

City of Vestavia Hills, Alabama

Financial Statements

September 30, 2010

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Independent Auditors' Report

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

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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, as of September 30, 2010, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 13, 2011, on our consideration of the City's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3.1 through 3.9 and pages 33 through 34, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Carly Riggs & Ingram, L.L.C.

Birmingham, Alabama
July 13, 2011

City of Vestavia Hills
Management's Discussion & Analysis (MD&A)
September 30, 2010

The City of Vestavia Hills' (the City) Management Discussion and Analysis report provides an overview of the City's financial activities for fiscal year ended September 30, 2010. 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 2010 fiscal year by \$83.7 million (net assets).
- ❖ The City's net assets increased 2.7% (\$2.2 million) in the 2010 fiscal year.
- ❖ The total cost of the City's programs for the 2010 fiscal year was \$31.1 million. The net cost was \$25.5 million after subtracting grants and charges for services.
- ❖ The General Fund revenues received during the 2010 fiscal year exceeded expenditures by \$1,034,200.
- ❖ At the end of the 2010 fiscal year, the general fund unreserved fund balance, excluding the City's operating reserve fund balance of \$6.0 million, was \$2.8 million, or 11.5% of the total general fund operating expenses before debt service.
- ❖ Major capital expenditures for the 2010 fiscal year totaled \$13.4 million including \$11.4 million for projects in progress and \$2.0 million for completed projects.
- ❖ The City increased its outstanding General Obligation Warrants by \$3.8 million which consisted of new debt totaling \$17 million less principal payments totaling \$13.2 million.

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 assets* (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 assets. The net assets reported in this statement represent the accumulation of changes in net assets for the current fiscal year and all fiscal years in the past combined. Over time, the increase or decrease in net assets 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 assets 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 assets 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, and the Capital Projects Fund.

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

on pages 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 33 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 assets may serve over time as a useful indicator of a government's financial position. Refer to *Table 1* when reading the following analysis of net assets.

Table 1: Summary of Net Assets

| | As of September 30, (dollars in thousands) | |
|---|---|------------------|
| | <u>2010</u> | <u>2009</u> |
| Assets: | | |
| Current and other assets | \$ 23,607 | \$ 27,484 |
| Capital assets | <u>109,957</u> | <u>98,830</u> |
| Total assets | <u>133,564</u> | <u>126,314</u> |
| Liabilities: | | |
| Other liabilities | 3,389 | 1,985 |
| Long-term liabilities | <u>46,451</u> | <u>42,814</u> |
| Total Liabilities | <u>49,840</u> | <u>44,799</u> |
| Net assets: | | |
| Invested in capital assets, (net of related debt) | 78,312 | 76,880 |
| Restricted | 75 | 461 |
| Unrestricted | <u>5,337</u> | <u>4,174</u> |
| Total net assets | <u>\$ 83,724</u> | <u>\$ 81,515</u> |

The City's assets exceeded liabilities by \$83.7 million at September 30, 2010.

Net assets invested in capital assets of \$78.3 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 assets is not available for future spending or funding of operations.

Restricted net assets in the amount of \$74,500 represents the net assets of the Four, Five and Seven Cent State Shared Gasoline Tax Funds. These net assets have been restricted by enabling legislation. Unrestricted net assets of \$5,337,000 may be used at the City's discretion to meet ongoing obligations to citizens and creditors and for future operations. The unrestricted assets include funds established in fiscal 2009 designated for "Other Post Employment Benefits" (OPEB) Actuarial Trust fund \$37,000 (net of current liability \$27,000) and the general insurance and worker's compensation fund \$93,000.

Analysis of the City of Vestavia Hills' Operating Results

The results of this fiscal year's operations as a whole are reported in detail in the *Statement of Activities* on page 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 assets for the years ended September 30, 2010 and 2009.

Table 2: Summary of Changes in Net Assets

| | Fiscal Year Ended | |
|--------------------------------|--------------------------|--------------------|
| | September 30, | |
| | (dollars in thousands) | |
| | <u>2010</u> | <u>2009</u> |
| Program revenues: | | |
| Charges for services | \$ 4,355 | \$ 4,616 |
| Operating grants/contributions | 216 | 229 |
| Capital grants/contributions | 1,055 | 1,139 |
| General revenues: | | |
| Taxes | 24,835 | 24,887 |
| Utility franchise fees | 2,351 | 2,301 |
| Investment earnings | 105 | 539 |
| Interest on notes receivable | 118 | 143 |
| Other | 67 | 206 |
| Donated property | 78 | 63 |
| Donated infrastructure assets | 123 | 20 |
| Total revenues | <u>33,303</u> | <u>34,143</u> |
| Program expenses: | | |
| General government | 4,196 | 4,577 |
| Public safety | 14,669 | 14,347 |
| Public works | 6,190 | 6,082 |
| Library | 1,381 | 1,321 |
| Parks and recreation | 2,788 | 2,865 |
| Interest on long-term debt | 1,870 | 1,435 |
| Total expenses | <u>31,094</u> | <u>30,627</u> |
| Change in net assets | 2,209 | 3,516 |
| Net assets, beginning | <u>81,515</u> | <u>77,999</u> |
| Net assets, ending | <u>\$ 83,724</u> | <u>\$ 81,515</u> |

The City's revenues, excluding donated infrastructure assets and donated property, which do not provide spendable funds, decreased 2.81% (\$958,000). The decrease resulted from several revenue categories which are as follows: .21% (\$52,000) in taxes, 7.09% (\$97,000) in operating and capital grants and contributions, 80.52% (\$434,000) in investment earnings, 5.65% (\$261,000) in charges for services, 67.48% (\$139,000) in gain on sale of assets and 17.48% (\$25,000) in interest on notes receivable (Board of Education warrants). The revenue decrease was partially offset by an increase of 2.17% (\$50,000) in Utility franchise fees.

The tax revenue decrease was primarily due to a 2.43% (\$332,100) decrease in advalorem taxes resulting from a slight depreciation of assessed values of properties located within the City of Vestavia Hills. The decrease was partially offset by a 15.28% (\$240,300) increase in other/miscellaneous taxes and a .41% (\$39,800) increase in reported sales taxes.

The City's program expenses increased 1.52% (\$467,000). The increase resulted principally from increases in interest on long term debt \$435,300, street paving \$282,700, personnel board fees \$154,600, compensated absences \$147,600, depreciation expense \$103,100, maintenance contracts \$88,500, salaries \$87,400 and professional services and consultants \$52,000. The City program expense increases were partially offset by reductions in longevity compensation \$371,500, sanitation contract \$179,700, fees and assessments \$93,000, repair and maintenance \$65,100, park programs and operations \$59,500 and tuition reimbursement \$51,700.

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

| | Fiscal Year Ended September 30, 2010 (dollars in thousands) | |
|-----------------------------------|--|---------------------------------|
| | Total Cost of Services | Net Cost of Services |
| General government administration | \$ 4,196 | \$ 1,502 |
| Public safety | 14,669 | 13,788 |
| Public works | 6,190 | 5,104 |
| Library | 1,381 | 887 |
| Parks and recreation | 2,788 | 2,317 |
| Interest on long-term debt | 1,870 | 1,870 |
| Total | \$ 31,094 | \$ 25,468 |

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 statements 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 \$17.8 million, which includes a \$6.0 million operating reserve fund balance to be used for unanticipated expenses in the event of an unforeseen emergency and \$2.8 million of unreserved general fund balance which is available for future operations.

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 2010 original budget was adopted September 28, 2009. The comparison of the general fund budget to the actual results is detailed in the "Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual" on page 33. The City's actual results as compared to the City's budget can be briefly summarized as follows:

- ❖ Actual revenues exceeded budget by \$146,100 or .49%. Investment, Proceeds from sale of assets and other revenues were under budget totaling \$261,300; however, the decrease was offset due to taxes, licenses and permits, charges for services, fines and forfeitures, fees and grant revenues exceeding budget totaling \$407,400.
- ❖ Actual expenditures were under budget by \$659,300 or 2.6%. Capital outlay was over budget totaling \$64,400; however, the overage was offset due to lower cost in general government administration, public safety, public works, library, and parks and recreation totaling \$723,700. Capital outlay exceeded budget primarily due to approved non-budgeted items. Public safety, public works, general government administration, library, and parks and recreation were below budget primarily due to lower salaries, taxes and fringes resulting from unfilled positions, lower sanitation contract cost, and lower operating cost.

Capital Assets and Debt Administration

Capital Assets - The City's investment in capital assets for governmental activities for the year ended September 30, 2010, amounted to \$78.3 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) | |
|-------------------------------------|--|------------------|
| | 2010 | 2009 |
| Land | \$ 21,742 | \$ 21,742 |
| Land/Infrastructure | 48,468 | 48,375 |
| Construction-in-progress | 14,085 | 2,733 |
| Buildings | 2,850 | 2,991 |
| Improvements | 5,142 | 5,318 |
| Recreational facilities | 6,187 | 6,641 |
| Vehicular equipment | 1,341 | 1,376 |
| Other equipment and fixtures | 3,426 | 2,655 |
| Books | 689 | 681 |
| Infrastructure | 6,027 | 6,318 |
| Capital assets, net of depreciation | <u>\$ 109,957</u> | <u>\$ 98,830</u> |

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

| | |
|--|----------------------|
| Donated Infrastructure assets (streets) | \$ 122,860 |
| Construction-in-progress projects (includes sidewalk design and construction, library project and playing fields design and construction) | 11,372,295 |
| Recreational facilities | 25,000 |
| Land Improvements / depreciable | 160,398 |
| Vehicles | 300,736 |
| Equipment, furniture and fixtures | 1,198,911 |
| Computer equipment and software | 56,470 |
| Library books | 170,547 |
| | <u>\$ 13,407,217</u> |

Long-Term Debt – At year-end, the City had \$46.5 million in general obligation warrants, capital lease contracts payable and other long-term debt outstanding. This is an increase of 8.6% in debt from last year, as shown in *Table 5* below.

Table 5: Outstanding Debt

As of September 30, 2010
(dollars in thousands)

| | Beginning Balance | Net Change | Ending Balance |
|--------------------------|------------------------------|-----------------------|---------------------------|
| Governmental activities: | | | |
| Warrants payable | \$ 40,315 | \$ 3,845 | \$ 44,160 |
| Capital leases | 882 | (255) | 627 |
| Compensated absences | 1,579 | 85 | 1,664 |
| Totals | \$ 42,776 | \$ 3,675 | \$ 46,451 |

While the \$44.2 million of General Obligation Warrants are a legal obligation of the City, it is important to note that due to a funding agreement with the Vestavia Hills Board of Education, the City is obligated for future debt service on only \$42.0 million of this debt. The Vestavia Hills Board of Education pays debt service on the remaining \$2.2 million of the outstanding Warrants issued by the City in 2001 for the benefit of the Board of Education.

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

- ❖ The City reduced its General Obligation Warrants by \$13.2 million but added an additional \$17.0 million in General Obligation Warrants (Series 2009-A and 2009-B). The additional warrants were issued for the purpose of debt retirement (Series 2007-B) and acquiring funds to construct new playing fields.
- ❖ The net decrease in the capital leases liability resulted from current year principal payments. The long-term liability in compensated absences increased due to an increase in compensation and available days.
- ❖ 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 Aa2 and AA, respectively, in December 2009. Additionally, Moody's assigned an Aa2 with a positive outlook of an upgrade.

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. The recent nationwide slump in housing and the related credit crunch arising from sub-prime lending problems are expected to have some impact on the City's ad valorem – real revenue. The nationwide slump contributed to the projected 2.89% (\$349,900) decrease from 2009 to 2010 and the projected 1.58% (\$186,000) increase from 2010 to 2011 in the City's ad valorem - real revenue. However, the City's strong cash reserve position would facilitate the City in weathering any housing or general economic downturn.

Personnel Administration Cost – The City's personnel administration is provided by the Personnel Board of Jefferson County (PBJC). The PBJC previously operated under a 1981 Federal Consent Decree issued in connection with litigation over hiring practices. The legal fees of compliance with the 1981 Federal Consent Decree will be borne by participating

municipalities. An agreement for legal fees has been reached totaling \$2.25 million that will be paid by municipalities served by the PBJC in forthcoming years. Over the previous two years, the PBJC has paid the annual obligations; thus, reducing the liability that will be borne by the participating municipalities.

Medical Costs – Employee health insurance is provided through the State of Alabama Insurance Board. Although the City of Vestavia Hills retained its preferred insurance classification rating because of minimal medical claims, the city experienced a 3.2% rate increase that will be borne by city employees. The City’s cost for active employees is projected at \$1.32 million for 2011, which is equivalent to the 2010 cost.

Retirement Costs – The City’s retirement program for employees is provided through the Retirement System of Alabama (RSA). Economic and market conditions in recent years resulted in increases in the City’s required contribution to this program. The City’s budget for fiscal 2011 includes a contribution of \$1.45 million, which is equivalent to a 7.3% increase resulting from an “employer contribution factor” increase by RSA.

Cost-of-Living Raise – The City Council did not approve a cost-of-living increase for the 2010-2011 fiscal year.

Library – The City of Vestavia Hills constructed a new public library totaling \$12.7 million. The library opened December 2010.

Playing Fields – The City of Vestavia Hills constructed four playing fields at an estimated cost of \$5.5 million. The fields were completed April 2011.

Community Vision Plan – The City of Vestavia Hills entered into a contractual agreement with Market Street Services, Incorporated to create a community vision plan. The plan has four phases which are as follows:

- Competitive Snapshot
- Target Business Review
- Community Vision Plan
- Implementation Plan

The contractual services commenced in the month of April 2011 with an anticipated completion period of 7 months.

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, please contact Melvin Turner, III, Finance Director at the City of Vestavia Hills, 513 Montgomery Highway, Vestavia Hills, AL 35216, or by calling (205) 978-0128 during regular office hours, Monday through Friday, from 8:00 a.m. to 5:00 p.m., Central Standard Time.

City of Vestavia Hills, Alabama

Government-wide Statement of Net Assets

| <i>September 30, 2010</i> | Primary Government | Component Units | |
|---|-------------------------|--------------------|--------------------------------|
| | Governmental Activities | Library Foundation | Park and Recreation Foundation |
| Assets | | | |
| Cash and temporary investments | \$ 17,722,865 | \$ 69,981 | \$ 73,797 |
| Cash - restricted | 366,168 | - | - |
| Investments | - | - | 385,179 |
| Receivables | 2,500,960 | - | 40,000 |
| Inventory | 20,697 | - | - |
| Prepaid expenses | 219,185 | - | - |
| Notes receivable and related accrued interest | 2,238,204 | - | - |
| Deferred bond issuance charges, net | 538,429 | - | - |
| Construction in progress | 14,085,103 | - | - |
| Capital assets, net of accumulated depreciation | 25,662,891 | - | - |
| Land | 70,209,424 | - | - |
| Total assets | 133,563,926 | 69,981 | 498,976 |
| Liabilities | | | |
| Accounts payable | 2,697,614 | - | - |
| Court and performance bonds payable | 366,168 | - | - |
| Accrued interest payable | 325,302 | - | - |
| Non-current liabilities | | | |
| Due within one year: | | | |
| Compensated absences | 249,581 | - | - |
| Warrants payable | 2,555,000 | - | - |
| Obligation due under long-term capital leases | 261,355 | - | - |
| Due in more than one year: | | | |
| Compensated absences | 1,414,291 | - | - |
| Warrants payable | 41,605,000 | - | - |
| Obligation due under long-term capital leases | 366,027 | - | - |
| Total liabilities | 49,840,338 | - | - |
| Net assets | | | |
| Investment in property and equipment (net of related debt) | 78,311,868 | - | - |
| Restricted | 74,583 | - | - |
| Unrestricted | 5,337,137 | 69,981 | 498,976 |
| Total net assets | \$ 83,723,588 | \$ 69,981 | \$ 498,976 |

See accompanying notes to basic financial statements.

City of Vestavia Hills, Alabama

Government-wide Statement of Activities

Year ended September 30, 2010

| Program Activities | Expenses | Program Revenues | | |
|-----------------------------------|----------------------|--------------------------------------|------------------------------------|----------------------------------|
| | | Fees, Fines and Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary government | | | | |
| Governmental activities: | | | | |
| General government administration | \$ 4,196,203 | \$ 2,527,877 | \$ 3,239 | \$ 162,666 |
| Public safety | 14,668,857 | 603,550 | 186,323 | 90,974 |
| Public works | 6,189,828 | 738,763 | 1,118 | 345,600 |
| Library | 1,380,857 | 43,196 | 25,619 | 425,116 |
| Parks and recreation | 2,788,217 | 441,216 | - | 30,500 |
| Interest on long-term debt | 1,870,178 | - | - | - |
| Total primary government | \$ 31,094,140 | \$ 4,354,602 | \$ 216,299 | \$ 1,054,856 |
| Component units | | | | |
| Library Foundation | \$ 148,592 | \$ - | \$ 171,616 | \$ - |
| Park and Recreation Foundation | 18,110 | - | 17,001 | - |
| Total component units | \$ 166,702 | \$ - | \$ 188,617 | \$ - |

General revenues:

Taxes:

Ad Valorem (real and personal property)

Sales and use

Other taxes

Utility franchise fees

Investment earnings

Interest on notes receivable

Gain on sale of assets

Donations

Donated infrastructure assets

Miscellaneous

Net assets at beginning of year

Net assets at end of year

Net (Expense) Revenue and Changes in Net Assets

| Primary Government | | Component Units | |
|---------------------------|---------------------------|---------------------------------------|---|
| Total | Library Foundation | Park and Recreation Foundation | |
| \$ (1,502,421) | \$ - | \$ - | - |
| (13,788,010) | - | - | - |
| (5,104,347) | - | - | - |
| (886,926) | - | - | - |
| (2,316,501) | - | - | - |
| (1,870,178) | - | - | - |
| (25,468,383) | - | - | - |
| - | 23,024 | - | - |
| - | - | (1,109) | - |
| - | 23,024 | (1,109) | - |
| 13,339,653 | - | - | - |
| 9,682,010 | - | - | - |
| 1,813,523 | - | - | - |
| 2,350,908 | - | - | - |
| 105,133 | - | 32,116 | - |
| 117,600 | - | - | - |
| 4,889 | - | - | - |
| 78,571 | - | - | - |
| 122,860 | - | - | - |
| 62,050 | - | - | - |
| 27,677,197 | - | 32,116 | - |
| 2,208,814 | 23,024 | 31,007 | - |
| 81,514,774 | 46,957 | 467,969 | - |
| \$ 83,723,588 | \$ 69,981 | \$ 498,976 | - |

City of Vestavia Hills, Alabama
Governmental Funds Balance Sheet

| <i>September 30, 2010</i> | General | Debt Service | Capital Projects |
|---|----------------------|-------------------------|-----------------------------|
| Assets | | | |
| Cash and temporary investments | \$ 8,483,490 | \$ - | \$ 8,798,696 |
| Cash - restricted | 366,168 | - | - |
| Accounts receivable, net of allowance for uncollectibles | 1,675,792 | - | 737,633 |
| Inventory | 20,697 | - | - |
| Prepaid expenses | 209,827 | 1,090 | 7,000 |
| Interfund receivables | 56,796 | - | 42,811 |
| Total assets | \$ 10,812,770 | \$ 1,090 | \$ 9,586,140 |
| Liabilities | | | |
| Accounts payable | \$ 1,668,723 | \$ - | \$ 1,278,777 |
| Interfund payables | 43,783 | 1,090 | - |
| Total liabilities | 1,712,506 | 1,090 | 1,278,777 |
| Fund balance | | | |
| Fund balance - reserved | - | - | 4,633,005 |
| Reserve for prepayments and inventories | 230,524 | - | 7,000 |
| Reserve for encumbrances | 69,171 | - | 3,667,358 |
| Fund balance designated for operating reserve | 5,997,665 | - | - |
| Unreserved | 2,802,904 | - | - |
| Total fund balance | 9,100,264 | - | 8,307,363 |
| Total liabilities and fund balance | \$ 10,812,770 | \$ 1,090 | \$ 9,586,140 |

See accompanying notes to basic financial statements.

| Other Governmental Funds | Total Governmental Funds |
|---|---|
| \$ 440,679 | \$ 17,722,865 |
| - | 366,168 |
| 87,535 | 2,500,960 |
| - | 20,697 |
| 1,268 | 219,185 |
| 13,861 | 113,468 |
| <u>\$ 543,343</u> | <u>\$ 20,943,343</u> |
| | |
| \$ 116,282 | \$ 3,063,782 |
| 68,595 | 113,468 |
| <u>184,877</u> | <u>3,177,250</u> |
| | |
| 356,748 | 4,989,753 |
| 1,268 | 238,792 |
| 450 | 3,736,979 |
| - | 5,997,665 |
| - | 2,802,904 |
| <u>358,466</u> | <u>17,766,093</u> |
| | |
| <u>\$ 543,343</u> | <u>\$ 20,943,343</u> |

City of Vestavia Hills, Alabama

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

September 30, 2010

Fund balance - total governmental funds \$ 17,766,093

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

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

Due from Vestavia Hills Board of Education 2,238,204

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. 538,429

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 | \$ 138,445,201 | |
| Accumulated depreciation | (28,487,783) | 109,957,418 |

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 | (44,160,000) | |
| Compensated absences | (1,663,872) | |
| Accrued interest payable | (325,302) | |
| Capital lease payable | (627,382) | (46,776,556) |

Net assets of governmental activities \$ 83,723,588

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

Year ended September 30, 2010

| | General | Debt Service | Capital Projects | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------|---------------------|--------------------------------|--------------------------------|
| Revenues | | | | | |
| Taxes | \$ 23,041,283 | \$ - | \$ - | \$ 1,309,465 | \$ 24,350,748 |
| Licenses and permits | 2,708,199 | - | - | - | 2,708,199 |
| Intergovernmental | - | - | - | 484,437 | 484,437 |
| Charges for services | 441,216 | - | - | - | 441,216 |
| Fines and forfeitures | 253,346 | - | - | 170,851 | 424,197 |
| Fees | 2,513,008 | - | - | - | 2,513,008 |
| Grants | 168,537 | - | 1,056,203 | 40,865 | 1,265,605 |
| Proceeds from sale of assets | 11,232 | - | - | - | 11,232 |
| Investment revenues | 44,084 | - | 57,064 | 3,980 | 105,128 |
| Library revenues | - | - | - | 48,747 | 48,747 |
| Other revenues | 569,088 | 62,052 | 6,607 | - | 637,747 |
| Total revenues | 29,749,993 | 62,052 | 1,119,874 | 2,058,345 | 32,990,264 |
| Expenditures | | | | | |
| Current (operating): | | | | | |
| General government | | | | | |
| administration | 3,624,619 | 309,385 | 7,535 | 300,121 | 4,241,660 |
| Public safety | 13,281,239 | - | 16,142 | 1,020,120 | 14,317,501 |
| Public works | 4,006,527 | - | 1,156 | 1,503,410 | 5,511,093 |
| Library | 1,068,006 | - | 39,940 | 39,426 | 1,147,372 |
| Parks and recreation | 2,167,329 | - | - | - | 2,167,329 |
| Debt service | - | 4,170,178 | - | - | 4,170,178 |
| Capital outlay | 244,413 | - | 13,011,075 | 28,869 | 13,284,357 |
| Total expenditures | 24,392,133 | 4,479,563 | 13,075,848 | 2,891,946 | 44,839,490 |
| Excess of revenues over (under) expenditures | 5,357,860 | (4,417,511) | (11,955,974) | (833,601) | (11,849,226) |
| Other financing sources (uses) | | | | | |
| Received by City for debt repayment | | | | | |
| | - | 791,788 | - | - | 791,788 |
| Donations | 51,546 | - | 27,025 | - | 78,571 |
| Operating transfers in | - | 3,336,348 | 6,661,170 | 442,823 | 10,440,341 |
| Operating transfers out | (4,375,113) | (6,000,725) | - | (64,503) | (10,440,341) |
| Other financing uses | | | | | |
| debt service-principal | - | (10,720,000) | - | - | (10,720,000) |
| Other financing sources - proceeds of refunding bonds | - | 10,940,000 | - | - | 10,940,000 |
| Other financing sources - debt proceeds | - | 6,070,000 | - | - | 6,070,000 |
| Total other financing sources (uses) | (4,323,567) | 4,417,411 | 6,688,195 | 378,320 | 7,160,359 |
| Excess of revenues and other financing sources over (under) expenditures and other uses | 1,034,293 | (100) | (5,267,779) | (455,281) | (4,688,867) |
| Fund balance, beginning of year | 8,065,971 | 100 | 13,575,142 | 813,747 | 22,454,960 |
| Fund balance, end of year | \$ 9,100,264 | \$ - | \$ 8,307,363 | \$ 358,466 | \$ 17,766,093 |

See accompanying notes to basic financial statements.

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

September 30, 2010

Net change in fund balances - total governmental funds \$ (4,688,867)

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

Governmental funds report capital outlays as expenditures.
However, in the government-wide statement of activities,
the cost of those assets is allocated over their estimated
useful lives as depreciation expense.

| | | |
|---------------------------------|--------------------|------------|
| Expenditures for capital assets | \$ 13,284,357 | |
| Less current year depreciation | <u>(2,273,195)</u> | 11,011,162 |

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.

| | | |
|--|--|---------|
| Change in accrued interest receivable on notes from Board of Education | | (4,188) |
|--|--|---------|

| | | |
|---|--|---------|
| The net effect of transactions involving the sale of capital assets is to decrease net assets. | | (6,343) |
|---|--|---------|

| | | |
|--|--|---------|
| The effect of donated infrastructure assets is to increase net assets. | | 122,860 |
|--|--|---------|

| | | |
|---|--|--------------|
| The issuance of long-term debt provides current financial resources to governmental funds, but the issuance of this debt increases long-term liabilities in the government-wide statement of net assets. | | (17,010,000) |
|---|--|--------------|

| | | |
|--|--|------------|
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. | | 13,165,000 |
|--|--|------------|

| | | |
|--|--|-----------|
| 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. | | (670,000) |
|--|--|-----------|

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.

| | | |
|---|----------------|---------|
| Change in long-term compensated absences | \$ (84,478) | |
| Change in accrued interest payable | (151,019) | |
| Change in long-term debt (capital lease) | 254,308 | |
| Change in deferred items related to debt issuance | <u>270,379</u> | 289,190 |

Change in net assets of governmental activities \$ 2,208,814

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 Mayor-Council 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 elected at-large for concurrent four year terms. The Mayor is elected at the same time as Council members and serves as the political leader of the community. The terms of the current administration are scheduled to expire October 31, 2012.

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 advalorem taxes from the Jefferson County Tax Collector based on a total millage rate of 49.30 mills. Of the 49.30 mills received from the County, 20.55 mills are kept by the City to fund general government operations and the balance of 28.75 mills is remitted by the City to the Vestavia Hills Board of Education. During the year ended September 30, 2010, the total advalorem taxes remitted to the Board amounted to approximately \$16.3 million and \$173,539 was due the Board of Education at September 30, 2010.

C. Government-Wide Financial Statements

The statement of Net Assets 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 operating funds for which the use of revenues is restricted or designated by outside sources. These funds account for activities carried out by the City under certain intergovernmental contracts and grants.

Special Revenue Funds are also used to account for any program funds that the City elects to segregate to track revenue and expenditures.

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 and demonstrate compliance with legal and contractual provisions and to compile data related to financial resources to be used for the acquisition or construction of major fixed assets other than those financed by special assessments.

5. Major and Nonmajor Funds

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

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

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus and Basis of Accounting (continued)

Measurement focus

On the Government-Wide Statement of Net Assets 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 assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

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

Basis of accounting

In the Government-Wide Statement of Net Assets 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Receivables (continued)

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

G. Equity Classifications

Government-wide statements

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

- a. Investment in property and equipment, net of related debt - 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 net assets - Consists of net assets with 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 net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved.

The unreserved fund balances for governmental funds represent spendable resources available to fund future operations. The reserved fund balances for governmental funds represent amounts that have been legally identified for specific purposes.

During the year ended September 30, 2010, the City has designated approximately \$6 million of its unreserved fund balance as an operating reserve to be used for unanticipated expenses in the event of an emergency.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Expenditures/Expenses

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

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

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

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

J. Fixed Assets

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

Government-wide statements

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

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

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

Fund financial statements

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

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 reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Inventory

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

M. Compensated Absences

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. Each year at December 31, 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. Upon retirement from the City, sick leave can be converted to years of service credits in the Retirement Systems of Alabama.

The current portion of the accrued vacation, sick pay and other compensatory time off at September 30, 2010 reported in the fund financial statements and the government-wide statements totaled \$0. The remaining long-term portion of the accrued vacation and compensatory time off at September 30, 2010, is reported only in the government-wide statements and totaled \$1,663,872. In prior years, the General Fund has liquidated any annual current portion of the total compensated absence liability.

N. 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).

O. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Interfund Transactions (continued)

Details of current interfund receivables and payables are as follows:

| <u>Payable from</u> | <u>Payable to</u> | <u>Amount</u> |
|--------------------------|--------------------------|-------------------|
| Other Governmental Funds | General Fund | \$ 55,706 |
| Debt Service Fund | General Fund | 1,090 |
| General Fund | Capital Projects Fund | 42,811 |
| General Fund | Other Governmental Funds | 972 |
| Other Governmental Funds | Other Governmental Funds | 12,889 |
| | | <u>\$ 113,468</u> |

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

The purpose of the interfund receivable balance to the General Fund from the Debt Service Fund is for reimbursement of operating expenditures paid from the General Fund on behalf of the Debt Service Fund.

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.

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

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

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

P. Property Taxes

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. 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.

R. Subsequent Events

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

NOTE 2 – CASH AND INVESTMENTS

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

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

| | Carrying Amount | Bank Balance |
|-----------|----------------------------|-------------------------|
| All funds | \$ 18,089,033 | \$ 19,164,333 |

At September 30, 2010, 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, 2010, 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 \$366,168 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.

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, 2010:

| | Balance at 09/30/09 | Additions | Disposals/ Retirements/ Completed | Balance at 09/30/10 |
|--|------------------------|----------------------|---|------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 70,116,913 | \$ 92,511 | \$ - | \$ 70,209,424 |
| Construction progress | 2,733,007 | 11,372,295 | (20,199) | 14,085,103 |
| Total capital assets not being depreciated | 72,849,920 | 11,464,806 | (20,199) | 84,294,527 |
| Capital assets being depreciated: | | | | |
| Land improvements | 6,726,166 | 160,398 | - | 6,886,564 |
| Buildings | 4,957,276 | - | - | 4,957,276 |
| Building equipment and fixtures | 200,482 | 34,927 | - | 235,409 |
| Vehicles | 4,395,511 | 300,736 | (60,040) | 4,636,207 |
| Equipment | 3,871,344 | 650,298 | (96,594) | 4,425,048 |
| Computer equipment | 733,844 | 56,470 | - | 790,314 |
| Recreational equipment | 1,748,363 | 5,506 | - | 1,753,869 |
| Office furniture and fixtures | 295,193 | 528,379 | - | 823,572 |
| Office equipment | 67,177 | - | - | 67,177 |
| Recreational facilities | 12,814,024 | 25,000 | - | 12,839,024 |
| Books and artwork | 3,164,410 | 170,547 | - | 3,334,957 |
| Infrastructure | 13,370,908 | 30,349 | - | 13,401,257 |
| Total capital assets being depreciated | 52,344,698 | 1,962,610 | (156,634) | 54,150,674 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 1,407,905 | 336,308 | - | 1,744,213 |
| Buildings | 1,966,502 | 141,211 | - | 2,107,713 |
| Building equipment and fixtures | 37,973 | 15,684 | - | 53,657 |
| Vehicles | 3,019,786 | 335,376 | (59,706) | 3,295,456 |
| Equipment | 2,328,533 | 309,778 | (90,585) | 2,547,726 |
| Computer equipment | 514,339 | 64,257 | - | 578,596 |
| Recreational equipment | 1,063,824 | 83,945 | - | 1,147,769 |
| Office furniture and fixtures | 266,106 | 18,038 | - | 284,144 |
| Office equipment | 49,925 | 6,197 | - | 56,122 |
| Recreational facilities | 6,173,409 | 478,271 | - | 6,651,680 |
| Books and artwork | 2,483,563 | 162,602 | - | 2,646,165 |
| Infrastructure | 7,053,014 | 321,528 | - | 7,374,542 |
| Total accumulated depreciation | 26,364,879 | 2,273,195 | (150,291) | 28,487,783 |
| Total capital assets being depreciated, net | 25,979,819 | (310,586) | (6,343) | 25,662,891 |
| Governmental activities capital assets, net | \$ 98,829,739 | \$ 11,154,221 | \$ (26,542) | \$ 109,957,418 |

NOTE 3 – CAPITAL ASSETS (CONTINUED)

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

| | | | |
|-----------------------------------|--|----|------------------|
| Governmental activities: | | | |
| General government administration | | \$ | 218,283 |
| Public safety | | | 535,001 |
| Public works | | | 670,841 |
| Recreational | | | 620,516 |
| Library | | | 228,554 |
| Total depreciation expense | | \$ | 2,273,195 |

NOTE 4 – CAPITALIZED LEASES

At September 30, 2010, approximately \$701,240 in accumulated depreciation and approximately \$181,561 in current year depreciation expense has been recorded in the government-wide financial statements related to assets costing \$1,869,184 purchased under capital leases. The current portion of the outstanding liability related to these capital leases at September 30, 2010 reported in the government-wide financial statements totaled \$261,355. The remaining long-term portion of these capital lease obligations reported in the government-wide financial statements totaled \$366,027 at September 30, 2010.

The following schedule shows the future minimum lease payments at September 30, 2010:

| Fiscal year | Interest | Principal | Total Lease Payment |
|--------------------|-----------------|------------------|----------------------------|
| 2011 | \$ 25,099 | \$ 261,355 | \$ 286,454 |
| 2012 | 14,281 | 272,173 | 286,454 |
| 2013 | 3,414 | 93,854 | 97,268 |
| Total | \$ 42,794 | \$ 627,382 | \$ 670,176 |

NOTE 5 – ACCOUNTS RECEIVABLE

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

| | | |
|---------------------------|----|------------------|
| Sales taxes | \$ | 722,868 |
| Property taxes | | 400,762 |
| Franchise fees | | 111,806 |
| Transport receivable | | 272,233 |
| Intergovernmental revenue | | 54,333 |
| Other receivables | | 938,958 |
| Total | \$ | 2,500,960 |

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, 2010:

| | |
|---|----------------------|
| Warrant obligations at September 30, 2009 | \$ 40,315,000 |
| Principal payments | (13,165,000) |
| Debt issuance | 17,010,000 |
| Total warrants outstanding | 44,160,000 |
| Long-term portion of accumulated compensated absences | 1,663,872 |
| Total long-term debt at September 30, 2010 | \$ 45,823,872 |

Outstanding warrant obligations of the City at September 30, 2010 consist of the following:

| | |
|--|--------------|
| General Obligation Warrants, Series 2001-A were issued in the principal amount of \$9,330,000 in November 2001. The warrants bear interest at an average of 4.18%, payable semi-annually on February 1 and August 1. The warrants mature serially with a final maturity in 2021 and are callable on or after February 1, 2011 at 102% plus accrued interest, and without premium if called on February 1, 2013 or thereafter, at which time the warrants are callable at 100% plus accrued interest. | \$ 5,520,000 |
| General Obligation School Refunding Warrants, Series 2001-B were issued in the principal amount of \$7,145,000 in November 2001. The warrants bear interest at an average of 4.67% payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2013 and are callable on or after February 1, 2011 at 102% plus accrued interest. | 2,220,000 |
| General Obligation Warrants, Series 2002-A were issued in the principal amount of \$6,415,000 in August 2002. The warrants bear interest at an average of 4.18%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2022 and are callable on or after August 1, 2012 without premium or penalty, and at which time the warrants are callable at 100% plus accrued interest. | 4,150,000 |
| General Obligation Refunding Warrants, Series 2002-B were issued in the principal amount of \$7,895,000 in August 2002. The warrants bear interest at an average of 5.97%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2015 and are callable on or after August 1, 2012 without premium or penalty, and at which time the warrants are callable at 100% plus accrued interest. | 5,645,000 |
| 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 |

NOTE 6 – LONG-TERM DEBT (CONTINUED)

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

Total **\$ 44,160,000**

The following schedule shows the debt service requirements, at September 30, 2010:

| Fiscal year | Debt Service Related to Principal | Debt Service Related to Interest | Total Debt Service |
|-------------|---|--|-----------------------|
| 2011 | \$ 2,555,000 | \$ 1,964,815 | \$ 4,519,815 |
| 2012 | 2,650,000 | 1,785,813 | 4,435,813 |
| 2013 | 2,790,000 | 1,657,560 | 4,447,560 |
| 2014 | 2,110,000 | 1,540,743 | 3,650,743 |
| 2015 | 2,205,000 | 1,440,125 | 3,645,125 |
| 2016 | 1,930,000 | 1,355,070 | 3,285,070 |
| 2017 | 2,010,000 | 1,272,715 | 3,282,715 |
| 2018 | 2,085,000 | 1,195,584 | 3,280,584 |
| 2019 | 2,160,000 | 1,109,966 | 3,269,966 |
| 2020 | 2,245,000 | 1,018,357 | 3,263,357 |
| 2021 | 2,330,000 | 921,045 | 3,251,045 |
| 2022 | 2,425,000 | 828,354 | 3,253,354 |
| 2023 | 2,520,000 | 722,900 | 3,242,900 |
| 2024 | 2,615,000 | 616,275 | 3,231,275 |
| 2025 | 2,710,000 | 501,482 | 3,211,482 |
| 2026 | 2,825,000 | 381,275 | 3,206,275 |
| 2027 | 2,935,000 | 252,975 | 3,187,975 |
| 2028 | 3,060,000 | 118,644 | 3,178,644 |
| | \$ 44,160,000 | \$ 18,683,698 | \$ 62,843,698 |

The total interest paid by the City during 2010 relative to the above warrants was \$1,603,391.

NOTE 6 – LONG-TERM DEBT (CONTINUED)

The General Obligation School Refunding Warrants, Series 2001-B (Warrants) were issued by the City for the benefit of the Board of Education of the City of Vestavia Hills (the Board). The proceeds of these Warrants were used by the Board to refund prior bond issues of the Board. While this debt is a legal obligation of the City, a funding agreement exists between the City and the Board whereby the Board is obligated to pay the debt service of these Warrants directly to the Warrants' paying agent on behalf of the City. Accordingly, the government-wide financial statements include a note receivable from the Board in the amount of \$2,238,204 (including accrued interest).

The City issued \$10.9 million General Obligation Refunding Warrants Series 2009-A, for a current refunding of \$10.7 million of the City's General Obligation Variable Rate Demand Warrants, Series 2007-B. The refunding was undertaken to change variable rate debt to fixed rate debt.

No economic gain or loss has been calculated related to the current refunding of the Series 2007-B Warrants which had a variable interest rate because of the uncertainty of the future debt service requirements that is inherent with variable rate debt.

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.

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.

NOTE 7 – PENSION PLAN (CONTINUED)**A. Plan description (continued)**

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.

B. 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, 2010 was 10.56% of covered compensation.

For the year ended September 30, 2010, 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 \$13.6 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 | Employee | Combined |
|-----------------------------|--------------------------|--------------|------------|--------------|
| 2007 | 8.55% | \$ 1,101,609 | \$ 731,066 | \$ 1,832,675 |
| 2008 | 9.26% | 1,226,883 | 752,142 | 1,979,025 |
| 2009 | 9.36% | 1,264,965 | 766,431 | 2,031,396 |
| 2010 | 10.56% | 1,340,776 | 773,826 | 2,114,602 |

C. 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) |
|---|--|---|------------------------------------|--------------------------|---------------------------|---|
| 2004 | 2 \$ 27,339,160 | \$ 31,712,346 | \$ 4,373,186 | 86.2% | \$ 11,341,834 | 38.6% |
| 2005 | 29,658,516 | 36,536,405 | 6,877,889 | 81.2% | 11,926,584 | 57.7% |
| 2006 | 3 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% |

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

2 Reflects effect of DROP if unit elected to enroll prior to August 4, 2005.

3 Reflects changes in actuarial assumptions.

* Market value of assets as of September 30, 2009: \$28,457,894

NOTE 7 – PENSION PLAN (CONTINUED)

D. Additional information

Following is additional information obtained from the most recent actuarial valuation prepared as of September 30, 2009:

| | |
|-------------------------------|--------------------------|
| Valuation date | September 30, 2009 |
| Actuarial cost method | Entry age |
| Amortization method | Level percent open |
| Remaining amortization period | 29 years |
| Asset valuation method | 5 – year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return* | 8.00% |
| Projected salary increases* | 4.61 – 7.75% |
| *Includes inflation at | 4.50% |
| Cost-of-living adjusts | None |

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.

The total liability for these compensated absences is recorded as a debt in the government-wide statements. In the fund financial statements, only the portion of compensated absences representing amounts due to separated employees at September 30, 2010 is recorded as a liability.

NOTE 9 – POST-EMPLOYMENT BENEFITS**Plan description**

The City's 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. Complete plan provisions are included in the official plan documents.

Contribution rates

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

Funding policy

Until 2008, the City recognized the cost of providing post-employment medical benefits (the City's 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. In 2010, the City's portion of health care funding cost for retired employees totaled \$105,260.

Effective with the fiscal year beginning October 1, 2008, the City implemented Government Accounting Standards Board Statement Number 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other than Pensions* (GASB 45).

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, closed 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, 2009 is \$91,000, as set forth below:

| | Medical |
|---|------------------|
| Normal cost | \$ 34,000 |
| 30-year UAL amortization amount | 57,000 |
| Annual required contribution (ARC) | \$ 91,000 |

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, 2010:

| | Medical |
|---|--------------------|
| Annual required contribution | \$ 91,000 |
| Interest on net OPEB obligation | 9 |
| ARC adjustment | 14 |
| Annual OPEB cost | 91,023 |
| Contributions | - |
| Current year retiree premium | (105,260) |
| Change in net OPEB obligation | (14,237) |
| Beginning net OPEB obligation 10/1/2009 | 235 |
| Ending net OPEB obligation (asset) 9/30/2010 | \$ (14,002) |

NOTE 9 – POST-EMPLOYMENT BENEFITS (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):

| Post Employment Benefit | Fiscal Year Ended | | Annual OPEB Cost | Percentage of Annual Cost Contributed | | Net OPEB Obligation (Asset) |
|--------------------------------|--------------------------|----|-------------------------|--|----|------------------------------------|
| Medical | September 30, 2009 | \$ | 90,406 | 99.74% | \$ | 235 |
| Medical | September 30, 2010 | | 91,023 | 115.64% | | (14,002) |

Funded status and funding progress

In the fiscal year ending September 30, 2010, 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, 2008, the first and most recent actuarial valuation, the AAL was \$980,657, which is defined as that portion, as determined by a particular actuarial cost method (the City uses the 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 2010, the entire actuarial accrued liability of \$980,657 was unfunded.

At September 30, 2010, the City has \$64,296 in the Actuarial Trust special revenue fund. The City intends to transfer these funds to its post employment benefits plan at a future date. This \$64,296 will not reduce the AAL until it is transferred to the City’s post employment benefits plan.

| | Medical |
|---|----------------|
| Actuarial Accrued Liability (AAL) | \$ 980,657 |
| Actuarial Value of Plan Assets | - |
| Unfunded Act. Accrued Liability (UAAL) | 980,657 |
| Funded Ratio (Act. Val. Assets/AAL) | 0% |
| Covered Payroll (active plan members) | 14,000,000 |
| UAAL as a percentage of covered payroll | 7.00% |

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 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 no funding has been made to a fiduciary trust, 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 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 an annual turnover of approximately 10%. The rates for each age are below:

| Age | Percent Turnover |
|---------|------------------|
| 18 - 25 | 20.0% |
| 26 - 40 | 12.0% |
| 41 - 54 | 8.0% |
| 55+ | 6.0% |

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

It is assumed that entitlement to benefits will commence three years after earliest eligibility for retirement. Medical benefits are provided to employees upon actual retirement. The retirement eligibility provisions are as follows: age 55 and 25 years of service; or, age 60 and 10 years of service.

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. Based on the assumption that the ARC will not be funded, a 4% annual investment return has been used in this valuation. This is a conservative estimate of the expected long term return of a balanced and conservative investment portfolio under professional management.

NOTE 9 – POST-EMPLOYMENT BENEFITS (CONTINUED)

Health care cost trend rate

The expected rate of increase in medical cost is based on projections performed by the Office of the Actuary at the Centers for Medicare & Medicaid Services as published in National Health Care Expenditures Projections: 2003 to 2013, Table 3: National Health Expenditures, Aggregate and per Capita Amounts, Percent Distribution and Average Annual Percent Change by Source of Funds: Selected Calendar Years 1990-2013, released in January, 2004 by the Health Care Financing Administration (www.cms.hhs.gov). "State and Local" rates for 2008 through 2013 from this report were used, with rates beyond 2013 graduated down to an ultimate annual rate of 5.0% for 2016 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, was used. This is the mortality table which the Internal Revenue Service requires to be used in determining the value of accrued benefits in defined benefit pension plans. Since GASB 45 requires the use of "unblended" rates, the 94GAR mortality table described above was used to "unblend" the rates so as to reproduce the composite blended rate overall as the rate structure to calculate the actuarial valuation results for life insurance.

Method of determining value of benefits

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

NOTE 10 – DEFERRED COMPENSATION PLAN

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

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

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

NOTE 10 – DEFERRED COMPENSATION PLAN (CONTINUED)

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

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 affect on the City's financial statements.

As of September 30, 2010, the City had executed contracts for the Library in the Forest construction project and for the construction of the Vestavia Hills Sports Park at Liberty Park in the amount of \$941,440. At year end, \$0 had been expended on these construction contracts with \$0 encumbered in the Fund financial statements.

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, 2010

| | Budget - Original and Final | General Fund Actual | Variance |
|---|--------------------------------|------------------------|---------------------|
| Revenues | | | |
| Taxes | \$ 22,877,042 | \$ 23,041,283 | \$ 164,241 |
| Licenses and permits | 2,575,165 | 2,708,199 | 133,034 |
| Charges for services | 378,300 | 441,216 | 62,916 |
| Fines and forfeitures | 235,000 | 253,346 | 18,346 |
| Fees | 2,494,691 | 2,513,008 | 18,317 |
| Grants | 157,881 | 168,537 | 10,656 |
| Proceeds from sale of assets | 15,000 | 11,232 | (3,768) |
| Investment revenues | 269,099 | 44,084 | (225,015) |
| Other revenues | 601,668 | 569,088 | (32,580) |
| Total revenues | 29,603,846 | 29,749,993 | 146,147 |
| Expenditures | | | |
| General government administration | 3,750,761 | 3,624,619 | (126,142) |
| Public safety | 13,611,334 | 13,281,239 | (330,095) |
| Public works | 4,234,494 | 4,006,527 | (227,967) |
| Library | 1,097,739 | 1,068,006 | (29,733) |
| Parks and recreation | 2,177,189 | 2,167,329 | (9,860) |
| Capital outlay | 180,000 | 244,413 | 64,413 |
| Total expenditures | 25,051,517 | 24,392,133 | (659,384) |
| Excess of revenues over expenditures | 4,552,329 | 5,357,860 | 805,531 |
| Other financing sources (uses) | | | |
| Donations | - | 51,546 | 51,546 |
| Operating transfers in | - | - | - |
| Operating transfers out | (4,552,329) | (4,375,113) | 177,216 |
| Total other financing sources (uses) | (4,552,329) | (4,323,567) | 228,762 |
| Excess of revenues and other financing sources over expenditures | - | 1,034,293 | 1,034,293 |
| Fund balances, beginning of year | 8,065,971 | 8,065,971 | - |
| Fund balances, end of year | \$ 8,065,971 | \$ 9,100,264 | \$ 1,034,293 |

See accompanying notes to basic financial statements.

Notes to Required Supplementary Information

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Budgets and budgetary accounting

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

The City does not adopt budgets for Capital Projects Funds or 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 28, 2009.

Supplementary Information

City of Vestavia Hills, Alabama

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

Year ended September 30, 2010

| | State Shared Gasoline Tax Funds | | |
|--|---------------------------------|---------------|------------------|
| | Four Cent | Five Cent | Seven Cent |
| Revenues | | | |
| Taxes | \$ 1,551 | \$ - | \$ 628,562 |
| Intergovernmental | 155,625 | 76,614 | 252,198 |
| Fines and forfeitures | - | - | - |
| Grants | - | - | - |
| Investment revenues | 60 | 29 | 2,262 |
| Library revenues | - | - | - |
| Total revenues | 157,236 | 76,643 | 883,022 |
| Expenditures | | | |
| General government administration | - | - | - |
| Public safety | - | - | - |
| Public works | 157,236 | 76,643 | 1,269,531 |
| Library | - | - | - |
| Capital outlay | - | - | - |
| Total expenditures | 157,236 | 76,643 | 1,269,531 |
| Excess of revenues over (under) expenditures | - | - | (386,509) |
| Other financing sources (uses) | | | |
| Operating transfers in | - | - | - |
| Operating transfers out | - | - | - |
| Total other financing sources (uses) | - | - | - |
| Excess of revenues and other sources over (under) expenditures and other uses | - | - | (386,509) |
| Fund balance, beginning of year | - | - | 461,092 |
| Fund balance, end of year | \$ - | \$ - | \$ 74,583 |

| Court & Corrections | Library | Actuarial Trust | Insurance Reserve | Totals |
|------------------------------------|-------------------|----------------------------|------------------------------|-------------------|
| \$ - | \$ 154,799 | \$ 64,296 | \$ 137,381 | \$ 440,679 |
| - | - | - | - | 87,535 |
| 918 | - | - | - | 1,268 |
| 972 | - | - | - | 13,861 |
| \$ 1,890 | \$ 154,799 | \$ 64,296 | \$ 137,381 | \$ 543,343 |
| | | | | |
| \$ 1,890 | \$ 1,147 | \$ 27,048 | \$ 44,398 | \$ 116,282 |
| - | - | - | - | 68,595 |
| - | - | - | - | - |
| 1,890 | 1,147 | 27,048 | 44,398 | 184,877 |
| | | | | |
| - | 450 | - | - | 450 |
| 918 | - | - | - | 1,268 |
| (918) | 153,202 | 37,248 | 92,983 | 356,748 |
| - | 153,652 | 37,248 | 92,983 | 358,466 |
| \$ 1,890 | \$ 154,799 | \$ 64,296 | \$ 137,381 | \$ 543,343 |

City of Vestavia Hills, Alabama

Combining Balance Sheet - Other Governmental Funds

Year ended September 30, 2010

| | State Shared Gasoline Tax Funds | | | |
|--|---------------------------------|-----------------|-------------------|------------------|
| | Four Cent | Five Cent | Seven Cent | Emergency 911 |
| Assets | | | | |
| Cash and temporary investments | \$ - | \$ - | \$ 84,203 | \$ - |
| Accounts receivable | 8,675 | 4,214 | 15,004 | 59,642 |
| Prepaid expenses | - | - | - | 350 |
| Interfund receivable | - | - | 12,889 | - |
| Total assets | \$ 8,675 | \$ 4,214 | \$ 112,096 | \$ 59,992 |
| Liabilities | | | | |
| Accounts payable | \$ - | \$ - | \$ 37,513 | \$ 4,286 |
| Interfund payable | 8,675 | 4,214 | - | 55,706 |
| Accumulated compensated absences | - | - | - | - |
| Total liabilities | 8,675 | 4,214 | 37,513 | 59,992 |
| Fund equity | | | | |
| Fund balance: | | | | |
| Reserve for encumbrances | - | - | - | - |
| Reserved for prepayments and inventory | - | - | - | 350 |
| Fund balance - reserved | - | - | 74,583 | (350) |
| Total fund equity | - | - | 74,583 | - |
| Total liabilities and fund equity | \$ 8,675 | \$ 4,214 | \$ 112,096 | \$ 59,992 |

| Emergency 911 | Court & Corrections | Library | Actuarial Trust | Insurance Reserve | Totals |
|--------------------------|------------------------------------|-------------------|----------------------------|------------------------------|-------------------|
| \$ 679,352 | \$ - | \$ - | \$ - | \$ - | \$ 1,309,465 |
| - | - | - | - | - | 484,437 |
| - | 170,851 | - | - | - | 170,851 |
| 7,222 | - | 33,643 | - | - | 40,865 |
| - | 20 | 802 | 248 | 559 | 3,980 |
| - | - | 48,747 | - | - | 48,747 |
| <u>686,574</u> | <u>170,871</u> | <u>83,192</u> | <u>248</u> | <u>559</u> | <u>2,058,345</u> |
| - | 189,514 | - | - | 110,607 | 300,121 |
| 1,003,953 | 16,167 | - | - | - | 1,020,120 |
| - | - | - | - | - | 1,503,410 |
| - | - | 39,426 | - | - | 39,426 |
| - | - | 28,869 | - | - | 28,869 |
| <u>1,003,953</u> | <u>205,681</u> | <u>68,295</u> | <u>-</u> | <u>110,607</u> | <u>2,891,946</u> |
| <u>(317,379)</u> | <u>(34,810)</u> | <u>14,897</u> | <u>248</u> | <u>(110,048)</u> | <u>(833,601)</u> |
| 317,379 | 27,385 | 2,220 | 35,000 | 60,839 | 442,823 |
| - | - | (64,503) | - | - | (64,503) |
| <u>317,379</u> | <u>27,385</u> | <u>(62,283)</u> | <u>35,000</u> | <u>60,839</u> | <u>378,320</u> |
| - | (7,425) | (47,386) | 35,248 | (49,209) | (455,281) |
| - | 7,425 | 201,038 | 2,000 | 142,192 | 813,747 |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 153,652</u> | <u>\$ 37,248</u> | <u>\$ 92,983</u> | <u>\$ 358,466</u> |