

CITY OF FOREST HILLS, TENNESSEE

Annual Financial Report

For the Year Ended June 30, 2013

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 | 1-2 |
| Management's Discussion and Analysis | 3-10 |
| 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 | 21-29 |
| REQUIRED SUPPLEMENTARY INFORMATION: | |
| Schedule of Funding Progress | 30 |

CITY OF FOREST HILLS, TENNESSEE

Table of Contents, Continued

| | <u>Page Number</u> |
|--|--------------------|
| Supplemental Information: | |
| Schedule of Changes in Capital Assets | 31 |
| Schedule of Cash and Cash Equivalents | 32 |
| Schedule of State and Federal Financial Assistance | 33 |
| 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> | 35-36 |

INTRODUCTORY SECTION

CITY OF FOREST HILLS, TENNESSEE

Officials of the City of Forest Hills, Tennessee

June 30, 2013

| <u>Name</u> | <u>Title</u> |
|--------------------|--------------|
| Elected Officials: | |
| William Coke | Mayor |
| John Lovell | Vice Mayor |
| Landson Hyde | Commissioner |
| Management: | |
| Al W. Deck | City Manager |
| Cynthia Despot | City Clerk |

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

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities and each major fund of the City of Forest Hills, Tennessee as of and for the year ended June 30, 2013, 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted the audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting policies made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for the audit opinions.

Opinions

In my opinion, the 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 of Forest Hills, Tennessee as of June 30, 2013, and the respective changes in financial position and the respective budgetary comparison for the General Fund 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 Required Supplementary Information which includes the Management’s Discussion and Analysis and the Schedule of Funding Progress 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United State 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 we obtained during the 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 me with sufficient evidence to express an opinion or provide any assurance.

Other Matters -Other Information

The audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The Introductory Section and the Supplementary Information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Introductory Section and the Supplementary Information have 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 State of America. In our opinion, the Introductory Section and the Supplementary Information, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated September 30, 2013 on the consideration of the City of Forest Hills’ internal control over financial reporting and the tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of the testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the 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 entity’s internal control over financial reporting and compliance.

John R Poole, CPA

September 30, 2013

CITY OF FOREST HILLS, TENNESSEE
Management's Discussion and Analysis
For the Year Ending June 30, 2013

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, 2013. 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. As discussed in Note 1 of the financial statements, Statement 34 allows for certain transition treatments in regards to infrastructure. Because retroactive reporting of general infrastructure is optional for Phase 3 governments (below \$10 million in revenues), the City elected not to retroactively capitalize existing capital assets, but began capitalizing any capital asset expenditures during FYE 2004.

FINANCIAL HIGHLIGHTS

Management believes the City of Forest Hills' financial condition is strong. In completing its new City Hall, expenditures exceeded revenues, but 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 \$1,109,799 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 \$15,021,945. Of this amount, \$9,379,592 (unrestricted Net Position) may be used to meet the government's obligations to citizens and creditors. At June 30, 2013, the City's governmental funds reported combined ending fund balances of \$9,379,592 or a decrease of \$432,457 over the prior year. The decrease in the governmental funds relates to capital assets (primarily infrastructure improvements) purchases of \$1,726,489.

The City had no debt during the year ending June 30, 2013.

The City's total capital assets increased \$1,726,489 for the year ending June 30, 2013.

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.

Special Revenues Funds activities— Special revenue funds are used to account for the proceeds of a specific revenue source legally restricted to expenditures for specified purposes. The City's source of special revenue funds is The State Street Aid Fund, which accounts for state allocated gas and fuel tax revenues with corresponding expenditures in the Street Fund accounts for local street improvement funds.

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 21-29.

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 \$15,021,945. 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 \$1,109,799 for the year ending June 30, 2013. This increase in total assets is attributed to a larger than expected collection in the State of Tennessee’s Hall Income Tax.

NET POSITION

| City of Forest Hills’ Net position | 2013 Governmental <u>Activities</u> | 2012 Governmental <u>Activities</u> |
|------------------------------------|---|---|
| Current assets | \$ 9,408,517 | 9,838,449 |
| Capital assets | <u>5,642,353</u> | <u>4,100,097</u> |
| Total assets | 15,050,870 | 13,938,546 |
| Other liabilities | <u>28,925</u> | <u>26,400</u> |
| Total liabilities | 28,925 | 26,400 |
| Net position: | | |
| Net investment in capital assets | 5,642,353 | 4,100,097 |
| Unrestricted | <u>9,379,592</u> | <u>9,812,049</u> |
| Total net position | \$ 15,021,945 | 13,912,146 |

The City’s total Net Position increased by \$1,109,799 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 \$15,021,945. Of this amount, \$9,379,592 (unrestricted Net Position) may be used to meet the government’s obligations to citizens and creditors.

Government-wide comparison of revenues of expenses

| | 2013 | 2012 | Change Between |
|------------------------------------|-------------------|-------------------|--------------------|
| | Governmental | Governmental | Years |
| | <u>Activities</u> | <u>Activities</u> | |
| Revenues: | | | |
| Program revenues: | | | |
| Charges for services | 145,886 | 128,868 | 17,018 |
| Operating grants and contributions | 133,343 | 433,860 | (300,517) |
| General revenues: | | | |
| Sales taxes | 535,609 | 566,377 | (30,768) |
| State income tax | 1,428,989 | 1,998,840 | (569,851) |
| In lieu of taxes | 55,267 | 55,596 | (329) |
| Beer and mixed drink tax | 51,298 | 51,883 | (585) |
| Interest and investment income | 47,496 | 60,250 | (12,754) |
| Other | 8,507 | 170,528 | (162,021) |
| Total revenues | <u>2,406,395</u> | <u>3,466,202</u> | <u>(1,059,807)</u> |
| Expenses: | | | |
| General government | 672,355 | 627,095 | 45,260 |
| State Street Aid | 114,309 | 333,030 | (218,721) |
| Streets and Highways | 501,790 | 957,775 | (455,985) |
| Parks | 8,142 | 4,549 | 3,593 |
| Total expenses | <u>1,296,596</u> | <u>1,922,449</u> | <u>(625,853)</u> |
| Change in net position | <u>1,109,799</u> | <u>1,543,753</u> | <u>(433,954)</u> |

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 2013 budget comparison and analysis is presented in financial statements (See pages 18-20).

CAPITAL ASSETS

In accordance with GASB No. 34, the City began reporting all capital and infrastructure assets as of the fiscal year ending June 30, 2004.

The City of Forest Hills' investment in capital assets from its governmental activities at June 30, 2013, amounts to \$5,642,353 (net of accumulated depreciation). This investment in capital assets is in buildings, infrastructure, machinery and equipment.

City of Forest Hills' Capital Assets

| | 2013 Governmental Activities | 2012 Governmental Activities |
|-------------------------------|------------------------------------|------------------------------------|
| Land | \$ 48,809 | 48,809 |
| Building | 1,977,321 | 1,907,598 |
| Infrastructure | 4,192,350 | 2,572,710 |
| Equipment | <u>117,514</u> | <u>80,388</u> |
| Less accumulated depreciation | (693,641) | (509,408) |
| Net Capital Assets | <u>\$ 5,642,353</u> | <u>4,100,097</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, 2013 were for street paving, culverts, headwalls, street markings and signs.

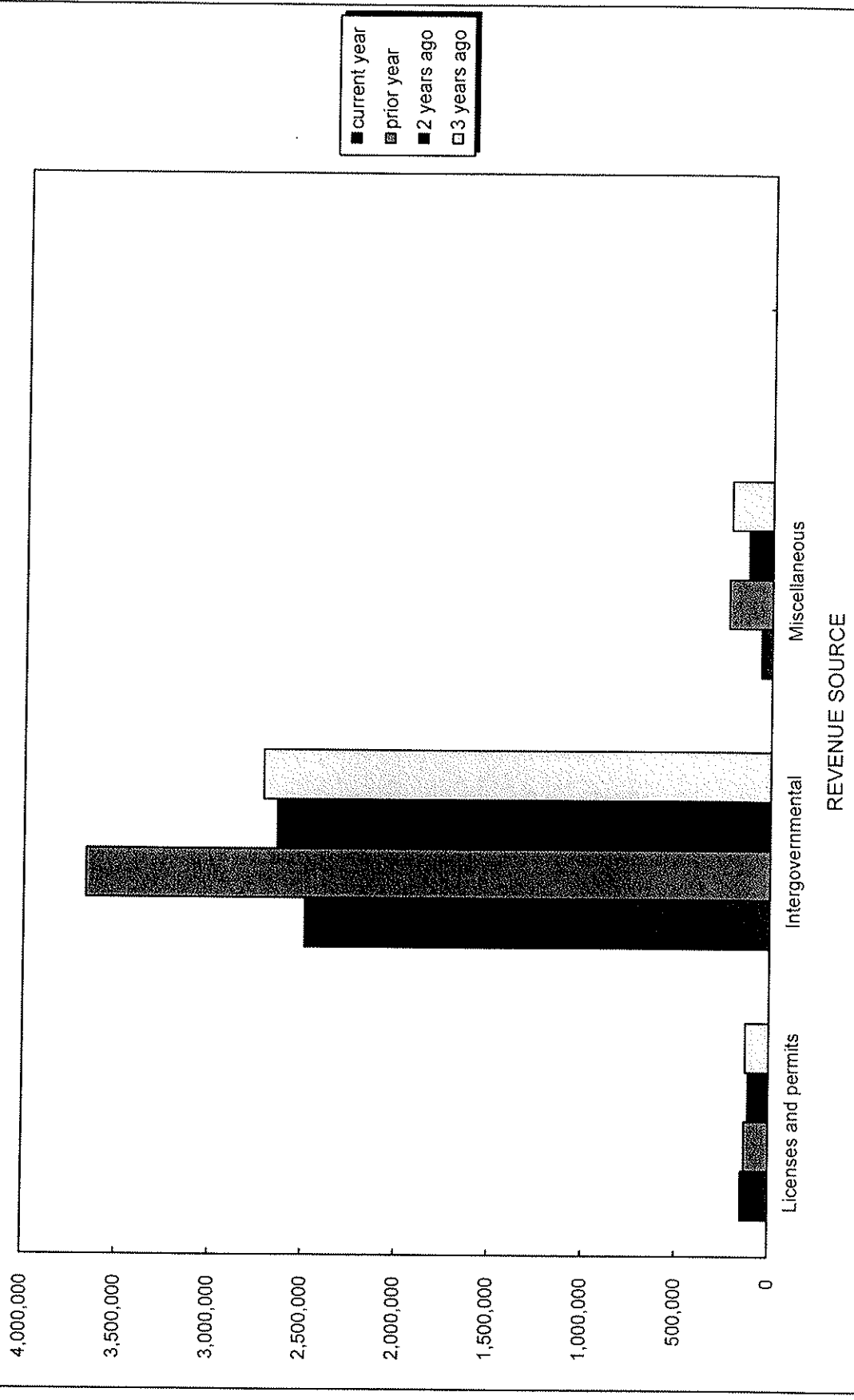
Economic Factors and Next Year's Budget and Rates

The City's primary source of income is from State Shared Revenue. The Hall Income Tax, the City's main source of revenue, has been a continual topic of discussion for the General Assembly over the last three (3) sessions. The main consideration is phasing the tax out over some not-yet-determined time period. The City of Forest Hills will need to be responsive and involved with any change made as it relates to this shared revenue. The only revenue item over which the City has control is building permits. The construction and real estate markets slowed, causing a decrease in building permit fees.

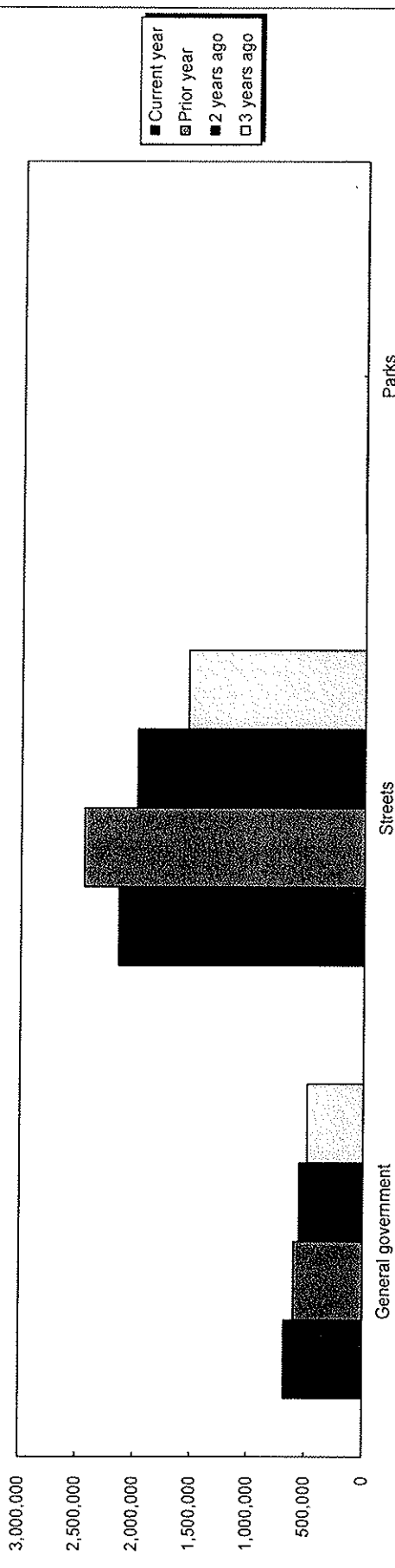
CONTACTING THE CITY'S FINANCIAL MANAGER

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**



CATEGORIES

Parks

Streets

General government

BASIC FINANCIAL STATEMENTS

CITY OF FOREST HILLS, TENNESSEE

Statement of Net Position

June 30, 2013

| | | |
|--|---------------------|-------------------|
| <u>Assets and Other Debits</u> | | |
| Cash and cash equivalents | | <u>7,863,191</u> |
| Accounts receivable from other governments | 1,545,326 | 1,545,326 |
| Capital assets not being depreciated | 48,809 | 48,809 |
| Capital asset, net of accumulated depreciation | <u>5,593,544</u> | <u>5,593,544</u> |
| Total Assets and Other Debits | <u>\$15,050,870</u> | <u>15,050,870</u> |
| Liabilities: | | |
| Accounts payable | \$23,900 | 23,900 |
| Customer deposits | 5,025 | 5,025 |
| Total Liabilities | <u>28,925</u> | <u>28,925</u> |
| Net Position: | | |
| Net investment in capital assets | 5,642,353 | 5,642,353 |
| Unrestricted | 9,379,592 | 9,379,592 |
| Total Net Position | <u>15,021,945</u> | <u>15,021,945</u> |

See accompanying notes to financial statements.

CITY OF FOREST HILLS, TENNESSEE

Statement of Activities

For the Year Ended June 30, 2013

| Function/Programs | Program Revenues | | | Net (Expenses) Revenue and Changes in Net Assets | | |
|----------------------------------|------------------|-------------------------|--|---|--|----------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | | Capital Grants and Contributions | Governmental Activities |
| Government Activities: | | | | | | |
| General government | 672,355 | 145,886 | 0 | 0 | (526,469) | (526,469) |
| State Street Aid | 114,309 | 0 | 133,343 | 0 | 19,034 | 19,034 |
| Highways and streets | 501,790 | 0 | 0 | 0 | (501,790) | (501,790) |
| Parks | 8,142 | 0 | 0 | 0 | (8,142) | (8,142) |
| Total Governmental Activities | <u>1,296,596</u> | <u>145,886</u> | <u>133,343</u> | <u>0</u> | <u>(1,017,367)</u> | <u>(1,017,367)</u> |
| General Revenues | | | | | | |
| Sales taxes | | | | | 535,609 | 535,609 |
| State income tax | | | | | 1,428,989 | 1,428,989 |
| In lieu of taxes | | | | | 55,267 | 55,267 |
| State alcohol taxes | | | | | 51,298 | 51,298 |
| Unrestricted investment earnings | | | | | 47,496 | 47,496 |
| Other | | | | | 8,507 | 8,507 |
| Total general revenues | | | | | <u>2,127,166</u> | <u>2,127,166</u> |
| Changes in net position | | | | | <u>1,109,799</u> | <u>1,109,799</u> |
| Net position - beginning of year | | | | | 13,912,146 | 13,912,146 |
| Net position - ending of year | | | | | <u>15,021,945</u> | <u>15,021,945</u> |

See accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS

CITY OF FOREST HILLS, TENNESSEE

Balance Sheet

Governmental Funds

June 30, 2013

| <u>Assets</u> | <u>General Fund</u> | <u>Total Governmental Funds</u> |
|--|---------------------------|---|
| Cash and cash equivalents | \$7,863,191 | \$7,863,191 |
| Accounts receivable from other governments | <u>1,545,326</u> | <u>1,545,326</u> |
| Total Assets | <u><u>\$9,408,517</u></u> | <u><u>\$9,408,517</u></u> |
| <u>Liabilities Deferred Inflows and Fund Balance</u> | | |
| Liabilities: | | |
| Accounts payable | \$23,900 | \$23,900 |
| Customer deposits | <u>5,025</u> | <u>5,025</u> |
| Total Liabilities | <u>28,925</u> | <u>28,925</u> |
| Fund balance: | | |
| Unassigned | <u>9,379,592</u> | <u>9,379,592</u> |
| Total Fund Balance | <u>9,379,592</u> | <u>9,379,592</u> |
| Total Liabilities, Deferred Inflows and Fund Balance | <u><u>\$9,408,517</u></u> | <u><u>\$9,408,517</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, 2013

| | |
|---|-----------------------------|
| Amounts reported for fund balance - total governmental funds | \$ 9,379,592 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds | <u>5,642,353</u> |
| Net position of governmental activities | \$ <u><u>15,021,945</u></u> |

CITY OF FOREST HILLS, TENNESSEE

Statement of Revenues, Expenditures
and Changes in Fund Balances

All Governmental Funds

For the Year Ended June 30, 2013

| | General Fund | Total |
|--|--------------------|------------------|
| Revenues: | | |
| Licenses and permits | \$145,886 | 145,886 |
| Intergovernmental | 2,204,506 | 2,204,506 |
| Miscellaneous | 56,003 | 56,003 |
| Total Revenue | <u>2,406,395</u> | <u>2,406,395</u> |
| Expenditures: | | |
| Current: | | |
| General government | 613,097 | 613,097 |
| State street aid | 114,309 | 114,309 |
| Streets and highways | 376,815 | 376,815 |
| Parks | 8,142 | 8,142 |
| Capital outlay | | |
| General government | 69,723 | 69,723 |
| Streets and highways | 37,126 | 37,126 |
| State street aid | 1,619,640 | 1,619,640 |
| Total Expenditures | <u>2,838,852</u> | <u>2,838,852</u> |
| Excess (deficiency) of revenues over expenditures | <u>(432,457)</u> | <u>(432,457)</u> |
| Fund Balance, July 1, 2012 | 9,812,049 | 9,812,049 |
| Fund Balance, June 30, 2013 | <u>\$9,379,592</u> | <u>9,379,592</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, 2013

Net change in fund balances - total governmental funds: \$ (432,457)

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

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 | 1,726,489 |
| Depreciation expense | <u>(184,233)</u> |

Change in net position of governmental activities \$ 1,109,799

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, 2013

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Actual Over (Under) Budget</u> |
|---------------------------------|----------------------------|-------------------------|----------------------|---|
| Revenues: | | | | |
| Licenses and permits | 101,800 | 101,800 | 145,886 | 44,086 |
| Total Licenses and permits | <u>101,800</u> | <u>101,800</u> | <u>145,886</u> | <u>44,086</u> |
| Intergovernmental: | | | | |
| TVA in lieu | 55,000 | 55,000 | 55,267 | 267 |
| State sales tax | 312,000 | 312,000 | 330,991 | 18,991 |
| Local sales tax | 192,000 | 192,000 | 204,618 | 12,618 |
| State income tax | 900,000 | 900,000 | 1,428,989 | 528,989 |
| State beer tax | 2,000 | 2,000 | 2,379 | 379 |
| State mixed drink | 44,000 | 44,000 | 48,919 | 4,919 |
| Gasoline .03 tax | 26,000 | 26,000 | 32,091 | 6,091 |
| Gasoline 1989 tax | 14,000 | 14,000 | 13,657 | (343) |
| Gasoline and motor fuel | 82,000 | 82,000 | 77,733 | (4,267) |
| Special petroleum tax | 10,000 | 10,000 | 9,862 | (138) |
| Total Intergovernmental Revenue | <u>1,637,000</u> | <u>1,637,000</u> | <u>2,204,506</u> | <u>567,506</u> |
| Miscellaneous: | | | | |
| Interest and investment income | 60,000 | 60,000 | 47,496 | (12,504) |
| Donations | 0 | 0 | 8,371 | 8,371 |
| Miscellaneous | 5,500 | 5,500 | 136 | (5,364) |
| Total Miscellaneous | <u>65,500</u> | <u>65,500</u> | <u>56,003</u> | <u>(9,497)</u> |
| Total Revenues | <u>1,804,300</u> | <u>1,804,300</u> | <u>2,406,395</u> | <u>602,095</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, 2013

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Actual Over (Under) Budget</u> |
|---------------------------------|----------------------------|-------------------------|----------------|---|
| Expenditures: | | | | |
| General Government: | | | | |
| Current: | | | | |
| Salaries and wages | 182,680 | 182,680 | 171,434 | (11,246) |
| Employee benefits | 39,240 | 39,240 | 35,921 | (3,319) |
| Occupancy | 14,244 | 14,244 | 14,834 | 590 |
| Professional services | 36,600 | 36,600 | 36,260 | (340) |
| City attorney | 85,200 | 85,200 | 134,071 | 48,871 |
| Engineer | 87,500 | 87,500 | 107,794 | 20,294 |
| Public relations | 40,000 | 40,000 | 53,478 | 13,478 |
| Office expense | 11,600 | 11,600 | 10,343 | (1,257) |
| Insurance | 23,400 | 23,400 | 22,991 | (409) |
| Legal notices | 1,130 | 1,130 | 446 | (684) |
| Repair and maintenance | 1,500 | 1,500 | 10,701 | 9,201 |
| Dues and subscriptions | 2,250 | 2,250 | 1,924 | (326) |
| Training | 750 | 750 | 275 | (475) |
| Travel and vehicle expense | 1,000 | 1,000 | 1,359 | 359 |
| Donations | 34,000 | 34,000 | 10,100 | (23,900) |
| Miscellaneous | 750 | 750 | 1,166 | 416 |
| | <u>561,844</u> | <u>561,844</u> | <u>613,097</u> | <u>51,253</u> |
| Capital outlay | 132,000 | 132,000 | 69,723 | (62,277) |
| Total General Government | <u>693,844</u> | <u>693,844</u> | <u>682,820</u> | <u>(11,024)</u> |
| Streets and Highway: | | | | |
| Storm water | 10,000 | 10,000 | 4,283 | (5,717) |
| Chipper and tree service | 25,000 | 72,500 | 190,800 | 118,300 |
| Street maintenance | 59,500 | 59,500 | 181,507 | 122,007 |
| Street supplies | 18,600 | 18,600 | 225 | (18,375) |
| Capital outlay | 282,680 | 282,680 | 37,126 | (245,554) |
| Total Street and Highway | <u>395,780</u> | <u>443,280</u> | <u>413,941</u> | <u>(29,339)</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, 2013

| | Original Budget | Final Budget | Actual | Actual Over (Under) Budget |
|--|----------------------|----------------------|----------------------|----------------------------------|
| Expenditures: | | | | |
| State Street Aid: | | | | |
| Street lights | 20,000 | 20,000 | 20,806 | 806 |
| Street maintenance | 46,500 | 46,500 | 61,891 | 15,391 |
| Snow removal | 50,000 | 50,000 | 31,612 | (18,388) |
| Capital outlay | 1,600,000 | 1,687,500 | 1,619,640 | (67,860) |
| Total State Street Aid | <u>1,716,500</u> | <u>1,804,000</u> | <u>1,733,949</u> | <u>(70,051)</u> |
| Parks: | | | | |
| Utilities | 7,000 | 7,000 | 4,208 | (2,792) |
| Mowing | 15,000 | 15,000 | 3,934 | (11,066) |
| Capital outlay | 0 | 0 | 0 | 0 |
| Total Parks | <u>22,000</u> | <u>22,000</u> | <u>8,142</u> | <u>(13,858)</u> |
| Total Expenditures | <u>2,828,124</u> | <u>2,963,124</u> | <u>2,838,852</u> | <u>(124,272)</u> |
| Excess (deficiency) of Revenues over Expenditures | (1,023,824) | (1,158,824) | (432,457) | 726,367 |
| Fund Balance, July 1, 2012 | 9,812,049 | 9,812,049 | 9,812,049 | 0 |
| Fund Balance, June 30, 2013 | <u>8,788,225</u> | <u>8,653,225</u> | <u>9,379,592</u> | <u>726,367</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, 2013

(I) 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:

Governmental Accounting Standards Board (GASB) Statement Number 14, "The Financial Reporting Entity" requires that financial statements present the reporting entity which consists of the primary government and any "Component Unit" organizations for which the primary government is financially accountable and any other "Component Unit" organizations for which the nature and significance of their relationship with the primary government are such that exclusion, could cause the City's financial statements to be misleading. There were no component units requiring blended or discrete presentation under the requirements of GASB Statement Number 14.

Accounting Pronouncements:

Effective July 1, 2003 the City adopted GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments: Omnibus, an amendment of GASB Statements No. 21 and 34, Statement No. 38, Certain Financial Statement Note Disclosures and Interpretation No. 6, Recognition and measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements. The requirements of these statements represent a significant change in the financial reporting model used by the City. The financial statements now include government-wide financial statements prepared on the accrual basis of accounting and the economic measurement focus for all funds. The fund financial statements present information for individual major funds rather than by fund type. Other significant changes include the reporting of capital assets, infrastructure and depreciation, the elimination of account groups, and the inclusion of management's discussion and analysis.

CITY OF FOREST HILLS, TENNESSEE

Notes to Financial Statements

June 30, 2013

(1) Summary of Significant Accounting Policies, Continued

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.

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.

CITY OF FOREST HILLS, TENNESSEE

Notes to Financial Statements

June 30, 2013

(1) Summary of Significant Accounting Policies, Continued

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.

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.

Receivables and Payables

Activity between funds that are representative of lending/ borrowing arrangements outstanding at the end of the fiscal year are referred to as either due from/ due to other funds (i.e. the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available resources.

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 fixed assets are valued at historical cost or estimated useful life in excess of three years. All fixed assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated fixed 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.

The estimated useful lives are as follows:

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

CITY OF FOREST HILLS, TENNESSEE

Notes to Financial Statements

June 30, 2013

(1) Summary of Significant Accounting Policies, Continued

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.

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.

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 balances – amounts that are not in a spendable form, Restricted fund balance – amounts constrained to specific purposes by their providers, provisions, or by enabling legislation, Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint, Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority (Mayor), Unassigned fund balance – amounts that are available for any purpose; these amounts are reported only in the general fund.

Only by Board approval (via ordinance) can fund balance amounts be classified as committed or assigned. Board approval (via ordinance) is required to establish, modify or rescind a fund balance requirement.

Unearned Revenue

Unearned revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to resources, the Unearned revenue is removed from the balance sheet and revenue is recognized.

CITY OF FOREST HILLS, TENNESSEE

Notes to Financial Statements

June 30, 2013

(1) Summary of Significant Accounting Policies, Continued

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.

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.

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 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.

(2) Cash and Cash Equivalents

The City is authorized to invest funds in Federal treasury bills and notes, State of Tennessee Local Government Investment Pool and financial institution demand deposit accounts and certificates of deposit. During the year, the City invested funds that were not immediately needed in certificates of deposits and savings accounts. The City has deposit policies to minimize custodial credit risks. Deposits in financial institutions are required by State Statute to be secured and collateralized by the institutions.

The collateral must meet certain requirements and be deposited in an escrow account in a second bank for the benefit of the City and must total a minimum 105% of the value of the deposits placed in the institutions less the amount protected by federal depository insurance. The City's deposits with financial institutions are fully insured or collateralized by securities held in the government's name.

CITY OF FOREST HILLS, TENNESSEE

Notes to Financial Statements

June 30, 2013

(3) Accounts Receivable

Accounts receivable at June 30, 2013, consist of the following:

| <u>Fund</u> | <u>Other Governments</u> |
|--------------|------------------------------|
| General Fund | \$ <u>1,545,326</u> |

(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 July 1, 2012</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance June 30, 2013</u> |
|--------------------------|---------------------------------|------------------|------------------|----------------------------------|
| Land | \$ 48,809 | - | - | 48,809 |
| Building | 1,907,598 | 69,723 | - | 1,977,321 |
| Infrastructure | 2,572,710 | 1,619,640 | - | 4,192,350 |
| Equipment | <u>80,388</u> | <u>37,126</u> | <u>-</u> | <u>117,514</u> |
| Total | <u>\$ 4,609,505</u> | <u>1,726,489</u> | <u>-</u> | <u>6,335,994</u> |
| Accumulated depreciation | <u>509,408</u> | | | <u>693,641</u> |
| Capital Assets - net | <u>4,100,097</u> | | | <u>5,642,353</u> |

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

| | |
|----------------------|----------------|
| General Fund: | |
| General Government | 59,258 |
| Highways and streets | <u>124,975</u> |
| Total | <u>184,233</u> |

All assets except land of \$48,809 is being depreciated.

CITY OF FOREST HILLS, TENNESSEE

Notes to Financial Statements

June 30, 2013

(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 TML Insurance Pool which is a public entity risk pool established by the Tennessee Municipal League, and association of member municipalities. The City pays an annual premium to the TML 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.

(6) Pension

Plan Description:

Employees of the City of Forest Hills are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 10 (Ten) years of service or at any age with 30 years of service. A reduced retirement benefits is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after 5 (Five) years of service and members joining prior to July 1, 1979 were vested after 4 years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Forest Hills participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The City of Forrest Hills withdrew from TCRS effective July 1, 2010. Employees hired after the date of withdrawal are not eligible to participate in TCRS. Employees active as of the withdrawal date will continue to accrue salary and service credit in TCRS. The employer remains responsible for the pension liability for employees that were active as of the withdrawal date and for retirees of the employer.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be assessed at <http://www.tn.gov/treasury/tcrs/PS/>.

CITY OF FOREST HILLS, TENNESSEE

Notes to Financial Statements

June 30, 2013

(6) Pension Plan, Continued

Funding Policy:

Forest Hills requires employees contribute 5.0 percent of earnable compensation.

Forest Hills is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2013 was 11.54% of annual covered payroll. The contribution requirements of plan members are set by state statute. Contribution requirements for Forest Hills are established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2013, Forest Hills' annual pension cost of \$16,319 to TCRS was equal to Forest Hills' required and actual contributions.

The required contribution was determined as part of the July 1, 2009 actuarial valuation using frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% per year compounded annually, (b) projected 3.0 percent annual rate of inflation (c) projected salary increases of 4.75% annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5% annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a ten-year period. Forest Hills' unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 4 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Annual Pension Cost, Continued

| <u>Fiscal Year</u> <u>Ending</u> | <u>Annual Pension</u> <u>Cost (APC)</u> | <u>Percentage of APC</u> <u>Contributed</u> | <u>Net Pension</u> <u>Obligation</u> |
|-------------------------------------|--|--|---|
| 6/30/2013 | \$ 16,319 | 100.00% | \$ 0.00 |
| 6/30/2012 | \$ 15,987 | 100.00% | \$ 0.00 |
| 6/30/2011 | \$ 19,209 | 100.00% | \$ 0.00 |

CITY OF FOREST HILLS, TENNESSEE

Notes to Financial Statements, Continued

(6) Pension Plan, Continued

Funded Status and Funding Progress:

As of July 1, 2011, the most recent actuarial valuation date, the plan was 71.57% funded. The actuarial accrued liability for benefits was \$0.18 million, and the actuarial value of assets was \$0.13 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.05 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.13 million, and the ratio of the UAAL to the covered payroll was 39.74% percent.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

State pension info to come

(7) Commitments and Contingencies

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 Funding Progress

June 30, 2013

(1) Pension Plan

Required Supplementary Information

Schedule of Funding Progress for The City of Forest Hills:

| (000's) Actuarial Valuation Date | (000's) Actuarial Value of Assets (A) | Actuarial Accrued Liability (B) | Unfunded AALL (UAAL) (B) - (A) | Funded Ratio (A/B) | (000's) Covered Payroll (C) | UAAL as a % Of Covered Payroll ((B-A)/C) |
|---|--|--|---|---|--|---|
| 6/30/11 | \$132 | \$184 | \$52 | 71.57% | \$132 | 39.74% |
| 6/30/09 | \$108 | \$239 | \$131 | 45.28% | \$121 | 107.99% |
| 6/30/07 | \$141 | \$151 | \$10 | 93.38% | \$104 | 9.62% |

SUPPLEMENTAL INFORMATION

CITY OF FOREST HILLS, TENNESSEE

Capital Assets Used in the Operation of Governmental Funds

Schedule of Changes in Capital Assets

June 30, 2013

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Ending Balance</u> |
|----------------|------------------------------|--------------------|--------------------|---------------------------|
| Land | \$48,809 | 0 | 0 | \$48,809 |
| Building | 1,907,598 | 69,723 | 0 | 1,977,321 |
| Infrastructure | 2,572,710 | 1,619,640 | 0 | 4,192,350 |
| Equipment | <u>80,388</u> | <u>37,126</u> | <u>0</u> | <u>117,514</u> |
| Total | <u>\$4,609,505</u> | <u>\$1,726,489</u> | <u>\$0</u> | <u>\$6,335,994</u> |

CITY OF FOREST HILLS , TENNESSEE

Schedule of Cash and Cash Equivalents
All Funds

June 30, 2013

| | <u>Carrying Value</u> |
|------------------------|-------------------------------|
| General Fund: | |
| Demand deposits | 7,863,191 |
| Total General Fund | <u>7,863,191</u> |
| Total - All funds | <u><u>\$7,863,191</u></u> |

CITY OF FOREST HILLS, TENNESSEE

Schedule of State and Federal Financial Assistance

For the Year Ended June 30, 2013

| CFDA Number | State Grant Number | Program Name | Grantor Agency | Receivable (Deferred) Balance July 1, 2012 | Grant Receipts | Other Receipts | Grant Expenditures | Receivable (Deferred) Balance June 30, 2013 |
|-------------------------|--------------------------|---|---|---|-------------------|-------------------|-----------------------|--|
| | | | | | | | | |
| Federal Program: | | | | | | | | |
| 97.039 | FEMA1909DRTN | Presidential Declaration FEMA Severe Flooding and Storms | TN. Emergency Management Agency - Military | 299,235 | 299,235 | 0 | 0 | 0 |
| | | | Total | 299,235 | 299,235 | 0 | 0 | 0 |

**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, 2013, 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 30, 2013.

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) to determine 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.

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. However, as discussed below, I identified a deficiency in internal control that I consider to be a material weakness and significant deficiency (2013-01 Lack of segregation of Duties).

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. I consider the deficiency described below (2013-01) to be a material weakness.

The material weakness is as follows:

2013-01 Separation of Duties

Due to the limited number of personnel employed by the City, several functions, which ideally should be performed by different individuals, are regularly performed by one or two persons. I recommend that the City strengthen its internal control in cash receipts, cash disbursements, and reconciliation of cash.

Management Response:

Due to the size of the office, a complete separation of duties is not possible. However we are continuing to monitor office responsibilities and segregate duties as needed.

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 above. 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.

Jale R Poole, CPA

September 30, 2013