

City of Vestavia Hills, Alabama

FINANCIAL STATEMENTS

September 30, 2019



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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, 2019, 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, 2019, 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.

Emphasis of Matter

As described in Note 14 to the financial statements, the City discovered an under accrual of taxes related to the prior year. As a result, the City recorded a prior period adjustment during the current year. The cumulative effect of the adjustment was to increase fund balance of other governmental funds as well as net position of governmental activities as of September 30, 2018 by \$761,450. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4.1-4.13 and page 45 as well as the pension and OPEB schedules on pages 46-49 and notes to required supplementary information on page 50 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 July 16, 2020, 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.

CARR, RIGGS & INGRAM, LLC

Birmingham, Alabama
July 16, 2020

**CITY OF VESTAVIA HILLS, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2019**

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, 2019. 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 its liabilities at September 30, 2019, \$82.54 million (Total Net Position).
- ❖ The City's net position increased 3.10% (\$2.49 million) in 2019.
- ❖ The total cost of the City's programs for the 2019 fiscal year was \$51.91 million. The net cost was \$43.51 million after subtracting grants and contributions and charges for services.
- ❖ At September 30, 2019, the general fund unassigned fund balance, excluding the City's committed funds (Emergency Reserves) for economic stabilization of \$12.04 million, was \$3.39 million or 9.60% of total general fund operating expenses before debt service.
- ❖ Major capital expenditures totaled \$8.51 million including \$5.55 million projects in progress.
- ❖ The City decreased its outstanding General Obligation Warrants by \$3.95 million, exclusive of \$1.1 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 represents the accumulation of changes in net position for the current fiscal year and all fiscal years in the past combined. Over time, the increase or decrease in net position reported in this statement may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* (on page 6) is most closely related to an income statement. It presents information showing how the City's net position changed during the current fiscal year only. All of the current year 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 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 45 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>2019</u>	<u>2018</u>
Assets:		
Current and other assets	\$ 67,114	\$ 73,073
Capital assets	<u>153,146</u>	<u>149,453</u>
Total Assets	<u>220,260</u>	<u>222,526</u>
Deferred outflows	8,047	7,908
Liabilities:		
Other liabilities	10,794	10,811
Long-term liabilities	<u>133,010</u>	<u>137,852</u>
Total Liabilities	<u>143,804</u>	<u>148,663</u>
Deferred inflows	1,961	1,715
Net position:		
Net invested in capital assets	81,806	84,178
Restricted	3,284	1,863
Unrestricted (deficit)	<u>(2,549)</u>	<u>(5,985)</u>
Total Net Position	<u>\$ 82,541</u>	<u>\$ 80,056</u>

The City's assets exceeded liabilities by \$82.54 million at September 30, 2019.

Net investment in capital assets of \$81.81 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 \$3,284,465 represents net position restricted for payment to the Debt Sinking fund, \$1,109,670 million, prepayment of the 2019 debt service, \$650,000, and road maintenance, \$1,524,795.

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, 2019 and 2018.

Table 2: Summary of Changes in Net Position

	Fiscal Year Ended September 30, (dollars in thousands)	
	2019	2018
Program Revenues:		
Charges for services	\$ 7,145	\$ 6,849
Operating grants/contributions	921	763
Capital grants/contributions	331	517
General Revenues:		
Taxes	38,906	34,489
Utility Franchise fees	2,838	2,732
Investment earnings	1,261	360
Miscellaneous	217	1,344
Sale of assets	1,822	33
Donated infrastructure assets	188	9,318
Total Revenues	<u>53,629</u>	<u>56,405</u>
Program Expenses:		
General government	7,930	8,430
Public safety	21,444	20,386
Public works/Public services	15,624	11,468
Library	2,895	2,682
Interest on long term debt	4,012	2,498
Total Expenses	<u>51,905</u>	<u>45,464</u>
Change in net position	1,724	10,941
Net Position, beginning of year	80,056	69,930
Prior period adjustment	761	(815)
Net Position, ending	<u>\$ 82,541</u>	<u>\$ 80,056</u>

The City's revenues, excluding donated infrastructure assets, which do not provide spendable funds, increased \$6.35 million or 13.49%. The increase resulted principally from taxes, \$4.42 million or 12.81%, sale of assets, \$1.82 million or 5421.21%, investment earnings, \$.901 million or 250.28% and utility franchise, \$.106 million or 3.88%. The revenue increase was principally offset by a decrease in miscellaneous revenues, \$1.13 million or 83.85%.

The City's program expenses increased \$6.44 million or 14.17%. The increase resulted principally from public services, \$4.16 million or 36.24%, interest on long term debt, \$1.51 million or 60.61% and public safety, \$1.06 million or 5.19%, but was offset resulting from decrease expenditures within the general government division, \$.500 million or 5.93%.

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, (dollars in thousands)	
	Total Cost of Services	Net Cost of Services
General government administration	\$ 7,930	\$ 3,539
Public safety	21,444	19,816
Public works/Public services	15,624	13,408
Library	2,895	2,732
Interest on long-term debt	4,012	4,012
Total	\$ 51,905	\$ 43,507

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 \$62.12 million, which includes general fund balances of \$12.04 million committed funds to be used for economic stabilization in the event of an unforeseen emergency and \$3.39 million unassigned funds which is available to address 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 2019 budget was adopted September 10, 2018. 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 45. The City's actual results as compared to the City's budget can be briefly summarized as follows:

- ❖ Actual revenues exceeded total budgeted revenues by \$2.62 million or 5.91%. Ad valorem real estate and sales taxes were the largest revenue generators, representing \$33.66 million or 75.93% of total budgeted revenues.
- ❖ Actual expenditures exceeded budget by \$.260 million or .74%. The overage resulted principally due to general government administration, public works/services and capital outlay exceeding budget by \$.376 million or 2.75%. The overage was offset due to public safety and the library reporting less than budgeted expenditures, \$.116 million or .54%

Capital Assets and Debt Administration

Capital Assets - The City's investment in capital assets for governmental activities for fiscal year ended September 30, 2019 was \$81.81 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)	
	2019	2018
Land	\$ 82,607	\$ 80,827
Constructin-in-progress	7,248	2,461
Buildings	24,923	25,777
Land Improvements	6,251	6,079
Vehicles	2,457	2,363
Recreational facilities	8,744	9,539
Equipment and fixtures	4,437	5,264
Books and artwork	586	613
Infrastructure	15,893	16,530
Capital assets, net of depreciation	\$ 153,146	\$ 149,453

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

Donated infrastructure assets (streets)	\$	188
Construction-in-progress projects (includes sidewalk design and construction)		5,552
Buildings		32
Land		1,789
Vehicles		845
Equipment, furniture & fixtures		54
Computer equipment and software		83
Books and artwork		180
	<u>\$</u>	<u>8,723</u>

Long-Term Debt - At year-end, the City had \$105.99 million in general obligation warrants and capital leases. This represents a decrease of 4.60% in debt over last fiscal year, as shown in *Table 5* below.

Table 5: Outstanding Debt

As of September 30, 2019
(dollars in thousands)

	Beginning Balance	Net Change	Ending Balance
Governmental activities:			
Warrants payable	\$ 107,065	\$ 3,760	\$ 103,305
Capital leases	4,020	1,347	2,673
Totals	<u>\$ 111,085</u>	<u>\$ 5,107</u>	<u>\$ 105,978</u>

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

- ❖ The City reduced its general obligation warrants by \$3.8 million. The ending balance includes \$1.11 million, including interest, held in the debt sinking fund for the "Qualified Energy Conservation Bonds" (QECB) payment.
- ❖ There was a net reduction of \$1.3 million in capital leases resulting from the paydown and payout of leases.
- ❖ 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 ratings of "Aaa stable" and "AA+ positive", respectively, on its "Series 2018 Warrants", July 25 and July 26, 2018.

Economic Factors and Next Year's Budget

Ad Valorem Tax – The City's ad valorem tax is based on annual reassessment of real estate and was the city's second largest revenue generator in fiscal 2019. Over the previous five years, ad valorem taxes have exceeded budget resulting from the annual appreciation of real estate.

Ad Valorem Taxes - Real Estate					
Fiscal Year	Budget		Actual		Variance
2015	\$	12,007,873	\$	12,265,526	\$ 257,653
2016		12,239,096		12,840,240	601,144
2017		13,019,195		13,386,482	367,287
2018		13,728,188		14,215,087	486,899
2019	\$	14,175,565	\$	14,611,667	\$ 436,102

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 actual expense for fiscal 2019 was \$290,248.

Medical Costs – The City of Vestavia Hills' health insurance is with and administered through the "State of Alabama Local Government Health Insurance Board". In fiscal 2019, Vestavia Hills retained its preferred insurance classification rating resulting from minimal medical claims and 80% or greater employee participation in the State of Alabama's "Wellness Screening Program". There was a budgeted increase of 5%, anticipating an increase by the Alabama Local Government Health Insurance Board in calendar year 2019, which resulted in a budgeted contribution of \$1.84 million.

Retirement Costs – The City's retirement program for employees is provided through the Retirement System of Alabama (RSA). The pension plan is currently funded at 69.45%, reflecting an unfunded liability of \$25.73 million as of the latest measurement date – September 30, 2018. Vestavia Hills' contribution factors for fiscal 2019 were 14.43% - Tier 1 and 11.96% - Tier 2, representing a budgeted contribution of \$2.49 million.

Cost-of-Living Raise – A 3% cost of living adjustment was included in the 2019 fiscal budget.

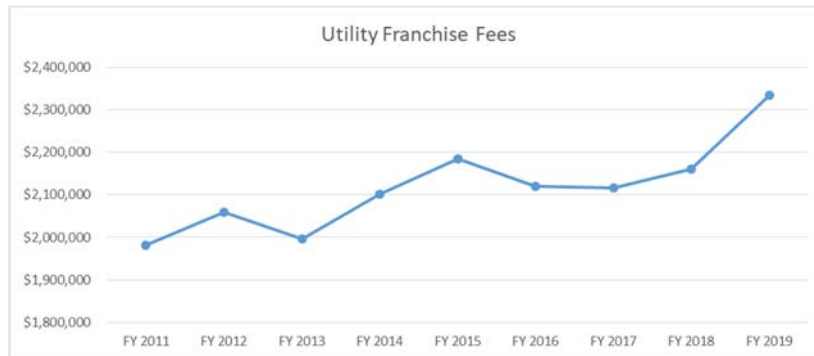
CITY MANAGER'S COMMENTS:**Fiscal Year 2019 Management Report**

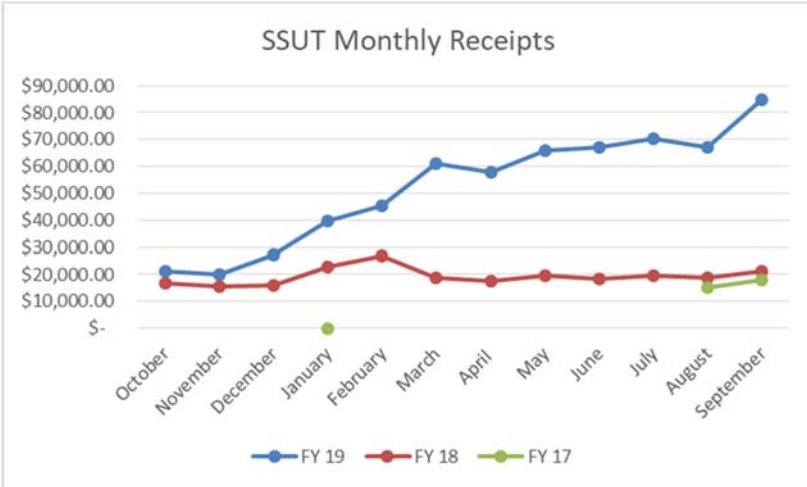
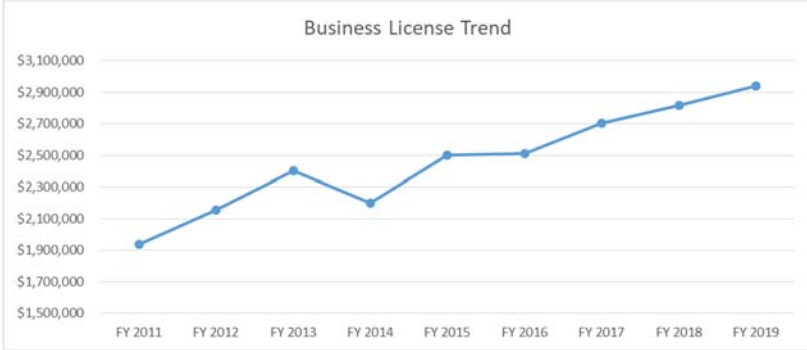
A review of financial and economic activities in the City of Vestavia Hills during fiscal year 2019 indicate a growing economy and continued conservative management of operations that bode well for the period of time indicated in this report while setting the stage for a solid financial foundation to mitigate the uncertainties of the future. All notable metrics during fiscal year 2019 supports this contention. In fact, past modeling and strategic planning for the City are showing accurate results from predictions associated with those efforts. They include revenue enhancement models, economic development strategies as well as efficiency efforts within the City's operations. In this report, I will focus initially on general fund financial metrics and follow up on the economic condition of the City while finishing with actions taken by the City leadership to manage operational expenses. The results of these intentional acts have and continue to pay dividends for the City when reviewing the FY 2019 results presented in this audited financial statement. From an operational standpoint, the most important overarching financial metric that I stay focused on as City Manager is the general fund balance. Our goal is to operate city services within our annual budget parameters and keep strategies in place that react to market conditions in our growth of revenues and/or managing of unavoidable downturns in any particular revenue line item. Since FY 2015, the City's general fund balance has increased 23%. Over this five-year period, we have experienced a significant surplus every year but one. These results, as expressed in the table below, show an overt act of the City to operate within its means and execute on its plans.

General Fund Surplus and Fund Balance			
City of Vestavia Hills			
Actual Results			
	<i>FY Surplus</i>	<i>EOY Fund Balance</i>	<i>% Change</i>
<i>Fiscal Year</i>			
2019	\$ 1,519,153	\$ 16,062,024	10.45%
2018*	\$ 1,184,355	\$ 14,542,871	8.87%
2017*	\$ (103,003)	\$ 13,358,516	-0.77%
2016*	\$ 443,870	\$ 13,461,519	3.41%
2015*	\$ 615,040	\$ 13,017,649	
* Source: Audited Financial Statements			

General Fund Financial Highlights

When drilling down beyond the consistent operational surplus, our top four revenue sources continue to experience strong results (year over year). Ad Valorem-Real (up 2.79%), Sales Tax (up 23.08%), Utility Franchise Fees (up 8.04%) and Business License (4.55%) revenues all have grown consistently over the latest five-year period. These revenue line items also serve as a positive measure of economic output and economic health of our community. I have graphically produced exhibits below to support these facts. In addition, the City has seen significant growth from a new and emerging source of revenue within the sales tax category- the Simplified Sellers Use Tax (SSUT). The SSUT is a use tax generated from online sales consistent with a relatively new State of Alabama authority that is also influenced by recent United States Supreme Court decisions mandating a change in online sales and use tax collection practices. The distribution of SSUT proceeds to Vestavia Hills in FY 19 represented a 171% increase over FY 18. We anticipate a comparable increase for FY 20.

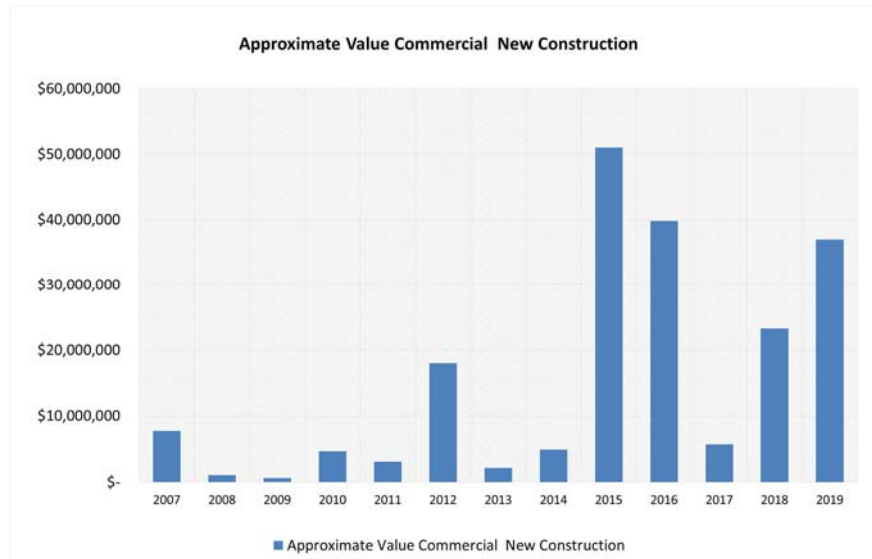




Economic Condition of the City of Vestavia Hills Alabama

The City of Vestavia Hills is a bedroom community located within the metropolitan area of Birmingham, Alabama. It has a public-school system consistently ranked very high in student achievement. Furthermore, its crime rates remain the lowest in Alabama and other quality of life measures place Vestavia Hills as one of the most desirable places to live within Alabama if not the southeastern United States. The City of Vestavia Hills consistently measures these variables in the form of community engagement efforts to ensure they remain at a high level of satisfaction among residents. The City's expenditures are also focused in sustaining these high marks. The results of these actions and resident sentiments, keep Vestavia Hills as a highly sought-after community for residential and commercial investments. To further support this trend, the City has executed on economic development strategies designed to plug leaks in its economy such as grocery retail and unique restaurant and merchandise retail businesses. The City's strategy involves selective partnerships to incent private sector investment in these areas of opportunity within the City. The aforementioned positive metrics are a result of this strategy coupled with the strong demand from private sector individuals to be a part of the Vestavia Hills community.

Over the last twelve months, the following multi-million-dollar commercial operations have or will open their doors for commerce within Vestavia Hills. Their capital investments over the last five years represent approximately a \$157,000,000 investment. Due to the nature of our revenue collections, we anticipate continued positive economic conditions based upon these investments and more to come.



New Commercial Business Opened or Commenced Construction Activities:

Baumhower's Victory Grill (Restaurant) – Highway 31
 Dunkin (Restaurant) – Highway 31
 Romeo's Sporting Good (Specialty Retail) – Highway 31
 Tazeki's (Restaurant) – Highway 31
 Waffle House (Restaurant) – Highway 31
 Leaf and Petal Development (Specialty Retail and Restaurant) – Cahaba Heights
 Milo's (Restaurant) – Cahaba Heights
 Chik-Fil-A (Restaurant) – Cahaba Heights
 Publix (Grocery Retail) - Liberty Park
 Publix (Grocery Retail) - Rocky Ridge Business District
 Vestavia Medical Plaza (Medical Clinic) – Highway 31

Operational Efficiencies within City Operations

While considerable effort is placed on economic growth within the City, there is also an effort to operate in the most efficient manner possible. Several specific efforts have produced a reduction of budgetary costs within the City while actually improving the quality of services provided by the City. This has been most noticeable in areas of fleet maintenance and facility/right of way maintenance. Both of these operations suffered from negative productivity and quality measures over a period of time. Through a privatization exercise completed in FY 19, where operations were contractually transferred to a third party, the costs of these operations were significantly reduced and evaluative responses from internal and external stakeholders were much improved. In previous years, the City operated a fleet maintenance facility with an average of four full time equivalent employees. After privatizing the operation, the costs of this operation decreased by 35-40%. In a similar fashion, the capital and personnel costs of right of way and ballfield maintenance were significant, and the City recent fully implemented contracting out of these services resulting in the ability to reassign personnel to higher priority functions, improve maintenance productivity and quality without an increase of budgetary resources.

Conclusion

From a City Manager's perspective, the City of Vestavia Hills is well positioned to continue to provide exceptional city services, withstand economic disruptions and be sustainable in the long term given the financial and operational decisions made by our City Council and operational leadership. The steady implementation of a solid plan coupled with discipline are the keys to these past and future accomplishments. The results from this audited financial statement reinforce these statements.

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, 2019

<i>September 30, 2019</i>	Governmental Activities
Assets	
Cash	\$ 10,748,318
Cash - restricted	39,762,317
Investments	12,036,083
Investment - restricted	1,096,696
Receivables, net of allowance for uncollectibles	3,394,767
Prepaid expenses	76,093
Land	82,607,368
Construction in progress	7,247,516
Capital assets, net of accumulated depreciation	63,291,148
Total assets	220,260,306
Deferred outflows of resources	
Deferred charges - debt refunding	1,189,239
Employer pension contributions subsequent to measurement date	2,450,447
Differences between expected and actual experience of pension plan	1,605,426
Changes of assumptions on net pension liability	2,537,020
Differences between expected and actual experience of OPEB plan	118,883
Changes of assumptions on net OPEB liability	146,741
Total deferred outflows of resources	8,047,756
Liabilities	
Accounts payable	3,950,079
Court and performance bonds payable	1,043,131
Accrued interest payable	474,683
Noncurrent liabilities	
Due within one year	
Compensated absences	361,422
Warrant obligations, net	3,790,000
Capital lease obligations	1,174,414
Due in more than one year	
Compensated absences	2,048,058
Warrant obligations, net	102,729,345
Capital lease obligations	1,499,223
Net pension liability	25,729,782
Net OPEB liability	1,004,293
Total liabilities	143,804,430
Deferred inflows of resources	
Net difference between projected and actual earnings on pension plan investments	1,918,755
Changes in assumptions of OPEB net liability	42,956
Total deferred inflows of resources	1,961,711
Net Position	
Net investment in capital assets	81,806,469
Restricted for debt service	1,759,670
Restricted for capital projects	
Restricted for gas tax funds	1,524,795
Unrestricted (deficit)	(2,549,013)
Total net position	\$ 82,541,921

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

City of Vestavia Hills, Alabama
Statement of Activities

Year ended September 30, 2019

Program Activities	Expenses	Program Revenues			Total
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					Net (Expense) Revenue and Changes in Net Assets Primary Government
Governmental activities					
General government administration	\$ 7,929,747	\$ 4,058,822	\$ 2,500	\$ 328,886	\$ (3,539,539)
Public safety	21,444,576	748,731	879,953	-	(19,815,892)
Public works	15,623,988	2,202,150	13,627	-	(13,408,211)
Library	2,895,284	135,668	25,131	2,081	(2,732,404)
Parks and recreation	-	-	-	-	-
Interest on long-term debt	4,011,797	-	-	-	(4,011,797)
Total primary government	\$ 51,905,392	\$ 7,145,371	\$ 921,211	\$ 330,967	(43,507,843)
General revenues					
Taxes					
Ad Valorem (real and personal property)					16,206,605
Sales and use					20,341,644
Other taxes					2,357,441
Utility franchise fees					2,838,497
Investment earnings					1,260,611
Donated infrastructure assets					187,770
Miscellaneous					217,188
Gain on sale of assets					1,821,711
					<u>45,231,467</u>
Change in net position					1,723,624
Net position at beginning of year, as originally reported					80,056,847
Prior period adjustment (Note 14)					761,450
Net position - beginning of year, as restated					<u>80,818,297</u>
Net position at end of year					<u>\$ 82,541,921</u>

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

City of Vestavia Hills, Alabama
Governmental Funds Balance Sheet

September 30, 2019

	General	Debt Service	Capital Projects- Community Spaces	Other Governmental Funds	Total Governmental Funds
Assets					
Cash	\$ 3,436,118	\$ 663,724	\$ 4,790,897	\$ 1,857,579	\$ 10,748,318
Cash - restricted	1,048,874	-	38,263,220	450,223	39,762,317
Investments	12,036,083	-	-	-	12,036,083
Investment - restricted	-	1,096,696	-	-	1,096,696
Accounts receivable, net of allowance for uncollectibles	2,368,518	-	96,600	929,649	3,394,767
Prepaid expenses	76,093	-	-	-	76,093
Interfund receivables	111,399	-	-	162,454	273,853
Total assets	\$ 19,077,085	\$ 1,760,420	\$ 43,150,717	\$ 3,399,905	\$ 67,388,127
Liabilities					
Accounts payable	\$ 1,896,297	\$ 750	\$ 1,628,899	\$ 424,133	\$ 3,950,079
Court and performance bonds payable	1,043,131	-	-	-	1,043,131
Interfund payables	134,810	-	-	139,043	273,853
Total liabilities	3,074,238	750	1,628,899	563,176	5,267,063
Fund balance					
Nonspendable	76,093	-	-	-	76,093
Restricted for					
Road maintenance	-	-	-	1,524,795	1,524,795
Capital projects	-	-	38,263,220	-	38,263,220
Debt service	-	1,759,670	-	-	1,759,670
Committed to					
Capital projects	-	-	3,258,598	-	3,258,598
Emergency reserve	12,036,083	-	-	-	12,036,083
Assigned	500,000	-	-	1,311,934	1,811,934
Unassigned	3,390,671	-	-	-	3,390,671
Total fund balance	16,002,847	1,759,670	41,521,818	2,836,729	62,121,064
Total liabilities and fund balance	\$ 19,077,085	\$ 1,760,420	\$ 43,150,717	\$ 3,399,905	\$ 67,388,127

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

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

September 30, 2019

Fund balance - total governmental funds		\$ 62,121,064
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.</p>		
Governmental capital assets	\$ 209,382,950	
Accumulated depreciation	<u>(56,236,918)</u>	153,146,032
<p>Deferred outflows of resources related to debt refundings, pensions, and OPEB are applicable to future periods and, therefore, are not reported in the governmental funds balance sheet.</p>		
		8,047,756
<p>Deferred inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the governmental funds balance sheet.</p>		
		(1,961,711)
<p>Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.</p>		
Warrant obligations, net	(106,519,345)	
Net pension liability	(25,729,782)	
Net OPEB liability	(1,004,293)	
Compensated absences	(2,409,480)	
Accrued interest payable	(474,683)	
Capital lease obligations	<u>(2,673,637)</u>	(138,811,220)
<hr/>		
Net position of governmental activities		<u>\$ 82,541,921</u>

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

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

<i>Year ended September 30, 2019</i>	General	Debt Service	Capital Projects - Community Spaces	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 36,628,663	\$ -	\$ -	\$ 777,755	\$ 37,406,418
Licenses and permits	4,712,682	-	-	162,068	4,874,750
Intergovernmental	-	-	-	678,669	678,669
Charges for services	393,142	-	-	710	393,852
Fines and forfeitures	364,533	-	-	491,743	856,276
Fees	2,934,205	-	-	820,603	3,754,808
Grants	765,494	-	21,775	459,961	1,247,230
Proceeds from sale of assets	16,016	-	1,810,950	-	1,826,966
Interest revenues	456,440	53,082	718,937	32,150	1,260,609
Library revenues	-	-	-	140,617	140,617
Other revenues	673,129	200,251	-	134,613	1,007,993
Total revenues	46,944,304	253,333	2,551,662	3,698,889	53,448,188
Expenditures					
Current (operating):					
General government administration	6,261,331	7,600	-	628,350	6,897,281
Public safety	19,331,268	-	-	1,015,300	20,346,568
Public works	7,590,608	-	4,722,379	1,134,941	13,447,928
Library	1,944,565	-	-	115,602	2,060,167
Debt service	-	7,680,312	280,000	1,193,892	9,154,204
Capital outlay	206,465	-	6,882,195	1,416,789	8,505,449
Total expenditures	35,334,237	7,687,912	11,884,574	5,504,874	60,411,597
Excess of revenues over (under) expenditures	11,610,067	(7,434,579)	(9,332,912)	(1,805,985)	(6,963,409)
Other financing sources (uses)					
Operating transfers in	94,230	7,637,914	4,719,381	1,051,110	13,502,635
Operating transfers out	(10,244,321)	-	(3,164,084)	(94,230)	(13,502,635)
Total other financing sources (uses)	(10,150,091)	7,637,914	1,555,297	956,880	-
Excess of revenues and other financing sources over (under) expenditures and other financing uses	1,459,976	203,335	(7,777,615)	(849,105)	(6,963,409)
Fund balance, beginning of year - as originally stated	14,542,871	1,556,335	49,299,433	2,924,384	68,323,023
Restatement - See Note #14	-	-	-	761,450	761,450
Fund balance, beginning of year - as restated	14,542,871	1,556,335	49,299,433	3,685,834	69,084,473
Fund balance, end of year	\$ 16,002,847	\$ 1,759,670	\$ 41,521,818	\$ 2,836,729	\$ 62,121,064

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

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

September 30, 2019

Net change in fund balances - total governmental funds	\$	(6,963,409)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
Expenditures for capital assets	\$ 8,534,694	
Less current year depreciation	<u>(5,023,337)</u>	3,511,357
<p>Some revenues reported in the government-wide statement of activities do not provide current financial resources and therefore, are not reported as revenues in the governmental funds.</p>		
The net effect of donated infrastructure		187,770
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.		5,106,913
The net effect of transactions involving the disposal of capital assets is to decrease net position.		(6,941)
<p>Some expenses reported in the government-wide statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Difference in pension expense related to deferred outflows and inflows of resources and net pension liability	\$ (491,894)	
Difference in OPEB expense related to deferred outflows and inflows of resources and net OPEB liability	9,589	
Change in long-term compensated absences	82,825	
Change in accrued interest payable	165,315	
Amortization of bond premiums/discounts, net	280,569	
Amortization of loss on refunding	<u>(158,470)</u>	<u>(112,066)</u>
Change in net position of governmental activities	\$	<u>1,723,624</u>

The accompanying notes are an integral part of these 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). The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

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, 2019, the total advalorem taxes remitted to the Board amounted to approximately \$21.2 million and \$598,130 was due the Board of Education at September 30, 2019.

The City also remits a portion of sales taxes and automobile tags collected within the City. During the year ended September 30, 2019, the total sales taxes and automobile tags remitted to the Board was approximately \$618,694 and \$92,673 was due to the Board as of September 30, 2019.

During the year ended September 30, 2019 the City and the Board entered into a funding agreement whereby the City has agreed to use excess Community Spaces funds to cover 25% of the cost of debt service in relation to the additional costs needed by the system for various capital improvements. Annual support will be \$280,000 per year for ten years.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 component units or fiduciary type activities).

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 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.

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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

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.

4. Capital Project Funds

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

5. Major and Nonmajor Funds

The General Fund, Capital Projects - Community Spaces Fund, and Debt Service Fund are classified as major funds.

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

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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

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 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.

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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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".

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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Classifications (Continued)

Fund Statements (Continued)

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 balance, which includes \$250,000 for the City's unfunded pension liability and \$250,000 for the City's insurance reserve.

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 \$12,036,083 of General 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.

The City has assigned \$1,311,934 of the Other Governmental Funds balance for use as follows: \$324,788 for E-911, \$294,861 for the Library, \$692,093 for Capital Projects and \$192 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.

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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Inventory

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

Pension

The Employees' Retirement System of Alabama (the Plan or ERS) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the plan requirements. Benefits and refunds 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 the requirements of the Governmental Accounting Standards 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.

Other Postemployment Benefits (OPEB)

Other Postemployment Benefits (OPEB) cost for retiree healthcare and similar, non-pension retiree benefits, is required to be measured and disclosed using the accrual basis of accounting (see Note 9), regardless of the amount recognized as OPEB expense on a modified accrual basis of accounting. Annual OPEB cost is calculated in accordance with GASB Statement No. 75.

Interfund Transactions

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

City of Vestavia Hills, Alabama
Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Transactions (Continued)

Details of current interfund receivables and payables are as follows:

Payable from	Payable to	Amount
General Fund	Capital Projects Fund	\$ 134,810
Other Governmental Funds	General Fund	111,399
Other Governmental Funds	Other Governmental Funds	27,644
		\$ 273,853

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.

Transfers for the fiscal year ended September 30, 2019 consisted of the following:

Transfer to	Transfer From			Total
	General Fund	Capital Projects- Community Spaces	Other Governmental Funds	
Debt Service Fund	\$ 4,473,830	\$ 3,164,084	\$ -	\$ 7,637,914
Other Governmental Funds	1,051,110	-	-	1,051,110
Community Spaces Fund	4,719,381	-	-	4,719,381
General Fund	-	-	94,230	94,230
Total	\$ 10,244,321	\$ 3,164,084	\$ 94,230	\$ 13,502,635

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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Transactions (Continued)

The purpose of the transfer from the General Fund to the Other Governmental Funds is for the capital reserve allocation and operations of the Municipal Court.

The purpose of the transfer from the General Fund to the Capital Projects – Community Spaces Fund is for funding of capital projects.

The purpose of the transfer from the Capital Projects – Community Spaces Fund to the Debt Service Fund is for reimbursement of debt service paid from the Debt Service Fund.

The purpose of the transfer from Other Governmental Funds to the General Fund is to reimburse expenditures paid for by the General Fund.

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.

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.

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 six 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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows (Continued)

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 2020. The third and fourth items are also associated with the City's pension plan and are related to changes in assumptions and differences between expected and actual experience used to calculate the total pension liability. The fifth and sixth items are associated with the City's OPEB plan and are related to differences between expected and actual experience and changes in assumption used to calculate the total OPEB liability. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City currently has two items that qualify for reporting in this category. The first is the net difference between projected and actual earnings on plan investments for the pension plan. The second one is related to changes in assumptions used to calculate the total OPEB Liability.

Economic Dependency

The City receives a significant portion of their revenue from property taxes and sales and use taxes. Property tax revenue was \$16,206,605 or 30% of total revenue in fiscal year 2019. Sales and use tax revenue was \$20,341,644 or 38% of total revenue in fiscal year 2019.

Subsequent Events

The City has evaluated subsequent events through July 16, 2020.

City of Vestavia Hills, Alabama
Notes to Financial Statements

Note 2: CASH AND INVESTMENTS

Cash

The City maintains several checking accounts that are separately held by several of the City's funds. At year-end, the carrying amount and bank balance of the City's deposit accounts were as follows:

	Carrying Amount	Bank Balance
All funds	\$ 50,510,635	\$ 51,820,687

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. Management believes that there is no significant custodial credit risk because as of September 30, 2019, all of the bank balance of the City's funds was either covered by federal depository insurance or secured by collateral through the Alabama State Treasury's Security for Alabama Funds Enhancement (SAFE) Program. Under the SAFE program, the City's funds are protected through a collateral pool administered by the Alabama State Treasury.

Certain banks holding deposits belonging to the state, counties, cities, or agencies of any of these entities must pledge securities as collateral against these deposits. In the event of the failure of a bank, securities pledged by that bank would be liquidated by the State Treasurer to replace the public deposits. If the securities pledged failed to produce adequate funds for that purpose, every bank participating in the pool would share the liability for the remaining balance. At September 30, 2019, all of the City's depositories are participating in the SAFE program.

Included in the carrying amount above are restricted assets totaling \$39,762,317, which includes deposits related to the following: \$107,909 court appearance bonds, \$213,430 lease escrow, \$236,793 police confiscations, \$38,263,220 community spaces, and \$940,965 contractor's surety. 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.

Note 2: CASH AND INVESTMENTS (Continued)

Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.

The City's credit risk policy follows investment statutes of Alabama, which allows the City to invest in obligations of the U.S. Treasury.

The City has elected to invest a portion of its excess funds, in the amount of \$3,498,357, in a number of certificates of deposit at multiple financial institutions. In accordance with GASB 72, these investments are stated at cost plus accrued interest.

The City has invested annual sinking fund payments related to its Qualified Energy Conservation Bonds (QECCB) Series 2003. The City also invests excess funds in U.S. Treasury securities. In accordance with GASB 72, the City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City does not have any investments that are categorized as Level 2 inputs.

The City has the following recurring fair value measurements as of September 30, 2019:

- U.S. Treasury securities of \$8,537,726 that are valued using quoted market prices (Level 1 inputs).
- QECCB Guaranteed Investment Contract of \$1,096,696 (restricted investment) using discounted cash flow and theoretical transfer ("exit value") techniques (Level 3 inputs).

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, 2019:

	Balance at 9/30/2018	Additions	Disposals/ Retirements/ Completed	Balance at 9/30/2019
Capital assets not being depreciated:				
Land	\$ 80,827,238	\$ 1,780,130	\$ -	\$ 82,607,368
Construction in progress	2,460,707	5,552,112	(765,303)	7,247,516
Total capital assets not being depreciated	83,287,945	7,332,242	(765,303)	89,854,884
Capital assets being depreciated:				
Land improvements	11,555,670	9,395	724,875	12,289,940
Buildings	31,006,349	14,703	(121,230)	30,899,822
Building equipment and fixtures	395,270	17,080	3,778	416,128
Vehicles	7,107,249	844,675	(61,981)	7,889,943
Equipment	9,016,122	4,398	10,574	9,031,094
Computer equipment	2,169,306	83,034	-	2,252,340
Recreational equipment	2,336,994	17,858	18,002	2,372,854
Office furniture and fixtures	2,377,106	31,581	-	2,408,687
Office equipment	133,715	-	-	133,715
Recreational facilities	23,078,608	-	-	23,078,608
Books and artwork	2,000,930	179,728	-	2,180,658
Infrastructure	26,378,433	187,770	8,074	26,574,277
Total capital assets being depreciated	117,555,752	1,390,222	582,092	119,528,066
Less accumulated depreciation for:				
Land improvements	5,476,129	550,102	12,439	6,038,670
Buildings	5,457,490	893,273	(139,888)	6,210,875
Building equipment and fixtures	166,804	15,361	-	182,165
Vehicles	4,743,801	687,753	1,537	5,433,091
Equipment	5,309,160	485,617	(50,358)	5,744,419
Computer equipment	1,722,583	131,846	-	1,854,429
Recreational equipment	1,911,518	54,878	-	1,966,396
Office furniture and fixtures	1,695,837	367,546	-	2,063,383
Office equipment	129,669	3,004	-	132,673
Recreational facilities	13,539,200	795,288	-	14,334,488
Books and artwork	1,388,074	206,618	-	1,594,692
Infrastructure	9,849,586	832,051	-	10,681,637
Total accumulated depreciation	51,389,851	5,023,337	(176,270)	56,236,918
Total capital assets being depreciated, net	66,165,901	(3,633,115)	758,362	63,291,148
Governmental activities capital assets, net	\$ 149,453,846	\$ 3,699,127	\$ (6,941)	\$ 153,146,032

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	\$	1,105,134
Public safety		1,004,667
Public works		2,109,802
Library		803,734
<hr/>		
Total depreciation expense	\$	5,023,337
<hr/>		

Note 4: CAPITALIZED LEASES

At September 30, 2019, approximately \$4,881,306 in accumulated depreciation has been recorded in the government-wide financial statements related to assets costing \$7,781,266 purchased under capital leases. The current portion of the outstanding liability related to these capital leases at September 30, 2019 reported in the government-wide financial statements totaled \$1,174,414. The remaining long-term portion of these capital lease obligations reported in the government-wide financial statements totaled \$1,499,223 at September 30, 2019.

The following schedule shows the future minimum lease payments at September 30, 2019:

<i>For the years ending September 30,</i>	Interest	Principal	Total Lease Payment
<hr/>			
2020	\$ 51,602	\$ 1,174,414	\$ 1,226,016
2021	29,850	559,817	589,667
2022	19,055	344,547	363,602
2023	13,031	215,045	228,076
2024	8,357	184,181	192,538
2025 and thereafter	4,216	195,633	199,849
<hr/>			
Total	\$ 126,111	\$ 2,673,637	\$ 2,799,748
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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	\$ 1,614,203
Property taxes	301,343
Other taxes	720,547
Franchise fees	120,000
Transport receivable	114,162
Intergovernmental	200,223
Other receivables	324,289
<hr/>	
Total	<u>\$ 3,394,767</u>

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, 2019:

Warrant obligations at September 30, 2018	\$ 107,065,000
Principal payments	<u>(3,760,000)</u>
Total principal outstanding	103,305,000
Unamortized bond issuance discount	(100,281)
Unamortized bond premium	<u>3,314,626</u>
<hr/>	
Total warrant obligations at September 30, 2019	<u>\$ 106,519,345</u>

City of Vestavia Hills, Alabama
Notes to Financial Statements

Note 6: LONG-TERM DEBT (Continued)

Outstanding principal of warrant obligations of the City at September 30, 2019 consist of the following:

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.	\$ 4,640,000
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.	1,605,000
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 \$1,096,696 held in sinking fund for repayment)	3,148,304
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.	7,690,000
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.	760,000
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.	7,955,000
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.	11,700,000
General Obligation Warrants, Series 2018 was issued in the principal amount of \$55,770,000 in August 2018. The warrants bear interest at an average of 3.75%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2048 and are callable at any time without penalty.	54,710,000
Total outstanding	102,208,304
Amount held in sinking fund for QECCB payment	1,096,696
Total principal outstanding	\$ 103,305,000

City of Vestavia Hills, Alabama
Notes to Financial Statements

Note 6: LONG-TERM DEBT (Continued)

The following schedule shows the debt service requirements at September 30, 2019:

<i>For the years ending September 30,</i>	Debt Service Related to Principal	Debt Service Related to Interest	Total Debt Service
2020	\$ 3,790,000	\$ 3,906,436	\$ 7,696,436
2021	3,935,000	3,746,499	7,681,499
2022	4,075,000	3,602,386	7,677,386
2023	4,220,000	3,448,030	7,668,030
2024	4,200,000	3,282,902	7,482,902
2025-2029	23,025,000	13,794,366	36,819,366
2030-2034	26,260,000	8,967,993	35,227,993
2035-2039	10,145,000	5,686,050	15,831,050
2040-2044	12,165,000	3,669,850	15,834,850
2045-2048	11,490,000	1,171,600	12,661,600
Total	\$ 103,305,000	\$ 51,276,112	\$ 154,581,112

The total interest paid by the City during 2019 relative to the above warrants was \$3,920,312.

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 \$1,096,696 as of September 30, 2019.

As a result of the refunding debts in prior years, the City recorded deferred charges 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, 2019 was \$1,189,239.

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)

Plan Description (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. 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. 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 are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

Note 7: PENSION PLAN (Continued)

Benefits Provided (Continued)

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 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 are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service.

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 equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending September 30 are paid to the beneficiary.

The ERS serves approximately 909 local participating employers. The ERS membership includes approximately 90,999 participants. As of September 30, 2018, membership consisted of:

Retirees and beneficiaries currently receiving benefits	24,818
Terminated employees entitled to but not yet receiving benefits	1,426
Terminated employees not entitled to a benefit	7,854
Active Members	56,760
Post-DROP participants who are still in active service	<u>141</u>
Total	<u>90,999</u>

Note 7: PENSION PLAN (Continued)

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 ERS are required by statute to contribute 8.50% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members. The City Council elected to increase the employee contribution rates as described above as provided in Act 2011-676 of the Regular Session of the 2011 Alabama Legislature effective October 1, 2011.

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.

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, 2019, the City's active employee contribution rate was 13.75% of covered employee payroll and the City's average contribution rate to fund the normal and accrued liability costs was 13.2% of pensionable payroll.

The City's contractually required contribution rate for the year ended September 30, 2019 was 14.43% of pensionable pay for Tier 1 employees and 11.65% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2016, 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 \$2,450,447 for the year ended September 30, 2019.

City of Vestavia Hills, Alabama
Notes to Financial Statements

Note 7: PENSION PLAN (Continued)

Net Pension Liability

The City's net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2017 rolled forward to September 30, 2018 using standard roll-forward techniques as shown in the following table:

Total Pension Liability Roll Forward			
	Expected Valuation Assumptions	Actual 2018 Valuation Assumptions Original	Actual 2018 Valuation Assumptions Final
Total Pension Liability			
as of September 30, 2017 (a)	\$ 80,216,330	\$ 80,514,335	\$ 80,954,788
Discount Rate (b)	7.75%	7.75%	7.70%
Entry Age Normal Cost for			
October 1, 2017 – September 30, 2018 (c)	1,508,540	1,508,540	1,523,143
Transfers Among Employers (d)	-	(327,053)	(327,053)
Actual Benefit Payment and Refunds for			
October 1, 2017 – September 30, 2018 (e)	(4,016,820)	(4,016,820)	(4,016,820)
Total Pension Liability			
as of September 30, 2018			
$[(a) \times (1+(b))] + (c) + (d) + [(e) \times (1+0.5*(b))]$	\$ 83,769,164	\$ 83,763,211	\$ 84,212,928
Difference between Expected and Actual		\$ (5,953)	
Less liability transferred for immediate recognition		(327,053)	
Experience (Gain)/Loss		\$ 321,100	
Difference between Actual at 7.70% and Actual at 7.75% [Assumption Change (Gain)/Loss]			\$ 449,717

Actuarial Assumptions

The total pension liability as of **September 30, 2018** was determined based on the annual actuarial funding valuation report prepared as of September 30, 2017. The key actuarial assumptions are summarized below:

Inflation	2.75%
Salary increases	3.25%-5.00%
Investment rate of return	7.70%*

*Net of pension plan investment expense.

Mortality rates for ERS were based on the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females ages 78 and older. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

City of Vestavia Hills, Alabama
Notes to Financial Statements

Note 7: PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

The actuarial assumptions used in the September 30, 2017 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, 2015. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

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.

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	17.00%	4.40%
U.S. Large Stocks	32.00%	8.00%
U.S. Mid Stocks	9.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash Equivalents	3.00%	1.50%
Total	100.00%	

*Includes assumed rate of inflation of 2.50%.

City of Vestavia Hills, Alabama
Notes to Financial Statements

Note 7: PENSION PLAN (Continued)

Discount Rate

The discount rate used to measure the total pension liability was the long-term rate of return, 7.70%. 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.

Changes in Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balances at September 30, 2017	\$ 80,216,330	\$ 54,800,406	\$ 25,415,924
Changes for the year:			
Service cost	1,508,540	-	1,508,540
Interest	6,061,114	-	6,061,114
Changes in assumptions	449,717	-	449,717
Difference between expected and actual experience	321,100	-	321,100
Contributions – employer	-	2,010,155	(2,010,155)
Contributions – employee	-	1,006,259	(1,006,259)
Net investment income	-	5,010,199	(5,010,199)
Benefit payments, including refunds of employee contributions	(4,016,820)	(4,016,820)	-
Transfers among employers	(327,053)	(327,053)	-
Net changes	3,996,598	3,682,740	313,858
Balances at September 30, 2018	\$ 84,212,928	\$ 58,483,146	\$ 25,729,782

City of Vestavia Hills, Alabama
Notes to Financial Statements

Note 7: PENSION PLAN (Continued)

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 7.70%, 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 (6.70%) or 1-percentage-point higher (8.70%) than the current rate:

	1% Decrease (6.70)	Current Discount Rate (7.70)	1% Increase (8.70)
Plan's Net Pension Liability	\$ 35,604,968	\$ 25,729,782	\$ 17,364,247

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, 2018**. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of **September 30, 2018**. The auditors' report dated August 17, 2019 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.

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

For the year ended September 30, 2019, the City recognized pension expense of \$491,894. At September 30, 2019, 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	\$ 1,605,426	\$ -
Changes of assumptions	2,537,020	-
Net differences between projected and actual earnings on plan investments	-	1,918,755
Employer contributions subsequent to the measure date	2,450,447	-
Total	\$ 6,592,893	\$ 1,918,755

Note 7: PENSION PLAN (Continued)

The City reported \$2,450,447 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized in pension expense as follows:

For the years ending September 30,

2020	\$ 834,440
2021	222,701
2022	356,651
2023	543,618
2024	175,600
Thereafter	90,681
Total	\$ 2,223,691

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.

Note 8: ACCUMULATED COMPENSATED ABSENCES (Continued)

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, 2019 reported in the government-wide financial statements is \$361,422. The remaining long-term incurred portion of the accrued vacation of the governmental activities at September 30, 2019 totaled \$2,048,058.

Note 9: OTHER POST-EMPLOYMENT BENEFITS

General information About the OPEB Plan

Plan description – The City of Vestavia Hills (the “City”) provides certain continuing health care and life insurance benefits for its retired employees. The City of Vestavia Hills’ OPEB Plan (the “OPEB Plan”) is a single-employer defined benefit OPEB plan administered by the City. The authority to establish and/or amend the obligation of the employer, employees and retirees rests with the City. No assets are accumulated in a trust that meets the criteria in Governmental Accounting Standards Board (GASB) Codification Section P52 Postemployment Benefits Other Than Pensions—Reporting For Benefits Not Provided Through Trusts That Meet Specified Criteria—Defined Benefit.

Benefits Provided – 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 1" members). Employees hired on and after January 1, 2013 (called "Tier 2" members) are eligible to retire only after attainment of age 62 or later completion of 10 years of service.

Employees covered by benefit terms – At September 30, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	11
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	256
<hr/>	
Total	267
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Total OPEB Liability

The City’s total OPEB liability of \$1,004,293 was measured as of September 30, 2019 and was determined by an actuarial valuation as of that date.

City of Vestavia Hills, Alabama
Notes to Financial Statements

Note 9: OTHER POST-EMPLOYMENT BENEFITS (Continued)

Total OPEB Liability (Continued)

Actuarial Assumptions and other inputs – The total OPEB liability in the September 30, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%	
Salary increases	4.00%	
Discount rate	4.18% annually	(Beginning of Year to Determine ADC)
	2.66%, annually	(As of End of Year Measurement Date)
Healthcare cost trend rates	Flat 5.5% annually	(Old Plan Only)

The discount rate was based on the average of the Bond Buyers' 20 Year General Obligation municipal bond index as of September 30, 2019, the end of the applicable measurement period.

Mortality rates were based on the RP-2000 Table without projection with 50%/50% unisex blend.

The actuarial assumptions used in the September 30, 2019 valuation were based on the results of ongoing evaluations of the assumptions from October 1, 2009 to September 30, 2019.

Balance at September 30, 2018	\$ 784,922
Changes for the year:	
Service cost	19,873
Interest	31,209
Differences between expected and actual experience	87,670
Changes in assumptions	157,223
Benefit payments and net transfers	(76,604)
Net changes	219,371
Balance at September 30, 2019	\$ 1,004,293

City of Vestavia Hills, Alabama
Notes to Financial Statements

Note 9: OTHER POST-EMPLOYMENT BENEFITS (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.66%) or 1-percentage-point higher (3.66%) than the current discount rate:

	1.0% Decrease (1.66%)	Current Discount Rate (2.66%)	1.0% (3.66%)
Total OPEB liability	\$ 1,128,926	\$ 1,004,293	\$ 896,532

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (4.5%) or 1-percentage-point higher (6.5%) than the current healthcare trend rates:

	1.0% Decrease (4.5%)	Current Trend (5.5%)	1.0% Increase (6.5%)
Total OPEB liability	\$ 890,507	\$ 1,004,293	\$ 1,135,253

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2019, the City recognized OPEB expense of \$67,015. At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 118,883	\$ -
Changes in assumptions	146,741	42,956
Total	\$ 265,624	\$ 42,956

City of Vestavia Hills, Alabama
Notes to Financial Statements

Note 9: OTHER POST-EMPLOYMENT BENEFITS (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

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

<i>For the years ending September 30,</i>	Cumulative Net Amount to be Recognized
2020	\$ 15,934
2021	15,934
2022	15,934
2023	15,934
2024	15,934
Thereafter	142,998
Total	\$ 222,668

Note 10: DEFERRED COMPENSATION PLAN

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

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

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

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

City of Vestavia Hills, Alabama
Notes to Financial Statements

Note 11: CONTINGENCIES AND COMMITMENTS

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.

Project Commitments

As of September 30, 2019, the City had executed contracts for various project commitments in the amount of \$25,016,000. At September 30, 2019, \$1,941,708 had been expended on these construction contracts.

Note 12: TAX ABATEMENTS

The City has entered into various tax abatements with property owners, businesses and real estate developers for the purpose of a) recruiting new business development and b) promoting the development of commercial parcels within the City. The agreements have limited terms and are entered into by the City as they are expected to benefit the City to increase revenue. These incentive agreements require approval by the City Council and are authorized by Amendment 772 to the Constitution of Alabama (1901) (Article 94.01 of the Recompiled Constitution of Alabama).

The incentive agreements generally expire upon the earlier of a specified term of years or the satisfaction of the agreed upon incentive amount. Following is a summary of such agreements:

Nature of Incentive	Type of Tax	% of City Taxes Abated	FYE September 30, 2018 Abatement Amount	Expiration of Incentive ¹	Maximum Incentive Amount
Restaurant development	Sales tax ⁴	50%	\$11,318	December 31, 2027	\$575,000
Retail development	Sales tax ⁴	10%	\$1,431	December 31, 2018	\$750,000
Commercial development ³	Ad Valorem tax ²	100%	\$71,613	August 2034	\$5,150,000
Retail development	Sales tax ⁴	10%	\$15,016	December 31, 2019	\$900,000
Retail development	Sales tax ⁴	10%	\$1,804	December 31, 2018	\$750,000
Retail development ⁶	Ad Valorem tax ²	100%	\$50,538	June 2029 ⁵	\$3,500,000
Restaurant development	Sales tax ⁴	50%	\$21,619	July 31, 2026	\$325,000
Restaurant development	Sales tax ⁴	50%	\$36,174	July 31, 2028	\$500,000
	Sales tax ⁴	75%		March 31, 2022	
Commercial development	Sales tax ⁴	50%	\$12,753	March 31, 2027	\$575,000

1 Earlier of date below, maximum incentive amount or cessation of operations, if applicable

2 Non-educational portion only

3 Of the \$5,150,000 Maximum Incentive amount, \$3,550,000 was paid directly by the City for building modifications and infrastructure improvements and \$1,600,000 will be abated in Ad Valorem taxes.

4 Non-educational portion only and none dedicated to capital reserves

5 Ad Valorem tax abatement was based on anchor tenant generating a certain sales tax amount. The anchor tenant ceased operations in December 2018 ending the Ad Valorem tax abatement.

Note 13: NEW PRONOUNCEMENTS

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

- Fiduciary activities;
- Leases;
- Certain disclosures related to debt, including direct borrowings and direct placements;
- Accounting for interest cost before the end of a construction period;
- Majority equity interests;
- Conduit Debt Obligations.

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

Note 14: PRIOR PERIOD ADJUSTMENT

During the fiscal year ending September 30, 2019, the City recorded a prior period adjustment as a result of an under accrual of taxes in the prior year. The effect of this adjustment was to increase fund balance of other governmental funds as well as net position of governmental activities by \$761,450 as of the beginning of the year.

Note 15: DEVELOPMENT AGREEMENT

In September 2018, the City entered into a development agreement with two other geographically adjoining governments to provide infrastructure improvements. As part of this development agreement, the City has entered into a funding agreement to provide annual payments of \$75,000 beginning in 2019 through 2025 for infrastructure improvements.

Note 16: SUBSEQUENT EVENT

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. Uncertainties have arisen that may have a significant negative impact on the City because of disruptions in revenues and operations. While the disruptions are expected to be temporary, there is uncertainty as to the duration. As a result, the negative impact on the City's revenues and operations cannot be reasonably estimated at this time. The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain.

REQUIRED SUPPLEMENTARY INFORMATION

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

<i>Year ended September 30, 2019</i>	Budget - Original and Final	General Fund Actual	Variance
Revenues			
Taxes	\$ 34,784,862	\$ 36,628,663	\$ 1,843,801
Licenses and permits	4,684,376	4,712,682	28,306
Charges for services	261,700	393,142	131,442
Fines and forfeitures	280,000	364,533	84,533
Fees	2,751,356	2,934,205	182,849
Grants	701,548	765,494	63,946
Proceeds from sale of assets	7,500	16,016	8,516
Investment revenues	255,414	456,440	201,026
Other revenues	599,530	673,129	73,599
Total revenues	44,326,286	46,944,304	2,618,018
Expenditures			
General government administration	6,063,962	6,261,331	(197,369)
Public safety	19,386,113	19,331,268	54,845
Public works	7,431,214	7,590,608	(159,394)
Library	2,006,253	1,944,565	61,688
Capital outlay	187,000	206,465	(19,465)
Total expenditures	35,074,542	35,334,237	(259,695)
Excess of revenues over expenditures	9,251,744	11,610,067	2,358,323
Other financing sources (uses)			
Operating transfers in	50,000	94,230	44,230
Operating transfers out	(9,301,744)	(10,244,321)	(942,577)
Total other financing sources (uses)	(9,251,744)	(10,150,091)	(898,347)
Excess of revenues and other financing sources over (under) expenditures	-	1,459,976	1,459,976
Fund balances, beginning of year	13,882,669	14,542,871	660,202
Fund balances, end of year	\$ 13,882,669	\$ 16,002,847	\$ 2,120,178

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	2018	2017	2016	2015	2014
Total pension liability					
Service cost	\$ 1,508,540	\$ 1,486,956	\$ 1,379,763	\$ 1,319,081	\$ 1,277,907
Interest	6,061,114	5,772,185	5,371,641	4,970,899	4,747,042
Differences between expected and actual experience	321,100	529,080	141,280	2,132,828	-
Changes of assumptions	449,717	-	3,809,927	-	-
Benefit payments, including refunds of employee contributions	(4,016,820)	(3,846,705)	(3,436,179)	(3,390,895)	(3,062,574)
Transfers among employees	(327,053)	(128,346)	273,131	-	-
Net change in total pension liability	3,996,598	3,813,170	7,539,563	5,031,913	2,962,375
Total pension liability - beginning	80,216,330	76,403,160	68,863,597	63,831,684	60,869,309
Total pension liability - ending (a)	\$ 84,212,928	\$ 80,216,330	\$ 76,403,160	\$ 68,863,597	\$ 63,831,684
Plan Fiduciary Net Position					
Contributions - employer	\$ 2,010,155	\$ 2,076,923	\$ 1,852,693	\$ 1,777,403	\$ 1,750,292
Contributions - employee	1,006,259	984,086	974,431	916,651	851,524
Net investment income	5,010,199	6,272,112	4,585,395	532,576	4,842,808
Benefit payments, including refunds of employee contributions	(4,016,820)	(3,846,705)	(3,436,179)	(3,390,895)	(3,062,574)
Transfers among employers	(327,053)	(128,346)	273,131	235,587	245,477
Net change in plan fiduciary net position	3,682,740	5,358,070	4,249,471	71,322	4,627,527
Plan net position - beginning	54,800,406	49,442,336	45,192,865	45,121,543	40,494,016
Plan net position - ending (b)	\$ 58,483,146	\$ 54,800,406	\$ 49,442,336	\$ 45,192,865	\$ 45,121,543
Net pension liability - ending (a) - (b)	\$ 25,729,782	\$ 25,415,924	\$ 26,960,824	\$ 23,670,732	\$ 18,710,141
Plan fiduciary net position as a percentage of total pension liability	69.45%	68.32%	64.71%	65.63%	70.69%
Covered payroll*	\$ 16,890,643	\$ 16,582,596	\$ 15,839,133	\$ 15,248,055	\$ 14,710,190
Net pension liability as a percentage of covered employee payroll	152.33%	153.27%	170.22%	155.24%	127.19%

*Employer's covered payroll during the measurement period is the total covered payroll. For FY 2019 the measurement period is October 1, 2017-September 30, 2018.

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

	2019	2018	2017	2016	2015
Actuarially Determined Contribution*	\$ 2,450,447	\$ 2,072,633	\$ 2,132,174	\$ 1,911,298	\$ 1,829,808
Employer Contributions to Pension Plan	2,450,447	2,072,633	2,132,174	1,911,298	1,829,808
Annual Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll**	\$ 17,823,998	\$ 16,890,643	\$ 16,582,596	\$ 15,839,133	\$ 15,248,055
Employer Contributions to Pension Plan as a % of Covered Payroll	13.75%	12.27%	12.86%	12.07%	12.00%

*The amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. The Schedule of Employer Contributions is based on the 12-month period of the underlying financial statement.

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

Total OPEB Liability	2019	2018
Service cost	\$ 19,873	\$ 21,139
Interest	31,209	28,260
Differences between expected and actual experience	87,670	41,998
Changes of assumptions	157,223	(48,684)
Benefit payments	(76,604)	(72,610)
Net change in total OPEB liability	219,371	(29,897)
Total OPEB liability - beginning	784,922	814,819
Total OPEB liability - ending	\$ 1,004,293	\$ 784,922
Covered - employee payroll	\$ 15,820,146	\$ 15,211,679
Net OPEB liability as a percentage of covered - employee payroll	6.35%	5.16%

Notes to Schedule:

Benefit changes - There were no changes of benefit terms for the year ended September 30, 2019.

Changes of assumptions - The discount rate as of 9/30/2018 was 4.18% and it changed to 2.66% as of 9/30/2019.

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

	Valuation Date	10/1/2018	10/1/2017
Actuarially determined contribution (ADC)	\$	66,262	\$ 66,166
Contributions in relation to the actuarially determined contribution:			
Employee contributions to trust		-	-
Employer paid - retiree premiums		-	-
Employer paid - expenses		(76,604)	(72,610)
Contribution deficiency (excess)	\$	(10,342)	\$ (6,444)
Covered annual payroll	\$	15,820,146	\$ 15,211,679
Contributions as a percentage of covered employee payroll		0.48%	0.48%

Notes to Schedule:

Valuation date	10/1/2018	Actuarially determined contributions are calculated as of the last day of the fiscal year in which contributions are reported.
Actuarial cost method	Individual Entry Age Normal	
Amortization method	Level dollar, open	
Amortization period	30 years	
Asset valuation method	Market value	
Inflation	2.5% annually	
Health care trend	Flat 5.5% annually (Old Plan Only)	
Salary increases	4.0% annually	
Discount rate	4.18% annually (beginning of year to determine the actuarially determined contributions (ADC))	
	2.66% annually (as of end of year measurement date)	
Retirement age	30 years of service at any age; for department heads, age 60 and 10 years of service; employees hired on and after January 1, 2013 are not eligible to retire until age 62.	
Mortality	RP-2000 without projections, 50% unisex blend	
Turnover	Age specific table with an average of 5% when applied to the active census	

This schedule is intended to show information for 10 years. Additional years will be displayed as information become available.

City of Vestavia Hills, Alabama

Notes to Required Supplementary Information

Note 1: 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 September 10, 2018.

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 PENSION 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 14.43% for Tier 1 employees (hired before January 1, 2013) and 11.65% for Tier 2 employees (hired after January 1, 2013).

Note 4: SCHEDULE OF CHANGES IN NET OPEB LIABILITY

The net OPEB liability presented in these schedules were provided by the City's actuarial consultants, Fontenot Benefits and Actuarial Consulting. The net OPEB liability is measured as the total OPEB liability less the components of the plan net position reserved to fund the total OPEB liability. The related ratios show plan net position as a percentage of the total OPEB liability and the net OPEB liability as a percentage of employee covered payroll.

City of Vestavia Hills, Alabama
Notes to Required Supplementary Information

Note 5: SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS

There were no contributions to the Plan outside of employer-paid retiree premiums for the year ended September 30, 2019.

SUPPLEMENTARY INFORMATION

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

<i>Year ended September 30, 2019</i>	<u>State Shared Gasoline Tax Funds</u>							Capital Projects- Sidewalks	Vehicle Tags	Totals
	Four Cent	Five Cent	Seven Cent	Court & Corrections	E-911	Library	Capital Projects			
Assets										
Cash and temporary investments	\$ 404,195	\$ 155,420	\$ 123,270	\$ 7,369	\$ 260,900	\$ 295,564	\$ 267,776	\$ 82,643	\$ 260,442	\$ 1,857,579
Cash - Restricted	-	-	-	-	-	-	450,223	-	-	450,223
Accounts receivable, net of allowance for uncollectibles	39,854	19,548	803,919	-	66,328	-	-	-	-	929,649
Interfund receivables	-	-	27,644	-	-	-	134,810	-	-	162,454
Total assets	\$ 444,049	\$ 174,968	\$ 954,833	\$ 7,369	\$ 327,228	\$ 295,564	\$ 852,809	\$ 82,643	\$ 260,442	\$ 3,399,905
Liabilities										
Accounts payable	\$ -	\$ -	\$ 21,411	\$ 7,369	\$ 2,440	\$ 703	\$ 243,359	\$ -	\$ 148,851	\$ 424,133
Interfund payable	18,583	9,061	-	-	-	-	-	-	111,399	139,043
Total liabilities	18,583	9,061	21,411	7,369	2,440	703	243,359	-	260,250	563,176
Fund Equity										
Fund balance										
Restricted for road maintenance	425,466	165,907	933,422	-	-	-	-	-	-	1,524,795
Assigned	-	-	-	-	324,788	294,861	609,450	82,643	192	1,311,934
Total fund equity	425,466	165,907	933,422	-	324,788	294,861	609,450	82,643	192	2,836,729
Total liabilities and fund equity	\$ 444,049	\$ 174,968	\$ 954,833	\$ 7,369	\$ 327,228	\$ 295,564	\$ 852,809	\$ 82,643	\$ 260,442	\$ 3,399,905

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

Year ended September 30, 2019	State Shared Gasoline Tax Funds				Court & Corrections	E-911	Library	Capital Projects	Capital Projects - Sidewalks	Vehicle Tags	Totals
	Four Cent	Five Cent	Seven Cent								
Revenues											
Taxes	\$ 2,132	\$ -	\$ 775,623	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 777,755
License and permits	-	-	21,750	-	-	-	-	-	-	140,318	162,068
Intergovernmental	218,235	107,313	353,121	-	-	-	-	-	-	-	678,669
Charges for services	-	-	-	710	-	-	-	-	-	-	710
Fines and forfeitures	-	-	-	491,743	-	-	-	-	-	-	491,743
Fees	-	-	-	-	820,603	-	-	-	-	-	820,603
Grants	-	-	-	-	-	22,264	437,697	-	-	-	459,961
Interest revenues	-	-	-	261	2,501	-	27,235	-	-	2,153	32,150
Library revenues	-	-	-	-	-	140,617	-	-	-	-	140,617
Other revenues	-	-	-	15	-	-	134,598	-	-	-	134,613
Total revenues	220,367	107,313	1,150,494	492,729	823,104	162,881	599,530	-	-	142,471	3,698,889
Expenditures											
General government administration	-	-	-	453,814	-	-	45,127	-	-	129,409	628,350
Public safety	-	-	-	91,268	892,295	-	31,737	-	-	-	1,015,300
Public works	-	-	1,021,851	-	-	-	113,090	-	-	-	1,134,941
Library	-	-	-	-	-	100,602	15,000	-	-	-	115,602
Debt service	-	-	-	-	-	-	1,193,892	-	-	-	1,193,892
Capital outlay	-	-	-	-	-	35,979	1,160,844	219,966	-	-	1,416,789
Total expenditures	-	-	1,021,851	545,082	892,295	136,581	2,559,690	219,966	219,966	129,409	5,504,874
Excess of revenues over (under) expenditures	220,367	107,313	128,643	(52,353)	(69,191)	26,300	(1,960,160)	(219,966)	(219,966)	13,062	(1,805,985)
Other financing sources (uses)											
Operating transfers in	-	-	-	58,378	-	-	992,732	-	-	-	1,051,110
Operating transfers out	-	-	-	-	-	-	(50,000)	-	-	(44,230)	(94,230)
Total other financing sources (uses)	-	-	-	58,378	-	-	942,732	-	-	(44,230)	956,880
Excess of revenues and other sources over expenditures and other uses	220,367	107,313	128,643	6,025	(69,191)	26,300	(1,017,428)	(219,966)	(219,966)	(31,168)	(849,105)
Fund balance, beginning of year - as originally stated	185,305	48,855	72,862	(6,025)	393,979	268,561	1,626,878	302,609	31,360	31,360	2,924,384
Restatement - See Note #14	19,794	9,739	731,917	-	-	-	-	-	-	-	761,450
Fund balance, beginning of year - as restated	205,099	58,594	804,779	(6,025)	393,979	268,561	1,626,878	302,609	31,360	31,360	3,685,834
Fund balance, end of year	\$ 425,466	\$ 165,907	\$ 933,422	\$ -	\$ 324,788	\$ 294,861	\$ 609,450	\$ 82,643	\$ -	\$ 192	\$ 2,836,729

City of Vestavia Hills

REQUIRED COMMUNICATIONS

September 30, 2019



CRI CARR
RIGGS &
INGRAM

CPAs and Advisors

CRlcpa.com



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July 16, 2020

To the City Council
City of Vestavia Hills, Alabama

Dear City of Vestavia Hill's Council Members:

We are pleased to present the results of our audit of the September 30, 2019 financial statements of the City of Vestavia Hill's (the "City").

This report to the City summarizes our audit, the reports issued and various analyses and observations related to the City's accounting and reporting. The document also contains the communications required by our professional standards.

The audit was designed, primarily, to express an opinion on the City's September 30, 2019 financial statements. We considered the City's current and emerging business needs, along with an assessment of risks that could materially affect the financial statements, and aligned our audit procedures accordingly. We conducted the audit with the objectivity and independence that you, the City Council, expect. We received the full support and assistance of the City's personnel.

At Carr, Riggs & Ingram, LLC (CRI), we are continually evaluating the quality of our professionals' work in order to deliver audit services of the highest quality that will meet or exceed your expectations. We encourage you to provide any feedback you believe is appropriate to ensure that we do not overlook a single detail as it relates to the quality of our services.

This report is intended solely for the information and use of the City, management and others within the City and should not be used by anyone other than these specified parties.

We appreciate this opportunity to meet with you.

Very truly yours,

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

CARR, RIGGS & INGRAM, LLC

Certified Public Accountants

As discussed with management during our planning process, our audit plan represented an approach responsive to the assessment of risk for the City. Specifically, we planned and performed our audit to:

- Perform audit services 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, in order to express an opinion on the City's financial statements for the year ending September 30, 2019 and to report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*;
- Communicate directly with the City Council and management regarding the results of our procedures;
- Address with the City Council and management any accounting and financial reporting issues;
- Anticipate and respond to concerns of the City Council and management; and
- Other audit-related projects as they arise and upon request.

Required Communications

We have audited the financial statements of the City for the year ended September 30, 2019, and have issued our report thereon dated July 16, 2020. Professional standards require that we provide you with the following information related to our audit:

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
Auditors' responsibility under Generally Accepted Auditing Standards	<p>As stated in our engagement letter dated February 10, 2020, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America (GAAP). Our audit of the financial statements does not relieve you or management of your responsibilities.</p> <p>As part of our audit, we considered the internal control of the City over financial reporting. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.</p>
Planned scope and timing of the audit	Our initial audit plan was not significantly altered during our fieldwork.
Significant accounting policies, including critical accounting policies and alternative treatments within generally accepted accounting principles and the auditors' judgment about the quality of accounting principles	<p>The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted during the fiscal year.</p> <p>We noted no transactions entered into by the City during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.</p>
Management judgments and accounting estimates	Please see the following section titled "Accounting Policies, Judgments and Sensitive Estimates and CRI Comments on Quality".
Corrected and Uncorrected Misstatements	Please see the following section titled "Summary of Audit Adjustments".
Potential effect on the financial statements of any significant risks and exposures	No significant risks or exposures disclosed.
Material uncertainties related to events and conditions, specifically going concern issues	No such uncertainties were noted or disclosed.
Other information in documents containing	Our responsibility related to documents (including

Required Communications

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
audited financial statements	<p>annual reports, websites, etc.) containing the financial statements is to read the other information to consider whether:</p> <ul style="list-style-type: none"> • Such information is materially inconsistent with the financial statements; and • We believe such information represents a material misstatement of fact. <p>We have not been provided any such items to date and are unaware of any other documents that contain the audited financial statements.</p>
Disagreements with management	None.
Management consultation with other independent accountants	None of which we are aware.
Major issues discussed with management prior to retention	None.
Difficulties encountered in performing the audit	None.
Deficiencies in internal control	See Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>
Fraud and illegal acts	We are unaware of any fraud or illegal acts involving management or causing material misstatement of the financial statements.
Other material written communications	Please see the following section titled "Management Representation Letter".
Other matters	We applied certain limited procedures to the Schedule of Employer Pension Contributions, the Schedule of Changes in Net Pension Liability, Schedule of Employer OPEB Contributions, the Schedule of Changes in Net OPEB Liability, and the budgetary comparison schedule, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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

Required Communications

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
	<p>knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.</p> <p>We were engaged to report on the combining financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.</p>

Accounting Policies, Judgements and Sensitive Estimates & CRI Comments on Quality

We are required to communicate our judgments about the quality, not just the acceptability, of the City's accounting principles as applied in its financial reporting. We are also required to communicate critical accounting policies and sensitive accounting estimates. The City may wish to monitor throughout the year the process used to compute and record these accounting estimates. The table below summarizes our communications regarding these matters.

AREA	JUDGMENTS & SENSITIVE ESTIMATE	COMMENTS ON QUALITY OF ACCOUNTING POLICY & APPLICATION
Capital Assets	Management's estimate of depreciation expense for the City is based on the estimated useful life of property and equipment and is calculated using the straight line method.	We evaluated the key factors and assumptions used to develop the depreciation expense in determining that they are reasonable in relation to the financial statements taken as a whole.
Liability to Personnel Board	Management's estimate of the liability to the Jefferson County Personnel Board.	We evaluated key factors and assumptions used to develop the balance in determining that it is reasonable in relation to the financial statements taken as a whole.
Fair Value	Management's estimate of the fair value of investments is based on analysis of quoted market prices, discounted cash flow and theoretical transfer ("exit value") techniques.	We evaluated key factors and assumptions used to develop the balance in determining that it is reasonable in relation to the financial statements taken as a whole.
Other Postemployment Benefits	Management's estimate of Actuarially Determined Contributions is projected using the unit credit method, using a level percentage of payroll, amortized over an open 30 year period. The investment return assumption (or discount rate) utilized was 4.00%. Health care cost trend rates were based on market assessments.	We evaluated the assumptions used by the actuary in determining that the Actuarially Determined Contribution was reasonable in relation to the financial statements taken as a whole.
Defined Benefit Pension Plan	The City participates in the Employee Retirement System (ERS), a multiple-employer agent plan administered by RSA. RSA utilizes an independent actuary to estimate for each participating employer their proportionate share of the total pension liability, fiduciary net position, related deferred outflows/inflows and actuarially required contributions in accordance with the provisions of GASB 68. Key assumptions utilized by the actuary in making the estimates required under GASB 68 included a discount rate and estimated rate of return on plan investments.	We evaluated the assumptions used by the actuary in estimating the City's proportionate share of the total pension liability, the fiduciary net position, and the related deferred outflows/inflows and found them to be in accordance with the provisions of GASB 68 and reasonable in relation to the financial statements taken as a whole.

Summary of Audit Adjustments

During the course of our audit, we accumulate differences between amounts recorded by the City and amounts that we believe are required to be recorded under GAAP reporting guidelines. Those adjustments are either recorded (corrected) by the City or passed (uncorrected). Adjustments that were recorded were limited to those prepared and identified by management. For a listing of corrected adjustments, see the section entitled Adjusting Journal Entry Report. For a listing of uncorrected adjustments, see the section entitled Passed Adjusting Journal Entry Report. Management has determined that the effect of the uncorrected adjustments is immaterial to the financial statements.

QUALITATIVE MATERIALITY CONSIDERATIONS

In evaluating the materiality of audit differences when they do arise, we consider both quantitative and qualitative factors, for example:

- Whether the difference arises from an item capable of precise measurement or whether it arises from an estimate, and, if so, the degree of imprecision inherent in the estimate.
- Whether the difference masks a change in earnings or other trends.
- Whether the difference changes a net decrease in assets to addition, or vice versa.
- Whether the difference concerns an area of the City's operating environment that has been identified as playing a significant role in the City's operations or viability.
- Whether the difference affects compliance with regulatory requirements.
- Whether the difference has the effect of increasing management's compensation – for example, by satisfying requirements for the award of bonuses or other forms of incentive compensation.
- Whether the difference involves concealment of an unlawful transaction.

Passed Adjusting Journal Entries

Page 1

Passed Adjusting Journal Entries
City of Vestavia Hills
September 30, 2019

FAJE No.	Account Description	W/P Ref	Account Number	Asset	Liability	Equity	Revenue Expense
1	PROF SVCS/PAYROLL	5102	0110-5020-000-100				52,462.00
1	A/P OTHER		0100-2005-000-000		-52,462.00		
1	PROF SERVICES		2010-5870-000-100				17,853.51
1	ACCOUNTS PAYABLE		2000-2000-000-000		-17,853.51		
To adjust for unrecorded liabilities.							
2	COMPENSATION	5203	0141-5010-000-100				17,031.00
2	WAGES PAYABLE		0100-2002-000-000		-17,031.00		
To adjust for accrued payroll as of 9/30/2019.							
FAJE Totals By Classification				0.00	-87,346.51	0.00	87,346.51
Classification Totals Before FAJE				325,984,943.96	-110,906,509.43	-226,990,127.13	11,911,692.60

Adjusting Journal Entry Report

Page 1

Adj. Journal Entries
City of Vestavia Hills
September 30, 2019

AJE No.	Account Description	W/P Ref	Account Number	Debits	Credits
1	CITY OF VESTAVIA HILLS	4202.1	1500-2024-000-000	111,398.57	
1	DUE TO GENERAL FUND		1500-2740-000-000		111,398.57
1	ACCOUNTS RECEIVABLE		0100-1230-000-000		46,434.90
1	DUE FROM SPECIAL REV FUNDS		0100-1940-000-000	46,434.90	
PBC Entry - To move tag advalorem taxes received in Fund 15 to due to/from account to properly account for intrafund transfer.					
2	ACCOUNTS RECEIVABLE	4202.1	0100-1230-000-000	166,945.72	
2	A/P SCHOOLS/3.15-PERSONAL		0100-2081-000-000		25,409.20
2	A/P SCHOOLS/15.1-PERSONAL		0100-2082-000-000		121,802.85
2	A/P SCHOOLS/10.5-PERSONAL		0100-2083-000-000		84,697.34
2	DUE FROM SPECIAL REV FUNDS		0100-1940-000-000	64,963.67	
PBC Entry - To record liability due to the Board of Education for personal advalorem taxes received in October for the September period.					
3	ASSIGNED-TECHNOLOGY		1100-2970-000-000	15,614.00	
3	Court Technology		1100-3420-000-110		15,614.00
PBC Entry - To adjust for court technology funds.					
4	INTEREST INCOME		3500-3379-000-706	3,313.70	
4	FUND BALANCE-UNRESTRICTED		3500-2990-000-000		3,313.70
PY AJE					
5	ACCOUNTS RECEIVABLE		0400-1230-000-000	19,986.08	
5	GASOLINE TAX		0400-3118-000-704	19,794.16	
5	GASOLINE TAX		0400-3118-000-704		19,986.08
5	FUND BALANCE/RESTRICTED		0400-2950-000-000		19,794.16
5	ACCOUNTS RECEIVABLE		0500-1230-000-000	9,850.59	
5	GASOLINE TAX		0500-3118-000-704	9,739.00	
5	GASOLINE TAX		0500-3118-000-704		9,850.59
5	FUND BALANCE/RESTRICTED		0500-2950-000-000		9,739.00
5	ACCOUNTS RECEIVABLE		0700-1230-000-000	34,477.06	
5	GASOLINE TAX		0700-3118-000-704	34,086.51	
5	GASOLINE TAX		0700-3118-000-704		34,477.06
5	FUND BALANCE/RESTRICTED		0700-2950-000-000		34,086.51
5	ACCOUNTS RECEIVABLE		0700-1230-000-000	8,792.11	
5	ROAD & BRIDGE TAX		0700-3219-000-704	8,597.03	
5	ROAD & BRIDGE TAX		0700-3219-000-704		8,792.11
5	FUND BALANCE/RESTRICTED		0700-2950-000-000		8,597.03
PBC Entry - To record additional month of gas tax and road tax that was received in November 2019 for the month of September 2019.					
6	TRANSFER OUT	3203	2010-9800-000-709	50,000.00	
6	PURCHASES-SMALL EQUIPMENT		2051-8150-000-200		50,000.00
6	ACCOUNTS PAYABLE		0100-2000-000-000	134,809.97	
6	DUE TO CAPITAL PROJECTS		0100-2742-000-000		135,109.97
6	LEASE/VEHICLE		2051-5610-000-200	18,187.36	
6	LEASE/VEHICLE		2052-5610-000-200	2,879.60	
6	LEASE/VEHICLE		2053-5610-000-300	2,197.54	
6	LEASE/VEHICLE		2060-5610-000-300	2,550.01	
6	LEASE/EQUIP		2052-5620-000-200	34,382.56	
6	LEASE/EQUIPMENT		2060-5620-000-300	4,615.44	
6	LEASE/EQUIPMENT		2060-5620-000-300	589.54	
6	LEASE ESCROW		2000-1131-204-000		65,402.05
6	TRANSFER-IN / CAPITAL RESERVE		2000-3398-001-709	300.00	
6	DUE TO CAPITAL PROJECTS		0100-2742-000-000	300.00	
6	DUE FROM GENERAL FUND		2000-1941-000-000		300.00
PBC Entries - To correct transfers in/out and due to/from and to correct lease escrow account.					
7	WARRANT FUNDS/COMM SPACES	4125	2200-1131-000-000	10,830.00	
7	CAPITAL PURCHASE (OVER 5K)		2260-8600-000-712		10,830.00
PBC Entry - To Void check for purchase of property					
8	CONSTRUCTION	3204	2260-8740-000-712	3,511,033.86	
8	PROFESSIONAL CONSULTANTS		2260-5840-000-300		3,511,033.86
8	CONSTRUCTION		2260-8740-000-712		16,025.00
8	LEGAL EXPENSE		2260-5830-000-300	16,025.00	
PBC Entry - To reclass professional consultants and legal expenditures to appropriate accounts.					

Adjusting Journal Entry Report

Page 2

Adj. Journal Entries
City of Vestavia Hills
September 30, 2019

AJE No.	Account Description	W/P Ref	Account Number	Debits	Credits
9	ACCOUNTS RECEIVABLE	7153	0700-1230-000-000	720,548.36	
9	ROAD & BRIDGE TAX		0700-3219-000-704		720,548.36
9	FUND BALANCE/RESTRICTED		0700-2950-000-000		689,233.08
9	ROAD & BRIDGE TAX		0700-3219-000-704	689,233.08	
PBC Entry - To adjust for Road and Bridge Tax AR as of 9/30/2019.					
Totals				5,752,475.42	5,752,475.42



VESTAVIA HILLS

A LIFE ABOVE

ASHLEY C. CURRY
Mayor

MELVIN TURNER, III
Finance Director/Treasurer

July 16, 2020

Carr, Riggs and Ingram, LLC
3700 Colonnade Parkway, Suite 300
Birmingham, AL 35243

This representation letter is provided in connection with your audits of the financial statements of City of Vestavia Hills, which comprise the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information as of September 30, 2019, and the respective changes in financial position and, the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of July 16, 2020, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 10, 2020, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- 3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
- 7) Adjustments or disclosures have been made for all events, including any instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements, if applicable.^{RG}

VESTAVIA HILLS CITY HALL P.O. BOX 660854
1032 MONTGOMERY HWY VESTAVIA HILLS, AL 35266-0854
VESTAVIA HILLS, AL 35216 205 978 0128

Management Representation Letter

- 8) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole for each opinion unit. A list of the uncorrected misstatements is attached to the representation letter.
- 9) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 10) Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

- 11) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the City from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of City or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 12) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 13) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 14) We have no knowledge of any fraud or suspected fraud that affects the City and involves—
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
- 15) We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements communicated by employees, former employees, regulators, or others.
- 16) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 17) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 18) We have disclosed to you the identity of the City's related parties and all the related party relationships and transactions of which we are aware.

Government-specific

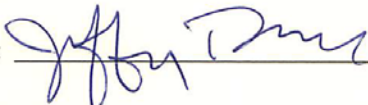
- 19) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 20) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 21) The City has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance or net position.
- 22) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.

Management Representation Letter

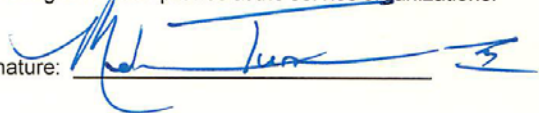
- 23) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 24) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 25) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 26) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 27) As part of your audit, you assisted with preparation of the financial statements and related notes (as well as budgetary comparison information, pension and OPEB schedules and combining statements of other governmental funds which are presented as RSI and SI). We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual (Mr. Melvin Turner), who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statement and related notes.
- 28) The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 29) The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 30) The financial statements properly classify all funds and activities in accordance with GASBS No. 34 , as amended, and GASBS No. 84 .
- 31) All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 32) Components of net position (net investment in capital assets; restricted; and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
- 33) Investments are properly valued.
- 34) Provisions for uncollectible receivables have been properly identified and recorded.
- 35) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 36) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 37) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 38) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 39) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated or amortized.
- 40) The government meets the GASB-established requirements for accounting for eligible infrastructure assets using the modified approach.
- 41) We have appropriately disclosed the City's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.

Management Representation Letter

- 42) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
- 43) We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting purposes are appropriate in the circumstances.
- 44) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 45) With respect to the combining balance sheet – other governmental funds and combining statement of revenues, expenditures, and changes in fund balances – other governmental funds:
- a) We acknowledge our responsibility for presenting the supplementary information in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - b) If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
- 46) We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.

Signature: 

Title: City Manager

Signature: 

Title: Finance Director