

City of Vestavia Hills, Alabama

Financial Statements

September 30, 2014



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City of Vestavia Hills, Alabama
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Independent Auditors' Report

To the Mayor and City Council
City of Vestavia Hills
Vestavia Hills, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Vestavia Hills, Alabama (the "City") as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units

The financial statements of the Library Foundation and the Park and Recreation Foundation (the Foundations') have not been audited, and we were not engaged to audit the Foundations' financial statements as part of our audit of the City's basic financial statements. The Foundations' financial activities are included in the City's basic financial statements as the only discretely presented component units and represent .48% percent, .82% percent, and .48% percent of the assets, net position, and revenues, respectively, of the City's governmental activities.

Disclaimer of Opinion

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the aggregate discretely presented component units of the City of Vestavia Hills, Alabama. Accordingly, we do not express an opinion on these financial statements.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Vestavia Hills, Alabama, as of September 30, 2014, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the defined benefits and OPEB plan information on pages 4.1-4.11 and 37-40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures 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 our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 City's internal control over financial reporting and compliance.

Carly Riggs & Ingram, L.L.C.

Birmingham, Alabama

June 17, 2015

**City of Vestavia Hills
Management's Discussion & Analysis (MD&A)
September 30, 2014**

The City of Vestavia Hills' Management Discussion and Analysis report provides an overview of the City's financial activities for fiscal year ended September 30, 2014. Please read the report in conjunction with the City's financial statements and notes to the financial statements that immediately follow this analysis.

Financial Highlights: Significant Items to Note

- ❖ The assets of the City exceeded the liabilities at the close of the 2014 fiscal year by \$95.27 million (net position).
- ❖ The City's net position increased 1.2% (\$1.17 million) in the 2014 fiscal year.
- ❖ The total cost of the City's programs for the 2014 fiscal year was \$36.9 million. The net cost was \$30 million after subtracting grants and charges for services.
- ❖ At the end of the 2014 fiscal year, the general fund unassigned fund balance, excluding the City's committed funds for economic stabilization fund balance of \$9.01 million, was \$2.5 million, or 8.7% of the total general fund operating expenses before debt service.
- ❖ Major capital expenditures for the 2014 fiscal year totaled \$7.4 million including \$2.4 million for projects in progress and \$5 million for completed projects.
- ❖ The City increased its outstanding General Obligation Warrants by \$20.6 million resulting from 2013 and 2014 warrant issues to construct municipal facilities and to restore and improve wetlands and green space.

Using the Annual Financial Report - An Overview for the User

The annual financial report consists of five parts - *management's discussion and analysis* (this section), the *independent auditors' report*, the *basic financial statements*, *required supplementary information*, and *other supplementary information*.

The City's basic financial statements are comprised of three components: 1) *government-wide financial statements*, 2) *fund financial statements*, and 3) *notes to the basic financial statements*.

Government-Wide Financial Statements - The focus of these statements is to provide readers with a broad overview of the City's finances as a whole, similar to a private-sector business, instead of an individual fund basis.

Government-wide statements report both long-term and short-term information about the City's overall financial status including the capitalization of capital assets and depreciation of all exhaustible capital assets and the outstanding balances of long-term debt and other obligations. These statements report all assets and liabilities perpetuated by these activities using the accrual basis of accounting. The accrual basis takes into account all of the City's current year's revenues and expenses regardless of when cash is

received or paid. This approach moves the financial reporting method for governmental entities closer to the financial reporting methods used in the private sector.

The following *government-wide financial statements* report is on all of the governmental activities of the City as a whole.

The *statement of net position* (on page 5) is most closely related to a balance sheet. It presents information on all of the City's assets (what it owns) and liabilities (what it owes), with the difference between the two reported as net position. The net position reported in this statement represents the accumulation of changes in net position for the current fiscal year and all fiscal years in the past combined. Over time, the increase or decrease in net position reported in this statement may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* (on page 6) is most closely related to an income statement. It presents information showing how the City's net position changed during the current fiscal year only. 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. This statement shows gross expenses and offsetting program revenues to arrive at net cost information for each major expense function or activity of the City. By showing the change in net position for the year, the reader may be able to determine whether the City's financial position has improved or deteriorated over the course of the current fiscal year.

However, the reader will also need to consider non-financial factors, such as changes in the City's property tax base and the condition of the City's infrastructure assets, in order to assess the overall health of the City.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal and internal requirements. All of the funds of the City can be classified as governmental funds.

Governmental Funds - Governmental *fund financial statements* begin on page 7. These statements account for basically the same governmental activities reported in the *government-wide financial statements*. *Fund financial statements* presented herein display information on each of the City's most important governmental funds or *major funds*. This is required in order to better assess the City's accountability for significant governmental programs or certain dedicated revenue. The City's *major funds* are the General Fund, the Debt Service Fund, and the Capital Projects Fund.

The *Fund Financial Statements* are measured on the modified-accrual basis of accounting. As a result, the *fund financial statements* focus more on the near term use and availability of spendable resources. The information provided in these statements is useful in determining the City's immediate financial needs. This is in contrast to the accrual-based *government-wide financial statements*, which focus more on overall long-term availability of spendable resources. The relationship between governmental activities reported in the *government-wide financial statements* and the governmental

funds reported in the *fund financial statements* are reconciled on pages 8 and 10 of these financial statements. These reconciliations are useful to readers in understanding the long-term impact of the City's short-term financing decisions.

Notes to the Basic Financial Statements - The *notes to the basic financial statements* provide additional information that is essential for the statements to fairly represent the City's financial position and its operations. The notes contain important information that is not part of the basic financial statements. However, the notes are an integral part of the statements, not an appendage to them. The *notes to the basic financial statements* begin on page 11 in this section.

After the presentation of the basic financial statements, the *required supplementary information* is presented following the notes to the basic financial statements. The *required supplementary information* beginning on page 36 provides a comparison of the adopted budget of the City's General Fund to the actual operating results for the fiscal year. The comparison of this data allows users to assess management's ability to project and plan for its operations throughout the year.

Analysis of the City of Vestavia Hills' Overall Financial Position

As indicated earlier, net position may serve over time as a useful indicator of a government's financial position. Refer to *Table 1* when reading the following analysis of net position.

Table 1: Summary of Net Position

	As of September 30, (dollars in thousands)	
	<u>2014</u>	<u>2013</u>
Assets:		
Current and other assets	\$ 44,432	\$ 29,491
Capital assets	<u>118,355</u>	<u>113,955</u>
Total Assets	<u>162,787</u>	<u>143,446</u>
Liabilities:		
Other liabilities	3,705	3,795
Long-term liabilities	<u>63,814</u>	<u>45,549</u>
Total Liabilities	<u>67,519</u>	<u>49,344</u>
Net position:		
Net investment in capital assets	82,529	84,740
Restricted	890	458
Unrestricted	<u>11,850</u>	<u>8,903</u>
Total Net Position	<u>\$ 95,269</u>	<u>\$ 94,101</u>

The City's assets exceeded liabilities by \$95.27 million at September 30, 2014.

Net investment in capital assets of \$82.5 million reflect the City's investment in capital assets (e.g., land, infrastructure, buildings, improvements other than buildings, fixtures, furniture, equipment and transportation equipment), less accumulated depreciation and

debt related to the acquisition of the assets. Since these capital assets are used in governmental activities, this portion of net position is not available for future spending or funding of operations.

Restricted net position in the amount of \$890,000 represents the net position of the Four, Five and Seven Cent State Shared Gasoline Tax Funds. This net position has been restricted by enabling legislation. Unrestricted net position of \$11.9 million may be used at the City's discretion to meet ongoing obligations to citizens and creditors and for future operations. Additionally, the unrestricted net position include funds established in fiscal 2009 designated for "Other Post Employment Benefits" (OPEB) Actuarial Trust fund of \$138,000 (net of current liability, \$27,000).

Analysis of the City of Vestavia Hills' Operating Results

The results of this fiscal year's operations as a whole are reported in detail in the *Statement of Activities* on page 6. *Table 2* below condenses the results of operations for the fiscal year into a format where the reader can easily see the total revenues of the City for the year. It also shows the impact that operations had on changes in net position as of September 30, 2014 and 2013.

Table 2: Summary of Changes in Net Position

	Fiscal Year Ended September 30, (dollars in thousands)	
	2014	2013
Program Revenues:		
Charges for services	\$ 6,037	\$ 5,718
Operating grants/contributions	553	592
Capital grants/contributions	326	806
General Revenues:		
Taxes	27,343	27,187
Utility franchise fees	2,684	2,542
Investment earnings	143	96
Interest on notes receivable	-	13
Misc	216	125
Sale of assets	139	295
Donations	5	30
Donated infrastructure assets	627	763
Total Revenues	<u>38,073</u>	<u>38,167</u>
Program Expenses:		
General government	6,259	6,214
Public safety	16,332	16,058
Public works	5,428	5,675
Library	2,472	2,341
Parks & recreation	3,563	3,237
Interest on long term debt	2,853	1,560
Total Expenses	<u>36,907</u>	<u>35,085</u>

Change in net position	1,166	3,082
Net Position, beginning	94,101	93,405
Prior Period Adjustment	-	(2,386)
Net Position, restated	-	91,019
Net Position, ending	\$ 95,267	\$ 94,101

The City’s revenues, excluding donated infrastructure assets and donated property, which do not provide spendable funds, increased .18% (\$67,000). The increase resulted primarily from the following revenue categories: 6% (\$319,000) in charges for services, .6% (\$156,000) in taxes and 5.6% (\$142,000) in utility franchise fees. The revenue increase was partially offset by a decrease in several revenue categories, principally by a 60% (\$480,000) decrease in capital grants/contributions.

The charges for services increase was primarily due to a 57.4% (\$120,300) increase in court fines & fees, 29% (\$160,900) increase in building permits, new construction. The decrease in capital grants/contributions was a result of reduced awards.

The City’s program expenses increased 5.2% (\$1.8 million). The increase resulted principally from an increase of 83% (\$1.3 million) in interest on long term debt.

Table 3 is a condensed statement taken from the Statement of Activities on page 6 showing the total cost for providing services for six major City activities. Total cost of services is compared to the net cost of providing these services. The net cost of services is the remaining cost of services after subtracting grants and charges for services that the City used to offset the program's total cost. In other words, the net cost shows the financial burden that was placed on all taxpayers for each of these activities. This information allows citizens to consider the cost of each program in comparison to the benefits provided.

Table 3: Net Cost of Government-Wide Activities

	Fiscal Year Ended September 30, 2014 (dollars in thousands)	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
General government administration	\$ 6,259	\$ 2,337
Public safety	16,332	15,130
Public works	5,428	4,157
Library	2,472	2,316
Parks and recreation	3,563	3,197
Interest on long term debt	2,853	2,853
Total	<u>\$ 36,907</u>	<u>\$ 29,990</u>

Performance of City Funds

As noted earlier, the City uses fund accounting to control and manage resources in order to ensure compliance with finance-related legal and internal requirements. Using funds to account for resources for particular purposes helps the reader to determine the City's accountability for these resources whether provided by taxpayers and other entities, and to help to provide more insight into the City's overall financial health. The following analysis of the City's funds should be read in reference to the *fund financial statements* that begin on page 7.

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financial requirements (Note: the reconciliation statement between the *fund financial statements* and the *government-wide financial statements* are presented on pages 8 and 10). At the end of the fiscal year, the City's governmental funds reported a combined fund balance of \$40.9 million, which includes a \$9.01 million committed fund balance to be used for economic stabilization in the event of an unforeseen emergency and \$2.5 million of unassigned general fund balance which is available for future needs.

Budgetary Highlights of the General Fund

On or before October 1 of each year, the City Manager prepares and submits an annual budget to be adopted by the City Council. The fiscal 2014 budget was adopted September 9, 2013. The comparison of the general fund budget to the actual results is detailed in the "Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual" on page 37. The City's actual results as compared to the City's budget can be briefly summarized as follows:

- ❖ Actual revenues exceeded budget by \$776,800 or 2.4%. Charges for services were under budget totaling \$30,200; however, the decrease was offset due to taxes, licenses and permits, fines and forfeitures, fees, grants, proceeds from sale of assets, investment revenues and other revenues exceeding budget totaling \$807,000.
- ❖ Actual expenditures exceeded budget by \$106,800 or .37%. Public safety, public works, library and debt service were under budget totaling \$331,500; however, the decrease was offset due to expenditures exceeding budget in general government administration, parks and recreation and capital outlay totaling \$438,300. General government administration, parks and recreation and capital outlay expenditures exceeded budget principally due to authorized non-budgeted expenditures: economic development consultant fees, maintenance agreements, installation of new heating and air unit, purchase of new thermal imaging cameras and books and reading materials.

Capital Assets and Debt Administration

Capital Assets - The City's investment in capital assets for governmental activities for the year ended September 30, 2014, amounted to \$82.5 million, net of accumulated depreciation and debt related to the acquisition of the assets. The City's investment in capital assets, which includes land, land improvements, infrastructure, buildings and

improvements, fixtures, equipment, vehicles and furniture at actual or estimated historical cost, equipment under capital lease, and construction in progress, is shown in *Table 4*. Assets are presented net of accumulated depreciation.

Table 4: Capital Assets (net of accumulated depreciation)

	Fiscal Year Ended September 30, (dollars in thousands)	
	<u>2014</u>	<u>2013</u>
Land	\$ 70,445	\$ 67,628
Construction-in-progress	4,636	2,224
Buildings	10,805	11,262
Improvements	5,563	5,990
Recreational facilities	13,209	13,742
Vehicular equipment	3,470	2,359
Equipment and fixtures	3,029	3,480
Books and artwork	712	711
Infrastructure	<u>6,486</u>	<u>6,558</u>
Capital assets, net of depreciation	<u>\$ 118,355</u>	<u>\$ 113,954</u>

Additions to capital assets during the current year included the following:

Donated Infrastructure assets (streets)	\$ 244
Construction-in-progress projects (includes sidewalk design and construction)	2,411
Land improvements	-
Buildings	-
Land	2,817
Vehicles	1,555
Equipment, furniture & fixtures	385
Computer equipment and software	56
Recreational facilities	432
Library books & Artwork	<u>188</u>
	<u>\$ 8,088</u>

Long-Term Debt - At year-end, the City had \$62.4 million in general obligation warrants, capital lease contracts payable and other long-term debt outstanding. This is an increase of 40.59% in debt from last year, as shown in *Table 5* below.

Table 5: Outstanding Debt

As of September 30, 2014
(dollars in thousands)

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>
Governmental activities:			
Warrants payable	\$ 39,830	\$ 18,475	\$ 58,305
Capital leases	3,038	(551)	2,487
Compensated absences	1,557	109	1,666
Totals	\$ 44,425	\$ 18,033	\$ 62,458

Long-term debt activity for the year consisted of the following:

- ❖ The City reduced its General Obligation Warrants by \$2.01 million but added an additional \$20.6 million in General Obligation Warrants (Series 2013A, 2014 and 2014CWSRF) for a net increase of \$18.5 million. The proceeds of the Warrants shall be used to construction new municipal facilities and restore and improve wetlands and green space
- ❖ The long-term liability in compensated absences increased due to accumulated compensatory time city wide.
- ❖ A favorable bond rating facilitates the City’s ability to meet financial obligations. Moody’s Investors Service and Fitch Ratings assigned the City of Vestavia Hills a rating of Aa1 and AA+ in 2013/2014, respectively.

Economic Factors and Next Year’s Budget

Ad Valorem Tax – The City’s ad valorem tax is based on an annual reassessment of real property. Over the previous six years, ad valorem taxes have shown some volatility resulting primarily from tornados which severely damaged and/or destroyed local residence and businesses. The rebuilding of residential structures and businesses will result in increase collections of ad valorem taxes. The corresponding annual percentage changes are reflected below.

Ad Valorem Taxes - Real			
<u>Fiscal Year</u>	<u>Collection</u>	<u>Variance</u>	<u>% Change</u>
2009	12,235,165	587,707	5.05%
2010	12,065,106	(170,059)	-1.39%
2011	11,860,083	(205,023)	-1.70%
2012	12,246,789	386,706	3.26%
2013	11,892,447	(354,342)	-2.90%
2014	12,284,147	391,700	3.30%

Personnel Administration Costs – The City’s personnel administration is provided by the Personnel Board of Jefferson County (PBJC). Participating municipalities pay an annual fee based on the number of classified employees employed by the municipality times a percentage of the PBJC’s operating budget. The City of Vestavia Hills paid \$210,875 in fiscal 2014, a 1.35% increase.

Medical Costs – Employee health insurance is provided through the State of Alabama Insurance Board. The City of Vestavia Hills retained its preferred insurance classification rating resulting from minimal medical claims and employees’ participation in the State of Alabama Wellness Screening Program. In fiscal 2014, the City’s health insurance premium increased 5%. Vestavia Hills absorbed the increase.

Retirement Costs –The City’s retirement program for employees is provided through the Retirement System of Alabama (RSA). Economic and market conditions in previous years resulted in increases in the City’s required contribution to the program. The pension plan is currently funded at 65.7%, reflecting an unfunded liability of \$20.05 million. Subsequently, Vestavia Hills’ contribution factor increased in fiscal 2014 from 10.70% to 12.23% representing a budgeted contribution of \$1.8 million. The contribution factor of 12.23% is expected to remain constant in fiscal 2015.

Cost-of-Living Raise – A 2% cost of living adjustment was included in the 2013-2014 fiscal budget.

Current Year Economic Growth and Planned Development in Next Fiscal Year -

During Fiscal Year 2014, the City of Vestavia Hills experienced strong growth in construction of new homes as evidenced by Exhibit 1 below. 114 residential new construction permits were issued and 7 commercial new construction permits were issued. These numbers show a rebound from recessionary effects to the local economy and represent an eight year high. Given the City’s reliance upon the ad valorem tax as a major source of revenue, this is a strong indicator of a healthy financial position in future years. Furthermore, Exhibit 2 expresses the historical commercial new construction values in Vestavia Hills over an eight year period. Except for two of the last eight years, the value of new commercial construction has not exceeded \$5 million dollars for the fiscal year. Extremely noteworthy, the City anticipates a considerable growth of new commercial construction for fiscal year 2015 with the commencement of \$116 million in construction and moderate residential growth as well. While the future sales and ad valorem taxes generated from these new commercial businesses will not be seen in the fiscal year 2015 budget, they will positively affect the revenue projections for fiscal year 2016 and future fiscal years. The anticipated annual growth of ad valorem and sales taxes from these new developments equate to \$ 2.5 million additional annual tax dollars. With many other projects in preliminary development and an anticipated healthy growth in sales for existing businesses, projections for revenue growth over the next three years appear robust.

Exhibit 1

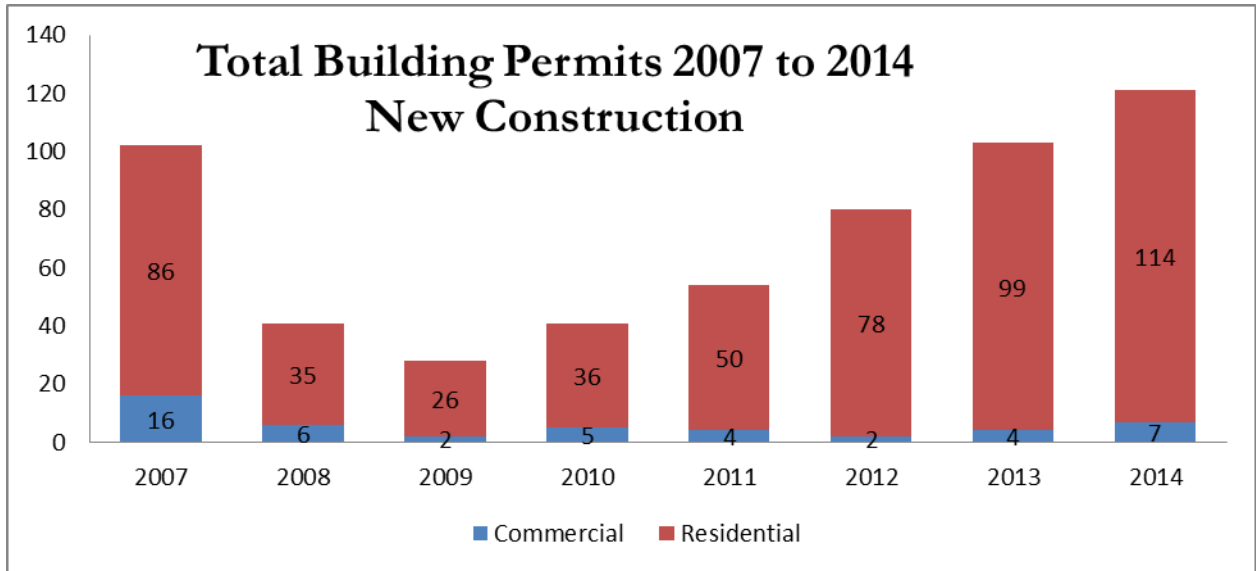


Exhibit 2

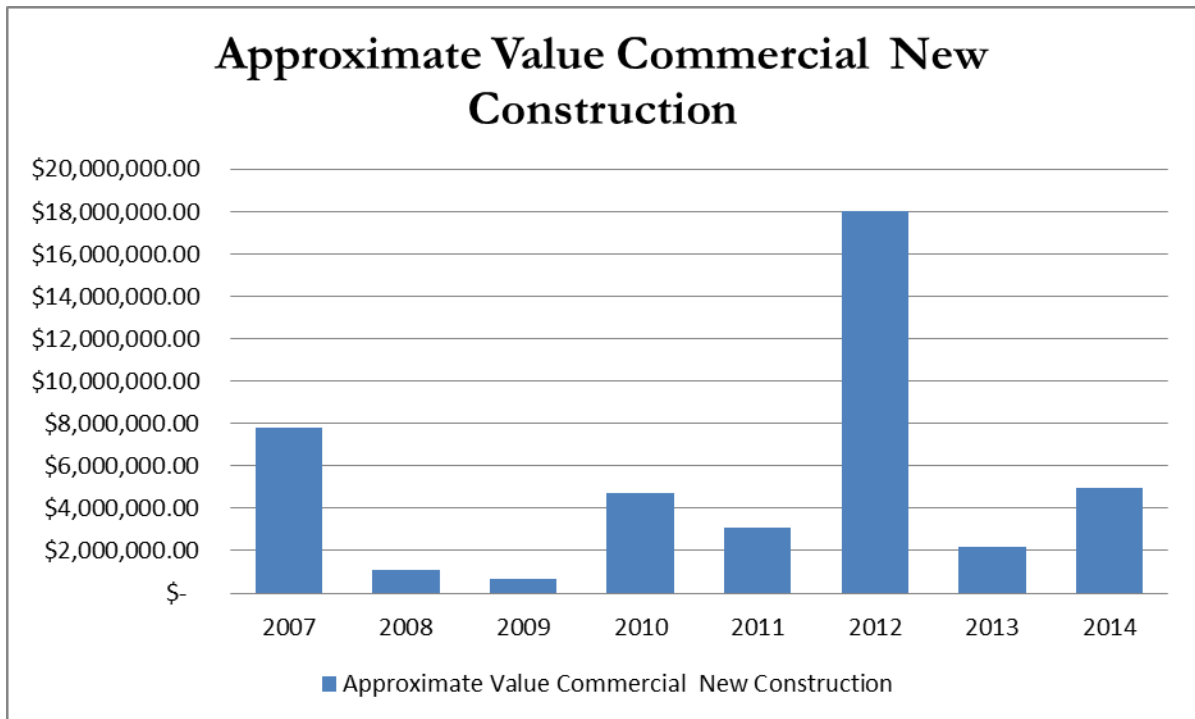


Exhibit 3

Project Name	Project Anticipated Construction Value	Project Anticipated Annual Tax Revenue to Vestavia Hills	Projected Opening Date
Sprouts Retail Center	\$ 10,000,000	\$ 400,000	Apr-16
Zaxby's	\$ 1,050,000	\$ 59,000	Oct-15
Chick-Fil-A	\$ 2,000,000	\$ 125,000	Sep-16
Aspire Rehabilitation (Skilled Nursing Facility)	\$ 17,524,000	\$ 0	Sep-16
Resort Lifestyle Community (Senior Living Facility)	\$ 27,991,000	\$ 115,000	Nov-16
Corporate HQ- Patchwork Farms	\$ 3,500,000	\$ 15,000	Sep-16
The Reserve at Patchwork Farms (270 Unit Multi-Family Development)	\$ 30,000,000	\$ 123,000	Sep-16
Grocer Anchored Retail-Patchwork	\$ 24,000,000	\$1,450,000	Nov-16
TOTAL NEW COMMERCIAL VALUES	\$ 116,065,000	\$2,287,000	
Liberty Park Single Family Residential (200 New Homes)	\$99,450,000	\$ 204,000	Four Year Build out

Contacting the City's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Melvin Turner, III, Finance Director - City of Vestavia Hills, 513 Montgomery Highway, Vestavia Hills, AL 35216, or by calling (205) 978-0128, Monday through Friday, 8:00 a.m. to 5:00 p.m., Central Standard Time.

City of Vestavia Hills, Alabama
Statement of Net Position

<i>September 30, 2014</i>	Primary Government	Component Units	
	Governmental Activities	Library Foundation	Park and Recreation Foundation
Assets			
Cash and temporary investments	\$ 40,531,394	\$ 156,770	\$ 625,766
Cash - restricted	1,627,019	-	-
Receivables	1,995,568	-	-
Inventory	38,809	-	-
Prepaid expenses	49,552	-	-
Bond issuance discount, net	190,060	-	-
Land	70,444,576	-	-
Construction in progress	4,635,756	-	-
Capital assets, net of accumulated depreciation	43,274,502	-	-
Total assets	162,787,236	156,770	625,766
Liabilities			
Accounts payable	2,868,863	-	-
Court and performance bonds payable	433,021	-	-
Accrued interest payable	402,635	-	-
Noncurrent liabilities			
Due within one year:			
Compensated absences	293,927	-	-
Warrants payable, net	2,315,000	-	-
Obligation due under long-term capital leases	557,775	-	-
Due in more than one year:			
Compensated absences	1,665,587	-	-
Warrants payable, net	57,052,438	-	-
Obligation due under long-term capital leases	1,929,672	-	-
Total liabilities	67,518,918	-	-
Net position			
Net investment in capital assets	82,528,757	-	-
Restricted	889,506	-	-
Unrestricted	11,850,055	156,770	625,766
Total net position	\$ 95,268,318	\$ 156,770	\$ 625,766

See accompanying notes to basic financial statements.

City of Vestavia Hills, Alabama
Statement of Activities

Year ended September 30, 2014

Program Activities	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government administration	\$ 6,259,521	\$ 3,630,760	\$ 1,000	\$ 290,653
Public safety	16,331,751	673,596	527,769	-
Public works	5,427,825	1,270,571	-	-
Library	2,472,162	96,423	24,382	35,604
Parks and recreation	3,563,574	366,079	-	-
Interest on long-term debt	2,852,595	-	-	-
Total primary government	\$36,907,428	\$ 6,037,429	\$ 553,151	\$ 326,257
Component units				
Library Foundation	\$ 36,073	\$ -	\$ 27,112	\$ -
Park and Recreation Foundation	16,670	-	150,953	-
Total component units	\$ 52,743	\$ -	\$ 178,065	\$ -

General revenues:

Taxes:

Ad Valorem (real and personal property)

Sales and use

Other taxes

Utility franchise fees

Investment earnings

Donations

Donated infrastructure assets

Miscellaneous

Gain on sale of assets

Change in Net position

Net position at beginning of year

Net position, Ending

See accompanying notes to basic financial statements.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government		Component Units	
Total	Library Foundation	Park and Recreation Foundation	
\$ (2,337,108)	\$ -	\$ -	-
(15,130,386)	-	-	-
(4,157,254)	-	-	-
(2,315,753)	-	-	-
(3,197,495)	-	-	-
(2,852,595)	-	-	-
(29,990,591)	-	-	-
-	(8,961)	-	-
-	-	134,283	-
-	(8,961)	134,283	-
13,818,777	-	-	-
11,504,366	-	-	-
2,019,780	-	-	-
2,683,641	-	-	-
143,450	-	-	-
5,809	-	-	-
626,759	-	-	-
215,975	-	-	-
138,907	-	-	-
31,157,464	-	-	-
1,166,873	(8,961)	134,283	-
94,101,445	165,731	491,483	-
\$ 95,268,318	\$ 156,770	\$ 625,766	-

**City of Vestavia Hills, Alabama
Governmental Funds Balance Sheet**

<i>September 30, 2014</i>	General	Debt Service	Capital Projects
Assets			
Cash and temporary investments	\$ 12,009,043	\$ 672,961	\$ 25,900,782
Cash - restricted	436,619	-	1,190,400
Accounts receivable, net of allowance for uncollectibles	1,771,618	-	97,331
Inventory	38,809	-	-
Prepaid expenses	49,552	-	-
Interfund receivables	-	-	-
Total assets	\$ 14,305,641	\$ 672,961	\$ 27,188,513
Liabilities			
Accounts payable	\$ 1,469,419	\$ -	\$ 1,159,703
Court and performance bonds payable	433,021	-	-
Accrued expenses	592	-	-
Total liabilities	1,903,032	-	1,159,703
Fund balance			
Nonspendable	88,361	-	-
Restricted for:			
Road maintenance	-	-	-
Debt service requirement	-	672,961	-
Committed to:			
Capital projects	-	-	10,075,466
Emergency reserve	9,016,211	-	-
Assigned	778,589	-	15,953,344
Unassigned	2,519,448	-	-
Total fund balance	12,402,609	672,961	26,028,810
Total liabilities and fund balance	\$ 14,305,641	\$ 672,961	\$ 27,188,513

See accompanying notes to basic financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 1,948,608	\$ 40,531,394
-	1,627,019
126,619	1,995,568
-	38,809
-	49,552
27,644	27,644
<u>\$ 2,102,871</u>	<u>\$ 44,269,986</u>
\$ 239,741	\$ 2,868,863
-	433,021
27,644	27,644
-	592
<u>267,385</u>	<u>3,330,120</u>
-	88,361
889,506	889,506
-	672,961
-	10,075,466
-	9,016,211
945,980	17,677,913
-	2,519,448
<u>1,835,486</u>	<u>40,939,866</u>
<u>\$ 2,102,871</u>	<u>\$ 44,269,986</u>

City of Vestavia Hills, Alabama
Reconciliation of the Government Funds
Balance Sheet to the Statement of Net Position

September 30, 2014

Fund balance - total governmental funds \$ 40,939,866

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

Deferred items related to debt issuance used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. 190,060

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.

Governmental capital assets	\$ 155,509,469	
Accumulated depreciation	<u>(37,154,635)</u>	118,354,834

Long-term liabilities are not due and payable in the current period and therefore, they are not reported in the governmental funds balance sheet.

Warrants payable, net	(59,367,438)	
Compensated absences	(1,959,514)	
Accrued interest payable	(402,043)	
Capital lease payable	<u>(2,487,447)</u>	<u>(64,216,442)</u>

Net position of governmental activities \$ 95,268,318

City of Vestavia Hills, Alabama
Statement of Revenues, Expenditures, and
Changes in Fund Balances Governmental Funds

Year ended September 30, 2014

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 25,336,568	\$ -	\$ -	\$ 1,391,475	\$ 26,728,043
Licenses and permits	3,527,310	-	-	-	3,527,310
Intergovernmental	-	-	-	677,588	677,588
Charges for services	366,079	-	-	-	366,079
Fines and forfeitures	364,804	-	-	483,717	848,521
Fees	2,768,860	-	-	-	2,768,860
Grants	523,252	-	324,750	22,735	870,737
Proceeds from sale of assets	138,886	-	717	-	139,603
Investment revenues	71,281	2,148	68,434	1,586	143,449
Library revenues	-	-	-	105,094	105,094
Other revenues	725,879	214,976	324,165	1,125	1,266,145
Total revenues	33,822,919	217,124	718,066	2,683,320	37,441,429
Expenditures					
Current (operating):					
General government administration	5,419,114	-	306,049	240,701	5,965,864
Public safety	15,391,441	-	59,254	669,250	16,119,945
Public works	3,931,139	-	-	796,799	4,727,938
Library	1,502,601	-	-	68,603	1,571,204
Parks and recreation	2,421,080	-	3,549	-	2,424,629
Debt service	84,447	4,303,760	510,127	-	4,898,334
Capital outlay	276,261	-	7,149,174	16,817	7,442,252
Total expenditures	29,026,083	4,303,760	8,028,153	1,792,170	43,150,166
Excess of revenues over (under) expenditures	4,796,836	(4,086,636)	(7,310,087)	891,150	(5,708,737)
Other financing sources (uses)					
Donations	6,809	-	-	-	6,809
Operating transfers in	-	4,280,858	20,490,740	-	24,771,598
Operating transfers out	(5,019,804)	(19,751,794)	-	-	(24,771,598)
Other financing sources - proceeds of warrants	-	19,930,427	960,000	-	20,890,427
Total other financing sources (uses)	(5,012,995)	4,459,491	21,450,740	-	20,897,236
Excess of revenues and other financing sources over (under) expenditures and other uses	(216,159)	372,855	14,140,653	891,150	15,188,499
Fund balance, beginning of year	12,618,768	300,106	11,888,157	944,336	25,751,367
Fund balance, end of year	\$ 12,402,609	\$ 672,961	\$ 26,028,810	\$ 1,835,486	\$ 40,939,866

See accompanying notes to basic financial statements.

City of Vestavia Hills, Alabama
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Government-wide Statement of Activities

September 30, 2014

Net change in fund balances - total governmental funds		\$ 15,188,499
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
Expenditures for capital assets	\$ 7,462,252	
Less current year depreciation	<u>(3,688,004)</u>	3,774,248
<p>Some revenues reported in the government-wide statement of activities do not provide current financial resources and therefore are not reported as revenues in the governmental funds.</p>		
<p>The net effect of transactions involving the sale of capital assets is to decrease net assets.</p>		
		(696)
<p>The effect of donated infrastructure assets is to increase net assets.</p>		
		626,759
<p>The issuance of long-term debt provides current financial resources to governmental funds, but the issuance of the debt increases long-term liabilities in the government-wide statement of net assets.</p>		
		(20,565,000)
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
		2,090,000
<p>Some expenses reported in the government-wide statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
Change in long-term compensated absences	\$ (127,495)	
Change in accrued interest payable	(152,907)	
Change in long-term debt (capital lease)	550,246	
Change in deferred items related to debt issuance	<u>(216,781)</u>	53,063
Change in net position of governmental activities		<u>\$ 1,166,873</u>

See accompanying notes to basic financial statements.



City of Vestavia Hills, Alabama
Notes to Financial Statement Index

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Vestavia Hills, Alabama (the “City”) was incorporated on November 8, 1950. The City operates under a Council-Manager form of government organized to comply with the provisions of Title 11, Chapter 43, Sections 20-22 of the Code of Alabama 1975, as amended. The City Council is composed of five officials (four Councilors and the Mayor who serves as President of the Council) elected at-large for concurrent four year terms. The City Manager is appointed by the City Council. The terms of the current administration are scheduled to expire October 31, 2016.

The accounting policies of the City conform to generally accepted accounting principles (GAAP) as applicable to the governmental units. This report, the accounting systems and classification of accounts conform to standards of the Governmental Accounting Standards Board (GASB) or, where applicable, the Financial Accounting Standards Board (FASB). The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

A. Reporting Entity

The accompanying financial statements present the City's primary government and two component units.

One component unit, the City of Vestavia Hills Park and Recreation Foundation, is significantly influenced by the City. The significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships). The City appoints the members of the Park and Recreation Board, which then appoints a voting majority of the Board of Directors of the City of Vestavia Hills Park and Recreation Foundation. Accordingly, this component unit is discretely reported in the accompanying financial statements to emphasize that, although legally separate from the City, the City remains financially accountable. The Foundation's financial statements may be viewed at the City's administrative offices.

Another component unit is the Vestavia Hills Library Foundation. The Foundation is a non-profit organization formed for the benefit of the City's library. Several of the Foundation's Board members are also members of the City's Library Board. The Library Foundation has received contributions from citizens which will be utilized to construct, furnish, and equip the City's library facilities. This component unit is also discretely presented in the accompanying financial statements and a copy of the Foundation's financial statements can be obtained at City Hall.

B. Related Organization

The City Council is responsible for appointing the members of the Vestavia Hills Board of Education (the Board). However, the City has no control or influence in the presentation or adoption of the Board's annual operating budget; the City is not responsible for any budget deficits incurred by the Board; and the Board has the authority to issue debt securities, which are neither secured by the City's revenues or obligations of the City. Accordingly, the financial

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Related Organization (continued)

statements of the Board are not presented in the accompanying financial statements because the City is not considered to be financially accountable for the Board.

The City currently receives advalorem taxes from the Jefferson County Tax Collector based on a total millage rate of 49.30 mills. Of the 49.30 mills received from the County, 20.55 mills are kept by the City to fund general government operations and the balance of 28.75 mills is remitted by the City to the Vestavia Hills Board of Education. During the year ended September 30, 2014, the total advalorem taxes remitted to the Board amounted to approximately \$16.2 million and \$238,015 was due the Board of Education at September 30, 2014.

C. Government-Wide Financial Statements

The statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include funds of the reporting entity except for fiduciary funds and component units that are fiduciary in nature (at year end the City had no fiduciary type activity).

Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

D. Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary (the City has no proprietary or fiduciary funds at year end). An emphasis is placed on major funds within the governmental categories. At a minimum, governmental funds other than the general fund must be reported as major funds if they meet both of the following criteria:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Financial Statements (continued)

- a. *Ten percent criterion.* An individual governmental fund reports at least 10 percent of any of the following: a) total governmental fund assets, b) total governmental fund liabilities, c) total governmental fund revenues, or d) total governmental fund expenditures.
- b. *Five percent criterion.* An individual governmental fund reports at least 5 percent of the aggregated total for both governmental funds and proprietary funds of any one of the items for which it met the 10 percent criterion.

The funds of the financial reporting entity are described below:

Governmental funds

1. General Fund

The General Fund is the principal fund of the City and is always classified as a major fund. It is used to account for all revenues and expenditures applicable to the general operations of City government which are not properly accounted for in another fund. All general operating revenues which are not restricted or designated as to their use by outside sources are recorded in the General Fund.

2. Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

3. Debt Service Funds

The Debt Service Fund is used to account for financial resources related to the City's debt service and debt defeasances.

4. Capital Project Funds

Capital Projects Funds are used to account for financial resources that are received and used for the acquisition, construction, or improvement of capital assets.

5. Major and Nonmajor Funds

The General Fund, Capital Projects Fund, and Debt Service Fund are classified as major funds and are described above.

The remaining Other Governmental Funds (Special Revenue Funds) are classified as nonmajor funds and are described above.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement focus

On the Government-Wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Basis of accounting

In the Government-Wide Statement of Net Position and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

F. Receivables

In the Government-Wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes, advalorem taxes, and other taxes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Receivables (continued)

In the fund financial statements, receivables in governmental funds include the receivables mentioned in the preceding paragraph and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available.

The Vestavia Hills Park and Recreation Foundation (the Foundation) has also adopted ASC Topic 958, *Not-For-Profit Entities – Revenue Recognition*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. The Foundation recognizes contributions when the donor makes a promise to give that is, in substance, unconditional.

G. Equity Classifications

Government-wide statements

Equity is classified as net position and displayed in three components:

- a. *Net investment in capital assets* - Consists of capital assets including restricted capital assets, net of accumulated depreciation, construction in progress, land, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. *Restricted* - Constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted* - All other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund statements

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Equity Classifications (continued)

Fund statements (continued)

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the City Council – the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the City Council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance. The classification reflects the amounts constrained by the City’s “intent” to be used for specific purposes, but are neither restricted nor committed. The City Council and management have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor 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 all governmental funds.

The City has assigned \$500,000 of the General Fund fund balance for the City’s unfunded pension liability and \$278,589 for encumbrances.

The City has assigned \$15,953,344 of the Capital Projects Fund fund balance for encumbrances.

The City has assigned \$945,980 of the Other Governmental Funds fund balance for use as follows: \$221,959 for the City’s Emergency 911 Fund, \$356,146 for the Court & Corrections Fund, \$344,852 for the Library and \$23,023 for Vehicle Tags.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then committed, assigned, and unassigned – in order as needed.

The City Council has adopted an Emergency Reserve Fund Balance Policy. Under this policy, it is the City’s intent to develop and maintain a General Fund Emergency Reserve fund balance representing at least 25% of prior year actual General Fund expenditures (modified accrual

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Equity Classifications (continued)

Fund statements (continued)

basis) plus operating transfers out. The City Council has currently committed \$9,016,211 of General Fund fund balance for economic stabilization in case of an emergency. An emergency that would warrant use of their committed fund balance is defined as an unforeseen non-routine event that generally represents an economic impact to the City greater than 5% of the previous 5 year average of sales tax collections by the City and this event cost can't be absorbed by reducing the current year budgeted expenses, increasing current year budgeted revenue, or the event occurred too late in the year to overcome the impact by adjusting the budget in the normal course of the City's business.

H. Long-term Debt

All long-term debt to be repaid from governmental resources is reported as liabilities in the government-wide statements. The City's long-term debt consists primarily of notes and warrants payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures.

I. Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for the governmental activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds – By Character:	Current (further classified by function)
	Debt Service
	Capital Outlay

In the fund financial statements, governmental funds report expenditures of financial resources.

J. Fixed Assets

The accounting treatment for property, plant, and equipment (fixed assets) depends on whether the assets are reported in the government-wide or fund financial statements.

In the government-wide financial statements, fixed assets with initial individual costs of more than \$5,000 and an estimated useful life in excess of one year are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Historical cost was used to value the majority of the assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Fixed Assets (continued)

Government-wide statements

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of assets is as follows:

Buildings	20-50 years
Improvements	10-50 years
Machinery and equipment	3-20 years
Infrastructure	25-50 years

Fund financial statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as expenditures of the government upon acquisition.

K. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Any encumbrances outstanding at year-end are reported as assigned, restricted, or committed fund balance as applicable and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

L. Inventory

Inventory items, which consist mainly of garage parts, are valued at cost which approximates market. The cost of inventory is recorded as an expenditure when consumed rather than when purchased.

M. Pension Expense

All full-time employees participate in the City's defined benefit pension plan. The City funds pension expense as actuarially determined and required by the plan (Note 7).

N. Interfund Transactions

During the course of normal operations, the City incurs numerous transactions between funds to provide services, construct assets, service debt, etc. These transactions are generally reported as operating transfers except in instances where the transfer represents the reimbursement to a fund for expenditures incurred for the benefit of another fund. Remaining fund balances in discontinued funds and non-recurring, non-routine transfers are accounted for as residual equity transfers.

City of Vestavia Hills, Alabama
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Interfund Transactions (continued)

Details of current interfund receivables and payables are as follows:

Payable from	Payable to	Amount
Other Governmental Funds	Other Governmental Funds	\$ 27,644

The purpose of the interfund receivable balance to the Other Governmental Funds from the Other Governmental Funds is for reimbursement of paving expenses paid from one fund on behalf of the other.

Interfund receivables and payables and transfers between funds within governmental activities are eliminated in the Statement of Net Position and the Statement of Activities.

Transfers for the fiscal year ended September 30, 2014 consisted of the following:

	General Fund	Debt Service Fund	Total
Transfers in:			
Debt Service Fund	\$ 4,280,858	\$ -	\$ 4,280,858
Capital Projects Fund	738,946	19,751,794	20,490,740
	\$ 5,019,804	\$ 19,751,794	\$ 24,771,598

The purpose of the transfer from the General Fund to the Debt Service Fund is for the reimbursement of debt service paid from the Debt Service Fund.

The purpose of the transfer from the General Fund to the Capital Projects Fund is for the capital reserve allocation from the General Fund.

The purpose of the transfer from the Debt Service Fund to the Capital Projects Fund is to transfer proceeds of warrants to be used for Capital Projects.

N. Property Taxes

All ad valorem real property taxes levied by municipalities in Jefferson County, Alabama are assessed by the Jefferson County Tax Assessor and collected by the Jefferson County Tax Collector. The Jefferson County Tax Assessor attaches taxes as enforceable liens on property as of October 1 and taxes become due October 1 through December 31. Property taxes not paid by January 1 are considered delinquent. Personal property taxes are also collected by the Jefferson County Tax Collector and are due throughout the year. After collecting property taxes, the Jefferson County Tax Collector remits the City's portion by check monthly. Taxes collected by the Jefferson County Tax Collector before the fiscal year end but remitted to the City after September 30 is accrued in the General Fund.

City of Vestavia Hills, Alabama
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Management 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, contingent liabilities and the reported amount of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

P. Subsequent Events

The City has evaluated subsequent events through the date of issuance of these financial statements.

NOTE 2 – CASH AND INVESTMENTS

The City maintains several checking accounts that are separately held by several of the City's funds. In addition, investments may also be held by an individual City fund. Deposits and investments are stated at market values.

At year-end, the carrying amount and bank balance of the City's deposit accounts were as follows:

	Carrying Amount	Bank Balance
All funds	\$ 42,158,413	\$ 42,783,229

At September 30, 2014, all of the bank balance of the City's funds was either covered by federal depository insurance or secured by collateral through the Alabama State Treasury's Security for Alabama Funds Enhancement (SAFE) Program. Under the SAFE program, the City's funds are protected through a collateral pool administered by the Alabama State Treasury. Certain banks holding deposits belonging to the state, counties, cities, or agencies of any of these entities must pledge securities as collateral against these deposits. In the event of the failure of a bank, securities pledged by that bank would be liquidated by the State Treasurer to replace the public deposits. If the securities pledged failed to produce adequate funds for that purpose, every bank participating in the pool would share the liability for the remaining balance. At September 30, 2014, all of the City's depositories are participating in the SAFE program.

The component units' cash balances were uncollateralized and were insured in the amount of \$250,000, respectively.

Included in the carrying amount above are restricted assets totaling \$deposits of \$436,619 related to construction, land disturbance, and court appearance bonds. These deposits consist of cash equivalents and are considered restricted as they are payable to various third parties upon completion of a future event. Accordingly, a corresponding liability is recorded for this amount.

City of Vestavia Hills, Alabama
Notes to Financial Statements

NOTE 3 – CAPITAL ASSETS

Following is a summary of the changes in the City's capital assets for the year ended September 30, 2014:

	Balance at 9/30/2013	Additions	Disposals/ Retirements/ Completed	Balance at 9/30/2014
Capital assets not being depreciated:				
Land	\$ 67,627,994	\$ 2,816,582	\$ -	\$ 70,444,576
Construction progress	2,224,354	2,411,402	-	4,635,756
Total capital assets not being depreciated	69,852,348	5,227,984	-	75,080,332
Capital assets being depreciated:				
Land improvements	8,997,140	-	-	8,997,140
Buildings	14,660,313	-	-	14,660,313
Building equipment and fixtures	349,946	54,789	-	404,735
Vehicles	6,128,627	1,555,455	(740,161)	6,943,921
Equipment	5,362,389	169,189	(8,995)	5,522,583
Computer equipment	1,368,012	56,424	-	1,424,436
Recreational equipment	1,830,480	114,305	-	1,944,785
Office furniture and fixtures	980,402	-	-	980,402
Office equipment	82,759	47,000	-	129,759
Recreational facilities	22,525,122	431,520	-	22,956,642
Books and artwork	1,235,302	188,257	-	1,423,559
Infrastructure	14,796,776	244,086	-	15,040,862
Total capital assets being depreciated	78,317,268	2,861,025	(749,156)	80,429,137
Less accumulated depreciation for:				
Land improvements	3,006,832	427,397	-	3,434,229
Buildings	3,398,240	457,453	-	3,855,693
Building equipment and fixtures	126,449	29,558	-	156,007
Vehicles	3,769,244	443,657	(739,465)	3,473,436
Equipment	3,542,619	408,331	(8,995)	3,941,955
Computer equipment	833,650	202,191	-	1,035,841
Recreational equipment	1,412,597	99,817	-	1,512,414
Office furniture and fixtures	511,415	138,724	-	650,139
Office equipment	67,649	13,467	-	81,116
Recreational facilities	8,783,111	964,367	-	9,747,478
Books and artwork	523,954	187,260	-	711,214
Infrastructure	8,239,331	315,782	-	8,555,113
Total accumulated depreciation	34,215,091	3,688,004	(748,460)	37,154,635
Total capital assets being depreciated, net	44,102,177	(826,979)	(696)	43,274,502
Governmental activities capital assets, net	\$ 113,954,525	\$ 4,401,005	\$ (696)	\$ 118,354,834

City of Vestavia Hills, Alabama
Notes to Financial Statements

NOTE 3 – CAPITAL ASSETS (CONTINUED)

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

Governmental activities:

General government administration	\$	186,162
Public safety		762,052
Public works		699,887
Recreational		1,138,945
Library		900,958
Total depreciation expense	\$	3,688,004

NOTE 4 – CAPITALIZED LEASES

At September 30, 2014, approximately \$1,722,609 in accumulated depreciation and approximately \$389,456 in current year depreciation expense has been recorded in the government-wide financial statements related to assets costing \$4,921,467 purchased under capital leases. The current portion of the outstanding liability related to these capital leases at September 30, 2014 reported in the government-wide financial statements totaled \$557,775. The remaining long-term portion of these capital lease obligations reported in the government-wide financial statements totaled \$1,929,672 at September 30, 2014.

The following schedule shows the future minimum lease payments at September 30, 2014:

Fiscal year	Interest	Principal	Total Lease Payment
2015	\$ 39,967	\$ 557,775	\$ 597,743
2016	30,744	565,430	596,173
2017	22,092	330,361	352,452
2018	16,138	336,314	352,452
2019 and thereafter	13,986	697,567	711,553
Total	\$ 122,927	\$ 2,487,447	\$ 2,610,373

City of Vestavia Hills, Alabama
Notes to Financial Statements

NOTE 5 – ACCOUNTS RECEIVABLE

The following details the description and amounts of accounts receivable for the City:

Sales taxes	\$	940,243
Property taxes		425,546
Franchise fees		146,077
Transport receivable		153,826
Intergovernmental		174,063
Other receivables		155,813
Total	\$	1,995,568

NOTE 6 – LONG-TERM DEBT

The following is a summary of the changes in long-term debt of the City for the year ended September 30, 2014:

Warrant obligations at September 30, 2013	\$	39,830,000
Principal payments		(2,090,000)
Debt issuance		20,565,000
Total warrants outstanding		58,305,000
Long-term portion of accumulated compensated absences		1,665,587
Unamortized bond premium		1,062,438
Total long-term debt at September 30, 2014	\$	61,033,025

City of Vestavia Hills, Alabama
Notes to Financial Statements

NOTE 6 – LONG-TERM DEBT (CONTINUED)

Outstanding warrant obligations of the City at September 30, 2014 consist of the following:

General Obligation Warrants, Series 2008 were issued in the principal amount of \$9,615,000 in February 2009. The warrants bear interest at an average of 4.38%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2028 and are callable on or after February 1, 2019 without premium or penalty, and at which time the warrants are callable at 100% plus accrued interest.	\$ 9,615,000
General Obligation Warrants, Series 2009-A were issued in the principal amount of \$10,940,000 in December 2009. The warrants bear interest at an average of 3.56%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2028 and are callable at any time without penalty.	10,940,000
Taxable General Obligation Warrants, Series 2009-B were issued in the principal amount of \$6,070,000 in December 2009. The warrants bear interest at an average of 4.8%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2028 and are callable at any time without penalty.	6,070,000
General Obligation Warrants, Series 2012 were issued in the principal amount of \$11,000,000 in June 2012. The warrants bear interest at an average of 3.5%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2022 and are callable at any time without penalty.	6,870,000
General Obligation Warrants, Series 2013 were issued in the principal amount of \$4,245,000 in May 2013. The warrants bear interest at an average of 3.75%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2033 and are callable at any time without penalty.	4,245,000
General Obligation Warrants, Series 2013A were issued in the principal amount of \$10,000,000 in December 2013. The warrants bear interest at an average of 4.00%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2033 and are callable at any time without penalty.	10,000,000
General Obligation Warrants, Series 2014 were issued in the principal amount of \$9,605,000 in January 2014. The warrants bear interest at an average of 3.00%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2031 and are callable at any time without penalty.	9,605,000
General Obligation Warrants, Series 2014 (CWSRF-DL) were issued in the principal amount of \$960,000 in September 2014. The warrants bear interest at an average of 2.00%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2034 and are callable at any time without penalty.	960,000
Total	\$ 58,305,000

City of Vestavia Hills, Alabama
Notes to Financial Statements

NOTE 6 – LONG-TERM DEBT (CONTINUED)

The following schedule shows the debt service requirements at September 30, 2014:

Fiscal year	Debt Service Related to Principal	Debt Service Related to Interest	Total Debt Service
2015	\$ 2,315,000	\$ 2,291,215	\$ 4,606,215
2016	2,395,000	2,226,965	4,621,965
2017	2,480,000	2,140,615	4,620,615
2018	2,560,000	2,059,284	4,619,284
2019	2,445,000	1,969,053	4,414,053
2020-2024	13,465,000	8,299,057	21,764,057
2025-2029	14,910,000	5,305,925	20,215,925
2030-2034	17,735,000	1,665,753	19,400,753
	<u>\$ 58,305,000</u>	<u>\$ 25,957,867</u>	<u>\$ 84,262,867</u>

The total interest paid by the City during 2014 relative to the above warrants was \$2,027,728.

NOTE 7 – PENSION PLAN

A. Plan description

The City contributes to the Employees' Retirement System of Alabama, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for the various state agencies and departments.

Substantially all employees are members of the Employees' Retirement System of Alabama (RSA). Membership is mandatory for covered or eligible employees of the City. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, and (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method, retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members with more than one year of creditable service or \$5,000 for those with less than one year of service.

NOTE 7 – PENSION PLAN (CONTINUED)

B. Plan description (continued)

The Employees' Retirement System was established as of October 1, 1945, under the provisions of Act 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for State employees, State police, and on an elective basis to all cities, counties, towns, and quasi-public organizations. The responsibility for general administration and operation of the Employees' Retirement System is vested in the Board of Control. Benefit provisions are established by the Code of Alabama 1975, Sections 36-27-1 through 36-27-103, as amended, Sections 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through Sections 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Board of Control authority to accept or reject various Cost-Of-Living-Adjustments (COLAs) granted to retirees.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

C. Funding

In 2012, the Alabama Legislature adopted Act 2012-377 which created a new defined benefit pension plan tier ("tier 2") for employees with no previous creditable retirement service hired on or after January 1, 2013. Effective October 1, 2011, the City elected to come under the provisions of Act 2011-676 which requires that covered employees contribute to the pension plan at the rate of 5% and 6% of compensation for tier 1 and 2 employees, respectively (6% for tier 1 and 7% for tier 2 sworn police officers and firefighters). In addition, the RSA requires that the City remit monthly matching contributions to the pension plan. The City's matching contributions are actuarially determined annually and stated as a percentage of covered compensation. The City's actuarially determined matching contribution for the year ended September 30, 2014 was 12.23% and 9.93% of covered compensation for tier 1 and tier 2 employees, respectively.

For the year ended September 30, 2014, the City's total compensation was approximately \$14.1 million and the City's total covered compensation used to determine the City's pension contribution was approximately \$13.9 million. The City's policy is to fund the required contribution as actuarially determined by the RSA and stated as a percentage of eligible compensation. Following are the pension contributions remitted to the RSA by fiscal year since 2007:

City of Vestavia Hills, Alabama
Notes to Financial Statements

NOTE 7 – PENSION PLAN (CONTINUED)

C. Funding (continued)

Year Ended September 30,	Employer Contribution	Employer Percentage of APC Contributed	Net Pension Obligation (NPO)	Employer	Employee	Combined
2007	8.55%	100%	\$ -	\$ 1,101,609	\$ 731,066	\$ 1,832,675
2008	9.26%	100%	-	1,226,883	752,142	1,979,025
2009	9.36%	100%	-	1,264,965	766,431	2,031,396
2010	10.56%	100%	-	1,340,776	773,826	2,114,602
2011	10.56%	100%	-	1,397,815	753,021	2,150,836
2012	10.56%	100%	-	1,422,867	766,809	2,189,676
2013	10.70%	100%	-	1,474,585	791,426	2,266,011
2014	12.23%	100%	-	2,059,830	965,800	3,025,630

D. Funding progress

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

NOTE 8 – ACCUMULATED COMPENSATED ABSENCES

For vacation leave and other compensated absences with similar characteristics, GASB Statement No. 16 requires the accrual of a liability as the benefits are earned by the employees if both of these conditions are met:

- a. The employee's right to receive compensation is attributable to services already rendered.
- b. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

NOTE 8 – ACCUMULATED COMPENSATED ABSENCES (CONTINUED)

A City employee receives twelve days of annual vacation for the first twelve years of service; eighteen days of annual vacation during years twelve to twenty-five; and twenty-four days of annual vacation leave after twenty-five years of satisfactory employment. Annual vacation leave can accumulate up to forty days or 320 hours and an employee cannot be paid for annual leave in lieu of time off. At year end, any annual vacation leave over 320 hours is converted hour for hour to sick leave. Employees also earn other compensatory time off for working on city holidays, and other approved circumstances over their normal work week. This compensatory time off accrues in the same manner as overtime pay at a rate of time and a half. There is no annual maximum limit for this compensatory time off and an employee can use it as other time off or is paid for the balance upon separation from the City. Sick leave can be accumulated, but upon separation from service all sick leave is canceled and is not transferable to annual leave. Sick leave can be converted as years of service upon retirement in the Retirement Systems of Alabama.

A liability for vacation pay is reported in the governmental funds only if the obligation has matured, for example, as a result of an employee's resignation or retirement. All vacation pay is accrued when incurred in the government-wide statements. The current portion of accrued vacation at September 30, 2014 reported in the government-wide financial statements is \$293,927. The remaining long-term incurred portion of the accrued vacation of the governmental activities at September 30, 2014 totaled \$1,665,587.

NOTE 9 – POST-EMPLOYMENT BENEFITS

Plan description

The City of Vestavia Hills' medical benefits are provided through a comprehensive medical plan and are made available to employees upon actual retirement.

The retirement eligibility provisions are as follows: 10 years of consecutive service and attainment of age 60; or, 25 years of service and attainment of age 55. Complete plan provisions are included in the official plan documents.

Contribution rates

Employees do not contribute to their post-employment benefits costs until they become retirees and begin receiving those benefits. The plan provisions and contribution rates are contained in the official plan documents.

Funding policy

Until fiscal year ending September 30, 2008, the City of Vestavia Hills recognized the cost of providing post-employment medical benefits (the City of Vestavia Hills' portion of the retiree medical benefit premiums) as an expense when the benefit premiums were due and thus financed the cost of the post-employment benefits on a pay-as-you-go basis. Effective with the Fiscal Year beginning October 1, 2008, the City of Vestavia Hills implemented Government Accounting

City of Vestavia Hills, Alabama
Notes to Financial Statements

NOTE 9 – POST-EMPLOYMENT BENEFITS (CONTINUED)

Standards Board Statement Number 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions* (GASB 45). The funding policy is not to fund the ARC except to the extent of the current year’s retiree funding costs.

In fiscal year ending September 30, 2014, the City of Vestavia Hills’ portion of health care funding cost for retired employees totaled \$100,282. These amounts were applied toward the Net OPEB Benefit Obligation as shown in the table on the following page.

Annual required contribution

The City’s annual required contribution (ARC) is an amount actuarially determined in accordance with GASB 45. The ARC is the sum of the normal cost plus the contribution to amortize the actuarial accrued liability (AAL). A level dollar, open amortization period of 30 years (the maximum amortization period allowed by GASB 43/45) has been used for the post-employment benefits. The total ARC for the fiscal year beginning October 1, 2014 is \$88,484, as set forth below:

	Medical
Normal cost	\$ 37,863
30-year UAL amortization amount	50,621
Annual required contribution (ARC)	\$ 88,484

Net post-employment benefit obligation (asset)

The table below shows the City’s net other post-employment benefit (OPEB) obligation (asset) for fiscal year ending September 30, 2014:

	Medical
Annual required contribution	\$ 88,484
Interest on net OPEB obligation	(2,263)
ARC adjustment	3,271
Annual OPEB cost	89,492
Contributions	-
Current year retiree premium	(100,282)
Change in net OPEB obligation	(10,790)
Beginning net OPEB obligation 10/01/13	(56,565)
Ending net OPEB obligation (asset) 09/30/14	\$ (67,355)

NOTE 9 – POST-EMPLOYMENT BENEFITS (CONTINUED)

Funded status and funding progress

In the fiscal year ending September 30, 2014, the City made no contributions to its post-employment benefits plan. The plan was not funded at all, has no assets, and hence has a funded ratio of zero. As of October 1, 2013, the most recent actuarial valuation, the AAL was \$910,374, which is defined as that portion, as determined by a particular actuarial cost method (the City uses the projected unit credit cost method), of the actuarial present value of post-employment plan benefits and expenses which is not provided by normal cost. Since no plan funding has occurred through fiscal year 2014, the entire actuarial accrued liability of \$910,374 was unfunded.

At September 30, 2014, the City has \$165,074 in the General Fund for future funding of benefits. The City intends to transfer these funds to its post-employment benefits plan at a future date. This \$165,074 will not reduce the AAL until it is transferred to the City’s post-employment benefits plan.

	Medical
Actuarial Accrued Liability (AAL)	\$ 910,374
Actuarial Value of Plan Assets	-
Unfunded Act. Accrued Liability (UAAL)	\$ 910,374
Funded Ratio (Act. Val. Assets/AAL)	0%
Covered Payroll (active plan members)	\$ 14,046,113
UAAL as a percentage of covered payroll	6.48%

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actual value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The actuarial valuation for post-employment benefits includes estimates and assumptions regarding (1) turnover rate; (2) retirement rate; (3) health care cost trend rate; (4) mortality rate; (5) discount rate (investment return assumption); and (6) the period to which the costs apply (past, current, or future years of service by employees). Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial calculations are based on the types of benefits provided under the terms of the substantive plan (the plan as understood by the City and its employee plan members) at the time of the valuation and on the pattern of sharing costs between the City and its plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the City and plan members in the future. Consistent with the long-term perspective of actuarial calculations, the actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial liabilities and the actuarial value of assets.

NOTE 9 – POST-EMPLOYMENT BENEFITS (CONTINUED)

Actuarial cost method

The ARC is determined using the projected unit credit cost method. The employer portion of the cost for retiree medical care in each future year is determined by projecting the current cost levels

using the healthcare cost trend rate and discounting this projected amount to the valuation date using the other described pertinent actuarial assumptions, including the investment return assumption (discount rate), mortality, and turnover.

Actuarial value of plan assets

Since the OPEB obligation has not as yet been funded, there are not any assets. It is anticipated that in future valuations, should funding take place, a smoothed market value consistent with Actuarial Standards Board Actuarial Standards of Practice Number 6 (ASOP 6), as provided in paragraph number 125 of GASB Statement 45 will be used.

Turnover rate

An age-related turnover scale based on actual experience as described by administrative staff has been used. The rates, when applied to the active employee census, produce a composite average annual turnover of approximately 10%. It has further been assumed that 43% of retirees decline medical coverage at retirement and that an additional 27% defer retirement until Medicare eligibility.

Post-employment benefit plan eligibility requirements

Based on past experience, it has been assumed that entitlement to benefits will commence three years after initial eligibility to retire. Medical benefits are provided to employees upon actual retirement. The retirement eligibility provisions are as follows: 10 years of consecutive service and attainment of age 60; or, 25 years of service and attainment of age 55.

Investment return assumption (discount rate)

GASB Statement 45 states that the investment return assumption should be the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits. As of September 30, 2014, the City has allocated \$165,074 in the General Fund for future funding of benefits. Since the City intends to transfer these funds to its post-employment benefits plan at a future date, the valuation has been calculated using a 4% annual investment return assumption.

Health care cost trend rate

The expected rate of increase in medical cost is based on a graded schedule beginning with 8% annually, down to an ultimate annual rate of 5.0% for ten years out and later.

NOTE 9 – POST-EMPLOYMENT BENEFITS (CONTINUED)

Mortality rate

The 1994 Group Annuity Reserving (94GAR) table, projected to 2002, based on a fixed blend of 50% of the unloaded male mortality rate and 50% of the unloaded female mortality rates, is used. This is a published mortality table which was designed to be used in determining the value of accrued benefits in defined benefit pension plans.

Method of determining value of benefits

The "value of benefits" has been assumed to be the portion of the premium after retirement date expected to be paid by the employer for each retiree and has been used as the basis for calculating the actuarial present value of OPEB benefits to be paid. The employer pays a portion of the medical insurance premiums which are "unblended" as required by GASB 45 for valuation purposes. The portion of the total retiree medical premium (single or family coverage) paid by the employer is 2.5% times the total years of service at retirement, subject to a maximum of 87.5%, a minimum dollar amount of \$240 per month, and a maximum dollar amount of \$600 per month. The employer does not pay for coverage after Medicare eligibility (age 65).

Inflation rate

Included in both the Investment Return Assumption and the Healthcare Cost Trend rates above is an implicit inflation assumption of 2.50% annually.

Projected salary increases

This assumption is not applicable since neither the benefit structure nor the valuation methodology involves salary.

Post-retirement benefit increases

The plan benefit provisions in effect for retirees as of the valuation date have been used and it has been assumed for valuation purposes that there will not be any changes in the future.

Below is a summary of OPEB cost and contributions for the last three fiscal calendar years:

	<u>OPEB Costs and Contributions</u>		
	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
OPEB Cost	\$ 93,578	\$ 85,967	\$ 89,492
Contribution	-	-	-
Retiree premium	<u>113,699</u>	<u>92,854</u>	<u>100,282</u>
Total contribution and premium	<u>113,699</u>	<u>92,854</u>	<u>100,282</u>
Change in net OPEB obligation	<u>\$ (20,121)</u>	<u>\$ (6,887)</u>	<u>\$ (10,790)</u>

NOTE 10 – DEFERRED COMPENSATION PLAN

The City offers its employees deferred compensation plans created in accordance with Internal Revenue Code (IRC) Section 457. The plans, available to all City employees, permit them to defer a portion of their salary until future years. The deferred compensation is payable to employees upon termination, retirement, death, or unforeseen emergency.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plans. Under the plans, participants select investments from alternatives offered by the plan administrators, who are under contract with the City to manage the plans. Investment selection by a participant may be changed from time to time. The City manages none of the investment selections. By making the selection, enrollees accept and assume all risks that pertain to the particular plan and its administration.

The City placed the deferred compensation plans assets' into trust for the exclusive benefit of the plans participants' and beneficiaries' in accordance with Governmental Accounting Standards Board (GASB) Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.

The City has little administrative involvement and does not perform the investing function for the plans. The City does not hold the assets in a trustee capacity and does not perform fiduciary accountability for the plans. Therefore, the City employees' deferred compensation plans created in accordance with IRC 457 are not reported in the financial statements of the City.

NOTE 11 – CONTINGENCIES AND COMMITMENTS

A. Litigation

Several suits have been filed and are pending against the City. In the opinion of management and the City's attorney, these matters are either without merit, are covered by insurance or involve amounts that would not have a material adverse effect on the City's financial statements.

B. Project commitments

As of September 30, 2014, the City had executed contracts for the Patchworks Farms entrance, the construction of the Highway 31 Pedestrian Bridge, and for the New City Hall complex in the amount of \$20,190,335. At year end, \$3,350,882 had been expended on these construction contracts with \$14,677,677 assigned in the Fund financial statements.

NOTE 12 – FUTURE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued statements that will become effective in subsequent fiscal years. The statements address:

- Accounting and financial reporting for pensions;
- Mergers, acquisitions and transfers of operations; and
- Financial guarantees

The City is currently evaluating the effects that these statements will have on its financial statements for subsequent fiscal years.

Required Supplementary Information

City of Vestavia Hills, Alabama
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget to Actual—General Fund

Year ended September 30, 2014

	Budget - Original and Final	General Fund Actual	Variance
Revenues			
Taxes	\$ 25,174,177	\$ 25,336,568	\$ 162,391
Licenses and permits	3,513,784	3,527,310	13,526
Charges for services	396,350	366,079	(30,271)
Fines and forfeitures	254,599	364,804	110,205
Fees	2,599,886	2,768,860	168,974
Grants	428,756	523,252	94,496
Proceeds from sale of assets	2,000	138,886	136,886
Investment revenues	47,517	71,281	23,764
Other revenues	629,078	725,879	96,801
Total revenues	33,046,147	33,822,919	776,772
Expenditures			
General government administration	5,093,446	5,419,114	(325,668)
Public safety	15,647,396	15,391,441	255,955
Public works	3,951,665	3,931,139	20,526
Library	1,551,817	1,502,601	49,216
Parks and recreation	2,396,758	2,421,080	(24,322)
Debt service	90,205	84,447	5,758
Capital outlay	188,000	276,261	(88,261)
Total expenditures	28,919,287	29,026,083	(106,796)
Excess of revenues over expenditures	4,126,860	4,796,836	669,976
Other financing sources (uses)			
Donations	-	6,809	6,809
Operating transfers out	(4,126,860)	(5,019,804)	(892,944)
Total other financing sources (uses)	(4,126,860)	(5,012,995)	(886,135)
Excess of revenues and other financing sources over (under) expenditures	-	(216,159)	(216,159)
Fund balances, beginning of year	9,230,495	12,618,768	3,388,273
Fund balances, end of year	\$ 9,230,495	\$ 12,402,609	\$ 3,172,114

City of Vestavia Hills, Alabama
Defined Benefits Pension Plan Trend Information,
Funding Progress and Additional Information

1. Pension Plan (See also Note 7)

A. Trend information

Following is the trend information from the most recent actuarial valuation:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension (Asset) Obligation
2004	\$ 837,667	100.00%	\$ -
2005	963,445	100.00%	\$ -
2006	1,042,689	100.00%	\$ -
2007	1,101,587	100.00%	\$ -
2008	1,226,754	100.00%	\$ -
2009	1,264,935	100.00%	\$ -
2010	1,340,777	100.00%	\$ -
2011	1,397,815	100.00%	\$ -
2012	1,422,867	100.00%	\$ -
2013	1,474,585	100.00%	\$ -

The net pension (asset) above is the result of the City's contributions above the actuarially determined annual required contributions as more fully described in Note 7.

B. Funding progress

Following is the schedule of funding progress obtained from most recent actuarial valuation:

Actuarial Valuation Date Sept. 30,	Actuarial Value of Assets *	Actuarial Accrued Liability (AAL) Entry Age 1	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Ratio of UAAL to Covered Payroll ((b-a)/c)
(a)	(b)					
2005	\$ 29,658,516	\$ 36,536,405	\$ 6,877,889	81.20%	\$ 11,926,584	57.70%
2006	31,896,218	40,552,305	8,656,087	78.70%	12,204,569	70.90%
2007	34,708,921	44,646,275	9,937,354	77.70%	12,751,200	77.90%
2008	36,513,188	47,951,941	11,438,752	76.10%	13,077,721	87.50%
2009	37,066,467	52,018,719	14,952,252	71.30%	13,573,505	110.20%
2010 2	37,192,950	55,353,332	18,160,382	67.20%	13,714,158	132.40%
2011 4	36,341,297	55,061,004	18,719,707	66.00%	13,029,303	143.70%
2012 5	36,220,132	54,591,780	18,371,648	66.30%	13,279,060	138.40%
2013 6	38,479,556	58,418,739	19,939,183	65.90%	13,913,877	143.30%
2013 3,6	38,479,556	58,529,847	20,050,291	65.70%	13,913,877	144.10%

1 Reflects liability for cost of living benefit increases granted on or after October 1, 1978.

2 Reflects the impact of Act 2011-27, which closes the DROP program to new applicants after March 24, 2011.

3 Reflects the impact of Act 2011-676, which increases the member contribution rates by 2.25% beginning October 1, 2011 and by an additional 0.25% beginning October 1, 2012.

4 Reflects changes in actuarial assumptions.

5 Reflects changes to interest smoothing methodology.

6 Reflects implementation of Board Funding Policy.

* The actuarial value of assets was set equal to the market value of assets as of September 30, 2012.

City of Vestavia Hills, Alabama
Defined Benefits Pension Plan Trend Information,
Funding Progress and Additional Information

C. Additional information

Following is additional information obtained from the most recent actuarial valuation prepared as of September 30, 2013:

Valuation date	September 30, 2013
Actuarial cost method	Entry age
Amortization method	Level percent open
Remaining amortization period	28 years
Asset valuation method	5 – year smoothed market*
Actuarial assumptions:	
Ultimate Investment rate of return (discount rate)**	8.00%
Projected salary increases**	3.75-7.25%
**Includes inflation at	3.00%
Cost-of-living adjustments	None

*The actuarial value of assets was set equal to the market value of assets as of September 30, 2012.

City of Vestavia Hills, Alabama
Other Post-Employment Benefits
Funding Progress and Trend Information

1. Post-employment benefits (See Note 9)

The following table shows the City's annual post-employment benefits (PEB) cost, percentage of the cost contributed, and the net unfunded PEB liability (asset):

Post Employment Benefit	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation (Asset)
Medical	September 30, 2012	\$93,578	121.50%	\$ (49,679)
Medical	September 30, 2013	85,967	108.01%	(56,565)
Medical	September 30, 2014	89,493	112.06%	(67,355)

Funded status and funding progress

In the fiscal year ending September 30, 2014, the City made no contributions to its post-employment benefits plan. The plan was not funded at all, has no assets, and hence has a funded ratio of zero. As of October 1, 2013, the most recent actuarial valuation, the AAL was \$910,374, which is defined as that portion, as determined by a particular actuarial cost method (the City uses the projected unit credit cost method), of the actuarial present value of post-employment plan benefits and expenses which is not provided by normal cost. Since no plan funding has occurred through fiscal year 2014, the entire actuarial accrued liability of \$910,374 was unfunded.

The following is the schedule of funding progress obtained from the actuarial valuations:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) -Entry age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	Ratio of UAAL to Covered Payroll
September 30	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
2009	-	\$ 980,657	\$ 980,657	0.00%	\$ 13,981,608	7.01%
2010	-	980,657	980,657	0.00%	14,000,000	7.00%
2011	-	933,115	933,115	0.00%	11,006,562	8.48%
2012	-	970,440	970,440	0.00%	13,597,707	7.14%
2013	-	875,360	875,360	0.00%	14,200,951	6.16%
2014	-	910,374	910,374	0.00%	14,046,113	6.48%



City of Vestavia Hills, Alabama
Notes to Required Supplementary Information

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Budgets and budgetary accounting

The City adopts annual budgets for the general fund, capital projects fund, and special revenue funds and such budgets are prepared on a basis consistent with generally accepted accounting principles. Any revisions that alter the total expenditures must be approved by the City Council. The budget of the General fund and Capital Projects fund are presented in the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual. Revenues collected for and submitted to the Board of Education were not budgeted since they were remitted to the Board as received.

The City does not adopt budgets for the Debt Service Fund.

Budget information presented in the financial statements is based on the original budget as adopted by the City Council on September 9, 2013.

Supplementary Information

City of Vestavia Hills, Alabama
Combining Balance Sheet—Other Governmental Funds

Year ended September 30, 2014

	State Shared Gasoline Tax Funds			
	Four Cent	Five Cent	Seven Cent	Emergency 911
Assets				
Cash and temporary investments	\$ -	\$ -	\$ 851,402	\$ 171,551
Accounts receivable	18,583	9,061	31,714	67,203
Interfund receivable	-	-	27,644	-
Total assets	\$ 18,583	\$ 9,061	\$ 910,760	\$ 238,754
Liabilities				
Accounts payable	\$ -	\$ -	\$ 21,254	\$ 16,795
Interfund payable	18,583	9,061	-	-
Total liabilities	18,583	9,061	21,254	16,795
Fund equity				
Fund balance:				
Restricted for road maintenance	-	-	889,506	-
Assigned	-	-	-	221,959
Total fund equity	-	-	889,506	221,959
Total liabilities and fund equity	\$ 18,583	\$ 9,061	\$ 910,760	\$ 238,754

Court & Corrections	Library	Vehicle Tags	Totals
\$ 361,468	\$ 361,614	\$ 202,573	\$ 1,948,608
-	-	58	126,619
-	-	-	27,644
\$ 361,468	\$ 361,614	\$ 202,631	\$ 2,102,871
\$ 5,322	\$ 16,762	\$ 179,608	\$ 239,741
-	-	-	27,644
5,322	16,762	179,608	267,385
-	-	-	889,506
356,146	344,852	23,023	945,980
356,146	344,852	23,023	1,835,486
\$ 361,468	\$ 361,614	\$ 202,631	\$ 2,102,871

City of Vestavia Hills, Alabama
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances—Other Governmental Funds

Year ended September 30, 2014

	State Shared Gasoline Tax Funds		
	Four Cent	Five Cent	Seven Cent
Revenues			
Taxes	\$ 2,098	\$ -	\$ 610,616
Intergovernmental	198,298	97,568	319,014
Fines and forfeitures	-	-	-
Grants	-	-	-
Investment revenues	-	-	915
Library revenues	-	-	-
Other revenues	-	-	-
Total revenues	200,396	97,568	930,545
Expenditures			
General government administration	-	-	-
Public safety	-	-	-
Public works	200,396	97,568	498,835
Library	-	-	-
Capital outlay	-	-	-
Total expenditures	200,396	97,568	498,835
Excess of revenues over (under) expenditures	-	-	431,710
Other financing sources (uses)			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Excess of revenues and other sources over expenditures and other uses	-	-	431,710
Fund balance, beginning of year	-	-	457,796
Fund balance, end of year	\$ -	\$ -	\$ 889,506

Emergency 911	Court & Corrections	Library	Vehicle Tags	Totals
\$ 778,761	\$ -	\$ -	\$ -	\$ 1,391,475
-	-	-	62,708	677,588
-	483,717	-	-	483,717
-	-	22,735	-	22,735
-	245	411	15	1,586
-	-	105,094	-	105,094
-	1,125	-	-	1,125
778,761	485,087	128,240	62,723	2,683,320
-	201,001	-	39,700	240,701
612,684	56,566	-	-	669,250
-	-	-	-	796,799
-	-	68,603	-	68,603
16,795	-	22	-	16,817
629,479	257,567	68,625	39,700	1,792,170
149,282	227,520	59,615	23,023	891,150
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
149,282	227,520	59,615	23,023	891,150
72,677	128,626	285,237	-	944,336
\$ 221,959	\$ 356,146	\$ 344,852	\$ 23,023	\$ 1,835,486