

City of Vestavia Hills, Alabama

Financial Statements

September 30, 2017



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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, 2017, 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Vestavia Hills, Alabama, as of September 30, 2017, 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 and the schedules listed in the table of contents as "required supplementary information" be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining 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 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 7, 2018, 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 solely 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 the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

Birmingham, Alabama
June 7, 2018

City of Vestavia Hills
Management's Discussion & Analysis (MD&A)
September 30, 2017

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, 2017. 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 2017 fiscal year by \$69.93 million (net position).
- ❖ The City's net position decreased 2.14% (\$1,532 million) in 2017.
- ❖ The total cost of the City's programs for the 2017 fiscal year was \$43.86 million. The net cost was \$35.47 million after subtracting grants and charges for services.
- ❖ At the end of the 2017 fiscal year, the general fund unassigned fund balance, excluding the City's committed funds for economic stabilization fund balance of \$10.37 million, was \$2.37 million, or 7.27% of the total general fund operating expenses before debt service.
- ❖ Major capital expenditures for the 2017 fiscal year totaled \$12.37 million including \$3.02 million for projects in progress and \$9.35 million for completed projects.
- ❖ The City increased its outstanding General Obligation Warrants by \$6.7 million, exclusive of \$.715 million held in the QECB Debt Sinking Fund.

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 represent 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 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 Capital Projects Fund, Community Spaces Fund and Debt Service 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 12 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 43 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. Various information regarding changes in the City's net pension liability and employer contributions to the pension plan are also presented in this section.

Analysis of the City of Vestavia Hills' Overall Financial Position

As indicated earlier, net assets 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>2017</u>	<u>2016</u>
Assets:		
Current and other assets	\$ 20,671	\$ 25,139
Capital assets	<u>141,740</u>	<u>133,836</u>
Total Assets	<u>162,411</u>	<u>158,975</u>
Deferred outflows	<u>8,926</u>	<u>6,875</u>
Liabilities:		
Other liabilities	7,603	10,162
Long-term liabilities	<u>93,804</u>	<u>84,226</u>
Total Liabilities	<u>101,407</u>	<u>94,388</u>
Net position:		
Net investment in capital assets	76,650	77,269
Restricted	1,263	1,420
Unrestricted (deficit)	<u>(7,983)</u>	<u>(7,227)</u>
Total Net Position	<u>\$ 69,930</u>	<u>\$ 71,462</u>

The City's assets exceeded liabilities by \$69.93 million at September 30, 2017.

Net investment in capital assets of \$76.65 million reflects 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 assets is not available for future spending or funding of operations.

Restricted net position in the amount of \$1,263,000 represents net assets reserved for payment to the Debt Sinking fund, \$717,000, prepayment of the 2018 debt service, \$500,000, and road and maintenance, \$46,000. Unrestricted net position of (\$7.94) million resulted principally from annual increases over fiscal 2017 in warrant payables, \$6.75 million, and the employees' net pension liability, \$3.29 million (Employees' Retirement System of Alabama).

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, 2017 and 2016.

Table 2: Summary of Changes in Net Position

	Fiscal Year Ended September 30, (dollars in thousands)	
	2017	2016
Program Revenues:		
Charges for services	\$ 6,725	\$ 6,483
Operating grants/contributions	690	757
Capital grants/contributions	981	299
General Revenues:		
Taxes	30,902	29,773
Utility franchise fees	2,614	2,722
Investment earnings	194	141
Misc	210	328
Sale of assets	16	928
Donated infrastructure assets	-	311
Total Revenues	<u>42,332</u>	<u>41,742</u>
Program Expenses:		
General government	8,527	10,562
Public safety	19,423	18,494
Public works/Public services	11,294	10,139
Library	2,493	2,442

Interest on long term debt	2,126	1,884
Total Expenses	<u>43,863</u>	<u>43,521</u>
Change in net position	(1,531)	(1,779)
Net Position, beginning of year	<u>71,463</u>	<u>73,243</u>
Net Position, ending	<u>\$ 69,932</u>	<u>\$ 71,463</u>

The City's revenues, excluding donated infrastructure assets, which do not provide spendable funds, increased \$.900 million or 2.17%. The increase resulted principally from taxes, \$1.13 million or 3.79%, capital grants/contributions, \$.682 million or 228.09% and charges for services, \$.242 million or 3.73%. The revenue increase was principally offset by decreases in sale of assets, \$.912 million or 98.28%, miscellaneous, \$.118 million or 35.98% and utility franchise fees, \$.108 million or 3.97%.

The City's program expenses increased slightly, \$.295 million or .68%. The slight increase resulted from offsetting increases and decreases occurring from general operations of the city, but chiefly due to increased compensation and related taxes and benefit costs of the public safety division.

Table 3 is a condensed statement taken from the Statement of Activities on page 6 showing the total cost for providing services for five 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, 2017	
	(dollars in thousands)	
	Total Cost of Services	Net Cost of Services
General government administration	\$ 8,527	\$ 4,299
Public safety	19,423	18,032
Public works/Public services	11,294	8,662
Library	2,493	2,302
Interest on long term debt	<u>2,126</u>	<u>2,125</u>
Total	<u>\$ 43,863</u>	<u>\$ 35,420</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 \$17.91 million, which includes a \$10.37 million committed fund balance to be used for economic stabilization in the event of an unforeseen emergency and \$2.37 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 2017 budget was adopted August 22, 2016. 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 43. The City's actual results as compared to the City's budget can be briefly summarized as follows:

- ❖ Actual revenues exceeded budget by \$.624 million or 1.68%. Fines and forfeitures and fees were under budget totaling \$217,915; however, the decrease was offset due to taxes, licenses and permits, charges for services, grants, proceeds from sale of assets, investment revenues and other revenues exceeding budget totaling \$842,967.
- ❖ Actual expenditures exceeded budget by \$188,335 or .58%. General government administration, public safety and library were under budget totaling \$379,048; however, the decrease was offset due to expenditures exceeding budget in public works, and capital outlay totaling \$567,383. The expenditures exceeding budget were principally within the division of public works (maintenance contracts, sanitation contract, and whiteway & street lighting).

Capital Assets and Debt Administration

Capital Assets - The City's investment in capital assets for governmental activities for the year ended September 30, 2017, amounted to \$76.65 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>2017</u>	<u>2016</u>
Land	\$ 80,433	\$ 71,288
Construction-in-progress	3,019	3,077
Infrastructure-in-progress	-	-
Buildings	26,630	27,506
Improvements	6,370	5,004
Recreational facilities	10,292	11,261
Vehicular equipment	2,952	3,490
Equipment and fixtures	4,224	4,327
Books and artwork	684	693
Infrastructure	<u>7,136</u>	<u>7,190</u>
Capital assets, net of depreciation	<u>\$ 141,740</u>	<u>\$ 133,836</u>

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

Donated Infrastructure assets (streets)	\$ 271
Construction-in-progress projects (includes sidewalk design and construction)	1,076
Infrastructure-in-progress project	-
Buildings	61
Land	11,017
Vehicles	154
Equipment, furniture & fixtures	901
Computer equipment and software	94
Books & Artwork	205
Recreational facilities	4
	<u>-</u>
	<u>\$ 13,783</u>

Long-Term Debt - At year-end, the City had \$69.38 million in general obligation warrants, capital leases and compensated absences. This represents an increase of 11.66% in debt over last year fiscal year, as shown in *Table 5* below.

Table 5: Outstanding Debt

As of September 30, 2017
(dollars in thousands)

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>
Governmental activities:			
Warrants payable	\$ 56,630	\$ 6,875	\$ 63,505
Capital leases	3,424	(80)	3,344
Compensated absences	<u>2,425</u>	<u>93</u>	<u>2,518</u>
Totals	\$ <u>62,479</u>	\$ <u>6,888</u>	\$ <u>69,367</u>

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

- ❖ The City reduced its General Obligation Warrants by \$2.6 million but added \$9.5 million in General Obligation Warrants (Series 2017-BB&T1 and Series 2017-BB&T2). The ending balance includes \$715,022 held in the debt sinking fund for the “Qualified Energy Conservation Bonds” (QECCB) payment.
- ❖ The reduction in capital leases resulted from the payout of fiscal 2015 capital lease and the addition of fiscal 2018 capital lease (public safety vehicles, (50) self-contained breathing apparatus and equipment, rescue truck, motorcycle, and computers).
- ❖ The long-term liability in compensated absences increased principally due to accumulated compensatory time within the public safety division.
- ❖ 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+ on “Series 2016 Warrants”. In February 2017, Moody’s upgraded its rating to Aaa.

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 five years, ad valorem taxes have shown some volatility due to inclement weather and tornados which severely damaged and/or destroyed local residence and businesses. The rebuilding of the properties has resulted in increased 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>
2013	11,892,447	(354,342)	-2.90%
2014	12,284,147	391,700	3.30%
2015	12,265,526	(18,621)	-.15%
2016	12,840,240	574,713	4.69%
2017	13,386,482	546,242	4.25%

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 \$291,457 in fiscal 2017, \$52,362 more or a 21.91% increase from fiscal 2016.

Medical Costs – The City of Vestavia Hills' health insurance is with the "State of Alabama Local Government Health Insurance Board". In fiscal 2017, Vestavia Hills retained its preferred insurance classification rating resulting from minimal medical claims and 80% or greater employee participation in the State of Alabama Wellness Screening Program. The Alabama Local Government Health Insurance Board increased the annual insurance premium 4% in calendar year 2017, representing a budgeted contribution of \$1.62 million for the City of Vestavia Hills.

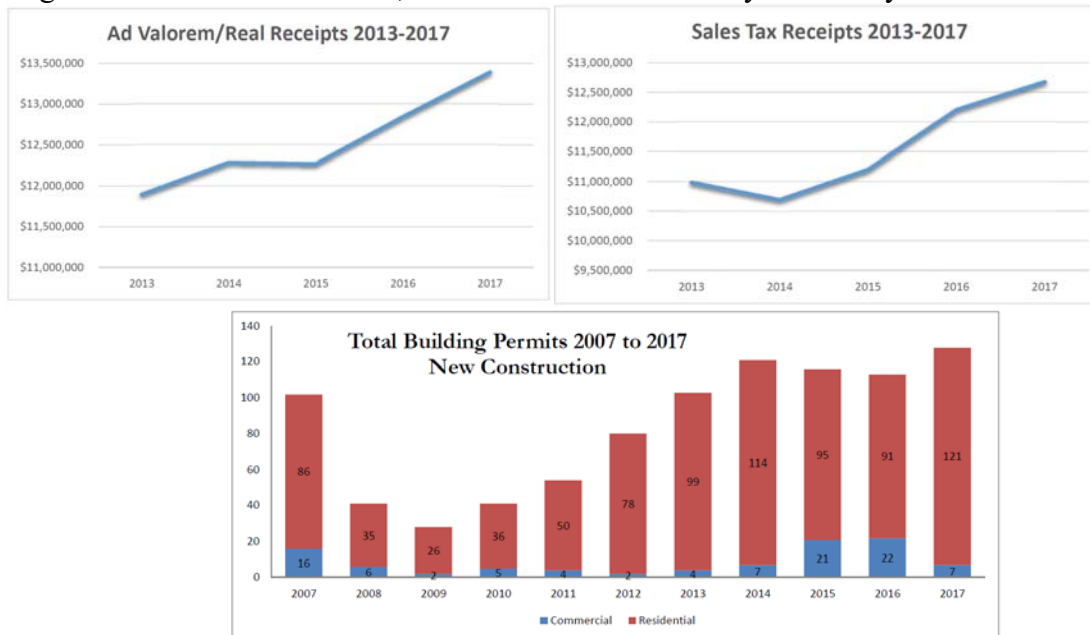
Retirement Costs – The City's retirement program for employees is provided through the Retirement System of Alabama (RSA). Less than favorable economic and market conditions in previous years have resulted in the City's increased required contribution to the program plan. The pension plan is currently funded at 64.71%, reflecting an unfunded liability of \$26.96 million as of the latest measurement date - 2016.

Vestavia Hills' contribution factors for fiscal 2017 were as follows, 13.19% - Tier 1 and 11.13% - Tier 2, representing a budgeted contribution of \$2.16 million.

Cost-of-Living Raise – A 2% cost of living adjustment was included in the 2017 fiscal budget.

Comments from City Manager:

Fiscal Year 2017 was a good year for the City of Vestavia Hills in terms of its continued growth, the introduction of a new elected governing body, and establishment of a set of priorities for improvement of recreational amenities and infrastructure. Growth in terms of households and City revenue metrics were very notable with ad valorem tax (real property) proceeds increasing nearly 5% and sales tax proceeds increasing 3% year over year. The number of building permits issued for new residential construction was at an all-time high as seen in the chart below measuring 121 new residential permits. The City of Vestavia Hills' largest revenue sources are sales and ad valorem taxes. With these two revenue sources seeing such growth in current year revenue and anticipated future growth from the large influx of new households, the economic sustainability of the City is on a firm footing.



At the beginning of Fiscal Year 2017, the residents of Vestavia Hills elected three new City Councilors, a new Mayor and re-elected one existing City Councilor. While this created a new legislative body, they quickly established a vision to sustain the City's economic development strategies, broaden the City's capital improvement plan to include infrastructure as well as recreational improvements while engaging in methods to offer greater opportunities for public involvement in the City's decision making process. During the year, there were more than thirty public meetings designed to gather the thoughts of Vestavia Hill's nearly 35,000 residents. Other online tools were also utilized in this community-wide effort. The culmination of the new Council's efforts resulted in an aspirational "community spaces and infrastructure" plan that is buoyed by the healthy financial trends referenced above as well as an emergency reserve fund valued at 27.37% of actual annual general fund expenses. Furthermore, these financial metrics led to the City's increase of its credit rating to AAA status from Moody's Investors Service.

During this year long planning effort, the City experienced record flooding that resulted in damage to our stormwater conveyance system. The unbudgeted expenses associated with construction and repair of this system were managed utilizing a small amount of the City's financial reserves as represented in the small general fund deficit for Fiscal Year 2017. The

Council's new capital plan will address and mitigate infrastructure weaknesses to minimize future budgetary strains associated with such flooding. Finally, from an action standpoint, the City took a step to invest in the recreational side of its plan through the purchase of a 65,000 square foot building adjacent to City Hall that will serve as the future focal point of community activities in Vestavia Hills. The \$9.1 million purchase was closed in 2017 and the debt service requirements are being fully covered through the continuation of a lease held and guaranteed by Gold's Gym Corporate. Future transition from a leased space to a City occupied space will be matched with a financial plan to accommodate additional expenses.

As can be seen, the City of Vestavia Hills is set to rely upon its economic development plans and strategic capital plans to remain a community of choice in the greater Birmingham region and financially position itself for the ability to meet the Council established vision for the community. The economic development projects that are in queue for the eastern side of the City (Liberty Park) will provide financial growth for years to come in line with the infrastructure and recreational amenity growth desired by the City's residents. Last, but not least, the Vestavia Hills City School system is a crucial component of the viability of Vestavia Hills. Community surveys indicate that 75% of our residents chose to live in Vestavia Hills because of the top rated school system. The new City Council recognizes this fact and has taken numerous actions to assist the separately managed entity with continued excellence. This includes, but is not limited to, financially assisting the system to ensure that household growth is being matched with the Vestavia Hills City School system's implementation of a building program that will increase school system capacity at a pace that equals the City's household growth. The City is in an unprecedented time as far as its growth, vision and ability to execute on the desires of the community. Fiscal Year 2017 financial results mirror these themes and current financial trends appear to continue in the positive direction of 2017.

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, 1032 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

September 30, 2017

	Governmental Activities
Assets	
Cash and temporary investments	\$ 16,974,372
Cash - restricted	1,605,494
Receivables	1,976,506
Inventory	47,645
Prepaid expenses	64,660
Accrued interest	2,622
Land	80,433,267
Construction in progress	3,019,654
Capital assets, net of accumulated depreciation	58,286,999
Total assets	162,411,219
Deferred Outflows of Resources	
Deferred charges - debt refunding	1,506,179
Employer pension contributions subsequent to measurement date	2,132,174
Differences between expected and actual experience	1,626,331
Changes of assumptions on net pension liability	3,257,764
Net difference between projected and actual earnings on plan investments	403,739
Total deferred outflows of resources	8,926,187
Liabilities	
Accounts payable	1,965,926
Court and performance bonds payable	726,221
Unearned revenue	61,133
Accrued interest payable	416,753
Noncurrent liabilities	
Due within one year:	
Compensated absences	377,765
Warrants payable, net	2,973,630
Obligation due under long-term capital leases	1,081,745
Due in more than one year:	
Compensated absences	2,140,666
Warrants payable, net	62,440,613
Obligation due under long-term capital leases	2,261,992
Net pension liability	26,960,824
Total liabilities	101,407,268
Net position	
Net investment in capital assets	76,649,701
Restricted	1,263,538
Unrestricted (deficit)	(7,983,101)
Total net position	\$ 69,930,138

See accompanying notes to basic financial statements.

City of Vestavia Hills, Alabama Statement of Activities

Year ended September 30, 2017

Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Total
Primary government					
Governmental activities:					
General government administration	\$ 8,527,537	\$ 3,891,247	\$ -	\$ 290,261	\$ (4,346,029)
Public safety	19,423,395	745,769	645,553	-	(18,032,073)
Public works	11,293,810	1,941,158	-	690,633	(8,662,019)
Library	2,493,376	147,255	44,353	-	(2,301,768)
Interest on long-term debt	2,125,482	-	-	-	(2,125,482)
Total primary government	\$ 43,863,600	\$ 6,725,429	\$ 689,906	\$ 980,894	(35,467,371)

General revenues:

Taxes:

Ad Valorem (real and personal property)	15,043,160
Sales and use	13,667,105
Other taxes	2,191,375
Utility franchise fees	2,613,906
Investment earnings	193,507
Miscellaneous	209,766
Gain on sale of assets	16,055
	<u>33,934,874</u>

Change in net position (1,532,497)

Net position - beginning of year 71,462,635

Net position at end of year \$ 69,930,138

See accompanying notes to basic financial statements.

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

<i>September 30, 2017</i>	General	Debt Service	Capital Projects
Assets			
Cash and temporary investments	\$ 12,840,744	\$ 500,148	\$ 1,999,404
Cash - restricted	729,265	715,022	161,207
Accounts receivable, net of allowance for uncollectibles	1,846,723	-	-
Accrued interest	-	2,622	-
Inventory	47,645	-	-
Prepaid expenses	64,660	-	-
Interfund receivables	119,261	-	61,299
Total assets	\$ 15,648,298	\$ 1,217,792	\$ 2,221,910
Liabilities			
Accounts payable	\$ 1,502,262	\$ 750	\$ 106,986
Unearned revenue	-	-	-
Court and performance bonds payable	726,221	-	-
Interfund payables	61,299	-	-
Total liabilities	2,289,782	750	106,986
Fund balance			
Nonspendable	112,305	-	-
Restricted for:			
Road maintenance	-	-	-
Debt service requirement	-	1,217,042	-
Committed to:			
Capital projects	-	-	1,760,699
Emergency reserve	10,376,504	-	-
Assigned	500,000	-	354,225
Unassigned	2,369,707	-	-
Total fund balance	13,358,516	1,217,042	2,114,924
Total liabilities and fund balance	\$ 15,648,298	\$ 1,217,792	\$ 2,221,910

See accompanying notes to basic financial statements.

Community Spaces	Other Governmental Funds	Total Governmental Funds
\$ 584,296	\$ 1,049,780	\$ 16,974,372
-	-	1,605,494
-	129,783	1,976,506
-	-	2,622
-	-	47,645
-	-	64,660
-	27,644	208,204
<u>\$ 584,296</u>	<u>\$ 1,207,207</u>	<u>\$ 20,879,503</u>
\$ 20,982	\$ 334,946	\$ 1,965,926
61,133	-	61,133
-	-	726,221
-	146,905	208,204
<u>82,115</u>	<u>481,851</u>	<u>2,961,484</u>
-	-	112,305
-	46,496	46,496
-	-	1,217,042
502,181	-	2,262,880
-	-	10,376,504
-	678,860	1,533,085
-	-	2,369,707
<u>502,181</u>	<u>725,356</u>	<u>17,918,019</u>
<u>\$ 584,296</u>	<u>\$ 1,207,207</u>	<u>\$ 20,879,503</u>

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

September 30, 2017

Fund balance - total governmental funds \$ 17,918,019

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

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	\$ 188,849,792	
Accumulated depreciation	<u>(47,109,872)</u>	141,739,920

Deferred outflows of resources related to debt refundings and pensions are applicable to future periods and, therefore, are not reported in the governmental funds balance sheet.

8,926,187

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	(65,414,243)	
Net pension liability	(26,960,824)	
Compensated absences	(2,518,431)	
Accrued interest payable	(416,753)	
Capital lease payable	<u>(3,343,737)</u>	<u>(98,653,988)</u>

Net position of governmental activities \$ 69,930,138

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

Year ended September 30, 2017

	General	Debt Service	Capital Projects	Community Spaces	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes	\$ 28,766,487	\$ -	\$ -	\$ -	\$ 1,469,378	\$ 30,235,865
Licenses and permits	4,238,905	-	-	-	149,086	4,387,991
Intergovernmental	-	-	-	-	665,775	665,775
Charges for services	368,373	-	-	-	-	368,373
Fines and forfeitures	330,937	-	-	-	423,175	754,112
Fees	2,669,206	-	-	-	-	2,669,206
Grants	637,553	-	988,894	-	41,060	1,667,507
Proceeds from sale of assets	16,055	-	-	-	-	16,055
Interest revenues	164,227	16,423	8,716	350	3,836	193,552
Library revenues	-	-	-	-	150,547	150,547
Other revenues	617,920	209,481	148,735	245,984	-	1,222,120
Total revenues	37,809,663	225,904	1,146,345	246,334	2,902,857	42,331,103
Expenditures						
Current (operating):						
General government						
administration	5,713,456	11,150	119,678	134,153	595,691	6,574,128
Public safety	17,518,121	-	92,828	-	739,743	18,350,692
Public works	7,349,268	-	409,502	-	1,575,800	9,334,570
Library	1,698,071	-	-	-	44,379	1,742,450
Debt service	-	4,642,137	922,730	-	98,029	5,662,896
Capital outlay	297,205	-	2,874,030	9,110,000	95,400	12,376,635
Total expenditures	32,576,121	4,653,287	4,418,768	9,244,153	3,149,042	54,041,371
Excess of revenues over (under) expenditures	5,233,542	(4,427,383)	(3,272,423)	(8,997,819)	(246,185)	(11,710,268)
Other financing sources (uses)						
Operating transfers in	52,918	4,512,411	739,174	-	137,878	5,442,381
Operating transfers out	(5,389,463)	-	(52,918)	-	-	(5,442,381)
Other financing sources - proceeds of capital lease	-	-	850,130	-	-	850,130
Other financing sources - proceeds of warrants	-	-	-	9,500,000	-	9,500,000
Total other financing sources (uses)	(5,336,545)	4,512,411	1,536,386	9,500,000	137,878	10,350,130
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(103,003)	85,028	(1,736,037)	502,181	(108,307)	(1,360,138)
Fund balance, beginning of year	13,461,519	1,132,014	3,850,961	-	833,663	19,278,157
Fund balance, end of year	\$ 13,358,516	\$ 1,217,042	\$ 2,114,924	\$ 502,181	\$ 725,356	\$ 17,918,019

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, 2017

Net change in fund balances - total governmental funds		\$ (1,360,138)
Amounts reported for governmental activities in the statement of activities are different because:		
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.		
Expenditures for capital assets	\$ 12,649,570	
Less current year depreciation	<u>(4,699,592)</u>	7,949,978
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.		
The net effect of transactions involving the disposal of capital assets is to decrease net position.		
		(45,661)
The issuance of long-term debt provides current financial resources to governmental funds, but increases long-term liabilities in the government-wide statement of net position.		
Proceeds of warrants		(9,500,000)
Proceeds of capital leases		(850,130)
Repayment of long-term debt principal (including capital leases) are expenditures in the governmental funds, but reduce long-term liabilities in the statement of net position.		
		3,555,360
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.		
Difference in pension expense related to deferred outflows of resources and net pension liability	\$ (1,080,379)	
Change in long-term compensated absences	(93,182)	
Change in accrued interest payable	(68,561)	
Amortization of bond premiums/discounts, net	118,686	
Amortization of loss on refunding	<u>(158,470)</u>	<u>(1,281,906)</u>
Change in net position of governmental activities		<u>\$ (1,532,497)</u>

See accompanying notes to basic financial statements.



City of Vestavia Hills, Alabama Notes to Financial Statements 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, 2020.

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. 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 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, 2017, the total advalorem taxes remitted to the Board amounted to approximately \$19.2 million and \$247,797 was due the Board of Education at September 30, 2017.

B. 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 are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

C. 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:

- 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 Fund

The Debt Service Fund is used to account for financial resources related to the City's debt service and debt defeasances. The City elects to report this fund as a major fund to enhance consistency from year to year.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Capital Projects Funds include the Community Spaces Fund.

5. Major and Nonmajor Funds

The General Fund, Capital Projects Fund, Community Spaces 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.

D. 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. Grants and grants receivable are recognized when all the eligibility requirements of the providers have been met.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

E. 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.

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.

F. 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 "net investment in capital assets".

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund statements

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based 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.

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.

The City has assigned \$354,225 of the Capital Projects Fund fund balance for encumbrances.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City has assigned \$678,860 of the Other Governmental Funds fund balance for use as follows: \$355,008 for the City’s Emergency 911 Fund, \$290,938 for the Library and \$32,914 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 basis) plus operating transfers out. The City Council has currently committed \$10,376,504 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.

G. Long-term Debt

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Losses resulting from the refunding of bonds are deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. Debt issuance costs (except for prepaid insurance costs) are recognized as an expense in the period incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures except as noted above.

H. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. 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.

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.

J. 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.

K. 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.

L. Pension

The Employees' Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting.

City of Vestavia Hills, Alabama
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions are recognized when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standard Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State’s Comprehensive Annual Financial Report.

M. 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.

Details of current interfund receivables and payables are as follows:

Payable from	Payable to	Amount
General Fund	Capital Projects Fund	\$ 61,299
Other Governmental Funds	General Fund	119,261
Other Governmental Funds	Other Governmental Funds	27,644
		\$ 208,204

The purpose of the interfund receivable balance to the Capital Projects Fund from the General Fund is for the sales tax capital reserve transfer.

The purpose of the interfund receivable balance to the General Fund from the Other Governmental Funds is for the motor vehicle tag fees due to the General Fund.

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.

City of Vestavia Hills, Alabama
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transfers for the fiscal year ended September 30, 2017 consisted of the following:

Transfer to	Transfer From		
	General Fund	Capital Projects Fund	Total
Debt Service Fund	\$ 4,512,411	\$ -	\$ 4,512,411
Other Governmental Funds	137,878	-	137,878
Capital Projects Fund	739,174	-	739,174
General fund	-	52,918	52,918
Total	\$ 5,389,463	\$ 52,918	\$ 5,442,381

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 Other Governmental Funds is for operations of the Municipal Court.

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 Capital Projects Fund to the General Fund is to transfer proceeds of debt to be used for capital purchases.

O. 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 September 30 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 on a monthly basis. Taxes collected by the Jefferson County Tax Collector prior to fiscal year end but remitted to the City after September 30 are accrued in the General Fund.

P. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Deferred outflows/inflows

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City currently has four items that qualify for reporting in this category. The first is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second one is related to pensions resulting from City contributions subsequent to the measurement date that will be recognized as a reduction of net pension liability in 2017. The third one is the difference between expected and actual experience of the pension plan and the fourth one is the difference between projected and actual earnings on plan investments. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. At this time, the City has no transactions that meets the definition of deferred inflows of resources.

R. Subsequent Events

The City has evaluated subsequent events through the June 7, 2018.

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 City's only investments are certificates of deposits that are amortized at cost in accordance with GASB 72.

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

	Carrying Amount	Bank Balance
All funds	\$ 18,579,866	\$ 19,349,715

At September 30, 2017, 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.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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, 2017, all of the City's depositories are participating in the SAFE program.

Included in the carrying amount above are restricted assets totaling \$1,605,494 which included deposits of \$726,221 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, 2017:

	Balance at 9/30/2016	Additions	Disposals/ Retirements/ Completed	Balance at 9/30/2017
Capital assets not being depreciated:				
Land	\$ 71,288,103	\$ 9,145,164	-	\$ 80,433,267
Construction in progress	3,077,438	1,075,893	(1,133,677)	3,019,654
Total capital assets not being depreciated	74,365,541	10,221,057	(1,133,677)	83,452,921
Capital assets being depreciated:				
Land improvements	9,335,655	1,871,786	-	11,207,441
Buildings	30,948,429	35,575	-	30,984,004
Building equipment and fixtures	352,988	25,332	-	378,320
Vehicles	7,496,357	154,395	(329,245)	7,321,507
Equipment	6,609,915	700,935	-	7,310,850
Computer equipment	1,848,900	94,254	-	1,943,154
Recreational equipment	2,125,318	200,388	-	2,325,706
Office furniture and fixtures	2,377,106	-	-	2,377,106
Office equipment	133,715	-	-	133,715
Recreational facilities	22,960,832	3,556	-	22,964,388
Books and artwork	1,597,245	205,285	-	1,802,530
Infrastructure	16,377,466	270,684	-	16,648,150
Total capital assets being depreciated	102,163,926	3,562,190	(329,245)	105,396,871
Less accumulated depreciation for:				
Land improvements	4,331,585	505,518	-	4,837,103
Buildings	3,662,406	916,355	-	4,578,761
Building equipment and fixtures	132,649	20,236	-	152,885
Vehicles	4,005,969	647,317	(283,584)	4,369,702
Equipment	4,545,263	445,133	-	4,990,396
Computer equipment	1,433,476	145,385	-	1,578,861
Recreational equipment	1,730,666	123,224	-	1,853,890
Office furniture and fixtures	957,209	372,874	-	1,330,083
Office equipment	103,043	13,313	-	116,356
Recreational facilities	11,700,006	972,155	-	12,672,161
Books and artwork	904,452	213,626	-	1,118,078
Infrastructure	9,187,140	324,456	-	9,511,596
Total accumulated depreciation	42,693,864	4,699,592	(283,584)	47,109,872
Total capital assets being depreciated, net	59,470,062	(1,137,402)	(45,661)	58,286,999
Governmental activities capital assets, net	\$ 133,835,603	\$ 9,083,655	(1,179,338)	\$ 141,739,920

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	\$	1,052,783
Public safety		936,643
Public works		1,959,240
Library		750,926
Total depreciation expense	\$	4,699,592

NOTE 4 – CAPITALIZED LEASES

At September 30, 2017, approximately \$3,711,300 in accumulated depreciation has been recorded in the government-wide financial statements related to assets costing \$7,465,063 purchased under capital leases. The current portion of the outstanding liability related to these capital leases at September 30, 2017 reported in the government-wide financial statements totaled \$1,081,745. The remaining long-term portion of these capital lease obligations reported in the government-wide financial statements totaled \$2,261,992 at September 30, 2017.

The following schedule shows the future minimum lease payments at September 30, 2017:

Fiscal year	Interest	Principal	Total Lease Payment
2018	\$ 54,084	\$ 1,081,745	\$ 1,135,829
2019	35,784	994,103	1,029,887
2020	18,928	812,733	831,661
2021	6,345	258,329	264,674
2022	2,352	163,548	165,900
2023 and thereafter	298	33,279	33,577
Total	\$ 117,791	\$ 3,343,737	\$ 3,461,528

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	\$ 1,140,465
Property taxes	304,348
Franchise fees	133,874
Transport receivable	117,613
Intergovernmental	157,806
Other receivables	122,400
Total	\$ 1,976,506

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, 2017:

Warrant obligations at September 30, 2016	\$ 56,630,000
Principal payments	(2,625,000)
Debt issuance	9,500,000
Total warrants outstanding	63,505,000
Long-term portion of accumulated compensated absences	2,140,666
Bond issuance discount	(119,293)
Unamortized bond premium	2,028,536
Total long-term debt at September 30, 2017	\$ 67,554,909

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 6 – LONG-TERM DEBT (CONTINUED)

Outstanding warrant obligations of the City at September 30, 2017 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.	\$ 610,000
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.	890,000
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.	5,445,000
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.	2,760,000
General Obligation Warrants, Qualified Energy Conservation Bonds (QECCB) Series 2013 were issued in the principal amount of \$4,245,000 in May 2013. The warrants bear interest at an average of 2.20%, 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. (Net of \$715,022 held in sinking fund for repayment)	3,529,978
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.	8,515,000
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.	840,000
General Obligation Warrants, Series 2015 were issued in the principal amount of \$9,205,000 in August 2015. 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 2028 and are callable at any time without penalty.	8,890,000
General Obligation Warrants, Series 2016 were issued in the principal amount of \$11,810,000 in June 2016. 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 2028 and are callable at any time without penalty.	11,810,000
General Obligation Warrants, Series 2017-BB&T1 were issued in the principal amount of \$400,000 in May 2017. The warrants bear interest at an average of 1.98%, payable annually on May 31. The warrants mature serially with a final maturity in 2021 and are callable at any time without penalty.	400,000
General Obligation Warrants, Series 2017-BB&T2 were issued in the principal amount of \$9,100,000 in May 2017. The warrants bear interest at an average of 2.95%, payable annually on May 31. The warrants mature serially with a final maturity in 2021 and are callable at any time without penalty.	9,100,000
Total outstanding	62,789,978
Amount held in sinking fund for QECCB payment	715,022
Total obligation warrants	\$ 63,505,000

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, 2017:

Fiscal year	Debt Service Related to Principal	Debt Service Related to Interest	Total Debt Service
2018	\$ 2,973,630	\$ 2,192,949	\$ 5,166,579
2019	2,970,948	2,094,394	5,065,342
2020	3,083,473	1,986,538	5,070,011
2021	11,586,949	1,868,114	13,455,063
2022	2,990,000	1,521,961	4,511,961
2023-2027	15,730,000	6,001,061	21,731,061
2028-2032	16,290,000	3,153,836	19,443,836
2033-2034	7,880,000	153,932	8,033,932
	<u>\$ 63,505,000</u>	<u>\$ 18,972,785</u>	<u>\$ 82,477,785</u>

The total interest paid by the City during 2017 relative to the above warrants was \$2,017,137.

The City makes annual contributions into an invested sinking fund in the amount of \$171,051 each fiscal year to pay the principal payment on the QECB warrants. This amount is included in the table above as debt service requirements. These amounts are held in the sinking fund and applied to the payment of the principal of the Warrants at maturity on February 1, 2033. The balance in the sinking fund is \$715,022 as of September 30, 2017.

The City issued its General Obligation Warrants, Series 2016, dated July 14, 2016, in the principal amount of \$11,810,000. The Warrant proceeds were used to currently refund the remaining Series 2009-A Warrants and to finance certain capital improvement projects as outlined in the Warrant indenture. Interest is payable semiannually on February 1st and August 1st of each year.

As a result of the refunding the City recorded deferred charges of \$968,875 in the Government-wide Statement of Net Position. These charges represent the difference between the reacquisition price and the net carrying amounts of the refunded warrants. These costs are being amortized over the average remaining life of the refunded warrants. The unamortized portion of these costs as of September 30, 2017 was \$886,453. The transaction resulted in an economic gain of \$669,040.

NOTE 7 – PENSION PLAN

Plan description

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

NOTE 7 – PENSION PLAN (CONTINUED)

The Employees' Retirement System of Alabama (ERS), an agent multiple-employer public employee retirement plan, was established as of October 1, 1945, under the provisions of Act 515 of the Legislature of 1945. The purpose of the ERS is to provide 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 the general administration and operation of ERS is vested in its Board of Control. The ERS Board of Control consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). Title 36-Chapter 27 of the Code of Alabama grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

The ERS Board of Control consists of 13 trustees as follows:

- 1) The Governor, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Personnel Director, ex officio.
- 4) The State Director of Finance, ex officio.
- 5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
- 6) Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
 - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
 - b. Two vested active state employees.
 - c. Two vested active employees of an employer participating in ERS pursuant to § 36-27-6.

Benefits provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life.

NOTE 7 – PENSION PLAN (CONTINUED)

Benefits provided (continued)

Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of state police service in computing the formula method.

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary on the member’s age, service credit, employment status and eligibility for retirement.

The ERS serves approximately 846 local participating employers. These participating employers include 287 cities, 65 counties, and 494 other public entities. The ERS membership includes approximately 85,874 participants. As of September 30, 2016, membership consisted of:

Retirees and beneficiaries currently receiving benefits	23,007
Terminated employees entitled to but not yet receiving benefits	1,155
Terminated employees not entitled to a benefit	6,654
Active Members	<u>55,058</u>
Total	<u>85,874</u>

Contributions

Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the

NOTE 7 – PENSION PLAN (CONTINUED)

Contributions (continued)

ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. Tier 2 State Police members of the ERS contribute 10% of earnable compensation. These contributions rates are the same for Tier 2 covered members of ERS local participating employers.

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2017, the City's active employee contribution rate was 12.07% of covered employee payroll and the City's average contribution rate to fund the normal and accrued liability costs was 11.47%.

The City's contractually required contribution rate for the year ended September 30, 2017 was 13.19% of pensionable pay for Tier 1 employees and 11.13% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2013, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan were \$2,132,174 for the year ended September 30, 2017.

NOTE 7 – PENSION PLAN (CONTINUED)

Net Pension Liability

The City’s net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2015 rolled forward to September 30, 2016 using standard roll-forward techniques as shown in the following table:

Total Pension Liability Roll Forward		
Total Pension Liability	Expected	Actual
as of September 30, 2015 (a)	\$ 68,863,597	\$ 72,642,665
Entry Age Normal Cost for		
October 1, 2015 – September 30, 2016 (b)	1,379,763	1,426,888
Actual Benefit Payment and Refunds for		
October 1, 2015 – September 30, 2016 (c)	(3,436,179)	(3,436,179)
Total Pension Liability		
as of September 30, 2016		
[(a) x (1.08)] + (b) – [(c) x (1.04)]	\$ 72,178,822	\$ 76,403,160

Difference between Expected and Actual Experience (Gain)/Loss	\$ 3,809,927
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Actuarial assumptions

The total pension liability in the September 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75%-7.25%
Investment rate of return	7.75%*

*Net of pension plan investment expense

Mortality rates for ERS were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward three years for males and two years for females. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disability Mortality Table.

The actuarial assumptions used in the September 30, 2015 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2010.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

City of Vestavia Hills, Alabama
Notes to Financial Statements

NOTE 7 – PENSION PLAN (CONTINUED)

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	25.00%	5.00%
U.S. Large Stocks	34.00%	9.00%
U.S. Mid Stocks	8.00%	12.00%
U.S. Small Stocks	3.00%	15.00%
International Developed Market Stocks	15.00%	11.00%
International Emerging Market Stocks	3.00%	16.00%
Real Estate	10.00%	7.50%
Cash	2.00%	1.50%
Total	100.00%	

Discount rate

The discount rate used to measure the total pension liability was the long-term rate of return, 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Vestavia Hills, Alabama
Notes to Financial Statements

NOTE 7 – PENSION PLAN (CONTINUED)

Changes in Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balances at September 30, 2015	\$ 68,863,597	\$ 45,192,865	\$ 23,670,732
Changes for the year:			
Service cost	1,379,763	-	1,379,763
Interest	5,371,641	-	5,371,641
Changes in assumptions	3,809,927	-	3,809,927
Difference between expected and actual experience	141,280	-	141,280
Contributions – employer	-	1,852,693	(1,852,693)
Contributions – employee	-	974,431	(974,431)
Net investment income	-	4,585,395	(4,585,395)
Benefit payments, including refunds of employee contributions	(3,436,179)	(3,436,179)	-
Administrative expense	-	-	-
Transfers among employers	273,131	273,131	-
Net changes	7,539,563	4,249,471	3,290,092
Balances at September 30, 2016	\$ 76,403,160	\$ 49,442,336	\$ 26,960,824

Sensitivity of the net pension liability to changes in the discount rate

The following table presents the City’s net pension liability calculated using the discount rate of 7.75%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease 6.75	Current Discount Rate 7.75	1% Increase 8.75
Plan’s Net Pension Liability	\$ 35,988,012	\$ 26,960,824	\$ 19,322,920

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2016. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2016. The auditors’ report dated March 27, 2017 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes are also available. The additional financial and actuarial information is available at www.rsa-al.gov.

City of Vestavia Hills, Alabama
Notes to Financial Statements

NOTE 7 – PENSION PLAN (CONTINUED)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the City recognized pension expense of \$3,212,553. At September 30, 2017, the reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,626,331	\$ -
Changes of assumptions	3,257,764	-
Net difference between projected and actual earnings on plan investments	403,739	-
Employer contributions subsequent to the measure date	2,132,174	-
Total	\$ 7,420,008	\$ -

The City reported \$2,132,174 as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized in pension expense as follows:

Year Ended September 30:	
2018	\$ 978,967
2019	978,969
2020	1,301,349
2021	689,610
2022	823,560
Thereafter	515,379
Total	\$ 5,287,834

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.

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 estimated current portion of accrued vacation at September 30, 2017 reported in the government-wide financial statements is \$377,765. The remaining long-term incurred portion of the accrued vacation of the governmental activities at September 30, 2017 totaled \$2,140,666.

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 earliest retirement eligibility provisions are as follows: 25 years of service at any age; or, age 60 and 10 years of service (called "Tier I members). Employees hired on and after January 1, 2013 (called "Tier II" members) are eligible to retire only after attainment of age 62 or later completion of 10 years of service.

NOTE 9 – POST-EMPLOYMENT BENEFITS (CONTINUED)

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 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, 2017, the City of Vestavia Hills’ portion of health care funding cost for retired employees totaled \$69,882. 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, 2016 is \$69,882, as set forth below:

	Medical
Normal cost	\$ 33,660
30-year UAL amortization amount	36,222
Annual required contribution (ARC)	\$ 69,882

City of Vestavia Hills, Alabama
Notes to Financial Statements

NOTE 9 – POST-EMPLOYMENT BENEFITS (CONTINUED)

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, 2017:

	Medical
Annual required contribution	\$ 69,882
Interest on net OPEB obligation	(2,495)
ARC adjustment	3,608
Annual OPEB cost	70,995
Contributions	-
Current year retiree premium	(72,610)
Change in net OPEB obligation	(1,615)
Beginning net OPEB obligation 10/01/16	(62,382)
Ending net OPEB obligation (asset) 09/30/17	\$ (63,997)

Funded status and funding progress

In the fiscal year ending September 30, 2017, 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, 2016, the most recent actuarial valuation, the AAL was \$651,433, 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 2017, the entire actuarial accrued liability of \$651,433 was unfunded.

At September 30, 2017, the City has \$178,305 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 \$178,305 will not reduce the AAL until it is transferred to the City’s post-employment benefits plan.

	Medical
Actuarial Accrued Liability (AAL)	\$ 651,433
Actuarial Value of Plan Assets	-
Unfunded Act. Accrued Liability (UAAL)	<u>\$ 651,433</u>
Funded Ratio (Act. Val. Assets/AAL)	0%
Covered Payroll (active plan members)	\$ 16,202,772
UAAL as a percentage of covered payroll	4.02%

NOTE 9 – POST-EMPLOYMENT BENEFITS (CONTINUED)

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 are 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.

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.

NOTE 9 – POST-EMPLOYMENT BENEFITS (CONTINUED)

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 as described above under "Plan Description". In addition, "Tier II" retirement plan members (those hired on and after January 1, 2013) would not be eligible to retire before age 62. Medical benefits are provided to employees upon actual retirement. Entitlement to benefits continue through Medicare to death.

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, 2017, the City has allocated \$178,305 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.

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).

NOTE 9 – POST-EMPLOYMENT BENEFITS (CONTINUED)

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:

	OPEB Costs and Contributions		
	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
OPEB Cost	\$81,669	\$82,300	\$70,994
Contribution	-	-	-
Retiree premium	<u>78,996</u>	<u>80,000</u>	<u>72,610</u>
Total contribution and premium	<u>78,996</u>	<u>80,000</u>	<u>72,610</u>
Change in net OPEB obligation	<u>\$ 2,673</u>	<u>\$ 2,300</u>	<u>\$ (1,616)</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.

NOTE 10 – DEFERRED COMPENSATION PLAN (CONTINUED)

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, 2017, the City had executed contracts for various project commitments in the amount of \$1,934,650. At year end, \$0 had been expended on these construction contracts with \$120,000 assigned in the Fund financial statements.

NOTE 12 – TAX ABATEMENTS

From time-to-time the City enters into economic development incentive agreements on an individual basis with entities that propose to locate businesses within the City, or expand businesses within the City, which are expected to provide a stimulus to the City's economy and tax base. Generally, the agreements provide for a rebate of taxes paid to the City according to formulas contained in the agreements. Some agreements provide for a rebate of sales, use or occupational taxes based on the payment of taxes above a base line and others provide for a sharing of the taxes (percentage rebates) above certain amounts. The agreements have limited terms. The City generally expects to receive increased revenue as a result of the agreements. These incentive agreements require approval by the Mayor and City Council and are authorized by Amendment 772 of the Constitution of Alabama. Some agreements provide for the repayment to the City of the rebated amount if the entity ceases to operate its business for a certain length of time or fails to produce a certain level of employment. As of September 30, 2017 the City has tax abatement agreements with five entities. The amount of taxes rebated during fiscal year 2017 was \$135,658.

NOTE 13 – NEW PRONOUNCEMENTS

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

- OPEB—accounting and financial reporting by employers;
- Split-interest agreements;
- Various practice issues (Omnibus); and
- Certain debt extinguishment issues.

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, 2017

	Budget - Original and Final	General Fund Actual	Variance
Revenues			
Taxes	\$ 28,148,530	\$ 28,766,487	\$ 617,957
Licenses and permits	4,200,032	4,238,905	38,873
Charges for services	336,850	368,373	31,523
Fines and forfeitures	350,000	330,937	(19,063)
Fees	2,868,058	2,669,206	(198,852)
Grants	533,671	637,553	103,882
Proceeds from sale of assets	7,500	16,055	8,555
Investment revenues	124,426	164,227	39,801
Other revenues	616,544	617,920	1,376
Total revenues	37,185,611	37,809,663	624,052
Expenditures			
General government administration	5,722,175	5,713,456	8,719
Public safety	17,835,670	17,518,121	317,549
Public works	6,862,034	7,349,268	(487,234)
Library	1,750,851	1,698,071	52,780
Parks and recreation	-	-	-
Debt service	-	-	-
Capital outlay	217,056	297,205	(80,149)
Total expenditures	32,387,786	32,576,121	(188,335)
Excess of revenues over expenditures	4,797,825	5,233,542	435,717
Other financing sources (uses)			
Operating transfers in	52,918	52,918	-
Operating transfers out	(4,850,743)	(5,389,463)	(538,720)
Total other financing sources (uses)	(4,797,825)	(5,336,545)	(538,720)
Excess of revenues and other financing sources over (under) expenditures	-	(103,003)	(103,003)
Fund balances, beginning of year	13,461,519	13,461,519	-
Fund balances, end of year	\$ 13,461,519	\$ 13,358,516	\$ (103,003)

City of Vestavia Hills, Alabama
Schedule of Changes in the Net Pension Liability
and Related Ratios
(As of Measurement Date)

Schedule of Changes in Net Pension Liability	2016	2015	2014
Total pension liability			
Service Cost	\$ 1,379,763	\$ 1,319,081	\$ 1,277,907
Interest	5,371,641	4,970,899	4,747,042
Changes in benefit terms		-	-
Differences between expected and actual experience	141,280	2,132,828	-
Changes of assumptions	3,809,927	-	-
Benefit payments, including refunds of employee contributions	(3,436,179)	(3,390,895)	(3,062,574)
Transfers among employees	273,131	-	-
Net change in total pension liability	7,539,563	5,031,913	2,962,375
Total pension liability - beginning	68,863,597	63,831,684	60,869,309
Total pension liability - ending (a)	\$ 76,403,160	\$ 68,863,597	\$ 63,831,684
Plan Fiduciary Net Position			
Contributions - employer	\$ 1,852,693	\$ 1,777,403	\$ 1,750,292
Contributions - employee	974,431	916,651	851,524
Net investment income	4,585,395	532,576	4,842,808
Benefit payments, including refunds of employee contributions	(3,436,179)	(3,390,895)	(3,062,574)
Transfers among employers	273,131	235,587	245,477
Net change in plan fiduciary net position	4,249,471	71,322	4,627,527
Plan net position - beginning	45,192,865	45,121,543	40,494,016
Plan net position - ending (b)	\$ 49,442,336	\$ 45,192,865	\$ 45,121,543
Net pension liability - ending (a) - (b)	\$ 26,960,824	\$ 23,670,732	\$ 18,710,141
Plan fiduciary net position as a percentage of total pension liability	64.71%	65.63%	70.69%
Covered employee payroll*	\$ 15,839,133	\$ 15,248,055	\$ 14,710,190
Net pension liability as a percentage of covered employee payroll	170.22%	155.24%	127.19%

*Employer's covered payroll during the measurement period is the total covered payroll. For FY 2017 the measurement period is October 1, 2015-September 30, 2016.

City of Vestavia Hills, Alabama
Schedule of Employer Contributions
(As of Fiscal Year End)

	2017	2016	2015
Actuarially Determined Contribution	\$ 2,132,174	\$ 1,911,298	\$ 1,829,808
Employer Contributions to Pension Plan	2,132,174	1,911,298	1,829,808
Annual Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
Covered Employee Payroll*	\$ 16,582,596	\$ 15,839,133	\$ 15,248,055
Employer Contributions to Pension Plan as a % of Covered Employee Payroll	12.86%	12.07%	12.00%

*Employer's covered payroll for the year ending 2017 is the total covered payroll for the 12 month period underlying the financial statement.

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

Post-employment benefits (See Note 9)

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

Post Employment Benefit	Fiscal Year Ended	Annual OPEB Cost	Percentage	Net OPEB Obligation (Asset)
			of Annual Cost Contributed	
Medical	September 30, 2013	85,967	108.01%	(56,565)
Medical	September 30, 2014	89,492	112.06%	(67,355)
Medical	September 30, 2015	81,669	96.73%	(64,682)
Medical	September 30, 2016	82,300	98.42%	(62,382)
Medical	September 30, 2017	70,994	102.28%	(63,998)

Funded status and funding progress

In the fiscal year ending September 30, 2017, 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, 2016, the most recent actuarial valuation, the AAL was \$651,433, 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 2016, the entire actuarial accrued liability of \$651,433 was unfunded.

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

Actuarial Valuation Date September 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Ratio of UAAL to Covered Payroll (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%
2015	-	774,095	774,095	0.00%	15,248,055	5.08%
2016	-	774,095	774,095	0.00%	15,839,133	4.89%
2017	-	651,433	651,433	0.00%	16,202,772	4.02%

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 is 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 August 22, 2016.

NOTE 2 – SCHEDULE OF CHANGES IN NET PENSION LIABILITY

The total pension liabilities presented in these schedules were provided by the Retirement Systems of Alabama's actuarial consultants, Cavanaugh Macdonald Consulting, LLC. The net pension liability is measured as the total pension liability less the components of the plan net position reserved to fund the total pension liability. Those components are annuity savings and pension accumulation. The related ratios show plan net position as a percentage of the total pension liability and the net pension liability as a percentage of covered employee payroll.

NOTE 3 – SCHEDULE OF EMPLOYER CONTRIBUTIONS

Contributions were made in accordance with actuarially determined contribution requirements. The employer contribution rate expressed as a percent of payroll is determined annually by reviewing a variety of factors including benefits promised, member contributions, investment earnings, mortality, and withdrawal experience. The City's employer contribution rates were 12.32% for tier 1 employees (hired before January 1, 2013) and 10.38% for tier 2 employees (hired after January 1, 2013).

Supplementary Information

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

Year ended September 30, 2017

	State Shared Gasoline Tax Funds			
	Four Cent	Five Cent	Seven Cent	Emergency 911
Assets				
Cash and temporary investments	\$ -	\$ -	\$ 148,235	\$ 293,700
Accounts receivable, net of allowance for uncollectibles	19,458	9,509	39,508	61,308
Interfund receivables	-	-	27,644	-
Total assets	\$ 19,458	\$ 9,509	\$ 215,387	\$ 355,008
Liabilities				
Accounts payable	\$ -	\$ -	\$ 170,214	\$ -
Interfund payable	18,583	9,061	-	-
Total liabilities	18,583	9,061	170,214	-
Fund equity				
Fund balance:				
Restricted for road maintenance	875	448	45,173	-
Assigned	-	-	-	355,008
Total fund equity	875	448	45,173	355,008
Total liabilities and fund equity	\$ 19,458	\$ 9,509	\$ 215,387	\$ 355,008

Court & Corrections	Library	Vehicle Tags	Totals
\$ 7,821	\$ 290,938	\$ 309,086	\$ 1,049,780
-	-	-	129,783
-	-	-	27,644
\$ 7,821	\$ 290,938	\$ 309,086	\$ 1,207,207
\$ 7,821	\$ -	\$ 156,911	\$ 334,946
-	-	119,261	146,905
7,821	-	276,172	481,851
-	-	-	46,496
-	290,938	32,914	678,860
-	290,938	32,914	725,356
\$ 7,821	\$ 290,938	\$ 309,086	\$ 1,207,207

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

Year ended September 30, 2017

	State Shared Gasoline Tax Funds		
	Four Cent	Five Cent	Seven Cent
Revenues			
Taxes	\$ 2,190	\$ -	\$ 647,164
License and permits	-	-	17,100
Intergovernmental	213,906	105,410	346,459
Fines and forfeitures	-	-	-
Grants	-	-	-
Investment revenues	-	-	1,692
Library revenues	-	-	-
Total revenues	216,096	105,410	1,012,415
Expenditures			
General government administration	-	-	-
Public safety	-	-	-
Public works	216,158	105,427	1,254,215
Library	-	-	-
Debt service	-	-	-
Capital outlay	-	-	-
Total expenditures	216,158	105,427	1,254,215
Excess of revenues over (under) expenditures	(62)	(17)	(241,800)
Other financing sources (uses)			
Operating transfers in	-	-	-
Other financing sources-capital lease	-	-	-
Total other financing sources (uses)	-	-	-
Excess of revenues and other sources over expenditures and other uses	(62)	(17)	(241,800)
Fund balance, beginning of year	937	465	286,973
Fund balance, end of year	\$ 875	\$ 448	\$ 45,173

Emergency 911	Court & Corrections	Library	Vehicle Tags	Totals
\$ 820,024	\$ -	\$ -	\$ -	\$ 1,469,378
-	-	-	131,986	149,086
-	-	-	-	665,775
-	423,175	-	-	423,175
-	-	41,060	-	41,060
-	23	1,262	859	3,836
-	-	150,547	-	150,547
820,024	423,198	192,869	132,845	2,902,857
-	467,091	-	128,600	595,691
644,740	95,003	-	-	739,743
-	-	-	-	1,575,800
-	-	44,379	-	44,379
98,029	-	-	-	98,029
-	-	95,400	-	95,400
742,769	562,094	139,779	128,600	3,149,042
77,255	(138,896)	53,090	4,245	(246,185)
-	137,878	-	-	137,878
-	-	-	-	-
-	137,878	-	-	137,878
77,255	(1,018)	53,090	4,245	(108,307)
277,753	1,018	237,848	28,669	833,663
\$ 355,008	\$ -	\$ 290,938	\$ 32,914	\$ 725,356