



City of Vestavia Hills, Alabama

FINANCIAL STATEMENTS

September 30, 2022



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REPORT





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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Vestavia Hills, Alabama (the City), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4.1-4.14 and page 51 as well as the pension and OPEB schedules on pages 52-55 and notes to required supplementary information on pages 56-57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by

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.

Supplementary 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 other governmental fund financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 other governmental fund financial statements and the schedule of expenditures of federal awards 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 March 27, 2023, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

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

CARR, RIGGS & INGRAM, LLC

Birmingham, Alabama
March 27, 2023



MANAGEMENT'S DISCUSSION & ANALYSIS (MDA)



CITY OF VESTAVIA HILLS, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2022

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, 2022. 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, 2022, \$111.11 million (Total Net Position).
- ❖ The City's net position increased 13.31% (\$13.01 million) in 2022.
- ❖ The total cost of the City's programs for the 2022 fiscal year was \$57.06 million. The net cost was \$41.81 million after subtracting grants and contributions and charges for services.
- ❖ At September 30, 2022, the general fund unassigned fund balance, excluding the City's committed funds (Emergency Reserves) for economic stabilization of \$15.42 million and Liberty Park road maintenance of \$2.67 million, was \$6.73 million or 15.84% of total general fund operating expenses before debt service.
- ❖ Major capital expenditures totaled \$18.92 million including \$12.22 million projects in progress.
- ❖ The City decreased its outstanding General Obligation Warrants by \$4.60 million, exclusive of \$1.70 million held in the QECB Debt Sinking Fund.

Using the Annual Financial Report - An Overview for the User

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

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

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

Government-wide statements report both long-term and short-term information about the City's overall financial status including the capitalization of capital assets and depreciation of all exhaustible capital assets and the outstanding balances of long-term debt and other obligations. These statements report all assets and liabilities perpetuated by these activities using the accrual basis of accounting. The accrual basis takes into account all of the City's current year's revenues and expenses regardless of when cash is received or paid. This approach moves the financial reporting method for governmental entities closer to the financial reporting methods used in the private sector.

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

The *Statement of Net Position* (on page 5) is most closely related to a balance sheet. It presents information on all of the City's assets (what it owns) and liabilities (what it owes), with the difference between the two reported as net position. The net position reported in this statement represents the accumulation of changes in net position for the current fiscal year and all fiscal years in the past combined. Over time, the increase or decrease in net position reported in this statement may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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

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

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

Fiduciary Funds - *Fiduciary fund financial statements* begin on page 11. These statements are used to report assets held in a trustee or custodial capacity for others that cannot be used to support the government's own programs. Related collections and payments are also reported in fiduciary funds.

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 14 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 51 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>2022</u>	<u>2021</u>
Assets:		
Current and other assets	\$ 53,090	\$ 46,336
Capital assets	209,108	195,058
Total Assets	<u>262,198</u>	<u>241,394</u>
Deferred outflows	11,755	11,055
Liabilities:		
Other liabilities	23,445	16,632
Long-term liabilities	130,205	137,424
Total Liabilities	<u>153,650</u>	<u>154,056</u>
Deferred inflows	9,190	334
Net position:		
Net invested in capital assets	100,126	91,288
Restricted	2,805	5,404
Unrestricted (deficit)	8,182	1,367
Total Net Position	<u>\$ 111,113</u>	<u>\$ 98,059</u>

The City's assets and deferred outflows exceeded liabilities and deferred inflows by \$111.11 million at September 30, 2022.

Net investment in capital assets of \$100.13 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 \$2.81 million represents net position restricted for debt service, \$2.40 million, and road maintenance, \$0.40 million.

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, 2022 and 2021.

Table 2: Summary of Changes in Net Position

	Fiscal Year Ended September 30, (dollars in thousands)	
	2022	2021
Program Revenues:		
Charges for services	\$ 8,775	\$ 7,971
Operating grants/contributions	6,107	774
Capital grants/contributions	366	507
General Revenues:		
Taxes	50,434	45,065
State shared revenue	929	875
Utility franchise fees	2,789	2,694
Investment earnings	167	330
Loss on investments	(352)	-
Miscellaneous	179	150
Sale of assets	89	1
Donated infrastructure assets	628	3,960
Total Revenues	70,111	62,327
Program Expenses:		
General government	9,279	9,957
Public safety	25,234	23,613
Public works/Public services	15,406	12,419
Library	3,341	3,267
Appropriations to BOE	280	280
Interest on long term debt	3,517	3,392
Total Expenses	57,057	52,928
Change in net position	13,054	9,399
Net Position, beginning of year	98,059	88,660
Net Position, ending	\$ 111,113	\$ 98,059

The City's revenues, excluding donated infrastructure assets, which do not provide spendable funds, increased \$11.11 million or 19.05%. The increase resulted principally from taxes, \$5.42 million or 11.80%, and Operating grants/contributions, \$5.33 million or 689.02%.

The City's program expenses increased \$4.13 million or 7.80%. The increase resulted principally from public safety, \$1.62 million or 6.86% and public services, \$2.99 million or 24.05%.

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, 2022 (dollars in thousands)	
	Total Cost of Services	Net Cost (Benefit) of Services
General government administration	\$ 9,279	\$ (810)
Public safety	25,234	24,116
Public works/Public services	15,406	11,511
Library	3,341	3,195
Appropriations to BOE	280	280
Interest on long term debt	3,517	3,517
Total	<u>\$ 57,057</u>	<u>\$ 41,809</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 \$34.39 million, which includes general fund balances of \$15.42 million committed funds to be used for economic stabilization in the event of an unforeseen emergency, \$2.67 million committed funds to be used for Liberty Park road maintenance, and \$6.73 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 year 2022 budget was adopted August 9, 2021. 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 51. 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 \$8.19 million or 15.75%. Ad valorem real estate and sales taxes were the largest revenue generators, representing \$45.29 million or 75.27% of total budgeted revenues.
- ❖ Actual expenditures exceeded budget by \$0.78 million or 1.88%. The overage resulted principally due to general government administration exceeding budget by \$0.46 million or 5.95%, public safety exceeding budget by \$0.25 million or 1.11%, and public service exceeding budget by \$0.19 million or 2.05%.

Capital Assets and Debt Administration

Capital Assets - The City's investment in capital assets for governmental activities for fiscal year ended September 30, 2022 was \$100.13 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 purchased through financing arrangements, 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)	
	2022	2021
Land	\$ 90,033	\$ 87,480
Construction-in-progress	49,033	48,196
Buildings	23,728	23,050
Land improvements	5,522	4,921
Vehicles	6,490	5,727
Recreational facilities	6,603	7,222
Equipment and fixtures	3,846	3,655
Books and artwork	180	333
Infrastructure	23,673	14,474
Total	<u>\$ 209,108</u>	<u>\$ 195,058</u>

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

Land	\$	1,078
Construction-in-progress		12,217
Buildings		647
Land improvements		1,193
Vehicles		2,261
Equipment and fixtures		801
Infrastructure		1,350
Total	<u>\$</u>	<u>19,547</u>

Long-Term Debt - At year-end, the City had \$102.20 million in general obligation warrants and financing arrangements. This represents a decrease of 1.27% in debt over last fiscal year, as shown in *Table 5* below.

Table 5: Outstanding Debt

As of September 30, 2022

(dollars in thousands)

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>
Government activities:			
Warrant payable	\$ 98,765	\$ (4,595)	\$ 94,170
Financing arrangements	4,751	3,278	8,029
Totals	<u>\$ 103,516</u>	<u>\$ (1,317)</u>	<u>\$ 102,199</u>

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

- ❖ The City reduced its general obligation warrants by \$4.60 million. The ending balance includes \$1.70 million, including interest, held in the debt sinking fund for the “Qualified Energy Conservation Bonds” (QECB) payment.
- ❖ There was a net increase of \$3.28 million in financing arrangements resulting from the City obtaining additional financing for capital projects and equipment offset by normal principal payments of outstanding financing arrangements.
- ❖ A favorable bond rating facilitates the City’s ability to meet financial obligations. Moody’s Investors Service assigned the City of Vestavia Hills ratings of “AAA stable” on its “Series 2021 Warrants.”

Economic Factors and Next Year's Budget

Ad Valorem Tax – The City's ad valorem tax is based on annual reassessment of real estate and was the city's second largest revenue generator in fiscal year 2022. Over the previous five years, ad valorem taxes have exceeded budget resulting from the annual appreciation of real estate.

Ad Valorem Taxes - Real Estate

<u>Fiscal Year</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
2018	\$ 13,728,188	\$ 14,215,087	\$ 367,287
2019	14,175,565	14,611,667	486,899
2020	14,668,306	15,786,903	436,102
2021	15,740,785	16,605,261	1,118,597
2022	16,785,573	17,139,276	353,703

Personnel Administration Costs – The City's personnel administration is provided by the Personnel Board of Jefferson County (PBJC). Participating municipalities pay an annual fee based on the number of classified employees employed by the municipality times a percentage of the PBJC's operating budget. The City of Vestavia Hills actual expense for fiscal year 2022 was \$326,252.

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 year 2022, Vestavia Hills retained its preferred insurance classification rating resulting from minimal medical claims and 80% or greater employee participation in the State of Alabama's "Wellness Screening Program". There was a budgeted increase of 5.0%, anticipating an increase by the Alabama Local Government Health Insurance Board in calendar year 2022, which resulted in a budgeted contribution of \$2.45 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 73.72%, reflecting an unfunded liability of \$27.84 million as of the latest measurement date – September 30, 2021. Vestavia Hills' contribution factors for fiscal year 2022 were 14.91% - Tier 1 and 13.21% - Tier 2, representing budgeted contributions of \$2.96 million.

Cost-of-Living Raise – No cost of living adjustment was included in the 2022 fiscal year budget.

CITY MANAGER’S COMMENTS:

Fiscal Year 2022 Management Report

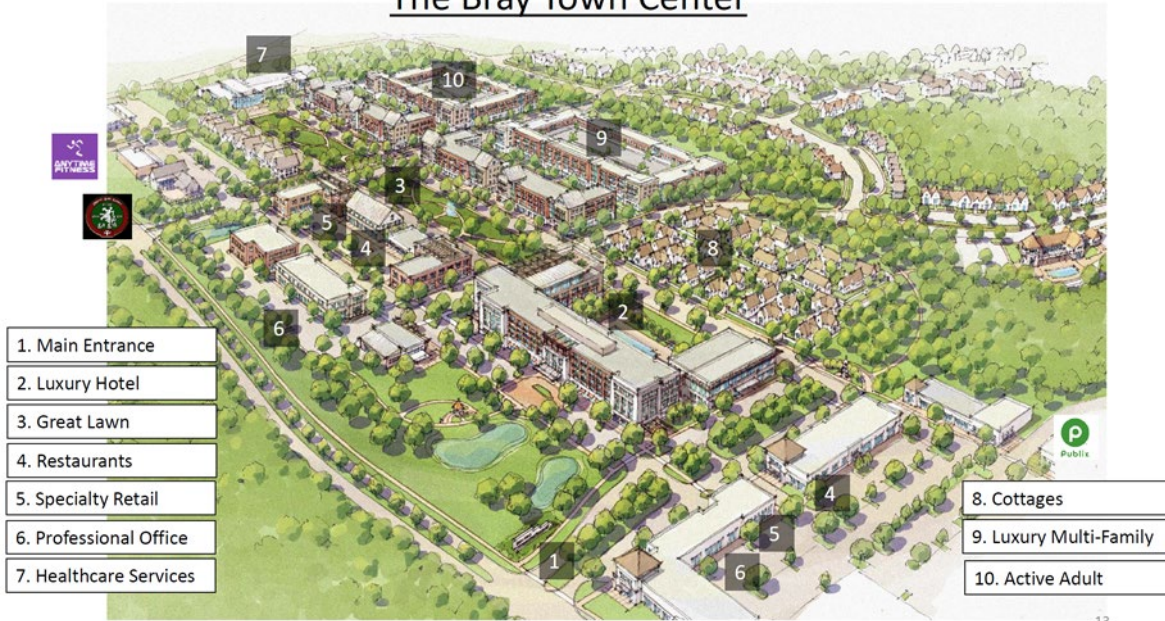
Review of the financial and economic activities with the City of Vestavia Hills during FY 2022 reveal a robust economic climate for our community that is in high demand for residential and commercial audiences. Quality and conveniently located housing with access to an excellent school system continues to provide a strong demand for available existing and soon to be constructed residences. In fact, the 2022 Zillow Home Value Index for single family homes in Vestavia Hills indicate a 10% year-over-year growth in home values. This is on top of Vestavia Hills’ home values that Zillow report to be 48% higher than the United States average for single family homes. From a commercial standpoint, Vestavia Hills saw a reduction in the valuation of commercial new construction in the fiscal year. This is a result of a lack of ready-to-build sites. However, during the fiscal year, the City was able to successfully negotiate a public-private partnership with the Liberty Park Joint Venture (LPJV) for a new development called The Bray. The deal will launch the development of the last 700 acres of undeveloped acreage within the city limits. The real estate ownership is actively preparing the site that will bring over \$850 million in new investment into Vestavia Hills over the course of the next 10-15 years. The first noteworthy project will be the construction of the new corporate headquarters of Medical Properties Trust. Construction on this catalyst project began in the fall of 2022. These impressive real estate metrics buoy the City’s continued growth in ad valorem taxes - an important portion of the City’s mix of tax revenue.

The Bray - Project Benefits to the City of Vestavia Hills and Jefferson County:

Given the scope and capital investment described in the project description (\$850 million), a conservative fiscal impact study was produced through mutual efforts of the LPJV and City of Vestavia Hills. The results of which are included below. These fiscal impacts are direct tax and fee benefits derived from the project as described. They do not include indirect benefits.

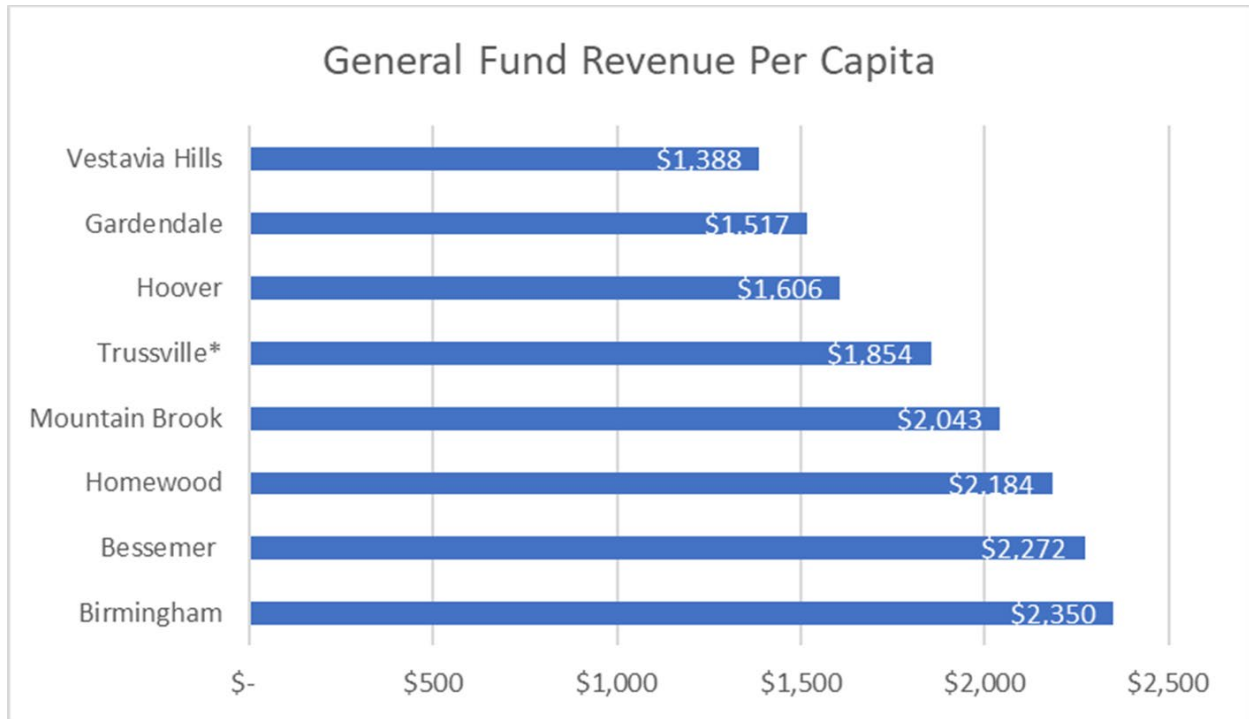
City of Vestavia Hills (including its school system)	\$230,226,724	77%
Jefferson County (includes general and educational revenues)	\$ 69,887,599	23%
Total Local Fiscal Impact	\$300,114,323	

The Bray Town Center



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Additionally, the City of Vestavia Hills continues to experience extraordinary growth in its other large tax revenue - sales tax. Sales tax gives a great indication of the gross economic activity occurring within the City. Locally collected and on-line sales taxes remain at all time high levels. During FY 2022, the retail sector in Vestavia Hills welcomed a new tenant mix to its various shopping districts. These new retail offerings are driving shopping behavior due to the unique nature of the retail offerings. New retailers include Shoe Station, Waldo's Chicken and Beer, Davenport's Pizza, Biscuit Love, and Cajun Steamer. Under construction are notable restaurants such as The Standard and Starbuck's Coffee. During FY 2020, the City strategically facilitated the private sector construction of two additional Publix branded grocery stores that opened in the midst of the pandemic. The addition of those two locations and, with them being operational for two years, led to a dramatic increase in sales taxes associated with grocery purchases. The large revenue growth in the City was also accompanied with very conservative budgeting and expense management. Vestavia Hills continues to prosper even though per capita revenues are well below neighboring communities.



The resulting financial implication for the City’s General Fund was a record surplus to end FY 2022. This surplus further reinforced existing financial reserves. The results and historical context are illustrated in the table below.

**General Fund Surplus and Fund Balance
City of Vestavia Hills
Actual Results**

Fiscal Year	FY Surplus (Deficit)	EOY Fund Balance	% Change
2022	\$ 3,725,513	\$ 24,890,505	17.60%
2021	2,444,345	21,164,992	13.06%
2020	2,717,800	18,720,647	16.98%
2019	1,459,976	16,002,847	10.04%
2018	1,184,355	14,542,871	8.87%
2017	(103,003)	13,358,516	-0.77%

The facts expressed in this report continue to illustrate an economically strong and viable city with foundational elements that support long term success in sustaining strong City services and providing a quality of living that is very appealing for current and future residents and businesses. The more comprehensive results provided in this audited financial report reinforces these statements.

Conclusion

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

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.



FINANCIAL STATEMENTS



City of Vestavia Hills, Alabama
Statement of Net Position

<i>September 30, 2022</i>	Governmental Activities
Assets	
Cash	\$ 15,449,028
Cash - restricted	2,869,196
Investments	25,260,237
Investment - restricted	1,701,396
Receivables, net of allowance for uncollectibles	4,749,075
Leases receivable	2,991,966
Prepaid expenses	69,438
Land	90,032,747
Construction in progress	49,032,493
Capital assets, net of accumulated depreciation and amortization	70,042,635
Total assets	262,198,211
Deferred Outflows of Resources	
Deferred charges - debt refunding	1,481,599
Employer pension contributions subsequent to measurement date	2,927,638
Differences between expected and actual experience of pension plan	2,025,199
Changes of assumptions - pension	4,342,698
Differences between expected and actual experience of OPEB plan	491,580
Changes of assumptions - OPEB	485,954
Total deferred outflows of resources	11,754,668
Liabilities	
Accounts payable	4,990,034
Retainage payable	604,898
Accrued payroll	23,472
Court and performance bonds payable	1,339,030
Accrued interest payable	298,209
Other liability - claim on cash	3,967,010
Unearned revenues - grants	4,430,905
Unearned revenues - other	46,140
Noncurrent liabilities	
Due within one year	
Compensated absences	462,866
Warrant obligations, net	5,345,000
Direct - vehicle and equipment financing arrangements	1,936,926
Due in more than one year	
Compensated absences	2,622,908
Warrant obligations, net	91,955,229
Direct - vehicle and equipment financing arrangements	6,091,578
Net pension liability	27,835,497
OPEB liability	1,699,986
Total liabilities	153,649,688
Deferred Inflows of Resources	
Leases	2,950,888
Differences between expected and actual experience of pension plan	236,581
Net difference between projected and actual earnings on pension plan investments	5,635,363
Changes of assumptions - OPEB liability	367,155
Total deferred inflows of resources	9,189,987
Net Position	
Net investment in capital assets	100,125,503
Restricted for debt service	2,401,375
Restricted for capital projects	50
Restricted for gas tax funds	404,625
Unrestricted	8,181,651
Total net position	\$ 111,113,204

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

City of Vestavia Hills, Alabama
Statement of Activities

For the year ended September 30, 2022

Program Activities	Expenses	Program Revenues			Net (Expense)
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets Primary Government Total
Primary government					
Governmental activities					
General government administration	\$ 9,278,881	\$ 5,273,479	\$ 4,457,117	\$ 358,437	\$ 810,152
Public safety	25,234,198	948,331	170,008	-	(24,115,859)
Public services	15,405,748	2,453,547	1,432,623	8,000	(11,511,578)
Library	3,341,567	99,466	46,958	-	(3,195,143)
Appropriations to BOE	280,000	-	-	-	(280,000)
Interest on long-term debt	3,516,612	-	-	-	(3,516,612)
Total primary government	\$ 57,057,006	\$ 8,774,823	\$ 6,106,706	\$ 366,437	(41,809,040)
		General revenues			
		Taxes			
				Advalorem (real and personal property)	19,201,249
				Sales and use	29,392,779
				Other taxes	1,840,240
				State shared revenues	929,469
				Utility franchise fees	2,789,359
				Investment earnings	167,049
				Donated infrastructure assets	627,692
				Miscellaneous	179,015
				Gain on sale of assets	88,489
				Loss on sale of investments	(351,688)
					<u>54,863,653</u>
				Change in net position	13,054,613
				Net position at beginning of year	<u>98,058,591</u>
				Net position at end of year	<u><u>\$ 111,113,204</u></u>

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

City of Vestavia Hills, Alabama Balance Sheet—Governmental Funds

September 30, 2022

	General	Capital Projects	Capital Projects- Community Spaces	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets						
Cash	\$ 1,062,107	\$ 5,635,696	\$ 6,693,654	\$ 656,485	\$ 1,401,086	\$ 15,449,028
Cash - restricted	1,356,266	1,512,880	50	-	-	2,869,196
Investments	25,260,237	-	-	-	-	25,260,237
Investments - restricted	-	-	-	1,701,396	-	1,701,396
Accounts receivable, net of allowance for uncollectibles	3,321,038	350,000	40,309	44,244	993,484	4,749,075
Leases receivable	2,991,966	-	-	-	-	2,991,966
Prepaid expenses	69,438	-	-	-	-	69,438
Interfund receivables	171,151	-	-	-	-	171,151
Total assets	\$ 34,232,203	\$ 7,498,576	\$ 6,734,013	\$ 2,402,125	\$ 2,394,570	\$ 53,261,487
Liabilities						
Accounts payable	\$ 1,470,368	\$ 1,775,318	\$ 1,085,776	\$ 750	\$ 657,822	\$ 4,990,034
Retainage payable	-	-	473,890	-	131,008	604,898
Accrued payroll	23,472	-	-	-	-	23,472
Court and performance bonds payable	1,339,030	-	-	-	-	1,339,030
Other liability - claim on cash	3,511,800	-	-	-	455,210	3,967,010
Interfund payables	-	-	-	-	171,151	171,151
Unearned revenues - grants	-	4,430,905	-	-	-	4,430,905
Unearned revenues - other	46,140	-	-	-	-	46,140
Total liabilities	6,390,810	6,206,223	1,559,666	750	1,415,191	15,572,640
Deferred Inflows of Resources						
Leases	2,950,888	-	-	-	-	2,950,888
Unavailable revenues - capital improvement fund	-	350,000	-	-	-	350,000
Total deferred inflows of resources	2,950,888	350,000	-	-	-	3,300,888
Fund Balance						
Nonspendable	69,438	-	-	-	-	69,438
Restricted for:						
Road maintenance	-	-	-	-	404,625	404,625
Capital projects	-	-	50	-	-	50
Debt service	-	-	-	2,401,375	-	2,401,375
Committed to:						
Capital projects	-	942,353	5,174,297	-	-	6,116,650
Emergency reserve	15,422,957	-	-	-	-	15,422,957
Liberty Park - road maintenance	2,671,515	-	-	-	-	2,671,515
Assigned	-	-	-	-	574,754	574,754
Unassigned (deficit)	6,726,595	-	-	-	-	6,726,595
Total fund balance	24,890,505	942,353	5,174,347	2,401,375	979,379	34,387,959
Total liabilities, deferred inflows of resources, and fund balance	\$ 34,232,203	\$ 7,498,576	\$ 6,734,013	\$ 2,402,125	\$ 2,394,570	\$ 53,261,487

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

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

September 30, 2022

Fund balance - total governmental funds \$ 34,387,959

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	\$ 278,943,854	
Accumulated depreciation	<u>(69,835,979)</u>	209,107,875

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. 11,754,668

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. (6,239,099)

Deferred inflows of resources related to unavailable revenues 350,000

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	(97,300,229)	
Net pension liability	(27,835,497)	
OPEB liability	(1,699,986)	
Compensated absences	(3,085,774)	
Accrued interest payable	(298,209)	
Direct - vehicle and equipment financing agreements	<u>(8,028,504)</u>	<u>(138,248,199)</u>

Net position of governmental activities \$ 111,113,204

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

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

<i>For the year ended September 30, 2022</i>	General	Capital Projects	Capital Projects - Community Spaces	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes	\$ 48,763,680	\$ -	\$ -	\$ -	\$ 1,670,588	\$ 50,434,268
Licenses and permits	5,412,768	-	-	-	278,803	5,691,571
Intergovernmental	-	-	-	-	929,469	929,469
Charges for services	953,969	-	-	-	-	953,969
Fines and forfeitures	435,839	-	-	-	569,558	1,005,397
Fees	2,844,089	-	-	-	-	2,844,089
Grants	920,066	5,009,923	1,296,705	-	45,188	7,271,882
Proceeds from sale of assets	92,508	-	-	-	-	92,508
Interest revenues	93,264	29,269	7,331	37,103	82	167,049
Library revenues	-	-	-	-	101,086	101,086
Other revenues	651,698	47,094	-	119,404	-	818,196
Total revenues	60,167,881	5,086,286	1,304,036	156,507	3,594,774	70,309,484
Expenditures						
Current (operating)						
General government administration	8,144,432	113,625	25	99,325	772,477	9,129,884
Public safety	22,461,187	128,067	-	-	838,254	23,427,508
Public services	9,249,176	1,381,220	34,281	-	2,385,268	13,049,945
Library	2,565,400	12,556	-	-	64,320	2,642,276
Debt service	-	1,578,139	350,233	7,596,870	147,640	9,672,882
Capital outlay	39,776	8,278,729	10,562,276	-	38,105	18,918,886
Total expenditures	42,459,971	11,492,336	10,946,815	7,696,195	4,246,064	76,841,381
Excess of revenues over (under) expenditures	17,707,910	(6,406,050)	(9,642,779)	(7,539,688)	(651,290)	(6,531,897)
Other Financing Sources (Uses)						
Operating transfers in	68,033	2,442,023	7,184,837	7,702,911	100,346	17,498,150
Operating transfers out	(14,050,430)	(50,000)	(3,165,425)	(214,262)	(18,033)	(17,498,150)
Appropriations to BOE	-	-	(280,000)	-	-	(280,000)
Other financing sources - proceeds of warrants	-	-	-	5,265,000	-	5,265,000
Other financing sources - bond premium	-	-	-	573,130	-	573,130
Other financing sources - proceeds of vehicle and equipment financing agreements (direct)	-	3,315,588	1,900,000	-	-	5,215,588
Other financing uses - payment to bond escrow agent	-	-	-	(5,533,141)	-	(5,533,141)
Total other financing sources (uses)	(13,982,397)	5,707,611	5,639,412	7,793,638	82,313	5,240,577
Excess of revenues and other financing sources over (under) expenditures and other financing uses	3,725,513	(698,439)	(4,003,367)	253,950	(568,977)	(1,291,320)
Fund balance at beginning of year	21,164,992	1,640,792	9,177,714	2,147,425	1,548,356	35,679,279
Fund balance at end of year	\$ 24,890,505	\$ 942,353	\$ 5,174,347	\$ 2,401,375	\$ 979,379	\$ 34,387,959

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

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

For the year ended September 30, 2022

Net change in fund balances - total governmental funds	\$	(1,291,320)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
Expenditures for capital assets	\$ 18,918,886	
Less current year depreciation	<u>(5,492,521)</u>	13,426,365
<p>Some revenues reported in the government-wide statement of activities do not provide current financial resources and, therefore, are not reported as revenues in the governmental funds.</p>		
The effect of donated infrastructure		627,692
<p>Repayment of long-term debt principal (including direct - vehicle and equipment financing agreements) are expenditures in the governmental funds, but reduce long-term liabilities in the statement of net position.</p>		
		6,327,829
<p>Payments to refunding escrow agent are recorded as expenditures or other financing uses in governmental funds, but reduces long-term liabilities in the statement of net position and does not affect the statement of activities.</p>		
		5,470,000
<p>Proceeds from the issuance of long-term debt and direct - vehicle and equipment financing arrangements are reported as financing sources in the governmental funds and, thus, contribute to the change in fund balance. Lease liabilities increase liabilities in the statement of net position, but does not affect the statement of activities.</p>		
		(10,480,588)
<p>Bond premium on debt issuance are recorded as financing sources in the governmental funds, but are deferred and amortized in the Statement of Activities.</p>		
		(573,130)
<p>The net effect of transactions involving the disposal of capital assets is to decrease net position.</p>		
		(4,019)
<p>Some expenses reported in the government-wide statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Difference in pension expense related to deferred outflows and inflows of resources and net pension liability	\$ (104,761)	
Difference in OPEB expense related to deferred outflows and inflows of resources and net OPEB liability	(64,183)	
Change in compensated absences	(170,854)	
Change in accrued interest payable	1,438	
Amortization of bond premiums/discounts, net	382,380	
Amortization of loss on refunding	<u>(492,236)</u>	(448,216)
Change in net position of governmental activities	\$	13,054,613

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

City of Vestavia Hills, Alabama
Statement of Fiduciary Net Position—Fiduciary Funds

<i>September 30, 2022</i>	Custodial Funds		
	Board of		
	Education Tax Fund	Vehicle Tag Tax Fund	Total
Assets			
Cash and cash equivalents	\$ 619,653	\$ 199,268	\$ 818,921
Total assets	\$ 619,653	\$ 199,268	\$ 818,921
Liabilities			
Due to other governments	\$ 619,653	\$ 199,268	\$ 818,921
Total liabilities	619,653	199,268	818,921
Net Position			
Restricted	-	-	-
Total net position	-	-	-
Total liabilities and net position	\$ 619,653	\$ 199,268	\$ 818,921

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

City of Vestavia Hills, Alabama
Statement of Changes in Fiduciary Net Position—Fiduciary Funds

	Custodial Funds		
	Board of Education Tax Fund	Vehicle Tag Tax Fund	Total
<i>For the year ended September 30, 2022</i>			
Additions			
Advalorem taxes for other governments	\$ 25,592,206	\$ 3,032,938	\$ 28,625,144
Total additions	25,592,206	3,032,938	28,625,144
Deductions			
Advalorem taxes to other governments	25,592,206	3,032,938	28,625,144
Total deductions	25,592,206	3,032,938	28,625,144
Net increase (deficiency) in fiduciary net position	-	-	-
Net position at beginning of year	-	-	-
Net position at end of year	\$ -	\$ -	\$ -

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

City of Vestavia Hills, Alabama
Notes to Financial Statements–Index

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Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Vestavia Hills, Alabama (the City) was incorporated on November 8, 1950. The City operates under a Council-Manager form of government organized to comply with the provisions of Title 11, Chapter 43, Sections 20-22 of the Code of Alabama 1975, as amended. The City Council is composed of five officials (four Councilors and the Mayor who serves as President of the Council) elected at-large for concurrent five-year terms. The City Manager is appointed by the City Council. The terms of the current administration are scheduled to expire October 31, 2025.

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

Related Organization

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

The City currently receives real property advalorem taxes from the Jefferson and Shelby County Tax Collectors 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 Board. The City also remits personal advalorem property taxes to the Board. During the year ended September 30, 2022, the total advalorem taxes remitted to the Board amounted to approximately \$25,592,206 and \$619,653 was due the Board of Education at September 30, 2022. Because of the custodial nature of these transactions that pass through the City from Jefferson and Shelby Counties to the Board, the City accounts for this activity in a fiduciary fund in accordance with GASB Statement No. 84.

The City also appropriates a portion of sales taxes collected within the City to the Board. During the year ended September 30, 2022, the total sales taxes appropriated to the Board were \$480,230 and \$42,563 was due to the Board as of September 30, 2022.

During the year ended September 30, 2019, the City and the Board entered into a funding agreement whereby the City has agreed to use excess Community Spaces funds to cover 25% of the cost of debt service in relation to the Board's debt for various capital improvements. Annual support will be \$280,000 per year for ten years. At September 30, 2022, the City was four years into the ten-year agreement.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide Financial Statements

The statement of net position and statement of activities display information about the reporting government as a whole. They include funds of the reporting entity except for fiduciary funds and component units that are fiduciary in nature (at year-end, the City had no component units).

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

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

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 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:

- *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.
- *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

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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

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.

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

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.

Fiduciary Funds – Fiduciary Funds are used to report assets held in a trustee or custodial capacity for others that cannot be used to support the government's own programs. Related collections and payments are also reported in fiduciary funds.

The City has two Fiduciary Funds:

- The City sells vehicle tags on behalf of Jefferson County, Alabama. The personal property advalorem taxes collected by the City related to the vehicle tag sales are remitted to other governments. The City accounts for the temporary custodianship of the personal property advalorem tax funds in a fiduciary fund.
- Through various state and local statutes, the Vestavia Hills Board of Education (BOE) is entitled to a share of the real and personal property advalorem taxes collected by Jefferson and Shelby Counties, Alabama. Because of the tax payment/remittance mechanisms used by the Counties, these property taxes are remitted to the City and subsequently disbursed to the BOE from the City. The City collection and disbursement method related to these advalorem taxes causes the City to hold assets of the BOE and remit collections to the BOE. This activity is reflected in a custodial fiduciary fund activity of the City.

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

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

Measurement Focus and Basis of Accounting

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

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. Proprietary funds use "economic resources" measurement focus, of which the City has none.

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 generally within sixty days after year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation warrant and capital lease principal and interest which are reported when due.

Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables

In the government-wide financial 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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables (Continued)

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 sixty days since they would be considered both measurable and available.

Equity Classifications

Government-wide Financial Statements

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

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 liabilities that are attributable to the acquisition, construction, or improvement of those assets.

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.

Unrestricted – All other net position that do not meet the definition of "restricted" or "net investment in capital assets".

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.

Fund Financial 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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Classifications (Continued)

Fund Financial Statements (Continued)

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 the Finance Director have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

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

The City 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 \$15,422,957 of General Fund balance for economic stabilization in case of an emergency. An emergency that would warrant use of their committed fund balance is defined as an unforeseen non-routine event that generally represents an economic impact to the City greater than 5% of the previous 5-year average of sales tax collections by the City and this event cost can’t be absorbed by reducing the current year budgeted expenses, increasing current year budgeted revenue, or the event occurred too late in the year to overcome the impact by adjusting the budget in the normal course of the City’s business.

The Liberty Park Home Owner’s Association donated funds to the City, which were originally set aside for repairs and maintenance of the roads in Liberty Park. The acceptance of those roads, by the City, stated that these funds would be committed for those purposes. The City Council has currently committed \$2,671,515 of General Fund balance for this purpose.

The City has assigned \$574,754 of the Other Governmental Funds balance for use as follows: \$154,874 for E-911, \$337,197 for the Library, and \$82,683 for Capital Projects – Sidewalks.

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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Information

Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Capital Projects Funds, and Special Revenue Funds. The Capital Projects Funds are appropriated on a project-length basis. Certain Special Revenue Funds do not have appropriated budgets since other means control the use of these resources (e.g., grant awards and endowment requirements) and sometimes span a period of more than one fiscal year.

The appropriated budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

Long-term Debt

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

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

Expenditures/Expenses

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

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

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

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 acquisition value at the date of donation. Historical cost was used to value the majority of the assets.

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

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

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

Investments

Investments for the City are reported at cost plus accrued interest or fair market value as appropriate.

Restricted Assets

Certain assets of the City are classified as restricted assets on the statement of net position because their use is limited by law through constitutional provisions or enabling legislation; or by restrictions imposed externally by creditors, grantors, contributors or laws or regulations of other governments. Special restricted asset accounts have been established to account for the sources and uses of these limited use assets as follows:

Customer and Developer Deposit Accounts – Deposited in non-interest bearing accounts and refunded upon termination of service with the City and satisfaction of all obligations due.

Bond and Capital Lease Debt Service Accounts – Includes certain proceeds from issuance of revenue bonds, as well as certain resources set aside for the repayment of bonds or capital lease obligations.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets (Continued)

Law Enforcement Fines and Confiscated Property Account – Funds generated from fines and confiscated property applied towards further education and enhancement of the police department pursuant to state statutes.

Compensated Absences

The City's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation from government service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable. Accumulated sick leave lapses when employees leave the employ of the City and, accordingly upon separation from service, no monetary obligation exists.

Pension

The Employees' Retirement System of Alabama (the Plan or ERS) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the plan requirements. Benefits and refunds are recognized when 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 the requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Annual Comprehensive Financial Report.

Other Postemployment Benefits (OPEB)

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

Interfund Transactions

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

City of Vestavia Hills, Alabama
Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Transactions (Continued)

Details of current interfund receivables and payables are as follows:

Payable from	Payable to	Amount
Other Governmental Funds	General Fund	\$171,151

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.

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, 2022 consisted of the following:

Transfer to	Transfer From					Total
	General Fund	Capital Projects Fund	Capital Projects-Community Spaces Fund	Debt Service Fund	Other Governmental Funds	
Other Governmental Funds	\$ 100,346	\$ -	\$ -	\$ -	\$ -	\$ 100,346
Capital Projects Fund	2,442,023	-	-	-	-	2,442,023
Capital Projects - Community Spaces Fund	6,970,575	-	-	214,262	-	7,184,837
Debt Service Fund	4,537,486	-	3,165,425	-	-	7,702,911
General Fund	-	50,000	-	-	18,033	68,033
Total	\$ 14,050,430	\$ 50,000	\$ 3,165,425	\$ 214,262	\$ 18,033	\$17,498,150

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

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

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Transactions (Continued)

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

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

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

Property Taxes

All advalorem real property taxes levied by municipalities in Jefferson County, Alabama and Shelby County, Alabama are assessed by the Jefferson and Shelby County Tax Assessors and collected by the Jefferson and Shelby County Tax Collectors. The Jefferson and Shelby County Tax Assessors attach 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 and Shelby County Tax Collectors and are due throughout the year. After collecting property taxes, the Jefferson and Shelby County Tax Collectors remit the City's portion by check on a monthly basis. Taxes collected by the Jefferson and Shelby County Tax Collectors prior to fiscal year-end, but remitted to the City after September 30 are accrued in the General Fund.

Management Estimates

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

Deferred Outflows/Inflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City currently has several 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 2023. The third, fourth, and fifth items are also associated with the City's pension plan and are related to changes of assumptions, differences between expected and

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows (Continued)

actual experience used to calculate the total pension liability, and difference between projected and actual earnings on plan investments. The sixth and seventh items are associated with the City's OPEB plan and are related to differences between expected and actual experience and changes of assumption used to calculate the total OPEB liability.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City currently has three items that qualify for reporting in this category. The first is attributable to lease receivable. The second is the difference between expected and actual experience of the pension plan. The third is related to changes of assumptions used to calculate the total OPEB Liability.

Economic Dependency

The City receives a significant portion of their revenue from property taxes and sales and use taxes. Property tax revenue was \$19,201,249 or 27.40% of total revenue in fiscal year 2022. Sales and use tax revenue was \$29,392,779 or 41.95% of total revenue in fiscal year 2022.

Recently Issued and Implemented Accounting Pronouncements

During the current fiscal year, the City implemented the following new accounting pronouncements issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 87, *Leases*.
- Statement No. 89, *Accounting for interest Cost Incurred before the End of a Construction Period*.
- Statement No. 93, *Replacement of Interbank Offered Rates*.

The Governmental Accounting Standards Board has issued statements that will become effective in future years. These statements are as follows:

- Statement No. 96, *Subscription-Based Information Technology Arrangements*.
- Statement No. 97, *Certain Component Unit Criteria*.
- Statement No. 100, *Accounting for Changes and Error Corrections*.
- Statement No. 101, *Compensated Absences*.

The City is evaluating the requirements of the above statements and the impact on reporting.

City of Vestavia Hills, Alabama
Notes to Financial Statements

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, March 27, 2023 and determined there were no events that occurred that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Note 2: CASH AND INVESTMENTS

Cash

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

	Net Carrying Amount	Bank Balance
All funds: Cash (excluding fiduciary funds)	\$ 19,137,145	\$ 15,826,391
All funds: other liability - claim on cash (excluding fiduciary funds)	\$ (3,967,010)	-
Fiduciary fund - vehicle tag tax fund	199,268	199,268
Fiduciary fund - Board of Education tax fund	619,653	619,653
Total	\$ 15,989,056	\$ 16,645,312

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, 2022, all of the City's cash depositories are participating in the SAFE program.

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, 2022, 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.

Included in the carrying amount above are restricted assets totaling \$2,869,196, which includes deposits related to the following: \$109,621 court appearance bonds, \$1,050,929 lease escrow, \$461,950 police confiscations, \$50 community spaces, and \$1,246,646 contractor's surety. These deposits consist of cash equivalents and are considered restricted as they are payable to various third

City of Vestavia Hills, Alabama
Notes to Financial Statements

Note 2: CASH AND INVESTMENTS (Continued)

Cash (Continued)

parties upon completion of a future event. Accordingly, a corresponding liability is recorded for this amount.

Investments

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 assets. Level 1 inputs are quoted prices in active markets for identical asset; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of September 30, 2022 in its investment portfolio:

- U.S. Treasury Securities totaling \$25,260,237 million (Level 1 inputs)
- Guaranteed Investment Contract held in restricted bond sinking fund trust in the amount of \$1,701,396 (Level 3 inputs)

At September 30, 2022, the City had the following investments and maturities:

	Investment Maturity in Years		
	Fair Value	Less Than 1	From Up To 2
Investments:			
U.S. Treasury Securities	\$ 25,260,237	\$ 9,881,771	\$ 15,378,466
Guaranteed Investment Contract (restricted - held in bond sinking fund trust)	1,701,396	1,701,396	-
Total portfolio	\$ 26,961,633	\$ 11,583,167	\$15,378,466

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy restricts all investments of funds to be used for current operations to those with maturities of one year or less and Capital Projects, Emergency Reserve and Special Revenue Fund(s) investments to those with maturities of two years or less. Cash and investment maturities as of September 30, 2022, were as follows:

Maturity	Portion of Respective Portfolio
Less than one year	43%
1-2 years	57%
Total	100%

Note 2: CASH AND INVESTMENTS (Continued)

Investments (Continued)

Credit Risk. The City's investment will conform to the Code of Alabama Section 11-81-21 (other than externally managed investments held in trust required under sinking fund debt agreements). The City's investments are also be made with judgment and appropriate care under circumstances prevailing and with the prudence, discretion, and intelligence appropriate for the management of public funds. Investments shall not be made for speculation, but will consider the probable safety of their principal as well as the probable income to be derived. The City diversifies its investments by security type and institution. However, at least 90% of its investment portfolio (including cash and equivalents) to U.S. Treasury securities, authorized pools, FDIC insured funds and SAFE Program qualified public depository investments. The remaining 10% could be invested in other allowed investments in accordance with the Code of Alabama Section 11-81-21, but with no more than 50% of that amount to be in a single security type or with a single financial institution.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's policy states that deposit type securities shall be collateralized through the SAFE Program for any amount exceeding FDIC coverage. Other investments shall be collateralized by the actual security held in safekeeping by the primary agent. The collateral for any repurchase agreements will, at all times, be no less than 102% of the value of the repurchase agreement. The City's investments in certificates of deposits and the guaranteed investment contract are held by the City's custodial counterparties in the name of the City.

The City limits the amounts it may invest in any single security type or with a single financial institution to no more than 50% of the overall portfolio. None of the City's investments exceeded these limits at September 30, 2022. The City's investment in the Guaranteed Investment Contract exceeded 5% of the overall portfolio but was less than 50% of the overall portfolio.

Because of FDIC insurance and collateralization, the City believes there is no significant custodial credit risk as of September 30, 2022.

The City's restricted investment held in a bond sinking fund trust of \$1,701,396 was collateralized by a financial institution in an amount exceeding 104% of the value. The City deposits cash funds annually into a bond sinking fund trust which is separately managed by a financial institution. This trust and the related investment management is a required part of the City's Series 2013 general obligation Qualified Energy Conservation Bond indenture. This investment is exempted from the City's normal investment portfolio policy since it is required under a separate debt agreement.

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, 2022:

	Balance at 9/30/2021	Additions	Disposals/ Retirements/ Completed	Reclassifications	Balance at 9/30/2022
Capital Assets Not Being Depreciated					
Land	\$ 87,479,593	\$ 1,077,915	\$ -	\$ 1,475,239	\$ 90,032,747
Construction in progress	48,196,146	12,217,352	-	(11,381,005)	49,032,493
Total capital assets not being depreciated	135,675,739	13,295,267	-	(9,905,766)	139,065,240
Capital Assets Being Depreciated					
Land improvements	12,021,827	1,193,489	-	-	13,215,316
Buildings	31,026,650	646,501	-	970,415	32,643,566
Building equipment and fixtures	448,440	435,570	-	-	884,010
Vehicles	11,773,557	2,260,729	(284,812)	1,650	13,751,124
Equipment	8,373,567	30,987	(52,177)	94,020	8,446,397
Computer equipment	2,278,281	122,939	-	16,835	2,418,055
Recreational equipment	3,243,350	210,828	-	(62,277)	3,391,901
Office furniture and fixtures	2,451,193	-	-	-	2,451,193
Office equipment	133,715	-	-	-	133,715
Recreational facilities	23,078,607	-	-	(1)	23,078,606
Books and artwork	2,360,970	-	-	(1)	2,360,969
Infrastructure	26,868,367	1,350,270	-	8,885,125	37,103,762
Total capital assets being depreciated	124,058,524	6,251,313	(336,989)	9,905,766	139,878,614
Less Accumulated Depreciation and Amortization					
Land improvements	7,100,595	592,654	-	-	7,693,249
Buildings	7,976,085	938,525	-	-	8,914,610
Building equipment and fixtures	222,423	22,066	-	-	244,489
Vehicles	6,047,483	1,495,894	(281,948)	-	7,261,429
Equipment	6,478,378	346,412	(51,022)	73,376	6,847,144
Computer equipment	1,919,535	172,660	-	-	2,092,195
Recreational equipment	2,120,193	101,547	-	(73,376)	2,148,364
Office furniture and fixtures	2,398,825	14,187	-	-	2,413,012
Office equipment	133,690	6	-	-	133,696
Recreational facilities	15,857,146	618,512	-	-	16,475,658
Books and artwork	2,028,146	152,745	-	-	2,180,891
Infrastructure	12,393,929	1,037,313	-	-	13,431,242
Total accumulated depreciation and amortization	64,676,428	5,492,521	(332,970)	-	69,835,979
Total capital assets being depreciated, net	59,382,096	758,792	(4,019)	9,905,766	70,042,635
Governmental activities capital assets, net	\$ 195,057,835	\$ 14,054,059	\$ (4,019)	\$ -	\$ 209,107,875

City of Vestavia Hills, Alabama
Notes to Financial Statements

Note 3: CAPITAL ASSETS (Continued)

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

Governmental activities	
General government administration	\$ 745,787
Public safety	1,674,984
Public services	2,488,299
Library	583,451
<hr/>	
Total depreciation and amortization expense	<u>\$ 5,492,521</u>

Note 4: DIRECT – VEHICLE AND EQUIPMENT FINANCING ARRANGEMENTS

At September 30, 2022, approximately \$5,497,587 in accumulated depreciation has been recorded in the government-wide financial statements related to vehicles, emergency vehicles, and equipment costing \$11,364,440 purchased under financing arrangements. The current portion of the outstanding liability related to these lease liabilities at September 30, 2022 reported in the government-wide financial statements totaled \$1,936,926. The remaining long-term portion of these lease liabilities obligations reported in the government-wide financial statements totaled \$6,091,578 at September 30, 2022.

The following schedule shows the future minimum lease payments at September 30, 2022:

<i>For the years ending September 30,</i>	Interest	Principal	Total Lease Payment
2023	\$ 130,895	\$ 1,936,926	\$ 2,067,821
2024	104,451	1,829,465	1,933,916
2025	76,284	1,798,825	1,875,109
2026	45,983	1,386,367	1,432,350
2027	20,487	618,455	638,942
2028 and thereafter	4,185	458,466	462,651
<hr/>			
Total	<u>\$ 382,285</u>	<u>\$ 8,028,504</u>	<u>\$ 8,410,789</u>
<hr/>			
Lease liabilities at September 30, 2021			\$ 4,750,756
Additions			5,215,588
Principal payments			(1,937,840)
<hr/>			
Lease liabilities at September 30, 2022			<u>\$ 8,028,504</u>

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:

	General Fund	Capital Projects Fund	Capital Projects - Community Spaces Fund	Debt Service Fund	Other Governmental Funds	Total
Sales taxes	\$ 2,324,672	\$ -	\$ -	\$ -	\$ -	\$ 2,324,672
Property taxes	393,986	-	-	-	-	393,986
Other taxes	164,122	-	-	-	752,257	916,379
Franchise fees	104,462	-	-	-	-	104,462
Transport receivable	278,171	-	-	-	-	278,171
Intergovernmental	-	-	-	-	241,227	241,227
Other receivables	55,625	350,000	40,309	44,244	-	490,178
Total	\$ 3,321,038	\$ 350,000	\$ 40,309	\$ 44,244	\$ 993,484	\$ 4,749,075

Note 6: LONG-TERM DEBT

As of September 30, 2022, the City's warrant obligations consisted of the following:

Warrant obligations at September 30, 2021	\$ 98,765,000
Debt refunded	(5,470,000)
Principal payments	(4,390,000)
Debt issuance	5,265,000
Total principal outstanding	94,170,000
Unamortized bond issuance discount	(64,075)
Unamortized bond premium	3,194,304
Total warrant obligations at September 30, 2022	\$ 97,300,229

City of Vestavia Hills, Alabama
Notes to Financial Statements

Note 6: LONG-TERM DEBT (Continued)

The following is a summary of the changes in long-term debt of the City for the year ended September 30, 2022:

	Balance 9/30/2021	Additions	Reductions	Balance 9/30/2022	Due Within One Year
General Obligation Warrants, Series 2012	\$ 350,000	\$ -	\$ 350,000	\$ -	-
General Obligation Warrants, QECB Series 2013	4,245,000	-	-	4,245,000	-
General Obligation Warrants, Series 2014	645,000	-	360,000	285,000	285,000
General Obligation Warrants, Series 2014 (CWSRF-DL)	670,000	-	45,000	625,000	45,000
General Obligation Warrants, Series 2015	6,315,000	-	6,315,000	-	860,000
General Obligation Warrants, Series 2016	10,270,000	-	905,000	9,365,000	1,320,000
General Obligation Warrants, Series 2018	52,690,000	-	1,085,000	51,605,000	1,140,000
General Obligation Warrants, Series 2020A	4,000,000	-	475,000	3,525,000	565,000
General Obligation Warrants, Series 2020B	19,580,000	-	325,000	19,255,000	325,000
General Obligation Warrants, Series 2021	-	5,265,000	-	5,265,000	805,000
Total principal outstanding	98,765,000	5,265,000	9,860,000	94,170,000	5,345,000
Unamortized bond premium	3,011,572	573,130	390,398	3,194,304	-
Unamortized bond issuance discount	(72,093)	-	(8,018)	(64,075)	-
Direct - vehicle and equipment financing arrangements	4,750,756	5,215,588	1,937,840	8,028,504	1,936,926
Total long-term debt	\$ 106,455,235	\$ 11,053,718	\$ 12,180,220	\$ 105,328,733	\$ 7,281,926

City of Vestavia Hills, Alabama
Notes to Financial Statements

Note 6: LONG-TERM DEBT (Continued)

Outstanding principal of warrant obligations of the City at September 30, 2022 consist of the following:

General Obligation Warrants, Qualified Energy Conservation Bonds (QECCB) Series 2013 were issued in the principal amount of \$4,245,000 in May 2013. The warrants bear interest at an average of 2.20%, payable semiannually on February 1 and August 1. The warrants mature serially with a final maturity in 2033 and are callable at any time without penalty. (Net of \$1,495,384 held in sinking fund for repayment).	\$ 2,543,604
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.	285,000
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.	625,000
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.	9,365,000
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.	51,605,000
General Obligation Warrants, Series 2020A was issued in the principal amount of \$4,175,000 in June 2020. The warrants bear interest at an average of 3.625%, 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.	3,525,000
General Obligation Warrants, Series 2020B was issued in the principal amount of \$19,885,000 in June 2020. The warrants bear interest at an average of 1.4%, 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.	19,255,000
General Obligation Warrants, Series 2021 was issued in the principal amount of \$5,265,000 in November 2021. 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 2028 and are callable at any time without penalty.	5,265,000
Total outstanding	92,468,604
Amount held in sinking fund for QECCB payment	1,701,396
Total principal outstanding	\$ 94,170,000

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, 2022:

<i>For the years ending September 30,</i>	Debt Service Related to Principal	Debt Service Related to Interest	Total Debt Service
2023	\$ 4,485,000	\$ 3,116,607	\$ 7,601,607
2024	4,470,000	2,950,518	7,420,518
2025	4,650,000	2,777,010	7,427,010
2026	4,840,000	2,591,202	7,431,202
2027	5,020,000	2,409,571	7,429,571
2028-2032	25,415,000	9,844,997	35,259,997
2033-2037	17,340,000	6,530,970	23,870,970
2038-2042	11,340,000	4,488,525	15,828,525
2043-2047	13,565,000	2,265,425	15,830,425
2048	3,045,000	121,800	3,166,800
Total	\$ 94,170,000	\$ 37,096,625	\$ 131,266,625

The total interest paid by the City during 2022 relative to the above warrants was \$3,516,612.

The City makes annual contributions into an invested sinking fund in the amount of \$171,051 each fiscal year to pay the principal payment on the QECB warrants. This amount is included in the table above as debt service requirements. These amounts are held in the sinking fund and applied to the payment of the principal of the warrants at maturity on February 1, 2033. The balance in the sinking fund is \$1,701,396 as of September 30, 2022.

As a result of the refunding debts in prior years, the City recorded deferred charges in the government-wide statement of net position. These charges represent the difference between the reacquisition price and the net carrying amounts of the refunded warrants. These costs are being amortized over the average remaining life of the refunded warrants. The unamortized portion of these costs as of September 30, 2022 was \$1,481,599.

On December 2, 2021, the City issued its General Obligation Warrants, Series 2021 (the "2021 Warrants") for the purpose of refunding (on a current basis) the City's General Obligation Warrants, Series 2015 (the "Series 2015 Warrants"); providing funds for capital improvements to park, recreation, and other public facilities and for the payment of issuance expenses. At the time of issuance the Series 2021 Warrants, the Series 2015 Warrants were outstanding in the principal amount of \$5,470,000. The current refunding of the Series 2015 Warrants resulted in an increase in debt service of \$895. This results in an economic loss (difference between the present values of debt service payments on the old and new debt) of approximately \$211. When combined with additional refunding funds on hand (to be used for capital improvements) the total economic gain is approximately \$211,953.

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, pursuant to the *Code of Alabama 1975, Title 36, Chapter 27* (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 which consists of 13 trustees. Effective October 1, 2021 Act 390 of the Legislature of 2021 will create two additional representatives and change the composition of representatives within the ERS Board of Control. The Plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975, Title 36, Chapter 27* 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) Eight 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. One full time employee of a participating municipality or city in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.
 - d. One full-time employee of a participating county in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.
 - e. One full time employee or retiree of a participating employer in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.
 - f. One full time employee of a participating employer other than a municipality, city or county in ERS pursuant to the *Code of Alabama, Section 36-27-6*.

Note 7: PENSION PLAN (Continued)

Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

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

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending September 30 are paid to the beneficiary.

Act 132 of the Legislature of 2019 allowed employers who participate in the ERS pursuant to *Code of Alabama 1975, Section 36-27-6* to provide Tier I retirement benefits to their Tier 2 members. Tier 2 members of employers adopting Act 2019-132 will contribute 7.5% of earnable compensation for regular employees and 8.5% for firefighters and law enforcement officers. A total of 590 employers adopted Act 2019-132.

Act 316 of the Legislature of 2019 allows employees at the time of retirement to receive a partial lump sum (PLOP) distribution as a single payment not to exceed the sum of 24 months of the maximum monthly retirement allowance the member could receive. This option may be selected in addition to the election of another retirement allowance option at a reduced amount based upon the amount of partial lump sum distribution selected.

Note 7: PENSION PLAN (Continued)

Benefits Provided (Continued)

The ERS serves approximately 879 local participating employers. The ERS membership includes approximately 104,510 participants. As of September 30, 2021, membership consisted of:

Retirees and beneficiaries currently receiving benefits	29,727
Terminated employees entitled to but not yet receiving benefits	2,130
Terminated employees not entitled to a benefit	16,415
Active members	56,184
Post-DROP participants who are still in active service	54
Total	104,510

Contributions

Tier I 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, Tier I covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Tier I certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, Tier I 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, Tier I certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation.

Employers participating in the ERS pursuant to *Code of Alabama 1975, Section 36-27-6* were not required by statute to increase contribution rates but were provided the opportunity to do so through Act 2011-676. By adopting Act 2011-676 Tier I regular member contribution rates increased from 5% to 7.5% of earnable compensation and Tier I firefighters and law enforcement officers increased from 6% to 8.5% of earnable compensation.

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 contribute 7% of earnable compensation.

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2022, the City's active employee contribution rate was 14.26% of covered employee payroll and the City's average contribution rate to fund the normal and accrued liability costs was 14.12% of pensionable payroll.

City of Vestavia Hills, Alabama
Notes to Financial Statements

Note 7: PENSION PLAN (Continued)

Contributions (Continued)

The City's contractually required contribution rate for the year ended September 30, 2022 was 14.91% of pensionable pay for Tier 1 employees and 13.21% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2019, 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 \$2,927,638 for the year ended September 30, 2022.

Net Pension Liability

The City's net pension liability was measured as of September 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2020 rolled forward to September 30, 2022 using standard roll-forward techniques as shown in the following table:

	Expected Valuation Assumptions	Actual Before Act 2019-132 Valuation Assumptions Original	Actual After Act 2019-132 Valuation Assumptions Original	Actual After 2020 Experience Study
Total Pension Liability				
as of September 30, 2020 (a)	\$ 95,544,338	\$ 95,966,608	\$ 95,966,608	\$ 100,001,198
Discount Rate (b)	7.70%	7.70%	7.70%	7.45%
Entry Age Normal Cost for				
October 1, 2020 – September 30, 2021 (c)	1,818,139	1,818,139	1,818,139	2,030,908
Transfers Among Employers (d)	-	1,604,351	1,604,351	1,604,351
Actual Benefit Payment and Refunds for				
October 1, 2020 – September 30, 2021 (e)	(4,979,466)	(4,979,466)	(4,979,466)	(4,979,466)
Total Pension Liability				
as of September 30, 2021				
$[(a) \times (1+(b))] + (c) + (d) + [(e) \times (1+0.5 \times (b))]$	\$ 99,548,216	\$ 101,607,351	\$ 101,607,351	\$ 105,921,596
Difference between Expected and Actual		\$ 2,059,135		
Less liability transferred for immediate recognition		\$ 1,604,351		
Difference between Expected and Actual Experience (Gain)/Loss		\$ 454,784		
Difference between Actual TPL Before and After 2020 Experience Study - Assumption Change (Gain)/Loss				\$ 4,314,245

Note 7: PENSION PLAN (Continued)

Actuarial Assumptions

The total pension liability as of September 30, 2021 was determined based on the annual actuarial funding valuation report prepared as of September 30, 2020. The key actuarial assumptions are summarized below:

Inflation	2.50%
Projected salary increases	3.25%-6.00%
Investment rate of return*	7.45%

*Net of pension plan investment expense.

Mortality rates were based on the Pub-210 Below-Median Tables, projected generationally using the MP-2020 scale, which is adjusted by 66-2/3% beginning with year 2019:

Group	Membership Table	Set Forward (+)/Setback (-)	Adjustment to Rates
Non-FLC Service Retirees	General Health Below Medium	Male: +2, Female: +2	Male: 90% ages < 65, 96% ages > = 65, Female: 96% all ages
FLC/State Police Retirees	Public Safety Healthy Below Median	Male: +1, Female: none	None
Beneficiaries	Contingent Survivor Below Median	Male: +2, Female: +2	None
Non-FLC Disabled Retirees	General Disability	Male: +7, Female: +3	None
FLC/State Police Disabled Retirees	Public Safety Disability	Male: +7, Female: none	None

The actuarial assumptions used in the September 30, 2020 valuation were based on the results of an actuarial experience study for the period October 1, 2015 – September 30, 2020.

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:

City of Vestavia Hills, Alabama
Notes to Financial Statements

Note 7: PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

	Target Allocation	Long-term Expected Rate of Return*
Fixed Income	15.00%	2.80%
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%	9.00%
Real Estate	10.00%	6.50%
Cash	5.00%	1.50%
Total	100.00%	

*Includes assumed rate of inflation of 2.00%.

Discount Rate

The discount rate used to measure the total pension liability was the long-term rate of return, 7.70%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 (a)-(b)
Balances at September 30, 2020	\$ 95,544,338	\$ 63,270,049	\$ 32,274,289
Changes for the year			
Service cost	1,818,139	-	1,818,139
Interest	7,165,205	-	7,165,205
Changes in benefit terms	-	-	-
Changes in assumptions	4,314,245	-	4,314,245
Difference between expected and actual experience	454,784	-	454,784
Contributions – employer	-	2,631,424	(2,631,424)
Contributions – employee	-	1,433,097	(1,433,097)
Net investment income	-	14,126,644	(14,126,644)
Benefit payments, including refunds of employee contributions	(4,979,466)	(4,979,466)	-
Transfers among employers	1,604,351	1,604,351	-
Net changes	10,377,258	14,816,050	(4,438,792)
Balances at September 30, 2021	\$ 105,921,596	\$ 78,086,099	\$ 27,835,497

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 7.45%, 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 (6.45%) or 1-percentage-point higher (8.45%) than the current rate:

	1% Decrease (6.45)	Current Discount Rate (7.45)	1% Increase (8.45)
Plan’s Net Pension Liability	\$ 40,440,955	\$ 27,835,497	\$ 17,240,686

City of Vestavia Hills, Alabama
Notes to Financial Statements

Note 7: PENSION PLAN (Continued)

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, 2021. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2021. The auditors' report 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 <http://www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/>.

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

For the year ended September 30, 2022, the City recognized pension expense of \$140,775. At September 30, 2022, 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	\$ 2,025,199	\$ 236,581
Changes of assumptions	4,342,698	-
Net differences between projected and actual earnings on pension plan investments	-	5,635,363
Employer contributions subsequent to the measurement date	2,927,638	-
Total	\$ 9,295,535	\$ 5,871,944

Note 7: PENSION PLAN (Continued)

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

The City reported \$2,927,638 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, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized in pension expense as follows:

For the years ending September 30,

2023	\$ 495,954
2024	127,935
2025	(555,928)
2026	(877,983)
2027	872,426
Thereafter	433,549
Total	\$ 495,953

Note 8: ACCUMULATED COMPENSATED ABSENCES

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

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

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

Note 8: ACCUMULATED COMPENSATED ABSENCES (Continued)

A liability for vacation pay is reported in the governmental funds only if the obligation has matured, for example, as a result of an employee's resignation or retirement. All vacation pay is accrued when incurred in the government-wide statements. The estimated current portion of accrued vacation at September 30, 2022 reported in the government-wide financial statements is \$462,866. The remaining long-term incurred portion of the accrued vacation of the governmental activities at September 30, 2022 totaled \$2,622,908.

Note 9: OTHER POSTEMPLOYMENT BENEFITS

Plan Description

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).

Benefits Provided

Medical benefits are provided through a comprehensive medical plan and are made available to employees upon actual retirement. The earliest retirement eligibility provisions are as follows: 25 years of service at any age; or, age 60 and 10 years of service (called Tier 1 members). Employees hired on and after January 1, 2013 (called Tier 2 members) are eligible to retire only after attainment of age 62 or later completion of 10 years of service. Effective October 1, 2021, Tier I retirement eligibility was extended to Tier II employees.

Employees Covered by Benefit Terms

At September 30, 2022 the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	13
Active employees	274
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Total	287
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Total OPEB Liability

The City's total OPEB liability of \$1,699,986 was measured as of September 30, 2022 and was determined by an actuarial valuation as of that date.

City of Vestavia Hills, Alabama
Notes to Financial Statements

Note 9: OTHER POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Assumptions and Other Inputs

The total OPEB liability in the September 30, 2022 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	4.00%, including inflation
Discount rate	2.15% annually (Beginning of Year to Determine ADC) 4.02%, annually (As of End of Year Measurement Date)
Healthcare cost trend rates	Flat 5.5% annually (Old Plan Only)
Mortality	RP-2000 Table

The discount rate was based on the Bond Buyers' 20 Year General Obligation municipal bond index as of September 30, 2022, the end of the applicable measurement period.

The actuarial assumptions used in the September 30, 2022 valuation were based on the results of ongoing evaluations of the assumptions from October 1, 2009 to September 30, 2022.

Changes in the Total OPEB Liability

Balance at September 30, 2021	\$ 1,804,855
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Changes for the year	
Service cost	37,924
Interest	37,325
Differences between expected and actual experience	356,876
Changes of assumptions	(399,349)
Benefit payments and net transfers	(137,645)
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Net changes	(104,869)
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Balance at September 30, 2022	\$ 1,699,986
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City of Vestavia Hills, Alabama
Notes to Financial Statements

Note 9: OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.02%) or 1-percentage-point higher (5.02%) than the current discount rate:

	1.00% Decrease (3.02%)	Current Discount Rate (4.02%)	1.00% Increase (5.02%)
Total OPEB liability	\$ 2,054,524	\$ 1,699,986	\$ 1,426,329

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:

	1.00% Decrease (4.5%)	Current Trend (5.5%)	1.00% Increase (6.5%)
Total OPEB liability	\$ 1,460,752	\$ 1,699,986	\$ 2,012,742

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

For the year ended September 30, 2022, the City recognized OPEB expense of \$201,828. At September 30, 2022, 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	\$ 491,580	\$ -
Changes of assumptions	485,954	367,155
Total	\$ 977,534	\$ 367,155

City of Vestavia Hills, Alabama
Notes to Financial Statements

Note 9: OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

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

<i>For the years ending September 30,</i>	Cumulative Net Amount Amount to be Recognized
2023	\$ 126,579
2024	126,579
2025	126,579
2026	126,579
2027	8,854
Thereafter	95,209
Total	\$ 610,379

Note 10: DEFERRED COMPENSATION PLAN

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

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

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

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

Note 11: CONTINGENCIES AND COMMITMENTS

Litigation

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

Project Commitments

As of September 30, 2022, the City had executed contracts for various project commitments in the amount of \$36,272,766. At September 30, 2022, \$19,241,196 had been expended on these construction contracts.

Note 12: TAX ABATEMENTS

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

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

Nature of Incentive	Type of Tax	% of City	FYE	Expiration of Incentive ¹	Maximum Incentive Amount
		Taxes Abated	September 30, 2022 Abatement Amount		
Restaurant development	Sales tax ⁴	50%	64,928	December 31, 2027	\$575,000
Commercial development ³	Ad Valorem tax ²	100%	74,613	August 31, 2034	\$5,150,000
Retail development	Sales tax ⁴	50%	36,025	November 30, 2024	\$232,372
Restaurant development	Sales tax ⁴	50%	25,409	July 31, 2026	\$325,000
Restaurant development	Sales tax ⁴	50%	56,459	October 31, 2028	\$500,000
Commercial development	Sales tax ⁴	50%	4,834	March 31, 2027	\$575,000
Commercial development	Sales tax ⁴	50%	89,304	December 31, 2026	\$475,000
Restaurant development	Sales tax ⁴	50%	72,160	August 31, 2029	\$750,000
Restaurant development	Sales tax ⁴	50%	19,955	September 30, 2029	\$250,000
Commercial development	Sales tax ⁴	50%	349,961	August 1, 2028	\$4,247,808
		Total	793,648		

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 advalorem taxes.

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

Note 13: 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 2023 for infrastructure improvements.

NOTE 14: LEASES RECEIVABLE

For the year ended September 30, 2022, the financial statements include the adoption of GASB Statement No. 87, *Leases*. The primary objective of this statement is to enhance the relevance and consistency of information about governments' leasing activities. This statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. For additional information, refer to the disclosures below.

On October 1, 2021, the City of Vestavia Hills, Alabama entered into a 283-month lease as Lessor for the use of Tillman Tower Lease. An initial lease receivable was recorded in the amount of \$682,060. As of September 30, 2022, the value of the lease receivable is \$661,260. The lessee is required to make monthly fixed payments of \$1,400. Additionally, there are monthly other reasonably certain payments of \$500. The lease has an interest rate of 0.0000%. The Land estimated useful life was -0- months as of the contract commencement. The value of the deferred inflow of resources as of September 30, 2022 was \$653,139, and the City of Vestavia Hills, Alabama recognized lease revenue of \$28,921 during the fiscal year. The lessee has 4 extension option(s), each for 60 months. The lessee had a termination period of 2 months as of the lease commencement.

On October 1, 2021, the City of Vestavia Hills, Alabama entered into a 480-month lease as Lessor for the use of CC Holding 874936. An initial lease receivable was recorded in the amount of \$2,018,722. As of September 30, 2022, the value of the lease receivable is \$1,998,252. The lessee is required to make annual fixed payments of \$19,271. Additionally, there are monthly other reasonably certain payments of \$200.00. The lease has an interest rate of 0.0000%. The Land estimated useful life was -0- months as of the contract commencement. The value of the deferred inflow of resources as of September 30, 2022 was \$1,968,331., and the City of Vestavia Hills, Alabama recognized lease revenue of \$50,391 during the fiscal year.

On October 1, 2021, the City of Vestavia Hills, Alabama entered into a 230-month lease as Lessor for the use of CC Holding 825375. An initial lease receivable was recorded in the amount of \$343,226. As of September 30, 2022, the value of the lease receivable is \$328,355. The lessee is required to make monthly fixed payments of \$1,219. The lease has an interest rate of 0.0000%. The Land estimated useful life was -0- months as of the contract commencement. The value of the deferred inflow of resources as of September 30, 2022 was \$325,319, and the City of Vestavia Hills, Alabama recognized lease revenue of \$17,907 during the fiscal year. The lessee has 1 extension option(s), each for 180 months.

City of Vestavia Hills, Alabama
Notes to Financial Statements

NOTE 14: LEASES RECEIVABLE (Continued)

On October 1, 2021, the City of Vestavia Hills, Alabama entered into a 40-month lease as Lessor for the use of AT&T Tower Lease. An initial lease receivable was recorded in the amount of \$5,856. As of September 30, 2022, the value of the lease receivable is \$4,099. The lessee is required to make monthly fixed payments of \$146. The lease has an interest rate of 0.0000%. The Land estimated useful life was -0- months as of the contract commencement. The value of the deferred inflow of resources as of September 30, 2022 was \$4,099, and the City of Vestavia Hills, Alabama recognized lease revenue of \$1,757 during the fiscal year.

<i>Fiscal Years</i>	Governmental Activities		
	Principal Payments	Interest Payments	Total Payments
2023	\$ 62,167	\$ -	\$ 62,167
2024	63,272	-	63,272
2025	64,294	-	64,294
2026	66,361	-	66,361
2027	67,585	-	67,585
2028 - 2032	364,829	-	364,829
2033 - 2037	418,054	-	418,054
2038 - 2042	440,541	-	440,541
2043 - 2047	341,256	-	341,256
2048 - 2052	301,379	-	301,379
2053 - 2057	364,074	-	364,074
2058 - 2062	438,152	-	438,152
	\$ 2,991,966.12	\$ -	\$ 2,991,966.12



REQUIRED SUPPLEMENTARY INFORMATION



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

<i>For the year ended September 30, 2022</i>	Budget - Original and Final	General Fund Actual	Variance
Revenues			
Taxes	\$ 41,295,552	\$ 48,763,680	\$ 7,468,128
Licenses and permits	5,000,221	5,412,768	412,547
Charges for services	764,500	953,969	189,469
Fines and forfeitures	360,000	435,839	75,839
Fees	2,816,491	2,844,089	27,598
Grants	795,601	920,066	124,465
Proceeds from sale of assets	40,000	92,508	52,508
Interest revenues	144,714	93,264	(51,450)
Other revenues	765,045	651,698	(113,347)
Total revenues	51,982,124	60,167,881	8,185,757
Expenditures			
General government administration	7,686,913	8,144,432	(457,519)
Public safety	22,214,855	22,461,187	(246,332)
Public services	9,063,303	9,249,176	(185,873)
Library	2,546,616	2,565,400	(18,784)
Capital outlay	165,000	39,776	125,224
Total expenditures	41,676,687	42,459,971	(783,284)
Excess of revenues over expenditures	10,305,437	17,707,910	7,402,473
Other Financing Sources (Uses)			
Operating transfers in	50,000	68,033	18,033
Operating transfers out	(10,355,437)	(14,050,430)	(3,694,993)
Total other financing sources (uses)	(10,305,437)	(13,982,397)	(3,676,960)
Excess of revenues and other financing sources over (under) expenditures	-	3,725,513	3,725,513
Fund balances at beginning of year	21,164,992	21,164,992	-
Fund balances at end of year	\$ 21,164,992	\$ 24,890,505	\$ 3,725,513

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	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability								
Service cost	\$ 1,818,139	\$ 1,603,626	\$ 1,555,575	\$ 1,508,540	\$ 1,486,956	\$ 1,379,763	\$ 1,319,081	\$ 1,277,907
Interest	7,165,205	6,582,779	6,324,319	6,061,114	5,772,185	5,371,641	4,970,899	4,747,042
Changes in benefit terms	-	1,094,328	-	-	-	-	-	-
Differences between expected and actual experience	454,784	1,948,016	(418,564)	321,100	529,080	141,280	2,132,828	-
Changes of assumptions	4,314,245	-	-	449,717	-	3,809,927	-	-
Benefit payments, including refunds of employee contributions	(4,979,466)	(4,569,754)	(4,157,825)	(4,016,820)	(3,846,705)	(3,436,179)	(3,390,895)	(3,062,574)
Transfers among employees	1,604,351	1,109,829	259,081	(327,053)	(128,346)	273,131	-	-
Net change in total pension liability	10,377,258	7,768,824	3,562,586	3,996,598	3,813,170	7,539,563	5,031,913	2,962,375
Total pension liability - beginning	95,544,338	87,775,514	84,212,928	80,216,330	76,403,160	68,863,597	63,831,684	60,869,309
Total pension liability - ending (a)	\$ 105,921,596	\$ 95,544,338	\$ 87,775,514	\$ 84,212,928	\$ 80,216,330	\$ 76,403,160	\$ 68,863,597	\$ 63,831,684
Plan Fiduciary Net Position								
Contributions - employer	\$ 2,631,424	\$ 2,485,425	\$ 2,384,919	\$ 2,010,155	\$ 2,076,923	\$ 1,852,693	\$ 1,777,403	\$ 1,750,292
Contributions - employee	1,433,097	1,109,027	1,251,467	1,006,259	984,086	974,431	916,651	851,524
Net investment income	14,126,644	3,416,367	1,498,367	5,010,199	6,272,112	4,585,395	532,576	4,842,808
Benefit payments, including refunds of employee contributions	(4,979,466)	(4,569,754)	(4,157,825)	(4,016,820)	(3,846,705)	(3,436,179)	(3,390,895)	(3,062,574)
Transfers among employers	1,604,351	1,109,829	259,081	(327,053)	(128,346)	273,131	235,587	245,477
Net change in plan fiduciary net position	14,816,050	3,550,894	1,236,009	3,682,740	5,358,070	4,249,471	71,322	4,627,527
Plan net position - beginning	63,270,049	59,719,155	58,483,146	54,800,406	49,442,336	45,192,865	45,121,543	40,494,016
Plan net position - ending (b)	\$ 78,086,099	\$ 63,270,049	\$ 59,719,155	\$ 58,483,146	\$ 54,800,406	\$ 49,442,336	\$ 45,192,865	\$ 45,121,543
Net pension liability - ending (a) - (b)	\$ 27,835,497	\$ 32,274,289	\$ 28,056,359	\$ 25,729,782	\$ 25,415,924	\$ 26,960,824	\$ 23,670,732	\$ 18,710,141
Plan fiduciary net position as a percentage of total pension liability	73.72%	66.22%	68.04%	69.45%	68.32%	64.71%	65.63%	70.69%
Covered payroll*	\$ 19,299,809	\$ 18,449,981	\$ 17,823,733	\$ 16,890,643	\$ 16,582,596	\$ 15,839,133	\$ 15,248,055	\$ 14,710,190
Net pension liability as a percentage of covered employee payroll	144.23%	174.93%	157.41%	152.33%	153.27%	170.22%	155.24%	127.19%

*Employer's covered payroll during the measurement period is the total covered payroll. For FY 2022, the measurement period is October 1, 2020 - September 30, 2021. GASB issued a statement "Pension Issues" in March 2016 to redefine covered payroll beginning with FY2017.

Note: This schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.

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

	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially Determined Contribution*	\$ 2,927,638	\$ 2,702,938	\$ 2,542,889	\$ 2,450,447	\$ 2,072,633	\$ 2,132,174	\$ 1,911,298	\$ 1,829,808
Employer Contributions to Pension Plan	2,927,638	2,702,938	2,542,889	2,450,447	2,072,633	2,132,174	1,911,298	1,829,808
Annual Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll**	\$ 20,527,732	\$ 19,299,809	\$ 18,449,981	\$ 17,823,998	\$ 16,890,643	\$ 16,582,596	\$ 15,839,133	\$ 15,248,055
Employer Contributions to Pension Plan as a % of Covered Payroll	14.26%	14.00%	13.78%	13.75%	12.27%	12.86%	12.07%	12.00%

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

**Employer's covered payroll for FY 2022 is the total covered payroll for the 12-month period underlying the financial statement.

Note: This schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.

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

Total OPEB Liability	2022	2021	2020	2019	2018
Service cost	\$ 37,924	\$ 45,525	\$ 36,221	\$ 19,873	\$ 21,139
Interest	37,325	37,333	25,686	31,209	28,260
Differences between expected and actual experience	356,876	22,165	149,569	87,670	41,998
Changes of assumptions	(399,349)	50,028	590,285	157,223	(48,684)
Benefit payments	(137,645)	(78,931)	(77,319)	(76,604)	(72,610)
Net change in total OPEB liability	(104,869)	76,120	724,442	219,371	(29,897)
Total OPEB liability - beginning	1,804,855	1,728,735	1,004,293	784,922	814,819
Total OPEB liability - ending	\$ 1,699,986	\$ 1,804,855	\$ 1,728,735	\$ 1,004,293	\$ 784,922
Covered - employee payroll	\$ 17,791,171	\$ 17,332,334	\$ 16,665,706	\$ 15,820,146	\$ 15,211,679
Net OPEB liability as a percentage of covered - employee payroll	9.56%	10.41%	10.37%	6.35%	5.16%

Notes to Schedule:

Benefit changes - There were no changes of benefit terms for the year ended September 30, 2022.

Changes of assumptions - The discount rate as of 9/30/2021 was 2.15% and it changed to 4.02% as of 9/30/2022.

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

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

	2022	2021	2020	2019	2018
Actuarially determined contribution (ADC)	\$ 120,182	\$ 124,959	\$ 85,233	\$ 66,262	\$ 66,166
Contributions in relation to the actuarially determined contribution:					
Employer paid - expenses	<u>(137,645)</u>	<u>(78,931)</u>	<u>(77,319)</u>	<u>(76,604)</u>	<u>(72,610)</u>
Contribution deficiency (excess)	<u>\$ (17,463)</u>	<u>\$ 46,028</u>	<u>\$ 7,914</u>	<u>\$ (10,342)</u>	<u>\$ (6,444)</u>
Covered annual payroll	17,791,171	17,332,334	16,665,706	\$ 15,820,146	\$ 15,211,679
Contributions as a percentage of covered employee payroll	0.77%	0.46%	0.46%	0.48%	0.48%

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 Schedule 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.

Budget information presented in the financial statements is based on the original budget as adopted by the City Council on August 9, 2021.

Note 2: SCHEDULE OF CHANGES IN NET PENSION LIABILITY

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

Note 3: SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS

Contributions were made in accordance with actuarially determined contribution requirements. The employer contribution rate expressed as a percent of payroll is determined annually by reviewing a variety of factors including benefits promised, member contributions, investment earnings, mortality, and withdrawal experience. The City's employer contribution rates were 14.91% for Tier 1 employees (hired before January 1, 2013) and 13.2% 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, 2022.

<i>Valuation date</i>	10/1/2021 Actuarially determined contributions are calculated as of the last day of the fiscal year in which contributions are reported.
<i>Actuarial cost method</i>	Individual Entry Age Normal
<i>Amortization method</i>	Level dollar, open
<i>Amortization period</i>	30 years
<i>Asset valuation method</i>	Market value
<i>Inflation</i>	2.5% annually
<i>Health care trend</i>	Flat 5.5% annually (Old Plan Only)
<i>Salary increases</i>	4.0% annually
<i>Discount rate</i>	2.15% annually (beginning of year to determine the actuarially determined contributions (ADC) 4.02% annually (as of end of year measurement date)
<i>Retirement age</i>	Age 55 and 25 years of service, or, if earlier, age 60 and 10 years of service
<i>Mortality</i>	RP-2000 without projection
<i>Turnover</i>	Age specific table with an average of 10% when applied to the active census
<i>Decline rate</i>	43% of retirees decline medical coverage at retirement and an additional 27% defer retirement until age 65.



SUPPLEMENTARY INFORMATION



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

<i>September 30, 2022</i>	State Shared Gasoline Tax Funds							Vehicle Tags	Capital Projects - Sidewalks	Totals
	Four Cent	Five Cent	Ten Cent	Seven Cent	Court & Corrections	E-911	Library			
Assets										
Cash	\$ 234,380	\$ 110,204	\$ 282,179	\$ -	\$ 7,063	\$ 151,620	\$ 337,197	\$ 195,760	\$ 82,683	\$ 1,401,086
Accounts receivable, net of allowance for uncollectibles	40,645	19,791	45,206	821,513	-	66,329	-	-	-	993,484
Total assets	\$ 275,025	\$ 129,995	\$ 327,385	\$ 821,513	\$ 7,063	\$ 217,949	\$ 337,197	\$ 195,760	\$ 82,683	\$ 2,394,570
Liabilities										
Accounts payable	\$ 181,171	\$ 13,068	\$ 110,330	\$ 258,506	\$ 7,063	\$ 63,075	\$ -	\$ 24,609	\$ -	\$ 657,822
Retainage payable	131,008	-	-	-	-	-	-	-	-	131,008
Other liability - claim on cash	-	-	-	455,210	-	-	-	-	-	455,210
Interfund payable	-	-	-	-	-	-	-	171,151	-	171,151
Total liabilities	312,179	13,068	110,330	713,716	7,063	63,075	-	195,760	-	1,415,191
Fund Balance										
Restricted for road maintenance	(37,154)	116,927	217,055	107,797	-	-	-	-	-	404,625
Assigned	-	-	-	-	-	154,874	337,197	-	82,683	574,754
Total fund balance	(37,154)	116,927	217,055	107,797	-	154,874	337,197	-	82,683	979,379
Total liabilities and fund balance	\$ 275,025	\$ 129,995	\$ 327,385	\$ 821,513	\$ 7,063	\$ 217,949	\$ 337,197	\$ 195,760	\$ 82,683	\$ 2,394,570

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

<i>For the year ended September 30, 2022</i>	State Shared Gasoline Tax Funds					Court & Corrections	E-911	Library	Vehicle Tags	Capital Projects - Sidewalks	Totals
	Four Cent	Five Cent	Ten Cent	Seven Cent							
Revenues											
Taxes	\$ 2,828	\$ -	\$ -	\$ 800,568	\$ -	\$ 867,192	\$ -	\$ -	\$ -	\$ -	\$ 1,670,588
License and permits	-	-	-	85,838	-	-	-	192,965	-	-	278,803
Intergovernmental	208,823	102,776	263,373	354,497	-	-	-	-	-	-	929,469
Fines and forfeitures	-	-	-	-	569,558	-	-	-	-	-	569,558
Grants	-	-	-	-	-	-	45,188	-	-	-	45,188
Interest revenues	19	11	20	-	-	1	4	20	7	-	82
Library revenues	-	-	-	-	-	-	101,086	-	-	-	101,086
Other revenues	-	-	-	-	-	-	-	-	-	-	-
Total revenues	211,670	102,787	263,393	1,240,903	569,558	867,193	146,278	192,985	7	3,594,774	
Expenditures											
General government administration	-	-	-	-	578,752	-	-	193,725	-	-	772,477
Public safety	-	-	-	-	110,165	728,089	-	-	-	-	838,254
Public services	299,891	103,949	247,721	1,733,707	-	-	-	-	-	-	2,385,268
Library	-	-	-	-	-	-	64,320	-	-	-	64,320
Debt service	-	-	-	-	-	147,640	-	-	-	-	147,640
Capital outlay	36,005	2,100	-	-	-	-	-	-	-	-	38,105
Total expenditures	335,896	106,049	247,721	1,733,707	688,917	875,729	64,320	193,725	-	4,246,064	
Excess of revenues over (under) expenditures	(124,226)	(3,262)	15,672	(492,804)	(119,359)	(8,536)	81,958	(740)	7	(651,290)	
Other Financing Sources (Uses)											
Operating transfers in	-	-	-	-	99,606	-	-	740	-	-	100,346
Operating transfers out	-	-	-	-	-	-	(18,033)	-	-	-	(18,033)
Total other financing sources (uses)	-	-	-	-	99,606	-	(18,033)	740	-	82,313	
Excess of revenues and other sources over expenditures and other uses	(124,226)	(3,262)	15,672	(492,804)	(19,753)	(8,536)	63,925	-	7	(568,977)	
Fund balance at beginning of year	87,072	120,189	201,383	600,601	19,753	163,410	273,272	-	82,676	1,548,356	
Fund balance at end of year	\$ (37,154)	\$ 116,927	\$ 217,055	\$ 107,797	\$ -	\$ 154,874	\$ 337,197	\$ -	\$ 82,683	\$ 979,379	



REPORT ON COMPLIANCE AND INTERNAL CONTROL



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Vestavia Hills, Alabama (the City), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 27, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, a material weakness and material deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2022-001.

City's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

CARR, RIGGS & INGRAM, LLC

Birmingham, Alabama

March 27, 2023

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Vestavia Hills's (the City's) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of City's major federal programs for the year ended September 30, 2022. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance

requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

CARR, RIGGS & INGRAM, LLC

Birmingham, Alabama

March 27, 2023

City of Vestavia Hills, Alabama Schedule of Expenditures of Federal Awards

For the year ended September 30, 2022

Description	Assistance Listing Number	Pass Through Entity Identifying Number	Total Grant Award	Revenue Recognized	Expenditures	Passed Through to Subrecipients
U.S. Department of Justice						
Bulletproof Vest Partnership Grant	16.607		\$ 12,105	\$ 5,264	\$ 5,264	-
Equitable Sharing Program	16.922	21-DEA-673479	43,935	43,935	43,935	-
Total U.S. Department of Justice			56,040	49,199	49,199	-
U.S. Department of Transportation						
Passed through the City of Opelika						
<i>Highway Safety Cluster</i>						
State and Community Highway Safety	20.600	22-FP-PT-026	2,000	936	936	-
Passed through the Alabama Department of Transportation						
<i>Highway Planning and Construction Cluster</i>						
MAP21 - Sicard Hollow Pedestrian Tunnel	20.205	TAPAA-TA14(931)	605,287	605,287	605,287	-
Massey Road Project 2 parts	20.205	CMAQ-7030(600)	2,136,891	-	49,534	-
<i>Total Highway Planning and Construction Cluster</i>			<u>2,742,178</u>	<u>605,287</u>	<u>654,821</u>	<u>-</u>
Total U.S. Department of Transportation			2,744,178	606,223	655,757	-
U.S. Department of Homeland Security						
Assistance to Firefighters Grant	97.044	EMW-2019-FG-09429	172,545	8,939	8,939	-
Staffing for Adequate Fire and Emergency Response (SAFER Grant)	97.083	EMW-2016-FH-00157	309,660	55,873	55,873	-
Total U.S. Department of Homeland Security			482,205	64,812	64,812	-
U.S. Dept of Interior						
Pass through State of Alabama Department of Labor						
Abandoned Mine Land Reclamation	15.252		300,000	231,364	231,364	-
Total U.S. Dept of Interior			300,000	231,364	231,364	-
Institute of Museum and Library Services						
Grants to States	45.310	22-5-10	20,000	18,033	18,033	-
Total Institute of Museum and Library Services			20,000	18,033	18,033	-
U.S. Department of Treasury						
COVID-19 Coronavirus State and Local Fiscal Recovery Fund	21.027		8,180,928	3,750,023	3,750,023	-
Total U.S. Department of Treasury			8,180,928	3,750,023	3,750,023	-
Total Federal Awards			\$ 11,783,352	\$ 4,719,654	\$ 4,769,188	\$ -

City of Vestavia Hills, Alabama

Notes to Schedule of Expenditures of Federal Awards

Notes to Schedule of Expenditures of Federal Awards

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Vestavia Hills, Alabama. All federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through other state and local government agencies, is included in the schedule.

2. Basis of accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the City's financial statements.

3. Indirect cost

The City does not utilize the 10 percent de minimis indirect cost allowed under the Uniform Guidance.

4. Federally funded insurance and federally funded loans

The City had no federally funded insurance and no federally funded loans or loan guarantee for the fiscal year ended September 30, 2022.

5. Non-cash awards

During the year ended September 30, 2022, the City did not receive any non-cash federal assistance.

City of Vestavia Hills, Alabama
Schedule of Findings and Questioned Costs

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u> X </u>	yes	<u> </u>	no
Significant deficiency(ies) identified?	<u> </u>	yes	<u> X </u>	none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<u> </u>	yes	<u> X </u>	no
Significant deficiency(ies) identified?	<u> </u>	yes	<u> X </u>	none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Part 200.516(a) yes X no

Identification of major programs:

<u>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>
21.027	COVID-19 Coronavirus State and Local Fiscal Recovery Fund

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes X no

(Continued)

City of Vestavia Hills, Alabama Schedule of Findings and Questioned Costs (Continued)

Section II - Financial Statement Finding

The following material weakness was disclosed in the audit of the financial statements of the City of Vestavia Hills, Alabama

2022-001 Material Weakness: Material Audit Adjustment

Criteria: Liabilities for accounts payable should be recorded in the period in which goods are received or services are rendered in order to reflect a proper cutoff and to ensure that the financial statements are complete with respect to accounts payable. Management is responsible for developing controls for financial reporting, which would avoid material audit adjustments.

Condition: During the course of our audit, CRI identified two construction invoices that were improperly excluded from Other Governmental Funds and Capital Projects - Community Spaces Fund accounts payable and expenses for the year ended September 30, 2022.

Cause: The City's internal controls include a process for reviewing invoices for proper period; however, these invoices were posted to the incorrect period.

Effect: The Other Governmental Funds and Capital Projects - Community Spaces Fund expenditures and payables were understated by \$69,826 and \$540,173 prior to adjustment.

Recommendation:

Although these adjustments appear to be isolated instances, we recommend that the City's finance personnel continue to emphasize proper identification of all unmatched purchase orders, receiving reports, construction progress billings, and invoices to determine the proper period in which a payable should be recorded in all funds.

Management's Response:

The City agrees with this finding. Finance department employees responsible for processing invoices will be cautioned to maintain vigilance in the handling, entering, and proper posting, review and approval of invoices to ensure payables are recorded in the period upon which services are rendered or goods are received.

Section III - Federal Awards Findings and Questioned Costs

There were no matters to be reported.