

City of Vestavia Hills, Alabama

Financial Statements

September 30, 2013

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## **Independent Auditor's 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, the aggregate discretely presented component units, 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Vestavia Hills, Alabama, as of September 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3.1–3.10 and 34–37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

*Carly Riggs & Ingram, L.L.C.*

Birmingham, Alabama  
July 22, 2014

**City of Vestavia Hills  
Management's Discussion & Analysis (MD&A)  
September 30, 2013**

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, 2013. Please read the report in conjunction with the City's financial statements and notes to the financial statements that immediately follow this analysis.

**Financial Highlights: Significant Items to Note**

- ❖ The assets of the City exceeded the liabilities at the close of the 2013 fiscal year by \$94.10 million (net position).
- ❖ The City's net position increased 3.4% (\$3,082,191) in the 2013 fiscal year.
- ❖ The total cost of the City's programs for the 2013 fiscal year was \$35.1 million. The net cost was \$28 million after subtracting grants and charges for services.
- ❖ The General Fund revenues received during the 2013 fiscal year exceeded expenditures by \$537,000.
- ❖ At the end of the 2013 fiscal year, the general fund unassigned fund balance, excluding the City's committed funds for economic stabilization fund balance of \$8.4 million, was \$3.4 million, or 12% of the total general fund operating expenses before debt service.
- ❖ Major capital expenditures for the 2013 fiscal year totaled \$7.4 million including \$.399 million for projects in progress and \$7.05 million for completed projects.
- ❖ The City increased its outstanding General Obligation Warrants by \$4.2 million resulting from a 2013 warrant issue to upgrade the lighting systems of the Athletic Facilities

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

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

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

***Governmental Funds*** - Governmental *fund financial statements* begin on page 6. These statements account for basically the same governmental activities reported in the *government-wide financial statements*. *Fund financial statements* presented herein display information on each of the City's most important governmental funds or *major funds*. This is required in order to better assess the City's accountability for significant governmental programs or certain dedicated revenue. The City's *major funds* are the General Fund, the Debt Service Fund, the Capital Projects Fund, and the 7 Cent Gas Tax 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 7 and 9 of these financial statements. These reconciliations are useful to readers in understanding the long-term impact of the City's short-term financing decisions.

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

After the presentation of the basic financial statements, the *required supplementary information* is presented following the notes to the basic financial statements. The *required supplementary information* beginning on page 35 provides a comparison of the adopted budget of the City's General Fund to the actual operating results for the fiscal year. The comparison of this data allows users to assess management's ability to project and plan for its operations throughout the year.

### Analysis of the City of Vestavia Hills' Overall Financial Position

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

**Table 1: Summary of Net Position**

	As of September 30, (dollars in thousands)	
	<u>2013</u>	<u>2012</u>
Assets:		
Current and other assets	\$ 29,491	\$ 25,062
Capital assets	<u>113,955</u>	<u>113,056</u>
Total Assets	<u>143,446</u>	<u>138,118</u>
Liabilities:		
Other liabilities	3,795	3,101
Long-term liabilities	<u>45,549</u>	<u>41,611</u>
Total Liabilities	<u>49,344</u>	<u>44,712</u>
Net position:		
Net investment in capital assets	84,740	84,444
Restricted	458	205
Unrestricted	<u>8,903</u>	<u>8,757</u>
Total Net Position	<u>\$ 94,101</u>	<u>\$ 93,406</u>

The City's assets exceeded liabilities by \$94.10 million at September 30, 2013.

Net investment in capital assets of \$84.7 million reflect the City's investment in capital assets (e.g., land, infrastructure, buildings, improvements other than buildings, fixtures, furniture, equipment and transportation equipment), less accumulated depreciation and debt related to the acquisition of the assets. Since these capital assets are used in governmental activities, this portion of net position is not available for future spending or funding of operations.

Restricted net position in the amount of \$458,000 represents the net position of the Four, Five and Seven Cent State Shared Gasoline Tax Funds. This net position has been restricted by enabling legislation. Unrestricted net position of \$8.9 million may be used at the City's discretion to meet ongoing obligations to citizens and creditors and for future operations. Additionally, the unrestricted net position include funds established in fiscal 2009 designated for "Other Post Employment Benefits" (OPEB) Actuarial Trust fund of \$117,800 (net of current liability \$27,000) and the general insurance and worker's compensation fund of \$17,800 (net of current liability \$10,300).

### **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 5. *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, 2013 and 2012.

**Table 2: Summary of Changes in Net Position**

	<b>Fiscal Year Ended</b>	
	<b>September 30,</b>	
	(dollars in thousands)	
	<b>2013</b>	<b>2012</b>
Program Revenues:		
Charges for services	\$ 5,718	\$ 5,116
Operating grants/contributions	592	331
Capital grants/contributions	806	894
General Revenues:		
Taxes	27,187	27,679
Utility franchise fees	2,542	2,559
Investment earnings	96	80
Interest on notes receivable	13	51
Other	125	109
Sale of assets	295	2,564
Donations	30	25
Donated infrastructure assets	763	565
Total Revenues	38,167	39,973
Program Expenses:		
General government	6,214	5,069
Public safety	16,058	14,964
Public works	5,675	5,990
Library	2,341	2,186

Parks & recreation	3,237	3,222
Interest on long term debt	1,560	1,675
Total Expenses	<u>35,085</u>	<u>33,106</u>
Change in net position	3,082	6,867
Net Position, beginning	<u>93,405</u>	<u>86,539</u>
Prior Period Adjustment	<u>(2,386)</u>	<u>-</u>
Net Position, restated	<u>91,019</u>	<u>-</u>
Net Position, ending	<u>\$ 94,101</u>	<u>\$ 93,406</u>

The City's revenues, excluding donated infrastructure assets and donated property, which do not provide spendable funds, decreased 5% (\$2.01 million). The decrease resulted primarily from the following revenue categories: 2% (\$492,000) in taxes and 88% (\$2.3 million) in gain on sale of assets. The revenue decrease was partially offset by an increase in several revenue categories, principally by a 12% (\$602,000) increase in charges for services and 79% (\$261,000) in operating grants/contributions.

The tax revenue decrease was primarily due to a 2% (\$239,400) decrease in sales taxes attributable to a one-time windfall resulting from an audit of an existing business recorded in fiscal 2012 and a 3% (\$354,300) decrease in advalorem real taxes resulting from properties damaged and/or destroyed by tornados.

The decrease in gain on sale of assets resulted from the sale of 16 acres of city property, Patchwork Farm, in fiscal 2012.

The City's program expenses increased 6% (\$2.1 million). The increase resulted principally from increases in depreciation expense, reclassification of warrant issuance cost, per GASB 65, compensation, legal fees and maintenance and professional contracts. The City program expense increases were partially offset by reductions in street maintenance and repair.

*Table 3* is a condensed statement taken from the Statement of Activities on page 5 showing the total cost for providing services for six major City activities. Total cost of services is compared to the net cost of providing these services. The net cost of services is the remaining cost of services after subtracting grants and charges for services that the City used to offset the program's total cost. In other words, the net cost shows the financial burden that was placed on all taxpayers for each of these activities. This information allows citizens to consider the cost of each program in comparison to the benefits provided.

**Table 3: Net Cost of Government-Wide Activities**

	<b>Fiscal Year Ended September 30, 2013</b> (dollars in thousands)	
	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>
General government administration	\$ 6,214	\$ 1,968
Public safety	16,058	15,079
Public works	5,675	4,572
Library	2,341	2,187
Parks and recreation	3,237	2,603
Interest on long term debt	1,560	1,560
Total	<u>\$ 35,085</u>	<u>\$ 27,969</u>

### Performance of City Funds

As noted earlier, the City uses fund accounting to control and manage resources in order to ensure compliance with finance-related legal and internal requirements. Using funds to account for resources for particular purposes helps the reader to determine the City's accountability for these resources whether provided by taxpayers and other entities, and to help to provide more insight into the City's overall financial health. The following analysis of the City's funds should be read in reference to the *fund financial statements* that begin on page 6.

**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 7 and 9). At the end of the fiscal year, the City's governmental funds reported a combined fund balance of \$25.7 million, which includes an \$8.4 million committed fund balance to be used for economic stabilization in the event of an unforeseen emergency and \$3.4 million of unassigned general fund balance which is available for future needs.

### Budgetary Highlights of the General Fund

On or before October 1 of each year, the Mayor prepares and submits an annual budget to be adopted by the City Council. The fiscal 2013 budget was adopted September 10, 2012. 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 to Actual" on page 35. The City's actual results as compared to the City's budget can be briefly summarized as follows:

- ❖ Actual revenues exceeded budget by \$1.7 million or 5.4%. Investment revenues were under budget totaling \$8,500; however, the decrease was offset due to taxes, licenses and permits, charges for services, fines and forfeitures, fees, grants, proceeds from sale of assets and other revenues exceeding budget totaling \$1.7 million.

- ❖ Actual expenditures exceeded budget by \$310,800 or 1.1%. Public safety, public works and library were under budget totaling \$276,600; however, the decrease was offset due to expenditures exceeding budget in general government administration, parks and recreation and capital outlay totaling \$587,300. General government administration, parks and recreation and capital outlay expenditures exceeded budget principally due to compensation and legal fees. Public safety, public works and library were below budget principally due to lower salaries, payroll taxes and fringe benefit costs.

### Capital Assets and Debt Administration

**Capital Assets** - The City's investment in capital assets for governmental activities for the year ended September 30, 2013, amounted to \$84.7 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)	
	2013	2012
Land	\$ 18,126	\$ 21,862
Land/Infrastructure	49,502	49,084
Construction-in-progress	2,224	1,826
Buildings	11,262	11,681
Improvements	5,990	6,330
Recreational facilities	13,742	10,877
Vehicular equipment	2,359	1,445
Equipment and fixtures	3,480	3,651
Books	711	700
Infrastructure	6,558	5,600
Capital assets, net of depreciation	\$ <u>113,955</u>	\$ <u>113,056</u>

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

Donated Infrastructure assets (streets)	\$	1,262
Construction-in-progress projects (includes sidewalk design and construction)		399
Land improvements		87
Buildings		38
Land		559
Vehicles		1,303
Equipment, furniture & fixtures		461
Computer equipment and software		220
Recreational facilities		3,690
Library books & Artwork		189
	\$	<u>8,208</u>

**Long-Term Debt** - At year-end, the City had \$44.4 million in general obligation warrants, capital lease contracts payable and other long-term debt outstanding. This is an increase of 9.08% in debt from last year, as shown in *Table 5* below.

**Table 5: Outstanding Debt**

As of September 30, 2013  
(dollars in thousands)

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>
Governmental activities:			
Warrants payable	\$ 38,400	\$ 1,430	\$ 39,830
Capital leases	437	2,601	3,038
Compensated absences	<u>1,552</u>	<u>5</u>	<u>1,557</u>
<b>Totals</b>	<b>\$ <u>40,389</u></b>	<b>\$ <u>4,036</u></b>	<b>\$ <u>44,425</u></b>

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

- ❖ The City reduced its General Obligation Warrants by \$2.8 million but added an additional \$4.2 million in General Obligation Warrants (Series 2013) for a net increase of \$1.4 million. The proceeds of the Warrants shall be used to upgrade the lighting systems of the Athletic Facilities
- ❖ The net increase in the capital leases liability resulted from the purchase of vehicles, trucks and heavy equipment less principal payments. The long-term liability in compensated absences increased due to accumulated compensatory time by public safety personnel.

- ❖ A favorable bond rating facilitates the City’s ability to meet financial obligations. Moody’s Investors Service and Fitch Ratings assigned the City of Vestavia Hills a rating of Aa1 and AA+ in 2013/2014, respectively.

### **Economic Factors and Next Year’s Budget**

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

<u>Fiscal</u> <u>Year</u>	<b>Ad Valorem Taxes - Real</b>			<u>%</u> <u>Change</u>
	<u>Collection</u>	<u>Variance</u>		
2008	11,647,458	-	-	
2009	12,235,165	587,707	5.05%	
2010	12,065,106	(170,059)	-1.39%	
2011	11,860,083	(205,023)	-1.70%	
2012	12,246,789	386,706	3.26%	
2013	11,892,447	(354,342)	2.90%	

**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 Vestavia Hills paid \$202,925 in fiscal 2013, a 6.3% increase.

**Medical Costs** – Employee health insurance is provided through the State of Alabama Insurance Board. The City of Vestavia Hills retained its preferred insurance classification rating resulting from minimal medical claims and employees’ participation in the State of Alabama Wellness Screening Program. Subsequently, there was no increase in the City’s insurance premium for fiscal 2013, but a slight increase is anticipated for fiscal 2014.

**Retirement Costs** –The City’s retirement program for employees is provided through the Retirement System of Alabama (RSA). Economic and market conditions in previous years resulted in increases in the City’s required contribution to the program. Because the pension plan is only 66.2% funded, reflecting an unfunded liability of \$18.4 million, at September 30, 2012, Vestavia Hills’ factor was increased from 10.56 to 10.70 for fiscal 2013. A budgeted contribution of \$1.5 million is expected to increase in fiscal 2014 to an estimated \$1.8 million.

**Cost-of-Living Raise** – A cost of living adjustment was not included in the 2012-2013 fiscal budget but merit increases and a one-time retention bonus were given.

**Patchwork Farms** – The City has entered into a Master Development and Brokerage Service Agreement with Daniel Corporation who will assist the City with planning, designing and developing approximately 46.3 acres at Patchwork Farms.

**City Hall** – The City has purchased the former Food World and Joe’s Ranch House properties and will construct a new City Hall on these sites, beginning July 1, 2014. The estimated completion is September 2015.

**Sicard Hollow Community Park** – The City is developing approximately 42 acres for a community park on an old mining community site. We are working with the Mine Reclamation Authority to reclaim the property; they are investing \$1.2 million. The Vestavia Hills Park and Recreation Foundation is raising funds to complete this project.

### **Contacting the City’s Financial Management**

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

City of Vestavia Hills, Alabama

Government-wide Statement of Net Position

<i>September 30, 2013</i>	Primary		
	Government	Component Units	
	Governmental Activities	Library Foundation	Park and Recreation Foundation
<b>Assets</b>			
Cash and temporary investments	\$ 26,623,767	\$ 165,731	\$ 491,483
Cash - restricted	431,836	-	-
Investments	-	-	-
Receivables	1,994,480	-	-
Inventory	37,262	-	-
Prepaid expenses	209,943	-	-
Notes receivable and related accrued interest	-	-	-
Bond issuance discount, net	193,775	-	-
Land	67,627,994	-	-
Construction in progress	2,224,354	-	-
Capital assets, net of accumulated depreciation	44,102,175	-	-
<b>Total assets</b>	<b>143,445,586</b>	<b>165,731</b>	<b>491,483</b>
<b>Liabilities</b>			
Accounts payable	3,136,371	-	-
Court and performance bonds payable	409,550	-	-
Accrued interest payable	249,136	-	-
Noncurrent liabilities			
Due within one year:			
Compensated absences	274,803	-	-
Warrants payable, net	2,090,000	-	-
Obligation due under long-term capital leases	550,797	-	-
Due in more than one year:			
Compensated absences	1,557,216	-	-
Warrants payable, net	38,589,372	-	-
Obligation due under long-term capital leases	2,486,896	-	-
<b>Total liabilities</b>	<b>49,344,141</b>	<b>-</b>	<b>-</b>
<b>Net position</b>			
Net investment in capital assets	84,740,084	-	-
Restricted	457,796	-	-
Unrestricted	8,903,565	165,731	491,483
<b>Total net position</b>	<b>\$ 94,101,445</b>	<b>\$ 165,731</b>	<b>\$ 491,483</b>

See accompanying notes to basic financial statements.

City of Vestavia Hills, Alabama

Government-wide Statement of Activities

Year ended September 30, 2013

Program Activities	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government</b>				
Governmental activities:				
General government administration	\$ 6,213,601	\$ 3,478,906	\$ -	\$ 767,059
Public safety	16,058,089	714,742	264,502	-
Public works	5,675,436	1,020,415	83,070	-
Library	2,341,336	91,001	24,840	38,683
Parks and recreation	3,236,516	413,090	220,000	-
Interest on long-term debt	1,560,054	-	-	-
<b>Total primary government</b>	<b>\$ 35,085,032</b>	<b>\$ 5,718,154</b>	<b>\$ 592,412</b>	<b>\$ 805,742</b>
<b>Component units</b>				
Library Foundation	\$ 53,135	\$ -	\$ 61,605	\$ -
Park and Recreation Foundation	236,927	-	185,217	-
<b>Total component units</b>	<b>\$ 290,062</b>	<b>\$ -</b>	<b>\$ 246,822</b>	<b>\$ -</b>

General revenues:

Taxes:

Ad Valorem (real and personal property)

Sales and use

Other taxes

Utility franchise fees

Investment earnings

Interest on notes receivable

Donations

Donated infrastructure assets

Miscellaneous

Gain on sale of assets

Change in Net position

Net position at beginning of year

Prior Period Adjustment

Net position at beginning of year, as restated

**Net position, Ending**

**Net (Expense) Revenue and Changes in Net Assets**

<b>Primary</b>			
<b>Government</b>		<b>Component Units</b>	
<b>Total</b>	<b>Library Foundation</b>	<b>Park and Recreation Foundation</b>	
\$ (1,967,636)	\$ -	\$ -	-
(15,078,845)	-	-	-
(4,571,951)	-	-	-
(2,186,812)	-	-	-
(2,603,426)	-	-	-
(1,560,054)	-	-	-
(27,968,724)	-	-	-
-	8,470	-	-
-	-	(51,710)	-
-	8,470	(51,710)	-
13,392,321	-	-	-
11,824,615	-	-	-
1,970,229	-	-	-
2,541,946	-	-	-
95,871	-	-	-
12,917	-	-	-
30,038	-	-	-
763,436	-	-	-
124,757	-	-	-
294,785	-	-	-
31,050,915	-	-	-
3,082,191	8,470	(51,710)	-
93,405,657	157,261	51,240	-
(2,386,403)	-	-	-
91,019,254	157,261	543,193	-
\$ 94,101,445	\$ 165,731	\$ 491,483	-

City of Vestavia Hills, Alabama  
Governmental Funds Balance Sheet

<i>September 30, 2013</i>	<b>General</b>	<b>Debt Service</b>	<b>Capital Projects</b>
<b>Assets</b>			
Cash and temporary investments	\$ 12,344,400	\$ 300,106	\$ 12,743,843
Cash - restricted	431,836	-	-
Accounts receivable, net of allowance for uncollectibles	1,788,464	-	95,389
Inventory	37,262	-	-
Prepaid expenses	209,943	-	-
Interfund receivables	-	-	48,851
<b>Total assets</b>	<b>\$ 14,811,905</b>	<b>\$ 300,106</b>	<b>\$ 12,888,083</b>
<b>Liabilities</b>			
Accounts payable	2,143,798	-	999,926
Interfund payables	48,851	-	-
Accrued expenses	488	-	-
<b>Total liabilities</b>	<b>2,193,137</b>	<b>-</b>	<b>999,926</b>
<b>Fund balance</b>			
Nonspendable	247,205	-	-
Restricted for:			
Road maintenance	-	-	-
Debt service requirement	-	300,106	-
Committed to:			
Capital projects	-	-	10,429,240
Emergency reserve	8,447,789	-	-
Assigned	546,709	-	1,458,917
Unassigned	3,377,065	-	-
<b>Total fund balance</b>	<b>12,618,768</b>	<b>300,106</b>	<b>11,888,157</b>
<b>Total liabilities and fund balance</b>	<b>\$ 14,811,905</b>	<b>\$ 300,106</b>	<b>\$ 12,888,083</b>

See accompanying notes to basic financial statements.

<b>Seven Cent</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 800,131	\$ 435,287	\$ 26,623,767
	-	431,836
30,773	79,854	1,994,480
-	-	37,262
-	-	209,943
26,822	-	75,673
<u>\$ 857,726</u>	<u>\$ 515,141</u>	<u>\$ 29,372,961</u>
399,930	1,779	3,545,433
-	26,822	75,673
-	-	488
<u>399,930</u>	<u>28,601</u>	<u>3,621,594</u>
-	-	247,205
457,796	-	457,796
-	-	300,106
-	-	10,429,240
-	-	8,447,789
-	486,540	2,492,166
-	-	3,377,065
<u>457,796</u>	<u>486,540</u>	<u>25,751,367</u>
<u>\$ 857,726</u>	<u>\$ 515,141</u>	<u>\$ 29,372,961</u>

City of Vestavia Hills, Alabama

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

September 30, 2013

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Fund balance - total governmental funds \$ 25,751,367

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

Deferred items related to debt issuance used in governmental  
activities are not current financial resources and therefore are not  
reported in the governmental funds balance sheet. 193,775

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

Governmental capital assets	\$ 148,169,616	
Accumulated depreciation	<u>(34,215,093)</u>	113,954,523

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

Warrants payable, net	(40,679,372)	
Compensated absences	(1,832,019)	
Accrued interest payable	(249,136)	
Capital lease payable	<u>(3,037,693)</u>	<u>(45,798,220)</u>

**Net position of governmental activities** \$ 94,101,445

Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds

Year ended September 30, 2013

	General	Debt Service	Capital Projects	Seven Cent	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Taxes	\$ 25,274,193	\$ -	\$ -	\$ 621,002	\$ 680,718	\$ 26,575,913
Licenses and permits	3,552,453	-	-	-	-	3,552,453
Intergovernmental	-	-	-	317,099	294,152	611,251
Charges for services	413,090	-	-	-	-	413,090
Fines and forfeitures	271,466	-	-	-	293,040	564,506
Fees	2,648,486	-	-	-	-	2,648,486
Grants	347,572	-	987,059	-	57,613	1,392,244
Proceeds from sale of assets	7,044	-	1,788,400	-	-	1,795,444
Investment revenues	75,046	147	19,333	806	539	95,871
Library revenues	-	-	-	-	96,911	96,911
Other revenues	664,161	100,798	326,406	23,958	-	1,115,323
<b>Total revenues</b>	<b>33,253,511</b>	<b>100,945</b>	<b>3,121,198</b>	<b>962,865</b>	<b>1,422,973</b>	<b>38,861,492</b>
<b>Expenditures</b>						
Current (operating):						
General government administration	5,302,255	-	9,306	-	172,919	5,484,480
Public safety	14,490,780	-	6,059	-	1,076,927	15,573,766
Public works	3,948,387	-	-	710,016	296,211	4,954,614
Library	1,323,143	-	-	-	55,560	1,378,703
Parks and recreation	2,338,914	-	-	-	-	2,338,914
Debt service	-	4,482,750	-	-	-	4,482,750
Capital outlay	222,030	-	7,167,236	-	55,321	7,444,587
<b>Total expenditures</b>	<b>27,625,509</b>	<b>4,482,750</b>	<b>7,182,601</b>	<b>710,016</b>	<b>1,656,938</b>	<b>41,657,814</b>
<b>Excess of revenues over (under) expenditures</b>	<b>5,628,002</b>	<b>(4,381,805)</b>	<b>(4,061,403)</b>	<b>252,849</b>	<b>(233,965)</b>	<b>(2,796,322)</b>
<b>Other financing sources (uses)</b>						
Received by City for debt repayment	-	794,375	-	-	-	794,375
Donations	30,038	-	-	-	-	30,038
Operating transfers in	-	3,445,351	5,388,381	-	394,581	9,228,313
Operating transfers out	(5,120,601)	(4,102,815)	-	-	(4,897)	(9,228,313)
Other financing sources - proceeds of capital lease	-	-	2,777,704	-	-	2,777,704
Other financing sources - proceeds of warrants	-	4,245,000	-	-	-	4,245,000
<b>Total other financing sources (uses)</b>	<b>(5,090,563)</b>	<b>4,381,911</b>	<b>8,166,085</b>	<b>-</b>	<b>389,684</b>	<b>7,847,117</b>
<b>Excess of revenues and other financing sources over (under) expenditures and other uses</b>	<b>537,439</b>	<b>106</b>	<b>4,104,682</b>	<b>252,849</b>	<b>155,719</b>	<b>5,050,795</b>
<b>Fund balance, beginning of year</b>	<b>12,081,329</b>	<b>300,000</b>	<b>7,783,475</b>	<b>204,947</b>	<b>330,821</b>	<b>20,700,572</b>
<b>Fund balance, end of year</b>	<b>\$ 12,618,768</b>	<b>\$ 300,106</b>	<b>\$ 11,888,157</b>	<b>\$ 457,796</b>	<b>\$ 486,540</b>	<b>\$ 25,751,367</b>

See accompanying notes to basic financial statements.

City of Vestavia Hills, Alabama

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

September 30, 2013

Net change in fund balances - total governmental funds		\$ 5,050,795
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
Expenditures for capital assets	\$ 7,444,587	
Less current year depreciation	<u>(3,397,719)</u>	4,046,868
<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>		
Change in accrued interest receivable on notes from Board of Education		(6,458)
<p>The net effect of transactions involving the sale of capital assets is to decrease net assets.</p>		
		(1,525,080)
<p>The effect of donated infrastructure assets is to increase net assets.</p>		
		763,436
<p>The issuance of long-term debt provides current financial resources to governmental funds, but the issuance of the debt increases long-term liabilities in the government-wide statement of net assets.</p>		
		(7,022,704)
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
		2,815,000
<p>Principal payments on warrants paid by the Board of Education are reported as revenue in the governmental funds, but are reductions of notes receivable in the government-wide statement of activities.</p>		
		(775,000)
<p>Some expenses reported in the government-wide statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
Change in long-term compensated absences	\$ (5,596)	
Change in accrued interest payable	(52,467)	
Change in long-term debt (capital lease)	177,227	
Change in deferred items related to debt issuance	<u>(383,830)</u>	(264,666)
<b>Change in net position of governmental activities</b>		<u><u>\$ 3,082,191</u></u>

See accompanying notes to basic financial statements.

City of Vestavia Hills, Alabama  
Notes to Financial Statements Index

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

**A. Reporting Entity**

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

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

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

**B. Related Organization**

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Related Organization (continued)**

The City currently receives ad valorem 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, 2013, the total ad valorem taxes remitted to the Board amounted to approximately \$16.1 million and \$191,323 was due the Board of Education at September 30, 2013.

**C. Government-Wide Financial Statements**

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

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

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

**D. Fund Financial Statements**

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

- 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)**

**D. 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 Funds**

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

**4. Capital Project Funds**

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

**5. Major and Nonmajor Funds**

The General Fund, Capital Projects Fund, Debt Service Fund, and 7 Cent Gas Tax Fund (Special Revenue Fund) are classified as major funds and are described above.

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

**E. Measurement Focus and Basis of Accounting**

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

Measurement focus

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Measurement Focus and Basis of Accounting (continued)**

Measurement focus (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.

Basis of accounting

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

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

**F. Receivables**

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

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

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. Equity Classifications**

Government-wide statements

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

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

Fund statements

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

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

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

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

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

*Unassigned fund balance.* This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in all governmental funds.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. Equity Classifications (continued)**

Fund statements (continued)

The City has assigned \$500,000 of the General Fund fund balance for the City's unfunded pension liability and \$46,709 for encumbrances.

The City has assigned \$1,458,917 of the Capital Projects Fund fund balance for encumbrances.

The City has assigned \$486,540 of the Other Governmental Funds fund balance for use as follows: \$72,677 for the City's Emergency 911 Fund, \$128,626 for the Court & Corrections Fund and \$285,237 for the Library.

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

The City Council has adopted an Emergency Reserve Fund Balance Policy. Under this policy, it is the City's intent to develop and maintain a General Fund Emergency Reserve fund balance representing at least 25% of prior year actual General Fund expenditures (modified accrual basis) plus operating transfers out. The City Council has currently committed \$8,447,789 of General Fund fund balance for economic stabilization in case of an emergency. An emergency that would warrant use of their committed fund balance is defined as an unforeseen non-routine event that generally represents an economic impact to the City greater than 5% of the previous 5 year average of sales tax collections by the City and this event cost can't be absorbed by reducing the current year budgeted expenses, increasing current year budgeted revenue, or the event occurred too late in the year to overcome the impact by adjusting the budget in the normal course of the City's business.

**H. Long-term Debt**

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

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

**I. Expenditures/Expenses**

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

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

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

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**J. Fixed Assets**

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

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

Government-wide statements

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

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

Fund financial statements

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

**K. Encumbrances**

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

**L. Inventory**

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**M. Pension Expense**

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

**N. Interfund Transactions**

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

Details of current interfund receivables and payables are as follows:

<u>Payable from</u>	<u>Payable to</u>	<u>Amount</u>
Other Governmental Funds	7 Cent Gas Tax Fund	\$ 26,822
General Fund	Capital Projects Fund	48,851
		<u>\$ 75,673</u>

The purpose of the interfund receivable balance to the Other Governmental Funds from the 7 Cent Gas Tax Fund is for reimbursement of paving expenses paid from one fund on behalf of the other.

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

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, 2013 consisted of the following:

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Other Governmental Funds</b>	<b>Total Transfers In:</b>
Debt Service Fund	\$ 3,445,351	\$ -	\$ -	\$ 3,445,351
Capital Projects Fund	1,285,566	4,102,815	-	5,388,381
Other Governmental Funds	389,684	-	4,897	394,581
<b>Total Transfers Out:</b>	<b>\$ 5,120,601</b>	<b>\$ 4,102,815</b>	<b>\$ 4,897</b>	<b>\$ 9,228,313</b>

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

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**N. Interfund Transactions (continued)**

The purpose of the transfer from the General Fund to the Other Governmental Funds is for the reimbursement of operating expenditures paid from the Other Governmental Funds on behalf of the General Fund.

The purpose of the transfer from the Debt Service Fund to the Capital Projects Fund is to transfer the proceeds of the 2013 G O Warrants for the City’s Energy Conservation and Lighting Project.

**O. Property Taxes**

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

**P. Management Estimates**

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

**Q. Subsequent Events**

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

**NOTE 2 – CASH AND INVESTMENTS**

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

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

	<b>Carrying Amount</b>	<b>Bank Balance</b>
All funds	\$ 27,055,603	\$ 27,558,404

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

At September 30, 2013, 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, 2013, all of the City's depositories are participating in the SAFE program.

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

Included in the carrying amount above are deposits of \$431,836 related to construction, land disturbance, and court appearance bonds. These deposits consist of cash equivalents and are considered restricted as they are payable to various third parties upon completion of a future event. Accordingly, a corresponding liability is recorded for this amount.

City of Vestavia Hills, Alabama

Notes to Financial Statements

**NOTE 3 – CAPITAL ASSETS**

Following is a summary of the changes in the City's capital assets for the year ended September 30, 2013:

	Balance at 09/30/12	Additions	Disposals/ Retirements/ Completed	Balance at 09/30/13
<b>Capital assets not being depreciated:</b>				
Land	\$ 70,945,548	\$ 559,049	\$ (3,876,603)	\$ 67,627,994
Construction progress	1,825,648	398,706	-	2,224,354
<b>Total capital assets not being depreciated</b>	<b>72,771,196</b>	<b>957,755</b>	<b>(3,876,603)</b>	<b>69,852,348</b>
<b>Capital assets being depreciated:</b>				
Land improvements	8,910,410	86,730	-	8,997,140
Buildings	14,622,198	38,115	-	14,660,313
Building equipment and fixtures	356,860	-	(6,914)	349,946
Vehicles	4,894,455	1,303,026	(68,854)	6,128,627
Equipment	4,936,391	439,248	(13,250)	5,362,389
Computer equipment	1,148,156	219,856	-	1,368,012
Recreational equipment	1,808,478	22,002	-	1,830,480
Office furniture and fixtures	1,169,757	-	(189,355)	980,402
Office equipment	82,759	-	-	82,759
Recreational facilities	18,835,122	3,690,000	-	22,525,122
Books and artwork	2,125,824	188,801	(1,079,323)	1,235,302
Infrastructure	13,534,285	1,262,491	-	14,796,776
<b>Total capital assets being depreciated</b>	<b>72,424,695</b>	<b>7,250,269</b>	<b>(1,357,696)</b>	<b>78,317,268</b>
<b>Less accumulated depreciation for:</b>				
Land improvements	2,580,157	426,675	-	3,006,832
Buildings	2,940,787	457,453	-	3,398,240
Building equipment and fixtures	102,945	27,710	(4,206)	126,449
Vehicles	3,449,251	362,416	(42,423)	3,769,244
Equipment	3,153,185	396,943	(7,508)	3,542,619
Computer equipment	652,078	181,572	-	833,650
Recreational equipment	1,323,443	89,154	-	1,412,597
Office furniture and fixtures	561,019	139,752	(189,355)	511,415
Office equipment	59,416	8,233	-	67,649
Recreational facilities	7,958,032	825,079	-	8,783,111
Books and artwork	1,425,668	177,609	(1,079,323)	523,954
Infrastructure	7,934,208	305,123	-	8,239,331
<b>Total accumulated depreciation</b>	<b>32,140,189</b>	<b>3,397,719</b>	<b>(1,322,815)</b>	<b>34,215,093</b>
<b>Total capital assets being depreciated, net</b>	<b>40,284,506</b>	<b>3,852,549</b>	<b>(34,880)</b>	<b>44,102,175</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 113,055,702</b>	<b>\$ 4,810,304</b>	<b>\$ (3,911,483)</b>	<b>\$ 113,954,523</b>

**NOTE 3 – CAPITAL ASSETS (CONTINUED)**

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

Governmental activities:			
General government administration		\$	169,335
Public safety			633,853
Public works			707,842
Recreational			913,086
Library			973,603
<b>Total depreciation expense</b>		\$	<b>3,397,719</b>

**NOTE 4 – CAPITALIZED LEASES**

At September 30, 2013, approximately \$1,394,315 in accumulated depreciation and approximately \$260,936 in current year depreciation expense has been recorded in the government-wide financial statements related to assets costing \$3,332,451 purchased under capital leases. The current portion of the outstanding liability related to these capital leases at September 30, 2013 reported in the government-wide financial statements totaled \$550,797. The remaining long-term portion of these capital lease obligations reported in the government-wide financial statements totaled \$2,486,896 at September 30, 2013.

The following schedule shows the future minimum lease payments at September 30, 2013:

<b>Fiscal year</b>	<b>Interest</b>	<b>Principal</b>	<b>Total Lease Payment</b>
2014	49,390	550,797	600,187
2015	40,206	559,981	600,187
2016	30,864	569,322	600,187
2017	22,092	330,361	352,452
2018	16,138	336,314	352,452
2019 and thereafter	13,986	690,918	704,904
<b>Total</b>	\$ 172,676	\$ 3,037,693	\$ 3,210,369

**NOTE 5 – ACCOUNTS RECEIVABLE**

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

Sales taxes		\$	843,019
Property taxes			392,166
Franchise fees			133,156
Transport receivable			157,460
Intergovernmental			216,213
Other receivables			252,466
<b>Total</b>		\$	<b>1,994,480</b>

**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, 2013:

Warrant obligations at September 30, 2012	\$	38,400,000
Principal payments		(2,815,000)
Debt issuance		4,245,000
Total warrants outstanding		39,830,000
Long-term portion of accumulated compensated absences		1,557,216
Unamortized bond premium		849,372
<b>Total long-term debt at September 30, 2013</b>	<b>\$</b>	<b>42,236,588</b>

Outstanding warrant obligations of the City at September 30, 2013 consist of the following:

General Obligation Warrants, Series 2008 were issued in the principal amount of \$9,615,000 in February 2009. The warrants bear interest at an average of 4.38%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2028 and are callable on or after February 1, 2019 without premium or penalty, and at which time the warrants are callable at 100% plus accrued interest.	9,615,000
General Obligation Warrants, Series 2009-A were issued in the principal amount of \$10,940,000 in December 2009. The warrants bear interest at an average of 3.56%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2028 and are callable at any time without penalty.	10,940,000
Taxable General Obligation Warrants, Series 2009-B were issued in the principal amount of \$6,070,000 in December 2009. The warrants bear interest at an average of 4.8%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2028 and are callable at any time without penalty.	6,070,000
General Obligation Warrants, Series 2012 were issued in the principal amount of \$11,000,000 in June 2012. The warrants bear interest at an average of 3.5%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2022 and are callable at any time without penalty.	8,960,000
General Obligation Warrants, Series 2013 were issued in the principal amount of \$4,245,000 in May 2013. The warrants bear interest at an average of 3.75%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2033 and are callable at any time without penalty.	4,245,000
<b>Total</b>	<b>\$ 39,830,000</b>

**NOTE 6 – LONG-TERM DEBT (CONTINUED)**

The following schedule shows the debt service requirements at September 30, 2013:

Fiscal year	Debt Service Related to Principal	Debt Service Related to Interest	Total Debt Service
2014	2,090,000	1,622,650	3,712,650
2015	2,160,000	1,548,100	3,708,100
2016	1,875,000	1,474,500	3,349,500
2017	1,945,000	1,398,800	3,343,800
2018	2,015,000	1,328,369	3,343,369
2019-2023	11,355,000	5,333,007	16,688,007
2024-2028	14,145,000	2,666,587	16,811,587
2029-2033	4,245,000	716,344	4,961,344
	\$ 39,830,000	\$ 16,088,357	\$ 55,918,357

The total interest paid by the City during 2013 relative to the above warrants was \$1,500,990.

**NOTE 7 – PENSION PLAN****A. Plan description**

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

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

**NOTE 7 – PENSION PLAN (CONTINUED)**

**B. Plan description (continued)**

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

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

**C. Funding**

Effective January 1, 2002, the member contribution rate for certified full-time firefighters and certified full-time law enforcement officers increased to 6% of employee's compensation. Regular member contributions remain at 5% of employee's compensation. In addition, the RSA requires that the City remit monthly matching contributions to the pension plan. The City's matching contributions are actuarially determined annually and stated as a percentage of covered compensation. The City's actuarially determined matching contribution for the year ended September 30, 2013 was 10.7% of covered compensation.

For the year ended September 30, 2013, the City's total compensation was approximately \$14 million and the City's total covered compensation used to determine the City's pension contribution was approximately \$13 million. The City's policy is to fund the required contribution as actuarially determined by the RSA and stated as a percentage of eligible compensation. Following are the pension contributions remitted to the RSA by fiscal year since 2007:

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

**NOTE 7 – PENSION PLAN (CONTINUED)**

**D. Funding progress**

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

Actuarial Valuation Date Sept. 30,	Actuarial Value of Assets * (a)	Actuarial Accrued Liability (AAL) Entry Age 1 (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Ratio of UAAL to Covered Payroll ((b-a)/c)
2005	\$ 29,658,516	\$ 36,536,405	\$ 6,877,889	81.2%	\$ 11,926,584	57.7%
2006	31,896,218	40,552,305	8,656,087	78.7%	12,204,569	70.9%
2007	34,708,921	44,646,275	9,937,354	77.7%	12,751,200	77.9%
2008	36,513,188	47,951,941	11,438,752	76.1%	13,077,721	87.5%
2009	37,066,467	52,018,719	14,952,252	71.3%	13,573,505	110.2%
2010	2 37,192,950	55,353,332	18,160,382	67.2%	13,714,158	132.4%
2011	4 36,341,297	55,061,004	18,719,707	66.0%	13,029,303	143.7%
2012	5 36,220,132	54,591,780	18,371,648	66.3%	13,279,060	138.4%
2012	3, 5 36,220,132	54,705,729	18,485,597	66.2%	13,279,060	139.2%

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

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

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

4 Reflects changes in actuarial assumptions.

5 Reflects changes to interest smoothing methodology.

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

**E. Additional information**

Following is additional information obtained from the most recent actuarial valuation prepared as of September 30, 2012:

Valuation date	September 30, 2012
Actuarial cost method	Entry age
Amortization method	Level percent open
Remaining amortization period	28 years
Asset valuation method	5 – year smoothed market*
Actuarial assumptions:	
Ultimate Investment rate of return (discount rate)	8.00%
Projected salary increases	3.75-7.25%
Includes inflation at	3.00%
Cost-of-living adjustments	None

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

**NOTE 8 – ACCUMULATED COMPENSATED ABSENCES**

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

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

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

A liability for vacation pay is reported in the governmental funds only if the obligation has matured, for example, as a result of an employee's resignation or retirement. All vacation pay is accrued when incurred in the government-wide statements. The current portion of accrued vacation at September 30, 2013 reported in the government-wide financial statements is \$274,803. The remaining long-term incurred portion of the accrued vacation of the governmental activities at September 30, 2013 totaled \$1,557,216.

**NOTE 9 – POST-EMPLOYMENT BENEFITS**

**Plan description**

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

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

**Contribution rates**

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

**NOTE 9 – POST-EMPLOYMENT BENEFITS (CONTINUED)****Funding policy**

Until fiscal year ending September 30, 2008, the City of Vestavia Hills recognized the cost of providing post-employment medical benefits (the City of Vestavia Hills' portion of the retiree medical benefit premiums) as an expense when the benefit premiums were due and thus financed the cost of the post-employment benefits on a pay-as-you-go basis. Effective with the Fiscal Year beginning October 1, 2008, the City of Vestavia Hills implemented Government Accounting Standards Board Statement Number 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions* (GASB 45). The funding policy is not to fund the ARC except to the extent of the current year's retiree funding costs.

In fiscal year ending September 30, 2013, the City of Vestavia Hills' portion of health care funding cost for retired employees totaled \$92,854. These amounts were applied toward the Net OPEB Benefit Obligation as shown in the table on the following page.

**Annual required contribution**

The City's annual required contribution (ARC) is an amount actuarially determined in accordance with GASB 45. The ARC is the sum of the normal cost plus the contribution to amortize the actuarial accrued liability (AAL). A level dollar, open amortization period of 30 years (the maximum amortization period allowed by GASB 43/45) has been used for the post-employment benefits. The total ARC for the fiscal year beginning October 1, 2013 is \$85,081, as set forth below:

	<b>Medical</b>
Normal cost	\$ 36,407
30-year UAL amortization amount	48,674
<b>Annual required contribution (ARC)</b>	<b>\$ 85,081</b>

**Net post-employment benefit obligation (asset)**

The table below shows the City's net other post-employment benefit (OPEB) obligation (asset) for fiscal year ending September 30, 2013:

	<b>Medical</b>
Annual required contribution	\$ 85,081
Interest on net OPEB obligation	(1,987)
ARC adjustment	2,873
<b>Annual OPEB cost</b>	<b>85,967</b>
Contributions	-
Current year retiree premium	(92,854)
Change in net OPEB obligation	(6,887)
Beginning net OPEB obligation 10/01/12	(49,678)
<b>Ending net OPEB obligation (asset) 09/30/13</b>	<b>\$ (56,565)</b>

**NOTE 9 – POST-EMPLOYMENT BENEFITS (CONTINUED)****Net post-employment benefit obligation (asset) (continued)**

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

<b>Post Employment Benefit</b>	<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual Cost Contributed</b>	<b>Net OPEB Obligation (Asset)</b>
Medical	September 30, 2011	89,722	117.34%	(29,577)
Medical	September 30, 2012	93,578	121.50%	(49,679)
Medical	September 30, 2013	85,967	108.01%	(56,565)

**Funded status and funding progress**

In the fiscal year ending September 30, 2013, the City made no contributions to its post-employment benefits plan. The plan was not funded at all, has no assets, and hence has a funded ratio of zero. As of October 1, 2012, the most recent actuarial valuation, the AAL was \$875,360, which is defined as that portion, as determined by a particular actuarial cost method (the City uses the projected unit credit cost method), of the actuarial present value of post-employment plan benefits and expenses which is not provided by normal cost. Since no plan funding has occurred through fiscal year 2013, the entire actuarial accrued liability of \$875,360 was unfunded.

At September 30, 2013, the City has \$144,856 in the General Fund for future funding of benefits. The City intends to transfer these funds to its post-employment benefits plan at a future date. This \$144,856 will not reduce the AAL until it is transferred to the City's post-employment benefits plan.

	<b>Medical</b>
Actuarial Accrued Liability (AAL)	\$ 875,360
Actuarial Value of Plan Assets	-
Unfunded Act. Accrued Liability (UAAL)	875,360
Funded Ratio (Act. Val. Assets/AAL)	0%
Covered Payroll (active plan members)	\$ 14,200,951
UAAL as a percentage of covered payroll	6.16%

**Actuarial Methods and Assumptions**

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

**NOTE 9 – POST-EMPLOYMENT BENEFITS (CONTINUED)**

**Actuarial Methods and Assumptions (continued)**

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

**Actuarial cost method**

The ARC is determined using the projected unit credit cost method. The employer portion of the cost for retiree medical care in each future year is determined by projecting the current cost levels using the healthcare cost trend rate and discounting this projected amount to the valuation date using the other described pertinent actuarial assumptions, including the investment return assumption (discount rate), mortality, and turnover.

**Actuarial value of plan assets**

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

**Turnover rate**

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

**Post-employment benefit plan eligibility requirements**

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

**Investment return assumption (discount rate)**

GASB Statement 45 states that the investment return assumption should be the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits. As of September 30, 2013, the City has allocated \$144,856 in the General Fund for future funding of benefits. Since the City intends to transfer these funds to its post-employment benefits plan at a future date, the valuation has been calculated using a 4% annual investment return assumption.

**NOTE 9 – POST-EMPLOYMENT BENEFITS (CONTINUED)**

**Health care cost trend rate**

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

**Mortality rate**

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

**Method of determining value of benefits**

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

**Inflation rate**

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

**Projected salary increases**

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

**Post-retirement benefit increases**

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

**NOTE 10 – DEFERRED COMPENSATION PLAN**

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

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

**NOTE 10 – DEFERRED COMPENSATION PLAN (CONTINUED)**

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

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

**NOTE 11 – CONTINGENCIES AND COMMITMENTS**

**A. Litigation**

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

**B. Project commitments**

As of September 30, 2013, the City had executed contracts for the Patchworks Farms entrance, the construction of the Highway 31 Pedestrian Bridge, and for the City's Energy Conservation and Lighting Project in the amount of \$6,020,220. At year end, \$5,362,119 had been expended on these construction contracts with \$658,101 assigned in the Fund financial statements.

**NOTE 12 – SUBSEQUENT EVENT**

In November 2013 the City purchased property in the amount of \$1,975,000 for the construction of a municipal complex. The City issued Series 2013-A warrants in the amount of \$10,000,000 and Series 2014 warrants in the amount of \$9,605,000 to fund construction of the new City Hall.

**NOTE 13 – FUTURE ACCOUNTING PRONOUNCEMENTS**

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

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

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

**NOTE 14 – PRIOR PERIOD ADJUSTMENT**

The beginning fund balance as of October 1, 2012 has been adjusted as follows:

<b>Government-wide Financial Statements</b>	<b>Fund Balance as Originally Reported</b>	<b>Prior Period Adjustments</b>	<b>Balance as Restated</b>
To remove land sold in prior year	\$ 93,405,657	\$ (2,386,403)	\$ 91,019,254

## Required Supplementary Information

City of Vestavia Hills, Alabama

Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget to Actual - General Fund

Year ended September 30, 2013

	Budget - Original and Final	General Fund Actual	Variance
<b>Revenues</b>			
Taxes	\$ 24,354,407	\$ 25,274,193	\$ 919,786
Licenses and permits	3,173,372	3,552,453	379,081
Charges for services	401,250	413,090	11,840
Fines and forfeitures	232,986	271,466	38,480
Fees	2,512,811	2,648,486	135,675
Grants	234,081	347,572	113,491
Proceeds from sale of assets	5,000	7,044	2,044
Investment revenues	83,600	75,046	(8,554)
Other revenues	547,433	664,161	116,728
<b>Total revenues</b>	<b>31,544,940</b>	<b>33,253,511</b>	<b>1,708,571</b>
<b>Expenditures</b>			
General government administration	4,762,448	5,302,255	(539,807)
Public safety	14,584,515	14,490,780	93,735
Public works	3,952,180	3,948,387	3,793
Library	1,502,197	1,323,143	179,054
Parks and recreation	2,325,387	2,338,914	(13,527)
Capital outlay	188,000	222,030	(34,030)
<b>Total expenditures</b>	<b>27,314,727</b>	<b>27,625,509</b>	<b>(310,782)</b>
<b>Excess of revenues over expenditures</b>	<b>4,230,213</b>	<b>5,628,002</b>	<b>1,397,789</b>
<b>Other financing sources (uses)</b>			
Donations	-	30,038	30,038
Operating transfers out	(4,230,213)	(5,120,601)	(890,388)
<b>Total other financing sources (uses)</b>	<b>(4,230,213)</b>	<b>(5,090,563)</b>	<b>(860,350)</b>
<b>Excess of revenues and other financing sources over expenditures</b>	<b>-</b>	<b>537,439</b>	<b>537,439</b>
<b>Fund balances, beginning of year</b>	<b>9,230,495</b>	<b>12,081,329</b>	<b>2,850,834</b>
<b>Fund balances, end of year</b>	<b>\$ 9,230,495</b>	<b>\$ 12,618,768</b>	<b>\$ 3,388,273</b>

See accompanying notes to basic financial statements.

City of Vestavia Hills, Alabama

Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget to Actual - Capital Projects Fund

Year ended September 30, 2013

	Budget - Original and Final	Capital Projects Fund Actual	Variance
<b>Revenues</b>			
Grants	\$ -	\$ 987,059	\$ 987,059
Proceeds from sale of assets	-	1,788,400	1,788,400
Investment revenues	-	19,333	19,333
Other revenues	-	326,406	326,406
<b>Total revenues</b>	-	3,121,198	3,121,198
<b>Expenditures</b>			
General government administration	-	9,306	(9,306)
Public safety	-	6,059	(6,059)
Capital outlay	1,573,725	7,167,236	(5,593,511)
<b>Total expenditures</b>	1,573,725	7,182,601	(5,608,876)
<b>Excess of revenues (under) expenditures</b>	(1,573,725)	(4,061,403)	(2,487,678)
<b>Other financing sources (uses)</b>			
Other financing sources-proceeds of capital lease	-	2,777,704	2,777,704
Operating transfers in	592,790	5,388,381	4,795,591
<b>Total other financing sources</b>	592,790	8,166,085	7,573,295
<b>Excess of revenues and other financing sources over (under) expenditures</b>	(980,935)	4,104,682	5,085,617
<b>Fund balances, beginning of year</b>	8,535,810	7,783,475	(752,335)
<b>Fund balances, end of year</b>	\$ 7,554,875	\$ 11,888,157	\$ 4,333,282

See accompanying notes to basic financial statements.

City of Vestavia Hills, Alabama

Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget to Actual - 7 Cent Gas Tax Fund

Year ended September 30, 2013

	Budget - Original and Final	7 Cent Gas Tax Fund Actual	Variance
<b>Revenues</b>			
Taxes	\$ 625,000	\$ 621,002	\$ (3,998)
Intergovernmental	260,000	317,099	57,099
Investment revenues	2,000	806	(1,194)
Other revenues	-	23,958	23,958
<b>Total revenues</b>	<b>887,000</b>	<b>962,865</b>	<b>75,865</b>
<b>Expenditures</b>			
Public works	887,000	710,016	(176,984)
<b>Total expenditures</b>	<b>887,000</b>	<b>710,016</b>	<b>(176,984)</b>
<b>Excess of revenues over expenditures</b>	<b>-</b>	<b>252,849</b>	<b>252,849</b>
<b>Fund balances, beginning of year</b>	<b>308,498</b>	<b>204,947</b>	<b>(103,551)</b>
<b>Fund balances, end of year</b>	<b>\$ 308,498</b>	<b>\$ 457,796</b>	<b>\$ (149,298)</b>

Notes to Required Supplementary Information

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Budgets and budgetary accounting**

The City adopts annual budgets for the general fund, capital projects fund, and special revenue funds and such budgets are prepared on a basis consistent with generally accepted accounting principles. Any revisions that alter the total expenditures must be approved by the City Council. The budget of the General fund, Capital Projects fund, and 7 Cent Gas Tax fund are presented in the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual. Revenues collected for and submitted to the Board of Education were not budgeted since they were remitted to the Board as received.

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

Budget information presented in the financial statements is based on the original budget as adopted by the City Council on September 10, 2012.

## Supplementary Information

City of Vestavia Hills, Alabama

Combining Balance Sheet - Other Governmental Funds

Year ended September 30, 2013

	State Shared Gasoline Tax Funds		
	Four Cent	Five Cent	Emergency 911
<b>Assets</b>			
Cash and temporary investments	\$ -	\$ -	\$ 19,645
Accounts receivable	18,030	8,792	53,032
<b>Total assets</b>	<b>\$ 18,030</b>	<b>\$ 8,792</b>	<b>\$ 72,677</b>
<b>Liabilities</b>			
Accounts payable	\$ -	\$ -	\$ -
Interfund payable	18,030	8,792	-
<b>Total liabilities</b>	<b>18,030</b>	<b>8,792</b>	<b>-</b>
<b>Fund equity</b>			
Fund balance:			
Assigned	-	-	72,677
<b>Total fund equity</b>	<b>-</b>	<b>-</b>	<b>72,677</b>
<b>Total liabilities and fund equity</b>	<b>\$ 18,030</b>	<b>\$ 8,792</b>	<b>\$ 72,677</b>

<b>Court &amp; Corrections</b>	<b>Library</b>	<b>Totals</b>
\$ 130,280	\$ 285,362	\$ 435,287
-	-	79,854
<b>\$ 130,280</b>	<b>\$ 285,362</b>	<b>\$ 515,141</b>
\$ 1,654	\$ 125	\$ 1,779
-	-	26,822
<b>1,654</b>	<b>125</b>	<b>28,601</b>
128,626	285,237	486,540
128,626	285,237	486,540
<b>\$ 130,280</b>	<b>\$ 285,362</b>	<b>\$ 515,141</b>

City of Vestavia Hills, Alabama

Combining Statement of Revenues, Expenditures, and  
Changes in Fund Balances - Other Governmental Funds

*Year ended September 30, 2013*

	State Shared Gasoline Tax Funds	
	Four Cent	Five Cent
<b>Revenues</b>		
Taxes	\$ 2,059	\$ -
Intergovernmental	197,131	97,021
Fines and forfeitures	-	-
Grants	-	-
Investment revenues	-	-
Library revenues	-	-
<b>Total revenues</b>	<b>199,190</b>	<b>97,021</b>
<b>Expenditures</b>		
General government administration	-	-
Public safety	-	-
Public works	199,190	97,021
Library	-	-
Capital outlay	-	-
<b>Total expenditures</b>	<b>199,190</b>	<b>97,021</b>
<b>Excess of revenues over (under) expenditures</b>	<b>-</b>	<b>-</b>
<b>Other financing sources (uses)</b>		
Operating transfers in	-	-
Operating transfers out	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>
<b>Excess of revenues and other sources over expenditures and other uses</b>	<b>-</b>	<b>-</b>
<b>Fund balance, beginning of year</b>	<b>-</b>	<b>-</b>
<b>Fund balance, end of year</b>	<b>\$ -</b>	<b>\$ -</b>

<b>Emergency 911</b>	<b>Court &amp; Corrections</b>	<b>Library</b>	<b>Totals</b>
\$ 678,659	\$ -	\$ -	\$ 680,718
-	-	-	294,152
-	293,040	-	293,040
-	-	57,613	57,613
18	108	413	539
-	-	96,911	96,911
<u>678,677</u>	<u>293,148</u>	<u>154,937</u>	<u>1,422,973</u>
-	172,919	-	172,919
1,050,901	26,026	-	1,076,927
-	-	-	296,211
-	-	55,560	55,560
-	5,247	50,074	55,321
<u>1,050,901</u>	<u>204,192</u>	<u>105,634</u>	<u>1,656,938</u>
<u>(372,224)</u>	<u>88,956</u>	<u>49,303</u>	<u>(233,965)</u>
389,684	-	4,897	394,581
-	-	(4,897)	(4,897)
<u>389,684</u>	<u>-</u>	<u>-</u>	<u>389,684</u>
17,460	88,956	49,303	155,719
55,217	39,670	235,934	330,821
<u>\$ 72,677</u>	<u>\$ 128,626</u>	<u>\$ 285,237</u>	<u>\$ 486,540</u>