relation to the actuarially determined contribution	<u>5,394</u>	<u>0</u>	<u>0</u>	<u>846</u>	<u>0</u>	<u>2,364</u>	<u>2,580</u>	<u>2,580</u>	<u>2,580</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$552)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Covered-employee payroll	<u>46,653</u>	<u>46,653</u>	<u>47,252</u>	<u>16,914</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contributions as a percentage covered-employee payroll	11.56%	11.56%	0.00%	5.00%	0.00%	0.00%	0.00%	0.00%	0.00%

GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from TCRS GASB website for prior years' data, if needed.

Notes to Schedule

Valuation date: Actuarially determined contribution rates for fiscal year 2022 were calculated based on the June 30, 2020 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	Varies by Year
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	2.5 percent
Salary increases	Graded salary ranges from 8.72 to 3.44 percent based on age, including inflation, averaging 4.00 percent
Investment Rate of Return	7.25 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of Living Adjustments	2.25 percent

Changes of assumptions: In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent; and modifies mortality assumptions.

SUPPLEMENTAL  
INFORMATION

CITY OF FOREST HILLS, TENNESSEE

Capital Assets Used in the Operation of Governmental Funds

Schedule of Changes in Capital Assets

June 30, 2022

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Land and right of ways	\$114,157	0	0	114,157
Building	1,988,863	0	0	1,988,863
Infrastructure	8,758,556	397,693	0	9,156,249
Equipment	<u>131,357</u>	<u>189,283</u>	<u>0</u>	<u>320,640</u>
Total	<u>\$10,992,933</u>	<u>\$586,976</u>	<u>\$0</u>	<u>\$11,579,909</u>

The notes accompanying the financial statements are an integral part of these financial statements.

CITY OF FOREST HILLS , TENNESSEE

Schedule of Cash and Certificate of Deposits  
All Funds

June 30, 2022

	<u>Carrying Value</u>
General Fund:	
Demand deposits	5,163,280
Certificate of deposits	12,485,000
Total General Fund	<u>17,648,280</u>
Total - All funds	<u><u>\$17,648,280</u></u>

**CITY OF FOREST HILLS, TENNESSEE**  
**Schedule of Federal and State Financial Assistance**  
**For the Year Ended June 30, 2022**

<u>CFDA Number</u>	<u>State Grant Number</u>	<u>Program Name</u>	<u>Grantor Agency</u>	<u>Receivable (Deferred) Balance July 1, 2021</u>	<u>Grant Receipts</u>	<u>Other</u>	<u>Grant Expenditures</u>	<u>Receivable (Deferred) Balance June 30, 2022</u>
<b>State Program:</b>								
N/A	N/A	Governor's Appropriation	Tennessee. Department of Finance and Administration	<u>0</u>	<u>67,735</u>	<u>0</u>	<u>67,735</u>	<u>0</u>
<b>Federal Program:</b>								
21.027	N/A	American Rescue Plan Act	U. S. Department of Treasury thru the State of Tennessee	<u>0</u>	<u>715,079</u>	<u>0</u>	<u>0</u>	<u>(715,079)</u>
This schedule prepared on the modified accrual basis of accounting.			Total	<u>0</u>	<u>782,814</u>	<u>0</u>	<u>67,735</u>	<u>(715,079)</u>

# COMPLIANCE AND INTERNAL CONTROL

**JOHN R. POOLE, CPA**  
**CERTIFIED PUBLIC ACCOUNTANT**

134 NORTHLAKE DRIVE  
HENDERSONVILLE, TN 37075

(615) 822-4177

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

Mayor and Commissioners of the  
City of Forest Hills, Tennessee  
Forest Hills, Tennessee

I have audited in accordance with 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 and each major fund of the City of Forest Hills as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Forest Hills' basic financial statements, and have issued a report thereon dated September 15, 2022.

**Internal Control Over Financial Reporting**

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

My consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. I did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2022-001, that I consider to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Forest Hills' financial statements are free of material misstatement, I 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 the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of the audit and, accordingly, I do not express such an opinion. The results of the tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Response to Findings**

The City of Forest Hills' response to the finding identified in the audit is described in the Schedule of Findings and Responses. The City of Forest Hills' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

**Purpose of This Report**

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

*J. R. Poole, CPA*

September 15, 2022

# CITY OF FOREST HILLS, TENNESSEE

## Schedule of Findings and Responses

June 30, 2022

### 2022-001 - Separation of Duties

Condition: The City of Forest Hills currently has two employees that work in performing the majority of the accounting functions for the City. Due to only having two employees performing the accounting transactions there is currently an inadequate segregation of duties.

Criteria: Generally accepted accounting principles require that accounting functions be adequately segregated to ensure that the internal accounting controls are effective.

Cause: The City has a limited number of office employees to provide for a proper division of duties.

Effect: The risk of errors and irregularities occurring and not being detected in a timely manner along with the possibility of fraud or misappropriation of assets increases when accounting functions are not adequately segregated.

Recommendation: For adequate separation of duties, the employee who writes receipts, prepares and makes bank deposits, or writes checks should neither reconcile bank statements nor post to the cash receipts and disbursements journals.

Response: “We agree that the staff size will not allow the City to segregate duties to the optimum level desired. There are only two employees working in the department so it is virtually impossible to segregate duties unless more staff could be hired and due to the finances of our small City, it is not economical to hire additional office help.”

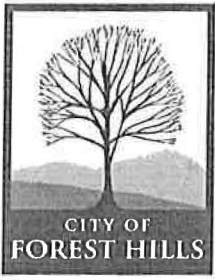
**CITY OF FOREST HILLS, TENNESSEE**

Schedule of Disposition of Prior Year Comments

June 30, 2022

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2021-001	Separation of Duties	Repeated

The original finding number was 2013-001. The current year finding number is 2022-001.



## Management's Corrective Action Plan

LANSON J. HYDE III  
MAYOR

HENRY A. TROST  
VICE MAYOR

JAMES C. GARDNER III  
COMMISSIONER

**Audit period:** June 30, 2022

The findings from the June 30, 2022, Schedule of Findings and Responses are discussed below.

2022-001 Segregation of Duties (Internal Control)

**Contact person:** Mark Hill

**Planned Corrective Action:** It is not economically feasible at this time to hire enough people to adequately separate the duties. The Board of Commissioners continues to monitor our finances and internal control.

**Anticipated Completion Date:** At the current time, due to our size, we do not believe we can fully segregate these duties. We will continue to improve and strengthen our internal controls, but we cannot give a definite date.

Signature: \_\_\_\_\_

Mark Hill / City Manager