

City of Vestavia Hills, Alabama

FINANCIAL STATEMENTS

September 30, 2018



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City of Vestavia Hills, Alabama
Table of Contents
September 30, 2018

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion & Analysis	4.1
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	5
Statement of Activities	6
Fund Financial Statements:	
Governmental Funds Balance Sheet	7
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	8
Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds	9
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	10
Notes to Financial Statements Index	11
Notes to Financial Statements	12
Required Supplementary Information	
Statement of Revenues, Expenditures, and Changes in Fund Balances Budget to Actual – General Fund	43
Statement of Revenues, Expenditures, and Changes in Fund Balances Budget to Actual – E-911 Fund	44
Pension Plan:	
Schedule of Changes in the Net Pension Liability and Related Ratios	45
Schedule of Employer Pension Contributions	46
Other Post-Employment Benefits (OPEB):	
Schedule of Changes in Net OPEB Liability and Related Ratios	47
Schedule of Employer OPEB Contributions	48
Notes to Required Supplementary Information	49
Supplementary Information	
Combining Balance Sheet – Other Governmental Funds	52
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Other Governmental Funds	53

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Vestavia Hills, Alabama (the "City") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Vestavia Hills, Alabama, as of September 30, 2018, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter*Adoption of New Accounting Pronouncement*

As described in Note 14 to the financial statements, The City adopted Government Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, which resulted in a cumulative effect of change in accounting principle of (\$814,819) to the September 30, 2017 net position for governmental activities. Our opinions are not modified with respect to this matter.

Other Matters*Required Supplementary Information*

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

Other Information

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

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing

standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Carly Riggs & Ingram, L.L.C.

Birmingham, Alabama

July 26, 2019

CITY OF VESTAVIA HILLS, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2018

The City of Vestavia Hills' Management Discussion and Analysis report provides an overview of the City's financial activities for fiscal year ended September 30, 2018. Please read the report in conjunction with the City's financial statements and notes to the financial statements that immediately follow this analysis.

Financial Highlights: Significant Items to Note

- ❖ The assets of the City exceeded its liabilities at September 30, 2018, \$80.06 million (Total Net Position).
- ❖ The City's net position increased 14.48% (\$10,126 million) in 2018.
- ❖ The total cost of the City's programs for the 2018 fiscal year was \$45.46 million. The net cost was \$37.34 million after subtracting grants and charges for services.
- ❖ At September 30, 2018, the general fund unassigned fund balance, excluding the City's committed funds for economic stabilization of \$10.50 million, was \$3.39 million or 10% of total general fund operating expenses before debt service.
- ❖ Major capital expenditures totaled \$2.90 million including \$617,587 for projects in progress.
- ❖ The City increased its outstanding General Obligation Warrants by \$45.15 million, exclusive of \$.904 million held in the QECB Debt Sinking Fund.

Using the Annual Financial Report - An Overview for the User

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

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

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

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

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

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

The *statement of net position* (on page 5) is most closely related to a balance sheet. It presents information on all of the City's assets (what it owns) and liabilities (what it owes), with the difference between the two reported as net position. The net position reported in this statement represent the accumulation of changes in net position

for the current fiscal year and all fiscal years in the past combined. Over time, the increase or decrease in net position reported in this statement may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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

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

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

The *Fund Financial Statements* are measured on the modified-accrual basis of accounting. As a result, the *fund financial statements* focus more on the near term use and availability of spendable resources. The information provided in these statements is useful in determining the City's immediate financial needs. This is in contrast to the accrual-based *government-wide financial statements*, which focus more on overall long-term availability of spendable resources. The relationship between governmental activities reported in the *government-wide financial statements* and the governmental funds reported in the *fund financial statements* are reconciled on pages 8 and 10 of these financial statements. These reconciliations are useful to readers in understanding the long-term impact of the City's short-term financing decisions.

Notes to the Basic Financial Statements - The *notes to the basic financial statements* provide additional information that is essential for the statements to fairly represent the City's financial position and its operations. The notes contain important information that is not part of the basic financial statements. However, the notes are an integral part of the statements, not an appendage to them. The *notes to the basic financial statements* begin on page 12 in this section.

After the presentation of the basic financial statements, the *required supplementary information* is presented following the notes to the basic financial statements. The *required supplementary information* beginning on page 42 provides a comparison of the adopted budget of the City's General Fund to the actual operating results for the fiscal year. The comparison of this data allows users to assess management's ability to project and plan for its

operations throughout the year. Various information regarding changes in the City's net pension liability and employer contributions to the pension plan are also presented in this section.

Analysis of the City of Vestavia Hills' Overall Financial Position

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

Table 1: Summary of Net Position

	As of September 30, (dollars in thousands)	
	<u>2018</u>	<u>2017</u>
Assets:		
Current and other assets	\$ 73,073	\$ 20,671
Capital assets	<u>149,453</u>	<u>141,740</u>
Total Assets	<u>222,526</u>	<u>162,411</u>
Deferred outflows	7,908	8,926
Liabilities:		
Other liabilities	10,811	7,603
Long-term liabilities	<u>137,852</u>	<u>93,804</u>
Total Liabilities	<u>148,663</u>	<u>101,407</u>
Deferred inflows	1,715	-
Net position:		
Net invested in capital assets	84,178	76,650
Restricted	1,863	1,263
Unrestricted (deficit)	<u>(5,985)</u>	<u>(7,983)</u>
Total Net Position	\$ <u>80,056</u>	\$ <u>69,930</u>

The City's assets exceeded liabilities by \$80.06 million at September 30, 2018.

Net investment in capital assets of \$84.18 million reflects the City's investment in capital assets (e.g., land, infrastructure, buildings, improvements other than buildings, fixtures, furniture, equipment and transportation equipment), less accumulated depreciation and debt related to the acquisition of the assets. Since these capital assets are used in governmental activities, this portion of net assets is not available for future spending or funding of operations.

Restricted net position in the amount of \$1,863,000 represents net assets reserved for payment to the Debt Sinking fund, \$904,000, prepayment of the 2019 debt service, \$650,000, and road maintenance, \$307,022. Unrestricted net position of (\$5.99) million resulted principally from increases in warrant payables, \$45.14 million, accounts payable, \$2.02 million, Other Post Employee Benefits (OPEB), \$785,000, and compensated absences, \$764,000.

Analysis of the City of Vestavia Hills' Operating Results

The results of this fiscal year's operations as a whole are reported in detail in the *Statement of Activities* on page 6. *Table 2* below condenses the results of operations for the fiscal year into a format where the reader can easily see the total revenues of the City for the year. It also shows the impact that operations had on changes in net position as of September 30, 2018 and 2017.

Table 2: Summary of Changes in Net Position

	Fiscal Year Ended September 30, (dollars in thousands)	
	2018	2017
Program Revenues:		
Charges for services	\$ 6,849	\$ 6,725
Operating grants/contributions	763	690
Capital grants/contributions	517	981
General Revenues:		
Taxes	34,489	30,902
Utility franchise fees	2,732	2,614
Investment earnings	360	194
Miscellaneous	1,344	210
Sale of assets	33	16
Donated infrastructure assets	9,318	-
Total Revenues	56,405	42,332
Program Expenses:		
General government	8,430	8,527
Public safety	20,386	19,423
Public works/Public services	11,468	11,294
Library	2,682	2,493
Interest on long term debt	2,498	2,126
Total Expenses	45,464	43,863
Change in net position	10,941	(1,532)
Net Position, beginning of year	69,930	71,463
Prior period adjustment (OPEB)	(815)	-
Net Position, ending	\$ 80,056	\$ 69,930

The City's revenues, excluding donated infrastructure assets, which do not provide spendable funds, increased \$4.75 million or 11.23%. The increase resulted principally from taxes, \$3.59 million or 11.61%, miscellaneous revenues, \$1.13 million or 540% and investment earnings, \$.166 million or 85.57%. The revenue increase was principally offset by a decrease in capital grants/contributions, \$.464 million or 47.30%.

The City's program expenses increased \$1.60 million or 3.65%. The increase occurred principally within the general government operations division at 39.71%, but was offset resulting from decrease expenditures within the public works/services and library divisions.

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

Table 3: Net Cost of Government-Wide Activities

	Fiscal Year Ended September 30, 2018 (dollars in thousands)	
	Total Cost of Services	Net Cost of Services
General government administration	\$ 8,430	\$ 7,805
Public safety	20,386	17,916
Public works/Public services	11,468	7,284
Library	2,682	1,729
Interest on long term debt	2,498	2,207
Total	<u>\$ 45,464</u>	<u>\$ 36,941</u>

Performance of City Funds

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

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financial requirements (Note: the reconciliation statement between the *fund financial statements* and the *government-wide financial statements* are presented on pages 8 and 10). At the end of the fiscal year, the City's governmental funds reported a combined fund balance of \$68.32 million, which includes general fund balances of \$10.50 million committed funds to be used for economic stabilization in the event of an unforeseen emergency and \$3.39 million unassigned funds which is available to address future needs.

Budgetary Highlights of the General Fund

On or before October 1 of each year, the City Manager prepares and submits an annual budget to be adopted by the City Council. The fiscal 2018 budget was adopted September 18, 2017. 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 42. The City's actual results as compared to the City's budget can be briefly summarized as follows:

- ❖ Actual revenues exceeded total budgeted revenues by \$3.54 million or 9.17%. Ad valorem real estate and sales taxes were the largest revenue generators, representing \$29.4 million or 76.19% of total budgeted revenues.
- ❖ Actual expenditures exceeded budget by \$.212 million or .63%. The overage resulted principally due to general government administration, public works/services and capital outlay exceeding budget by \$.642 million or 4.73%. The overage was offset due to public safety and the library reporting less than budgeted expenditures, \$.431 million or 2.15%

Capital Assets and Debt Administration

Capital Assets - The City's investment in capital assets for governmental activities for fiscal year ended September 30, 2018 was \$84.18 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)	
	2018	2017
Land	\$ 80,827	\$ 80,433
Construction-in-progress	2,461	3,019
Buildings	25,777	26,630
Land improvements	6,079	6,370
Vehicles	2,363	2,952
Recreational facilities	9,539	10,292
Equipment and fixtures	5,264	4,224
Books and artwork	613	684
Infrastructure	16,530	7,136
Capital assets, net of depreciation	<u>\$ 149,453</u>	<u>\$ 141,740</u>

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

Donated infrastructure assets (streets)	\$	9,730
Construction-in-progress projects (includes sidewalk design and construction)		618
Buildings		39
Land		742
Equipment, furniture & fixtures		1,838
Computer equipment and software		226
Books and artwork		198
Recreational facilities		115
	\$	<u>13,506</u>

Long-Term Debt - At year-end, the City had \$111.08 million in general obligation warrants and capital leases. This represents an increase of 66% in debt over last fiscal year, as shown in *Table 5* below.

Table 5: Outstanding Debt

As of September 30, 2018
(dollars in thousands)

	Beginning Balance	Net Change	Ending Balance
Governmental activities:			
Warrants payable	\$ 63,505	\$ 43,560	\$ 107,065
Capital leases	3,344	676	4,020
Totals	<u>\$ 66,849</u>	<u>\$ 44,236</u>	<u>\$ 111,085</u>

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

- ❖ The City reduced its general obligation warrants by \$2.9 million, paid \$9.3 million to the bond escrow agent and added \$55.77 million in general obligation warrants, Series 2018. The ending balance includes \$.904 million held in the debt sinking fund for the “Qualified Energy Conservation Bonds” (QECB) payment.
- ❖ There was a net increase in capital leases resulting from the addition of fiscal 2019 capital leases (public safety vehicles, rescue truck, and public services 11 passenger van and utility truck) and the reduction in the current outstanding leases.
- ❖ A favorable bond rating facilitates the City’s ability to meet financial obligations. Moody’s Investors Service and Fitch Ratings assigned the City of Vestavia Hills ratings of “Aaa stable” and “AA+ positive”, respectively, on its “Series 2018 Warrants”, July 25 and July 26, 2018.

Economic Factors and Next Year's Budget

Ad Valorem Tax – The City's ad valorem tax is based on annual reassessment of real estate and was the city's largest revenue generator in fiscal 2018. Over the previous five years, ad valorem taxes have exceeded budget resulting from the annual appreciation of real estate.

Fiscal Year	Ad Valorem Taxes – Real Estate		
	Budget	Actual	Variance
2014	12,152,867	12,284,147	131,280
2015	12,007,873	12,265,526	257,653
2016	12,239,096	12,840,240	601,144
2017	13,019,195	13,386,482	367,287
2018	13,728,188	14,215,087	486,899

Personnel Administration Costs – The City's personnel administration is provided by the Personnel Board of Jefferson County (PBJC). Participating municipalities pay an annual fee based on the number of classified employees employed by the municipality times a percentage of the PBJC's operating budget. The City of Vestavia Hills budgeted amount for fiscal 2018 was \$239,095.

Medical Costs – The City of Vestavia Hills' health insurance is with and administered through the "State of Alabama Local Government Health Insurance Board". In fiscal 2018, Vestavia Hills retained its preferred insurance classification rating resulting from minimal medical claims and 80% or greater employee participation in the State of Alabama's "Wellness Screening Program". There was a 1.5% increase by the Alabama Local Government Health Insurance Board in calendar year 2018, which resulted in a contribution of \$1.79 million.

Retirement Costs – The City's retirement program for employees is provided through the Retirement System of Alabama (RSA). The pension plan is currently funded at 66%, reflecting an unfunded liability of \$25.42 million as of the latest measurement date – September 30, 2017. Vestavia Hills' contribution factors for fiscal 2018 were 12.72% - Tier 1 and 10.61% - Tier 2, representing a budgeted contribution of \$2.12 million.

Cost-of-Living Raise – No cost of living adjustment was included in the 2018 fiscal budget.

CITY MANAGER’S COMMENTS:

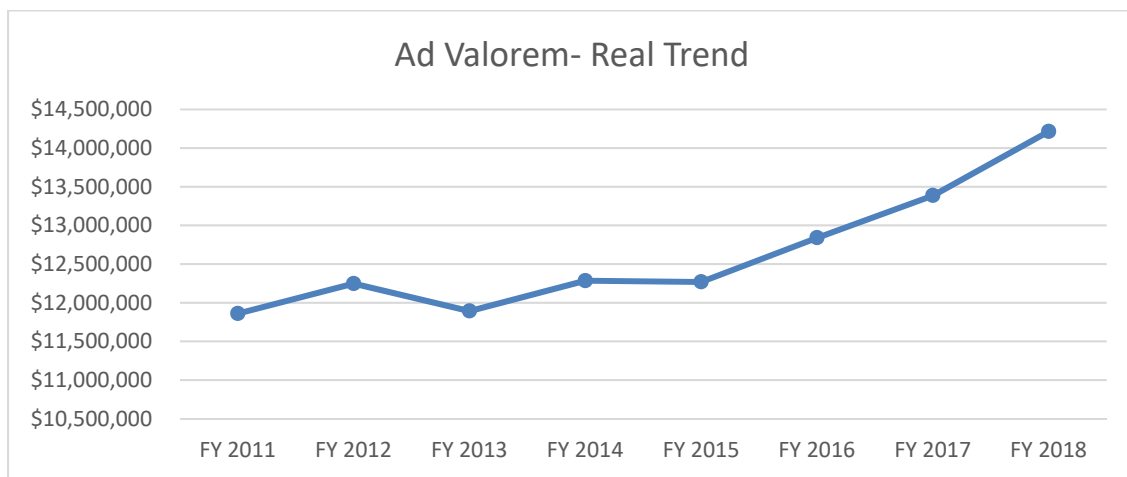
INTRODUCTION

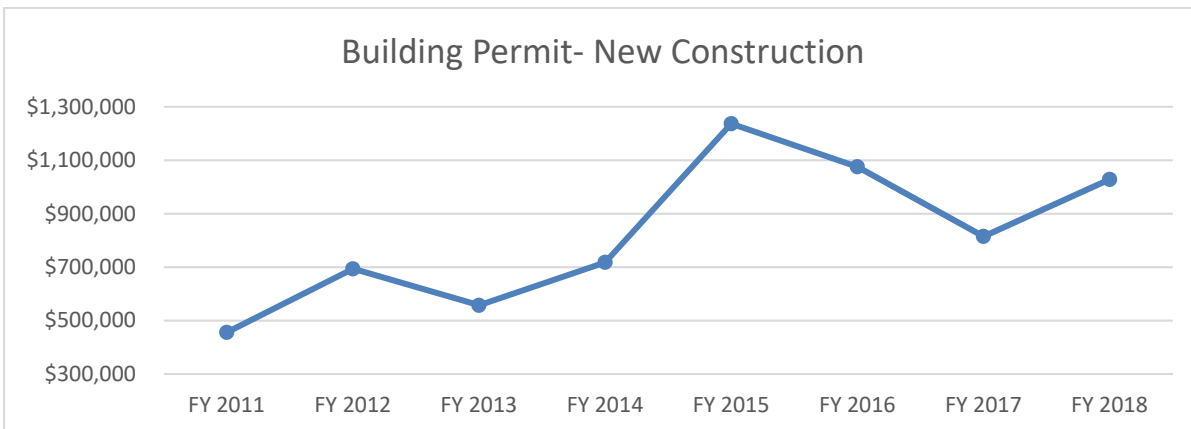
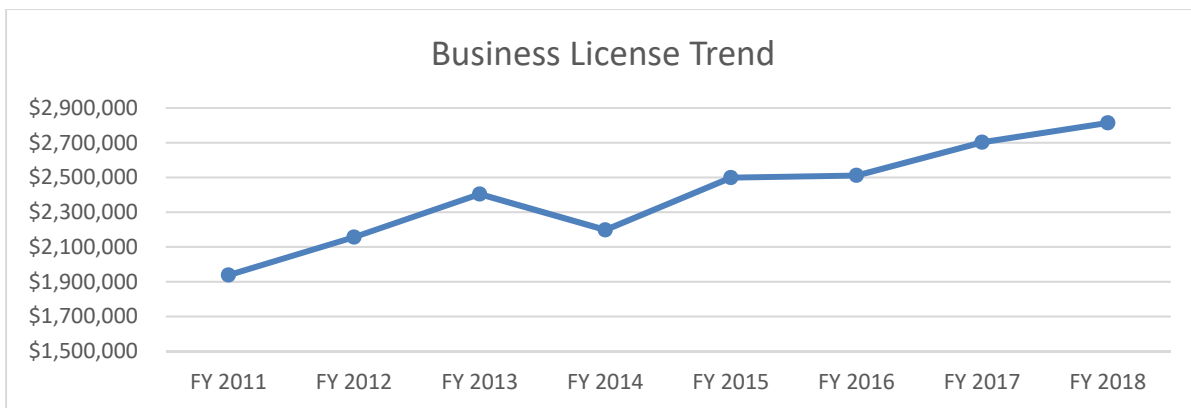
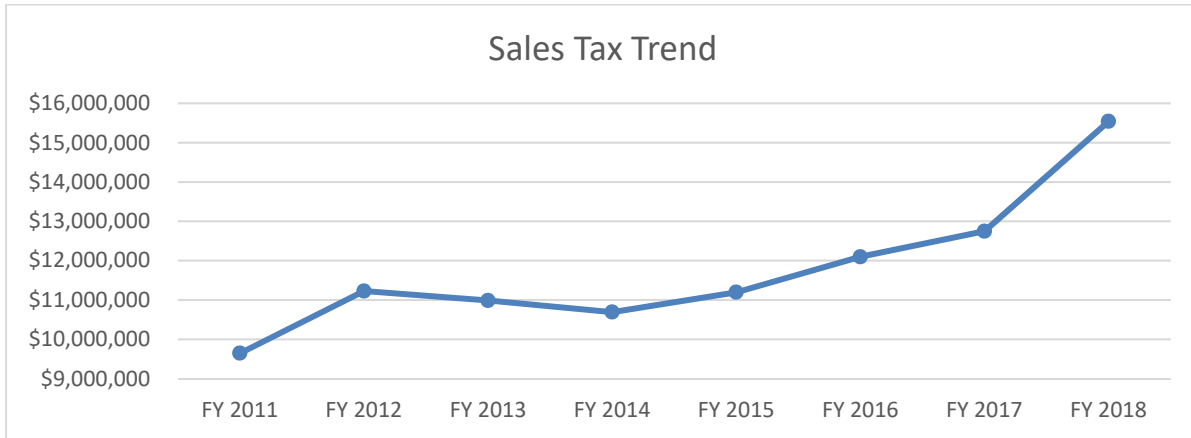
Fiscal Year 2018 was a stellar year for the City of Vestavia Hills. It continues several, post recessionary, years of solid growth for the City in terms of economics and quality of life. In fact, when evaluating general fund revenue and surplus, the fiscal year was the best in recent history. Previous audit reports and their accompanying commentaries anticipated such a year based upon the progress made in the City’s economic development strategies, sustained partnership with Vestavia Hills City Schools, and strong external market conditions in the geographic area in and around Vestavia Hills.

FINANCIAL CONDITION

The City of Vestavia Hills entered the year on the heels of increasing its credit rating with Moody’s Investors Service to AAA status. This was based upon many variables to include a very healthy emergency reserve and strict budgetary controls. Our FY 2018 results further strengthen those metrics. The City closed FY 2018 with a general fund surplus of \$1,184,355 increasing our general fund balance to \$14,542,871. This is significantly above our policy mandated goal of keeping 90 days of operational expenses funded in our reserves. The City achieved these results with extraordinary experience in the growth of some of its largest revenue sources- ad valorem taxes (real), sales taxes, business license fees, and building permit fees associated with new construction. Furthermore, departmental operational expenses remained very close to budgetary expectations. Indicators for future financial performance such as numbers of new building permits and valuation of commercial new construction all were keeping pace with relative, extraordinary growth in the past four years for Vestavia Hills. Valuation of commercial new construction has been at all-time highs for Vestavia Hills in three of the last four years. Graphically illustrated below are four of the largest revenue sources that have shown steady growth. In FY 2018 all four revenue sources had significant year-over-year increases.

<i>Ad Valorem (Real)</i>	<i>6.19% Increase</i>	<i>Sales Tax</i>	<i>21.94% Increase</i>
<i>Business License</i>	<i>4.14% Increase</i>	<i>Building Permits (New)</i>	<i>26.22% Increase</i>





QUALITY OF LIFE INITIATIVES

During FY 2018, the City took action to begin implementation of a multi-year planning initiative it refers to as the Community Spaces Plan. The aggressive plan includes major efforts to improve the City’s recreational assets, transportation infrastructure, and storm water drainage system. The program is being coordinated alongside a major physical plant improvement by the city school system to allow maximum positive impact throughout the city. The City of Vestavia Hills issued \$55,770,000 in general obligation warrants in August of 2018 to fund the plan. This capital investment is being supported by an additional one cent sales tax dedicated to retiring the debt associated with the Community Spaces program. Financial projections indicate that 75% of projected new

revenues will cover said debt service with the remaining 25% in new funds being earmarked to the community spaces fund for future capital needs and support for public education. As a result, the strong, historical financial performance of City operations are not anticipated to change. As the year ended, the City had fully engaged a program management and design team that were producing early renderings and construction drawings for new ballfields, recreational centers, roadways, drainage conveyance systems, swimming pools, parks, and tennis courts. Several of these projects include a public-private partnership component that will also support the economic growth of the City. Project schedules anticipate bidding of the projects in FY 2019 and completion of the projects in FY 2020. As a City that was incorporated in 1950, many of the assets being upgraded or replaced are 50 to 60 years old. Completion of the Community Spaces plan will deliver many different type returns that will ensure long term sustainability for Vestavia Hills.

SUPPORT FOR PUBLIC EDUCATION

As previously referenced, FY 2018 also showed many examples of collaboration with the city's school system. This partnership is imperative since the continued population growth has been the clear result of residents moving to Vestavia Hills to be part of the excellent and highly sought after educational system. Surveys consistently show that 75% of city residents move to Vestavia Hills because of the school system. During the fiscal year, the school system began an approximately \$70mm physical plant improvement program that includes bringing on line two new schools and additional recreational assets located on those new campuses that will be shared with a growing City recreational program. Continued operational and financial collaboration over the coming years will bring the school system's plan to full fruition. This is also a key feature in the City's sustainability. Between the Community Spaces Plan and the school system improvements, the Vestavia Hills community can remain in high demand for those who chose to live in the greater Birmingham, Alabama region.

FUTURE OF VESTAVIA HILLS

Recognizing that the City cannot rest on the laurels of success from this fiscal year, all of its strategic plans will continue to be implemented. Over the next five years, the Liberty Park and Cahaba Heights portions of the city will move to the next stage of their growth and continue to support good economic benefits for the entire community. Next year, two new grocery store developments, a new medical development, a residential subdivision and a potential hotel development will be completed. All of these will be welcomed as a comprehensive improvement to our city. Due to construction timing, it is anticipated that FY 2019 will show modest growth while FY 2020 will include the launch of this next phase of community development referenced above. The short and long term prospects for Vestavia Hills are positive, and its healthy demographics will mitigate any external economic risks. Given these facts, City leadership has made decisions to invest in itself in an exceptional manner through the Community Spaces Plan. This investment in the City is being positively received by its population and will pay dividends well into the future.

Contacting the City's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Melvin Turner, III, Finance Director - City of Vestavia Hills, 1032 Montgomery Highway, Vestavia Hills, AL 35216, or by calling (205) 978-0128, Monday through Friday, 8:00 a.m. to 5:00 p.m., Central Standard Time.

City of Vestavia Hills, Alabama Statement of Net Position

September 30, 2018

	Governmental Activities
Assets	
Cash	\$ 6,983,274
Cash - restricted	52,994,549
Investments	10,499,562
Receivables, net of allowance for uncollectibles	2,437,327
Inventory	17,900
Prepaid expenses	136,588
Accrued interest	3,314
Land	80,827,238
Construction in progress	2,460,707
Capital assets, net of accumulated depreciation	66,165,901
Total assets	222,526,360
Deferred outflows of resources	
Deferred charges - debt refunding	1,347,709
Employer pension contributions subsequent to measurement date	2,072,633
Differences between expected and actual experience of pension plan	1,743,479
Changes of assumptions on net pension liability	2,705,601
Differences between expected and actual experience of OPEB plan	39,528
Total deferred outflows of resources	7,908,950
Liabilities	
Accounts payable	3,985,354
Court and performance bonds payable	764,137
Accrued interest payable	639,998
Noncurrent liabilities	
Due within one year:	
Compensated absences	373,846
Warrant obligations, net	3,760,000
Capital lease obligations	1,287,289
Due in more than one year:	
Compensated absences	2,118,459
Warrant obligations, net	106,799,914
Capital lease obligations	2,733,261
Net pension liability	25,415,924
Net OPEB liability	784,922
Total liabilities	148,663,104
Deferred inflows of resources	
Net difference between projected and actual earnings on pension plan investments	1,669,539
Change in OPEB assumptions	45,820
Total deferred inflows of resources	1,715,359
Net position	
Net investment in capital assets	84,178,288
Restricted for debt service	1,556,335
Restricted for gas tax funds	307,022
Unrestricted (deficit)	(5,984,798)
Total net position	\$ 80,056,847

See accompanying notes to basic financial statements.

City of Vestavia Hills, Alabama Statement of Activities

Year ended September 30, 2018

Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government
					Total
Primary government					
Governmental activities:					
General government administration	\$ 8,429,364	\$ 3,817,117	\$ -	\$ 290,738	\$ (4,321,509)
Public safety	20,385,849	717,393	647,279	185,619	(18,835,558)
Public works	11,468,411	2,192,941	60,739		(9,214,731)
Library	2,682,095	121,767	54,775	40,300	(2,465,253)
Interest on long-term debt	2,498,389	-	-	-	(2,498,389)
Total primary government	\$ 45,464,108	\$ 6,849,218	\$ 762,793	\$ 516,657	(37,335,440)

General revenues:

Taxes:

Ad Valorem (real and personal property)	15,782,118
Sales and use	16,547,051
Other taxes	2,160,079
Utility franchise fees	2,731,693
Investment earnings	360,168
Donated infrastructure assets	9,318,585
Miscellaneous	1,344,160
Gain on sale of assets	33,114
	<u>48,276,968</u>

Change in net position 10,941,528

Net position at beginning of year, as originally report 69,930,138

Prior period adjustment (Note 14) (814,819)

Net position - beginning of year, as restated 69,115,319

Net position at end of year \$ 80,056,847

See accompanying notes to basic financial statements.

City of Vestavia Hills, Alabama Governmental Funds Balance Sheet

September 30, 2018

	General	Debt Service	Capital Projects
Assets			
Cash	\$ 3,087,158	\$ 649,250	\$ 232,545
Cash - restricted	773,821	903,771	2,486,890
Investments - certificates of deposit	10,499,562	-	-
Accounts receivable, net of allowance for uncollectibles	2,244,262	-	-
Accrued interest	-	3,314	-
Inventory	17,900	-	-
Prepaid expenses	136,588	-	-
Interfund receivables	101,524	-	67,771
Total assets	\$ 16,860,815	\$ 1,556,335	\$ 2,787,206
Liabilities			
Accounts payable	\$ 1,486,036	\$ -	\$ 1,160,328
Court and performance bonds payable	764,137	-	-
Interfund payables	67,771	-	-
Total liabilities	2,317,944	-	1,160,328
Fund balance			
Nonspendable	154,488	-	-
Restricted for:			
Road maintenance	-	-	-
Capital projects	-	-	-
Debt service	-	1,556,335	-
Committed to:			
Capital projects	-	-	1,390,300
Emergency reserve	10,499,562	-	-
Assigned	500,000	-	236,578
Unassigned	3,388,821	-	-
Total fund balance	14,542,871	1,556,335	1,626,878
Total liabilities and fund balance	\$ 16,860,815	\$ 1,556,335	\$ 2,787,206

See accompanying notes to basic financial statements.

Capital Projects - Community Spaces	E-911	Other Governmental Funds	Total Governmental Funds
\$ 1,502,940	\$ 309,749	\$ 1,201,632	\$ 6,983,274
47,878,567	951,500	-	52,994,549
-	-	-	10,499,562
41,450	84,148	67,467	2,437,327
-	-	-	3,314
-	-	-	17,900
-	-	-	136,588
-	-	27,644	196,939
\$ 49,422,957	\$ 1,345,397	\$ 1,296,743	\$ 73,269,453
\$ 123,524	\$ 951,418	\$ 264,048	\$ 3,985,354
-	-	-	764,137
-	-	129,168	196,939
123,524	951,418	393,216	4,946,430
-	-	-	154,488
-	-	307,022	307,022
47,878,567	-	-	47,878,567
-	-	-	1,556,335
1,042,402	197,921	-	2,630,623
-	-	-	10,499,562
378,464	196,058	602,530	1,913,630
-	-	(6,025)	3,382,796
49,299,433	393,979	903,527	68,323,023
\$ 49,422,957	\$ 1,345,397	\$ 1,296,743	\$ 73,269,453

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

September 30, 2018

Fund balance - total governmental funds \$ 68,323,023

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

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

Governmental capital assets	\$ 200,843,697	
Accumulated depreciation	<u>(51,389,851)</u>	149,453,846

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

7,908,950

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

(1,715,359)

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

Warrant obligations, net	(110,559,914)	
Net pension liability	(25,415,924)	
Net OPEB liability	(784,922)	
Compensated absences	(2,492,305)	
Accrued interest payable	(639,998)	
Capital lease obligations	<u>(4,020,550)</u>	<u>(143,913,613)</u>

Net position of governmental activities

\$ 80,056,847

See accompanying notes to basic financial statements.

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

Year ended September 30, 2018

	General	Debt Service	Capital Projects
Revenues			
Taxes	\$ 32,350,470	\$ -	\$ -
Licenses and permits	4,750,948	-	-
Intergovernmental	-	-	-
Charges for services	363,932	-	-
Fines and forfeitures	278,499	-	-
Fees	2,795,113	-	-
Grants	643,018	-	358,538
Proceeds from sale of assets	21,325	-	23,407
Interest revenues	216,460	19,000	-
Library revenues	-	-	-
Other revenues	684,129	205,154	69,930
Total revenues	42,103,894	224,154	451,875
Expenditures			
Current (operating):			
General government administration	6,052,912	7,375	11,813
Public safety	17,869,311	-	53,951
Public works	7,807,832	-	454,476
Library	1,780,591	-	-
Debt service	-	4,618,068	1,004,546
Capital outlay	373,901	-	1,044,047
Total expenditures	33,884,547	4,625,443	2,568,833
Excess of revenues over (under) expenditures	8,219,347	(4,401,289)	(2,116,958)
Other financing sources (uses)			
Operating transfers in	50,000	4,740,582	1,053,299
Operating transfers out	(7,084,992)	-	(50,000)
Other financing sources - proceeds of capital lease	-	-	747,220
Other financing sources - proceeds of warrants	-	-	-
Other financing sources - bond premium	-	-	-
Other financing uses - payment to bond escrow agent	-	-	-
Total other financing sources (uses)	(7,034,992)	4,740,582	1,750,519
Excess of revenues and other financing sources over (under) expenditures and other financing uses	1,184,355	339,293	(366,439)
Fund balance, beginning of year	13,358,516	1,217,042	1,993,317
Fund balance, end of year	\$ 14,542,871	\$ 1,556,335	\$ 1,626,878

See accompanying notes to basic financial statements.

Capital Projects - Community Spaces	E-911	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 705,894	\$ 33,056,364
-	-	158,274	4,909,222
-	-	666,515	666,515
-	-	1,850	365,782
-	-	393,292	671,791
-	766,364	-	3,561,477
-	-	204,801	1,206,357
-	-	-	44,732
92,617	2,677	5,004	335,758
-	-	194,861	194,861
1,126,594	-	-	2,085,807
1,219,211	769,041	2,330,491	47,098,666
727,084	-	576,644	7,375,828
-	729,402	102,240	18,754,904
-	-	1,127,340	9,389,648
-	-	103,837	1,884,428
744,633	-	-	6,367,247
386,760	952,168	146,703	2,903,579
1,858,477	1,681,570	2,056,764	46,675,634
(639,266)	(912,529)	273,727	423,032
1,153,266	-	137,845	7,134,992
-	-	-	(7,134,992)
-	951,500	-	1,698,720
55,770,000	-	-	55,770,000
1,810,906	-	-	1,810,906
(9,297,654)	-	-	(9,297,654)
49,436,518	951,500	137,845	49,981,972
48,797,252	38,971	411,572	50,405,004
502,181	355,008	491,955	17,918,019
\$ 49,299,433	\$ 393,979	\$ 903,527	\$ 68,323,023

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

September 30, 2018

Net change in fund balances - total governmental funds	\$ 50,405,004
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	\$ 2,903,579
Less current year depreciation	<u>(4,597,984)</u> (1,694,405)
Some revenues reported in the government-wide statement of activities do not provide current financial resources and therefore are not reported as revenues in the governmental funds.	
The net effect of transactions involving the disposal of capital assets is to decrease net position.	(17,864)
The net effect of donated infrastructure	9,318,585
The issuance of long-term debt provides current financial resources to governmental funds, but increases long-term liabilities in the government-wide statement of net position.	
Proceeds of warrants	(55,770,000)
Bond premium	(1,810,906)
Proceeds of capital leases	(1,698,720)
Repayment of long-term debt principal (including capital leases) are expenditures in the governmental funds, but reduce long-term liabilities in the statement of net position.	13,339,516
Some expenses reported in the government-wide statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Difference in pension expense related to deferred outflows of resources and net pension liability	\$ (1,022,934)
Difference in OPEB expense related to deferred outflows of resources and net OPEB liability	23,605
Change in long-term compensated absences	26,126
Change in accrued interest payable	(223,245)
Amortization of bond premiums/discounts, net	225,236
Amortization of loss on refunding	<u>(158,470)</u> (1,129,682)
Change in net position of governmental activities	<u>\$ 10,941,528</u>

See accompanying notes to basic financial statements.

City of Vestavia Hills, Alabama Notes to Financial Statements Index

	<u>Page</u>
Note 1 – Summary of Significant Accounting Policies	12
Note 2 – Cash and Investments	23
Note 3 – Capital Assets	24
Note 4 – Capitalized Leases	25
Note 5 – Accounts Receivable	26
Note 6 – Long-term Debt	26
Note 7 – Pension Plan	29
Note 8 – Accumulated Compensated Absences	36
Note 9 – Other Post-Employment Benefits	36
Note 10 – Deferred Compensation Plan	39
Note 11 – Contingencies and Commitments	40
Note 12 – Tax Abatements	41
Note 13 – New Pronouncements	41
Note 14 – Prior Period Adjustment	42
Note 15 – Development Agreement	42
Note 16 – Subsequent Events	42

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Vestavia Hills, Alabama (the “City”) was incorporated on November 8, 1950. The City operates under a Council-Manager form of government organized to comply with the provisions of Title 11, Chapter 43, Sections 20-22 of the Code of Alabama 1975, as amended. The City Council is composed of five officials (four Councilors and the Mayor who serves as President of the Council) elected at-large for concurrent four year terms. The City Manager is appointed by the City Council. The terms of the current administration are scheduled to expire October 31, 2020.

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

A. Related organization

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

The City currently receives advalorem taxes from the Jefferson County Tax Collector based on a total millage rate of 49.30 mills. Of the 49.30 mills received from the County, 20.55 mills are kept by the City to fund general government operations and the balance of 28.75 mills is remitted by the City to the Vestavia Hills Board of Education. During the year ended September 30, 2018, the total advalorem taxes remitted to the Board amounted to approximately \$20.7 million and \$460,276 was due the Board of Education at September 30, 2018.

B. Government-wide financial statements

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

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

C. Fund financial statements

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

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

The funds of the financial reporting entity are described below:

Governmental funds

1. General Fund

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

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Special Revenue Funds

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

3. Debt Service Fund

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

4. Capital Project Funds

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

5. Major and Nonmajor Funds

The General Fund, general Capital Projects Fund, Capital Projects - Community Spaces Fund, E-911 Special Revenue Fund, and Debt Service Fund are classified as major funds.

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

D. Measurement focus and basis of accounting

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

Measurement focus

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

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

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of accounting

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

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

E. Receivables

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

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

F. Equity classifications

Government-wide statements

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

- a. *Net investment in capital assets* - Consists of capital assets including restricted capital assets, net of accumulated depreciation, construction in progress, land, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Equity classifications (continued)

Government-wide statements (continued)

- b. *Restricted* - Constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted* - All other net position that do not meet the definition of "restricted" or "net investment in capital assets".

Fund statements

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

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

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

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

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

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Equity classifications (continued)

Fund statements (continued)

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

The City has assigned \$500,000 of the General Fund fund balance, which includes \$250,000 for the City's unfunded pension liability and \$250,000 for the City's insurance reserve.

The City has assigned \$236,578 of the Capital Projects Fund fund balance for encumbrances.

The City has assigned \$378,464 of the Capital Projects Fund – Community Spaces fund balance for encumbrances.

The City has assigned \$196,058 of the E-911 Fund fund balance for encumbrances.

The City has assigned \$602,530 of the Other Governmental Funds fund balance for use as follows: \$268,561 for the Library, \$31,360 for Vehicle Tags and \$302,609 for Capital Projects – Community Spaces.

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

The City Council has adopted an Emergency Reserve Fund Balance Policy. Under this policy, it is the City's intent to develop and maintain a General Fund Emergency Reserve fund balance representing at least 25% of prior year actual General Fund expenditures (modified accrual basis) plus operating transfers out. The City Council has currently committed \$10,499,562 of General Fund fund balance for economic stabilization in case of an emergency. An emergency that would warrant use of their committed fund balance is defined as an unforeseen non-routine event that generally represents an economic impact to the City greater than 5% of the previous 5 year average of sales tax collections by the City and this event cost can't be absorbed by reducing the current year budgeted expenses, increasing current year budgeted revenue, or the event occurred too late in the year to overcome the impact by adjusting the budget in the normal course of the City's business.

G. Long-term Debt

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Losses resulting from the refunding of bonds are deferred and amortized over the remaining life of the

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Long-term Debt (continued)

old debt or the life of the new debt, whichever is shorter. Debt issuance costs (except for prepaid insurance costs) are recognized as an expense in the period incurred.

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

H. Expenditures/Expenses

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

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

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

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

I. Fixed assets

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

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

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

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

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund financial statements

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

J. Encumbrances

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

K. Inventory

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

L. Pension

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

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

M. Other Postemployment Benefits (OPEB)

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

N. Interfund transactions

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

City of Vestavia Hills, Alabama
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**M. Interfund transactions (continued)**

Details of current interfund receivables and payables are as follows:

<u>Payable from</u>	<u>Payable to</u>	<u>Amount</u>
General Fund	Capital Projects Fund	\$ 67,771
Other Governmental Funds	General Fund	101,524
Other Governmental Funds	Other Governmental Funds	27,644
		<u>\$ 196,939</u>

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

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

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

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

Transfers for the fiscal year ended September 30, 2018 consisted of the following:

<u>Transfer to</u>	<u>Transfer From</u>		<u>Total</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	
Debt Service Fund	\$ 4,740,582	\$ -	\$ 4,740,582
Other Governmental Funds	137,845	-	137,845
Community Spaces Fund	1,153,266	-	1,153,266
Capital Projects Fund	1,053,299	-	1,053,299
General fund	-	50,000	50,000
<u>Total</u>	<u>\$ 7,084,992</u>	<u>\$ 50,000</u>	<u>\$ 7,134,992</u>

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

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

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Interfund transactions (continued)

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

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

N. Property taxes

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

O. Management estimates

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

P. Deferred outflows/inflows

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City currently has five items that qualify for reporting in this category. The first is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second one is related to pensions resulting from City contributions subsequent to the measurement date that will be recognized as a reduction of net pension liability in 2018. The third one is the difference between expected and actual experience of the pension plan. The fourth one is the changes in assumptions on the net pension liability. The fifth one is OPEB trust investment earnings and experience. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Deferred outflows/inflows (continued)

statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City currently has two items that qualify for reporting in this category. The first is the net difference between projected and actual earnings on plan investments for the pension plan. The second one is the change in OPEB assumptions.

Q. Economic dependency

The City receives a significant portion of their revenue from property taxes and sales and use taxes. Property tax revenue was \$15,782,118 or 33% of total revenue in fiscal year 2018. Sales and use tax revenue was \$16,547,051 or 34% of total revenue in fiscal year 2018.

R. Subsequent events

The City has evaluated subsequent events through July 26, 2019.

NOTE 2 – CASH AND INVESTMENTS

Cash

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

	Carrying Amount	Bank Balance
All funds	\$ 59,977,823	\$ 60,816,594

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. Management believes that there is no significant custodial credit risk because as of September 30, 2018, 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, 2018, all of the City's depositories are participating in the SAFE program.

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Included in the carrying amount above are restricted assets totaling \$52,994,549, which includes deposits related to the following: \$97,765 court appearance bonds, \$2,403,304 lease escrow, \$1,035,086 police confiscations, \$47,878,567 community spaces, and \$903,771 cash with fiscal agent, and \$676,056 contractor's surety. These deposits consist of cash equivalents and are considered restricted as they are payable to various third parties upon completion of a future event. Accordingly, a corresponding liability is recorded for this amount.

Investments

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

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

The City has elected to invest a portion of its excess funds, in the amount of \$3,461,914, in a number of certificates of deposit at multiple financial institutions. In accordance with GASB 72, these investments are stated at cost plus accrued interest.

The City also invests excess funds in U.S. Treasury securities. In accordance with GASB 72, the City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City does not have any investments that are categorized as Level 2 or Level 3 inputs.

The City has the following recurring fair value measurements as of September 30, 2018:

- U.S. Treasury securities of \$7,037,648 that are valued using quoted market prices (Level 1 inputs).

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 3 – CAPITAL ASSETS

Following is a summary of the changes in the City's capital assets for the year ended September 30, 2018:

	Balance at 9/30/2017	Additions	Disposals/ Retirements/ Completed	Balance at 9/30/2018
Capital assets not being depreciated:				
Land	\$ 80,433,267	\$ 393,971	-	\$ 80,827,238
Construction in progress	3,019,654	617,587	(1,176,534)	2,460,707
Total capital assets not being depreciated	83,452,921	1,011,558	(1,176,534)	83,287,945
Capital assets being depreciated:				
Land improvements	11,207,441	348,229	-	11,555,670
Buildings	30,984,004	22,345	-	31,006,349
Building equipment and fixtures	378,320	16,950	-	395,270
Vehicles	7,321,507	-	(214,258)	7,107,249
Equipment	7,310,850	1,826,881	(121,609)	9,016,122
Computer equipment	1,943,154	226,152	-	2,169,306
Recreational equipment	2,325,706	11,288	-	2,336,994
Office furniture and fixtures	2,377,106	-	-	2,377,106
Office equipment	133,715	-	-	133,715
Recreational facilities	22,964,388	114,220	-	23,078,608
Books and artwork	1,802,530	198,400	-	2,000,930
Infrastructure	16,648,150	9,730,283	-	26,378,433
Total capital assets being depreciated	105,396,871	12,494,748	(335,867)	117,555,752
Less accumulated depreciation for:				
Land improvements	4,837,103	639,026	-	5,476,129
Buildings	4,584,981	872,509	-	5,457,490
Building equipment and fixtures	152,885	13,919	-	166,804
Vehicles	4,369,730	640,550	(266,479)	4,743,801
Equipment	4,990,396	376,535	(57,771)	5,309,160
Computer equipment	1,578,861	143,722	-	1,722,583
Recreational equipment	1,853,890	57,628	-	1,911,518
Office furniture and fixtures	1,330,083	365,754	-	1,695,837
Office equipment	116,356	13,313	-	129,669
Recreational facilities	12,672,161	867,039	-	13,539,200
Books and artwork	1,118,075	269,999	-	1,388,074
Infrastructure	9,511,596	337,990	-	9,849,586
Total accumulated depreciation	47,116,117	4,597,984	(324,250)	51,389,851
Total capital assets being depreciated, net	58,280,754	7,896,764	(11,617)	66,165,901
Governmental activities capital assets, net	\$ 141,733,675	\$ 8,908,322	\$ (1,188,151)	\$ 149,453,846

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 3 – CAPITAL ASSETS (CONTINUED)

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

Governmental activities:

General government administration	\$	1,037,406
Public safety		828,820
Public works		1,961,406
Library		770,352
Total depreciation expense	\$	4,597,984

NOTE 4 – CAPITALIZED LEASES

At September 30, 2018, approximately \$4,350,618 in accumulated depreciation has been recorded in the government-wide financial statements related to assets costing \$7,873,209 purchased under capital leases. The current portion of the outstanding liability related to these capital leases at September 30, 2018 reported in the government-wide financial statements totaled \$1,287,289. The remaining long-term portion of these capital lease obligations reported in the government-wide financial statements totaled \$2,733,261 at September 30, 2018.

The following schedule shows the future minimum lease payments at September 30, 2018:

Fiscal year	Interest	Principal	Total Lease Payment
2019	\$ 74,370	\$ 1,287,289	\$ 1,361,659
2020	53,339	1,168,541	1,221,880
2021	31,296	584,522	615,818
2022	19,688	385,021	404,709
2023	13,031	215,548	228,579
2024 and thereafter	12,573	379,629	392,202
Total	\$ 204,297	\$ 4,020,550	\$ 4,224,847

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 5 – ACCOUNTS RECEIVABLE

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

Sales taxes	\$	1,513,420
Property taxes		288,746
Franchise fees		120,000
Transport receivable		110,473
Intergovernmental		168,055
Other receivables		236,633
Total	\$	2,437,327

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, 2018:

Warrant obligations at September 30, 2017	\$	63,505,000
Principal payments		(2,912,346)
Payment to bond escrow agent		(9,297,654)
Debt issuance		55,770,000
Total principal outstanding		107,065,000
Unamortized bond issuance discount		(109,787)
Unamortized bond premium		3,604,701
Total warrant obligations at September 30, 2018	\$	110,559,914

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 6 – LONG-TERM DEBT (CONTINUED)

Outstanding warrant obligations of the City at September 30, 2018 consist of the following:

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.	\$ 450,000
Taxable General Obligation Warrants, Series 2009-B were issued in the principal amount of \$6,070,000 in December 2009. The warrants bear interest at an average of 4.8%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2028 and are callable at any time without penalty.	5,045,000
General Obligation Warrants, Series 2012 were issued in the principal amount of \$11,000,000 in June 2012. The warrants bear interest at an average of 3.5%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2022 and are callable at any time without penalty.	2,195,000
General Obligation Warrants, Qualified Energy Conservation Bonds (QECCB) Series 2013 were issued in the principal amount of \$4,245,000 in May 2013. The warrants bear interest at an average of 2.20%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2033 and are callable at any time without penalty. (Net of \$903,771 held in sinking fund for repayment)	3,341,229
General Obligation Warrants, Series 2013A were issued in the principal amount of \$10,000,000 in December 2013. The warrants bear interest at an average of 4.00%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2033 and are callable at any time without penalty.	10,000,000
General Obligation Warrants, Series 2014 were issued in the principal amount of \$9,605,000 in January 2014. The warrants bear interest at an average of 3.00%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2031 and are callable at any time without penalty.	8,010,000
General Obligation Warrants, Series 2014 (CWSRF-DL) were issued in the principal amount of \$960,000 in September 2014. The warrants bear interest at an average of 2.00%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2034 and are callable at any time without penalty.	800,000
General Obligation Warrants, Series 2015 were issued in the principal amount of \$9,205,000 in August 2015. The warrants bear interest at an average of 2.00%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2028 and are callable at any time without penalty.	8,740,000
General Obligation Warrants, Series 2016 were issued in the principal amount of \$11,810,000 in June 2016. The warrants bear interest at an average of 3.00%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2028 and are callable at any time without penalty.	11,810,000
General Obligation Warrants, Series 2018 was issued in the principal amount of \$55,770,000 in August 2018. The warrants bear interest at an average of 3.75%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2048 and are callable at any time without penalty.	55,770,000
Total outstanding	106,161,229
Amount held in sinking fund for QECCB payment	903,771
Total warrant obligations	\$ 107,065,000

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 6 – LONG-TERM DEBT (CONTINUED)

The following schedule shows the debt service requirements at September 30, 2018:

Fiscal year	Debt Service Related to Principal	Debt Service Related to Interest	Total Debt Service
2019	\$ 3,760,000	\$ 3,929,426	\$ 7,689,426
2020	3,790,000	3,906,436	7,696,436
2021	3,935,000	3,746,499	7,681,499
2022	4,075,000	3,602,386	7,677,386
2023	4,220,000	3,448,030	7,668,030
2024-2028	22,660,000	14,680,753	37,340,753
2029-2033	28,950,000	10,010,921	38,960,921
2034-2038	9,830,000	6,064,588	15,894,588
2039-2043	11,750,000	4,081,100	15,831,100
2044-2048	14,095,000	1,735,400	15,830,400
	\$107,065,000	\$ 55,205,539	\$162,270,539

The total interest paid by the City during 2018 relative to the above warrants was \$2,409,093.

The City makes annual contributions into an invested sinking fund in the amount of \$171,051 each fiscal year to pay the principal payment on the QECB warrants. This amount is included in the table above as debt service requirements. These amounts are held in the sinking fund and applied to the payment of the principal of the Warrants at maturity on February 1, 2033. The balance in the sinking fund is \$903,771 as of September 30, 2018.

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

As a result of the refunding the City recorded deferred charges of \$968,875 in the Government-wide Statement of Net Position. These charges represent the difference between the reacquisition price and the net carrying amounts of the refunded warrants. These costs are being amortized over the average remaining life of the refunded warrants. The unamortized portion of these costs as of September 30, 2018 was \$805,714. The transaction resulted in an economic gain of \$669,040.

The City issued its General Obligation Warrants, Series 2018, dated August 22, 2018, in the principal amount of \$55,770,000. The Warrant proceeds were used to currently refund the remaining Series 2007 Warrants and to finance certain capital improvement projects as outlined in the Warrant indenture. Interest is payable semiannually on February 1st and August 1st of each year.

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 7 – PENSION PLAN

Plan description

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

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

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

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

Benefits provided

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

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 7 – PENSION PLAN (CONTINUED)

Benefits provided (continued)

or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of state police service in computing the formula method.

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

The ERS serves approximately 846 local participating employers. These participating employers include 297 cities, 65 counties, and 514 other public entities. The ERS membership includes approximately 86,109 participants. As of September 30, 2017, membership consisted of:

Retirees and beneficiaries currently receiving benefits	23,853
Terminated employees entitled to but not yet receiving benefits	1,401
Terminated employees not entitled to a benefit	7,154
Active Members	<u>55,941</u>
Total	<u>88,349</u>

Contributions

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

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 7 – PENSION PLAN (CONTINUED)

Contributions (continued)

October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the

ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members. The City Council elected to increase the employee contribution rates as described above as provided in Act 2011-676 of the Regular Session of the 2011 Alabama Legislature effective October 1, 2011.

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

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2018, the City's active employee contribution rate was 12.27% of covered employee payroll and the City's average contribution rate to fund the normal and accrued liability costs was 11.82%.

The City's contractually required contribution rate for the year ended September 30, 2018 was 12.72% of pensionable pay for Tier 1 employees and 10.33% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2015, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan were \$2,072,633 for the year ended September 30, 2018.

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 7 – PENSION PLAN (CONTINUED)

Net pension liability

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

Total Pension Liability Roll Forward		
Total Pension Liability	Expected	Actual
as of September 30, 2016 (a)	\$ 76,403,160	\$ 76,894,185
Entry Age Normal Cost for		
October 1, 2016 – September 30, 2017 (b)	1,486,956	1,486,956
Transfers Among Employers	-	(128,346)
Actual Benefit Payment and Refunds for		
October 1, 2016 – September 30, 2017 (c)	(3,846,705)	(3,846,705)
Total Pension Liability		
as of September 30, 2017		
[(a) x (1.08)] + (b) – [(c) x (1.04)]	\$ 79,815,596	\$ 80,216,330
Difference between Expected and Actual		\$ 400,734
Less liability transferred for immediate recognition		(128,346)
Experience (Gain)/Loss		\$ 529,080

Actuarial assumptions

The total pension liability as of September 30, 2017 was determined based on the annual actuarial funding valuation report prepared as of September 30, 2016. The key actuarial assumptions are summarized below:

Inflation	2.75%
Salary increases	3.25%-5.00%
Investment rate of return	7.75%*

*Net of pension plan investment expense

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

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 7 – PENSION PLAN (CONTINUED)

Actuarial assumptions (continued)

The actuarial assumptions used in the September 30, 2016 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

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

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

	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	17.00%	4.40%
U.S. Large Stocks	32.00%	8.00%
U.S. Mid Stocks	9.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash Equivalents	3.00%	1.50%
Total	100.00%	

Discount rate

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

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 7 – PENSION PLAN (CONTINUED)

Changes in net pension liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balances at September 30, 2016	\$ 76,403,160	\$ 49,442,336	\$ 26,960,824
Changes for the year:			
Service cost	1,486,956	-	1,486,956
Interest	5,772,185	-	5,772,185
Difference between expected and actual experience	529,080	-	529,080
Contributions – employer	-	2,076,923	(2,076,923)
Contributions – employee	-	984,086	(984,086)
Net investment income	-	6,272,112	(6,272,112)
Benefit payments, including refunds of employee contributions	(3,846,705)	(3,846,705)	-
Transfers among employers	(128,346)	(128,346)	-
Net changes	3,813,170	5,358,070	(1,544,900)
Balances at September 30, 2017	\$ 80,216,330	\$ 54,800,406	\$ 25,415,924

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

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

	1% Decrease 6.75	Current Discount Rate 7.75	1% Increase 8.75
Plan's net pension liability	\$ 34,942,823	\$ 25,415,924	\$ 17,352,372

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2017. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2017. The auditors' report dated August 31, 2018 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes are also available. The additional financial and actuarial information is available at www.rsa-al.gov.

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 7 – PENSION PLAN (CONTINUED)

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

For the year ended September 30, 2018, the City recognized pension expense of \$3,095,567. At September 30, 2017, the reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,743,479	\$ -
Changes of assumptions	2,705,601	-
Net difference between projected and actual earnings on plan investments	-	1,669,539
Employer contributions subsequent to the measure date	2,072,633	-
Total	\$ 6,521,713	\$ 1,669,539

The City reported \$2,072,633 as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized in pension expense as follows:

Year Ended September 30:	
2019	\$ 561,625
2020	884,005
2021	272,266
2022	406,216
2023	593,185
Thereafter	62,244
Total	\$ 2,779,541

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 8 – ACCUMULATED COMPENSATED ABSENCES

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

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

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

A liability for vacation pay is reported in the governmental funds only if the obligation has matured, for example, as a result of an employee's resignation or retirement. All vacation pay is accrued when incurred in the government-wide statements. The estimated current portion of accrued vacation at September 30, 2018 reported in the government-wide financial statements is \$373,846. The remaining long-term incurred portion of the accrued vacation of the governmental activities at September 30, 2018 totaled \$2,118,459.

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS

General information about the OPEB Plan

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

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

General information about the OPEB Plan (continued)

Benefits Provided – Medical benefits are provided through a comprehensive medical plan and are made available to employees upon actual retirement. The earliest retirement eligibility provisions are as follows: 25 years of service at any age; or, age 60 and 10 years of service (called "Tier I members). Employees hired on and after January 1, 2013 (called "Tier II" members) are eligible to retire only after attainment of age 62 or later completion of 10 years of service.

Employees covered by benefit terms – At September 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	11
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	256
	267

Total OPEB liability

The City's total OPEB liability of \$784,922 was measured as of September 30, 2018 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and other inputs – The total OPEB liability in the September 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary increases	4.0%, including inflation
Discount rate	3.63% annually (Beginning of Year to Determine ADC) 4.18%, annually (As of End of Year Measurement Date)
Healthcare cost trend rates	Flat 5.5% annually

The discount rate was based on the average of the Bond Buyers' 20 Year General Obligation municipal bond index as of September 30, 2018, the end of the applicable measurement period.

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

The actuarial assumptions used in the September 30, 2018 valuation were based on the results of ongoing evaluations of the assumptions from October 1, 2009 to September 30, 2018.

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Changes in the total OPEB liability

Balance at September 30, 2017	\$ 814,819
Changes for the year:	
Service cost	21,139
Interest	28,260
Differences between expected and actual experience	41,998
Changes in assumptions	(48,684)
Benefit payments and net transfers	(72,610)
Net changes	<u>(29,897)</u>
Balance at September 30, 2018	<u>\$ 784,922</u>

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.18%) or 1-percentage-point higher (5.18%) than the current discount rate:

	1.0% Decrease (3.18%)	Current Discount Rate (4.18%)	1.0% Increase (5.18%)
Total OPEB liability	\$ 880,333	\$ 784,922	\$ 701,944

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

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

	1.0% Decrease (4.5%)	Current Trend (5.5%)	1.0% Increase (6.5%)
Total OPEB liability	\$ 692,784	\$ 784,922	\$ 891,433

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB

For the year ended September 30, 2018, the City recognized OPEB expense of \$49,005. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 39,528	\$ -
Changes in assumptions	-	45,820
Total	\$ 39,528	\$ 45,820

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

Years ending September 30:	
2019	(394)
2020	(394)
2021	(394)
2022	(394)
2023	(394)
Thereafter	(4,322)
Total	(6,292)

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.

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 10 – DEFERRED COMPENSATION PLAN (CONTINUED)

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

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

NOTE 11 – CONTINGENCIES AND COMMITMENTS

A. Litigation

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

B. Project commitments

As of September 30, 2018, the City had executed contracts for various project commitments in the amount of \$5,262,991. At September 30, 2018, \$386,000 had been expended on these construction contracts, with \$64,650 assigned in the Fund financial statements.

NOTE 12 – TAX ABATEMENTS

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

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 12 – TAX ABATEMENTS (CONTINUED)

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

Nature of Incentive	Type of Tax	% of City Taxes Abated	FYE September 30, 2018 Abatement Amount	Expiration of Incentive ¹	Maximum Incentive Amount
Restaurant development	Sales tax ⁴	50%	\$0	December 31, 2027	\$575,000
Retail development	Sales tax ⁴	10% ⁵	\$860	December 31, 2018	\$750,000
Retail development	Sales tax ⁴	10%	\$2,676	December 31, 2018	\$750,000
Commercial development ³	Ad Valorem tax ²	100%	\$71,613	August 2034	\$5,150,000
Retail development	Sales tax ⁴	10%	\$19,356	December 31, 2019	\$900,000
Retail development	Sales tax ⁴	10%	\$0	December 31, 2018	\$750,000
Retail development ⁶	Ad Valorem tax ²	100%	\$52,224	June 2029 ⁶	\$3,500,000
Commercial development	Sales tax ⁴	75%	\$9,525	March 31, 2022	\$575,000
	Sales tax ⁴	50%		March 31, 2027	

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

2 Non-educational portion only

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

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

5 Abatement base must be greater than or equals \$52,044

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

NOTE 13 – NEW PRONOUNCEMENTS

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

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

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

City of Vestavia Hills, Alabama Notes to Financial Statements

NOTE 14 – PRIOR PERIOD ADJUSTMENT

The City implemented Governmental Accounting Standards Board (GASB) Statement 75, *Actuarial Valuation of Other Post-employment Benefits (OPEB)*, in the fiscal year ended September 30, 2018. The implementation of the statements required the City to record beginning net OPEB liability and the effect of net position of OPEB activity during the measurement period (fiscal year ended September 30, 2018). As result, beginning net position for the year ended September 30, 2017, decreased as follows by \$814,819.

NOTE 15 – DEVELOPMENT AGREEMENT

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

NOTE 16 – SUBSEQUENT EVENTS

In October 2018, the City sold real estate to a commercial entity in the amount of \$1,800,000.

In May 2019, the City entered into an agreement to swap parcels of land with the Vestavia Hills Board of Education. Also, the City agreed to use excess Community Space funds to cover 25% of the cost of debt service in relation to the additional costs needed by the school system, which is anticipated to be \$280,000 per year for ten years.

REQUIRED SUPPLEMENTARY INFORMATION

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

Year ended September 30, 2018

	Budget - Original and Final	General Fund Actual	Variance
Revenues			
Taxes	\$ 29,267,736	\$ 32,350,470	\$ 3,082,734
Licenses and permits	4,436,934	4,750,948	314,014
Charges for services	341,000	363,932	22,932
Fines and forfeitures	350,000	278,499	(71,501)
Fees	2,755,457	2,795,113	39,656
Grants	652,520	643,018	(9,502)
Proceeds from sale of assets	7,500	21,325	13,825
Investment revenues	136,574	216,460	79,886
Other revenues	619,235	684,129	64,894
Total revenues	38,566,956	42,103,894	3,536,938
Expenditures			
General government administration	5,679,669	6,052,912	(373,243)
Public safety	18,224,860	17,869,311	355,549
Public works	7,715,492	7,807,832	(92,340)
Library	1,855,944	1,780,591	75,353
Capital outlay	197,000	373,901	(176,901)
Total expenditures	33,672,965	33,884,547	(211,582)
Excess of revenues over expenditures	4,893,991	8,219,347	3,325,356
Other financing sources (uses)			
Operating transfers in	50,000	50,000	-
Operating transfers out	(4,943,991)	(7,084,992)	(2,141,001)
Total other financing sources (uses)	(4,893,991)	(7,034,992)	(2,141,001)
Excess of revenues and other financing sources over (under) expenditures	-	1,184,355	1,184,355
Fund balances, beginning of year	13,461,519	13,358,516	(103,003)
Fund balances, end of year	\$ 13,461,519	\$ 14,542,871	\$ 1,081,352

City of Vestavia Hills, Alabama
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget to Actual—E-911 Fund

Year ended September 30, 2018

	Budget - Original and Final	E-911 Fund Actual	Variance
Revenues			
Fees	\$ 782,250	\$ 766,364	\$ (15,886)
Investment revenues	-	2,677	2,677
Total revenues	782,250	769,041	(13,209)
Expenditures			
Public safety	765,089	729,402	35,687
Capital outlay	964,638	952,168	12,470
Total expenditures	1,729,727	1,681,570	48,157
Excess of revenues over expenditures	(947,477)	(912,529)	34,948
Other financing sources (uses)			
Other financing sources - capital lease	964,638	951,500	(13,138)
Total other financing sources (uses)	964,638	951,500	(13,138)
Excess of revenues and other financing sources over (under) expendit	17,161	38,971	21,810
Fund balances, beginning of year	355,008	355,008	-
Fund balances, end of year	\$ 372,169	\$ 393,979	\$ 21,810

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

Schedule of Changes in Net Pension Liability	2017	2016	2015
Total pension liability			
Service cost	\$ 1,486,956	\$ 1,379,763	\$ 1,319,081
Interest	5,772,185	5,371,641	4,970,899
Differences between expected and actual experience	529,080	141,280	2,132,828
Changes of assumptions	-	3,809,927	-
Benefit payments, including refunds of employee contributions	(3,846,705)	(3,436,179)	(3,390,895)
Transfers among employees	(128,346)	273,131	-
Net change in total pension liability	3,813,170	7,539,563	5,031,913
Total pension liability - beginning	76,403,160	68,863,597	63,831,684
Total pension liability - ending (a)	\$ 80,216,330	\$ 76,403,160	\$ 68,863,597
Plan Fiduciary Net Position			
Contributions - employer	\$ 2,076,923	\$ 1,852,693	\$ 1,777,403
Contributions - employee	984,086	974,431	916,651
Net investment income	6,272,112	4,585,395	532,576
Benefit payments, including refunds of employee contributions	(3,846,705)	(3,436,179)	(3,390,895)
Transfers among employers	(128,346)	273,131	235,587
Net change in plan fiduciary net position	5,358,070	4,249,471	71,322
Plan net position - beginning	49,442,336	45,192,865	45,121,543
Plan net position - ending (b)	\$ 54,800,406	\$ 49,442,336	\$ 45,192,865
Net pension liability - ending (a) - (b)	\$ 25,415,924	\$ 26,960,824	\$ 23,670,732
Plan fiduciary net position as a percentage of total pension liability	68.32%	64.71%	65.63%
Covered payroll*	\$ 16,582,596	\$ 15,839,133	\$ 15,248,055
Net pension liability as a percentage of covered employee payroll	153.27%	170.22%	155.24%

*Employer's covered payroll during the measurement period is the total covered payroll. For FY 2018 the measurement October 1, 2016-September 30, 2017.

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

	2018	2017	2016
Actuarially Determined Contribution	\$ 2,072,633	\$ 2,132,174	\$ 1,911,298
Employer Contributions to Pension Plan	2,072,633	2,132,174	1,911,298
Annual Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
Covered Payroll*	\$ 16,890,643	\$ 16,582,596	\$ 15,839,133
Employer Contributions to Pension Plan as a % of Covered Payroll	12.27%	12.86%	12.07%

*Employer's covered payroll for the year ending 2018 is the total covered payroll for the 12 month period underlying the statement.

City of Vestavia Hills, Alabama
Schedule of Changes in Net OPEB Liability and Related Ratios
For the Year Ended September 30, 2018

Total OPEB Liability	
Service cost	\$ 21,139
Interest	28,260
Differences between expected and actual experience	41,998
Changes of assumptions	(48,684)
Benefit payments	<u>(72,610)</u>
Net change in total OPEB liability	(29,897)
Total OPEB liability - beginning	<u>814,819</u>
Total OPEB liability - ending (a)	<u><u>784,922</u></u>
Covered - employee payroll	15,211,679
Net OPEB liability as a percentage of covered - employee payroll	5.16%

Notes to Schedule:

Benefit changes - There were no changes of benefit terms for the year ended September 30, 2018.

Changes of assumptions - The discount rate as of 9/30/2017 was 3.63% and it changed to 4.18% as of 9/30/2018.

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

City of Vestavia Hills, Alabama
Schedule of Employer OPEB Contributions
Year Ended September 30, 2018

Actuarially determined contribution (ADC)	\$ 66,166
Contributions in relation to the actuarially determined contribution:	
Employee contributions to trust	-
Employer paid - retiree premiums	-
Employer paid - expenses	(72,610)
<hr/>	
Contribution deficiency (excess)	\$ (6,444)
<hr/>	
Covered annual payroll	\$ 15,211,679
Contributions as a percentage of covered employee payroll	-0.48%

Notes to Schedule:

Valuation date	10/1/2017
	Actuarially determined contributions are calculated as of the last day of the fiscal year in which contributions are reported.
Actuarial cost method	Individual Entry Age Normal
Amortization method	Level dollar, open
Amortization period	30 years
Asset valuation method	Market value
Inflation	2.5% annually
Health care trend	Flat 5.5% annually
Salary increases	4.0% annually
Discount rate	3.63% annually (beginning of year to determine the actuarially determined contributions (ADC))
	4.18% annually (as of end of year measurement date)
Retirement age	Three years after the earlier of 1) 25 years of service at any age or 2) attainment of age 60 and 10 years of service with the City. Employees hired on or after January 1, 2013, are not eligible to retire until 62.
Mortality	RP-2000 without projections, 50% unisex blend
Turnover	Age specific table with an average of 10% when applied to the active census
Decline rate	27% of future eligible retirees will decline coverage because of high retiree contributions and another 43% will wait until Medicare eligibility for same reason.

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

City of Vestavia Hills, Alabama Notes to Required Supplementary Information

NOTE 1 – BUDGETS AND BUDGETARY ACCOUNTING

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

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

Budget information presented in the financial statements is based on the original budget as adopted by the City Council on September 18, 2017.

NOTE 2 – SCHEDULE OF CHANGES IN NET PENSION LIABILITY

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

NOTE 3 – SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS

Contributions were made in accordance with actuarially determined contribution requirements. The employer contribution rate expressed as a percent of payroll is determined annually by reviewing a variety of factors including benefits promised, member contributions, investment earnings, mortality, and withdrawal experience. The City's employer contribution rates were 12.72% for tier 1 employees (hired before January 1, 2013) and 10.61% for tier 2 employees (hired after January 1, 2013).

NOTE 4 – SCHEDULE OF CHANGES IN NET OPEB LIABILITY

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

City of Vestavia Hills, Alabama
Notes to Required Supplementary Information

NOTE 5 – SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS

There were no contributions to the plan outside of employer-paid retiree premiums for the year ended September 30, 2018.

SUPPLEMENTARY INFORMATION

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

Year ended September 30, 2018

	State Shared Gasoline Tax Funds		
	Four Cent	Five Cent	Seven Cent
Assets			
Cash and temporary investments	\$ 184,575	\$ 48,527	\$ 85,177
Accounts receivable, net of allowance for uncollectibles	19,313	9,389	38,765
Interfund receivables	-	-	27,644
Total assets	\$ 203,888	\$ 57,916	\$ 151,586
Liabilities			
Accounts payable	\$ -	\$ -	\$ 78,724
Interfund payable	18,583	9,061	-
Total liabilities	18,583	9,061	78,724
Fund equity			
Fund balance:			
Restricted for road maintenance	185,305	48,855	72,862
Assigned	-	-	-
Unassigned (deficit)	-	-	-
Total fund equity	185,305	48,855	72,862
Total liabilities and fund equity	\$ 203,888	\$ 57,916	\$ 151,586

Court & Corrections	Library	Capital Projects - Sidewalks	Vehicle Tags	Totals
\$ 400	\$ 306,660	\$ 302,609	\$ 273,684	\$ 1,201,632
-	-	-	-	67,467
-	-	-	-	27,644
\$ 400	\$ 306,660	\$ 302,609	\$ 273,684	\$ 1,296,743
\$ 6,425	\$ 38,099	\$ -	\$ 140,800	\$ 264,048
-	-	-	101,524	129,168
6,425	38,099	-	242,324	393,216
-	-	-	-	307,022
-	268,561	302,609	31,360	602,530
(6,025)	-	-	-	(6,025)
(6,025)	268,561	302,609	31,360	903,527
\$ 400	\$ 306,660	\$ 302,609	\$ 273,684	\$ 1,296,743

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

Year ended September 30, 2018

	State Shared Gasoline Tax Funds		
	Four Cent	Five Cent	Seven Cent
Revenues			
Taxes	\$ 2,222	\$ -	\$ 703,672
License and permits	-	-	21,657
Intergovernmental	214,364	105,472	346,679
Charges for services	-	-	-
Fines and forfeitures	-	-	-
Grants	-	-	-
Interest revenues	-	-	-
Library revenues	-	-	-
Total revenues	216,586	105,472	1,072,008
Expenditures			
General government administration	-	-	-
Public safety	-	-	-
Public works	32,156	57,065	1,038,119
Library	-	-	-
Capital outlay	-	-	6,200
Total expenditures	32,156	57,065	1,044,319
Excess of revenues over (under) expenditures	184,430	48,407	27,689
Other financing sources (uses)			
Operating transfers in	-	-	-
Total other financing sources (uses)	-	-	-
Excess of revenues and other sources over expenditures and other uses	184,430	48,407	27,689
Fund balance, beginning of year	875	448	45,173
Fund balance, end of year	\$ 185,305	\$ 48,855	\$ 72,862

Court & Corrections	Library	Capital Projects - Sidewalks	Vehicle Tags	Totals
\$ -	\$ -	\$ -	\$ -	\$ 705,894
-	-	-	136,617	158,274
-	-	-	-	666,515
1,850	-	-	-	1,850
393,292	-	-	-	393,292
-	21,982	182,819	-	204,801
87	2,101	1,202	1,614	5,004
-	194,861	-	-	194,861
395,229	218,944	184,021	138,231	2,330,491
436,859	-	-	139,785	576,644
102,240	-	-	-	102,240
-	-	-	-	1,127,340
-	103,837	-	-	103,837
-	137,484	3,019	-	146,703
539,099	241,321	3,019	139,785	2,056,764
(143,870)	(22,377)	181,002	(1,554)	273,727
137,845	-	-	-	137,845
137,845	-	-	-	137,845
(6,025)	(22,377)	181,002	(1,554)	411,572
-	290,938	121,607	32,914	491,955
\$ (6,025)	\$ 268,561	\$ 302,609	\$ 31,360	\$ 903,527