

CITY OF MOUNTAIN BROOK, ALABAMA

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2011**

**City of Mountain Brook, Alabama
City Officials**

September 30, 2011

MAYOR

The Honorable Lawrence T. Oden

CITY COUNCIL

Ms. Virginia C. Smith, President

Mr. Jack D. Carl

Mr. William S. (Billy) Pritchard, III

Ms. Amy G. Carter

Mr. Jesse S. Vogtle, Jr.

CITY MANAGER

Mr. Sam S. Gaston

DEPARTMENT SUPERVISORS

Building Inspections	Mr. Jerry Weems
Finance	Mr. Steven Boone
Fire Department	Mr. Robert W. (Zeke) Ezekiel
Police Department	Mr. Theodore J. (Ted) Cook
Street and Sanitation.....	Mr. Ronald D. Vaughn
Parks and Recreation.....	Mr. Lyman Tidwell

City of Mountain Brook, Alabama

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Independent Auditors' Report

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Mayor and City Council
City of Mountain Brook
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We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Mountain Brook, Alabama (the City) as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the City's 2010 financial statements and, in our report dated March 31, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 6, the City's actuarial accrued liability of its pension plan exceeds the actuarial value of assets in the plan.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis beginning on page 7 and budgetary comparison information on page 53, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

Carly Riggs & Ingram, L.L.C.

Birmingham, Alabama
June 19, 2012

CITY OF MOUNTAIN BROOK, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis of the City's financial activities as of and for the year ended September 30, 2011, prepared by the management of the City, is presented to facilitate the users' understanding of the annual report and draw attention to items of interest.

FINANCIAL HIGHLIGHTS

- Assets of the City exceeded its liabilities at September 30, 2011, by \$107 million (Total Net Assets). Of this amount, \$63 million represents the net book value of the City's capital assets including infrastructure net of outstanding long-term debt, and \$1.2 million is restricted for the Emergency Communication District (\$534,000), road improvements (\$715,000 from the State Shared Gasoline Tax special revenue funds). The remaining \$43 million is available for use by the City to fund future municipal services and to meet its obligations to employees and creditors.
- The Total Net Assets increased by \$4.6 million in 2011 which includes the net cost of providing core City services of \$21.3 million plus \$25.9 million in General Revenues.
- As of September 30, 2011, the City reported \$37.6 million in fund balances, a decrease of \$1.5 million from 2010. Of the \$37.6 million fund balance, \$9.9 million (26%) is reported in the General Fund, \$23.7 million (63%) in the Capital Projects Fund, and \$4 million (11%) in the Other Governmental Funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements consist of the 1) government-wide financial statements, 2) fund financial statements, 3) notes to financial statements, and 4) certain required supplementary financial information. In addition, the City has included other supplementary information intended to further enhance the users' understanding of the City's financial position and results of operations.

Government-wide Financial Statements

The government-wide financial statements are intended to provide an indication of the City's finances in a manner similar to the private sector. Accordingly, the government-wide statements, comprised of the Statement of Net Assets and Statement of Activities, have been prepared using the accrual basis of accounting.

The Statement of Net Assets depicts all of the primary government's assets and liabilities with the difference between the two reported as Net Assets. Over time, changes in net assets may serve as a useful indicator of whether the City's financial position is improving or deteriorating.

The Statement of Activities illustrates how the City's net assets changed during the year. Revenues and expenses reported in the Statement of Activities are recorded when the underlying event that gave rise to the change occurred as opposed to the timing of the related cash flow. The focus of the Statement of Activities is on the gross and net cost of the various governmental activities which are funded by the City's general tax and other revenues. The purpose of this statement is to simplify the analysis of the costs of various governmental services.

CITY OF MOUNTAIN BROOK, ALABAMA
MANAGEMENT’S DISCUSSION AND ANALYSIS

Fund Financial Statements

The fund financial statements have been prepared under the modified accrual basis of accounting and their presentation is largely consistent with historical presentations.

A fund is a grouping of related accounts designed to facilitate control over resources that have been segregated for a specific activity or objective. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the City’s funds are governmental type funds (as opposed to business-type funds) whose primary resources are provided by taxes.

Governmental Funds

Governmental funds essentially measure and report the same activities and transactions as the governmental activities in the government-wide financial statements. However, unlike the accrual basis government-wide statements, the governmental funds focus on current, spendable resources and balances of such spendable resources available at the end of the year.

The City maintains eleven (11) governmental funds. The City considers the General Fund and Capital Projects Fund (which is comprised of three “sub-funds”) to be major funds and their respective balance sheets and statements of revenues, expenditures, and changes in fund balance are separately reported. Information from the remaining funds (Debt Service and Special Revenue) have been aggregated and reported in a single column titled Other Governmental Funds. Additional information about these aggregated non-major funds and the major funds is provided in the other supplementary information.

Infrastructure Capital Assets

A major accounting and reporting change required by the GASB reporting model that was implemented in 2003 is the capitalization of infrastructure assets. The cost of infrastructure was estimated based on historical financial cost data maintained by the City and other estimation techniques (primarily involving non-depreciable land, easements, and rights-of-way). Depreciation of infrastructure was determined using the straight-line method from the year of acquisition using estimated useful lives ranging between 10 and 75 years depending on the class of asset. Infrastructure capitalized and the related depreciation reported in the accompanying government-wide financial statements is as follows:

	<u>Useful Life</u>	<u>Cost</u>	<u>Depreciation</u>	<u>Accumulated Depreciation</u>
Land	N/A	\$16,525,671	N/A	N/A
Streets and alleys	20	17,219,555	\$537,183	\$11,325,681
Storm sewers	20	13,946,471	368,956	1,981,116
Sidewalks	15	9,303,328	502,933	6,746,757
Park facilities	20	8,114,416	345,855	4,153,897
Street lights and signs	15	1,188,261	61,027	744,960
Library reference materials	5	<u>4,243,814</u>	<u>410,460</u>	<u>3,386,653</u>
Totals		<u>\$70,541,516</u>	<u>\$2,226,414</u>	<u>\$28,339,064</u>

CITY OF MOUNTAIN BROOK, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-wide Financial Analysis

Following is a comparative, condensed financial analysis of the government-wide net assets of the City as of September 30:

	<u>2011</u>	<u>2010</u>
Current assets	\$40,436,215	\$43,173,323
Other assets	10,998,992	10,525,917
Capital assets	<u>67,486,804</u>	<u>62,828,638</u>
Total assets	<u>118,922,011</u>	<u>116,527,878</u>
Current and other liabilities	3,820,772	4,995,513
Long-term liabilities	<u>7,996,962</u>	<u>9,001,409</u>
Total liabilities	<u>11,817,734</u>	<u>13,996,922</u>
Net assets:		
Invested in capital assets, net of related debt	63,011,804	58,173,638
Restricted	1,249,072	1,178,380
Unrestricted	<u>42,843,401</u>	<u>43,178,938</u>
Total net assets	<u>\$107,104,277</u>	<u>\$102,530,956</u>

Following is a comparative analysis of the government-wide revenues and expenses:

	<u>2011</u>	<u>2010</u>
Revenues		
Program revenues		
Fees, fines and charges for services	\$5,065,096	\$4,913,511
Operating grants and contributions	1,230,623	1,016,609
Capital grants and contributions	3,603,943	4,127,274
General revenues		
Ad valorem taxes	14,969,921	15,370,449
Sales and use taxes	8,732,996	8,193,985
Other taxes	149,793	151,097
Utility taxes	1,460,206	1,450,440
Franchise fees	560,903	506,999
Investment earnings	655,861	1,195,866
Gain (loss) on disposals of capital assets	(753,165)	149,027
Miscellaneous revenue	11,355	20,938
Transfers from component unit	<u>119,419</u>	<u>34,469</u>
Total revenues	<u>35,806,951</u>	<u>37,130,664</u>

CITY OF MOUNTAIN BROOK, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS

	<u>2011</u>	<u>2010</u>
Expenses		
General government	\$ 3,924,528	\$ 4,191,928
Public safety	14,148,930	13,468,872
Street and sanitation	8,505,687	8,375,457
Recreational	1,764,768	1,608,763
Library	<u>2,889,717</u>	<u>2,838,153</u>
Total expenses	<u>31,233,630</u>	<u>30,483,173</u>
Increase in net assets	4,573,321	6,647,491
Net assets, beginning of year	<u>102,530,956</u>	<u>95,883,465</u>
Net assets, end of year	<u>\$107,104,277</u>	<u>\$102,530,956</u>

Analysis of the City's Operations

Revenues

The City's primary source of revenue is real estate ad valorem taxes which comprised 44% of total General Fund revenues in 2011. Real estate ad valorem taxes decreased by \$432,000 (3%) during 2011.

The second largest source of revenue for the City is sales and use tax which totaled 27% of the total General Fund revenues in 2011. Sales and use tax increased by \$622,000 (8%) during 2011.

Following is a comparative summary of the major General Fund revenues as reported in the Governmental Funds financial statements:

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Real estate ad valorem tax	\$13,890,843	\$14,322,580	(\$431,737)
Sales and use tax	8,476,522	7,854,903	621,619
Business licenses	2,165,612	2,130,822	34,790
Personal property ad valorem tax	1,079,079	1,047,869	31,210
Garbage service fees	32,436	34,062	(1,626)
Utility taxes	1,460,206	1,450,440	9,766
Investment earnings	131,706	207,197	(75,491)
All other General Fund revenues	<u>4,668,121</u>	<u>4,265,897</u>	<u>402,224</u>
Totals	<u>\$31,904,525</u>	<u>\$31,313,770</u>	<u>\$590,755</u>

CITY OF MOUNTAIN BROOK, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Expenditures

Salaries and benefits increased \$689,000 (4%) in 2011 to \$18.3 million. Labor-related costs made up 59% of the City's total General Fund expenditures in 2011. Following is comparative summary of the major expenditure categories (all funds combined) of the City as reported in the Governmental Funds financial statements:

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Salaries and benefits	\$18,295,826	\$17,606,360	\$689,466
Garbage contract fees	2,602,521	2,569,512	33,009
Capital outlay	9,646,113	9,576,104	70,009
Intergovernmental services	723,001	717,500	5,501
Utilities and communication	733,575	733,536	39
Development agreement payments	982,358	892,448	89,910
Property and casualty insurance	295,815	302,948	(7,133)
Legal and accounting	372,593	499,495	(126,902)
Fuel and lubricants	378,213	238,717	139,496
Debt service	358,556	359,647	(1,091)
Birmingham Zoo, Inc. subsidy	75,000	75,000	0
All other	<u>3,625,024</u>	<u>3,198,583</u>	<u>426,441</u>
Totals	<u>\$38,088,595</u>	<u>\$36,769,850</u>	<u>\$ 1,318,745</u>

General Budgetary Highlights (budgets are administered based on, and variances are stated in terms of, the Governmental Fund accounting model)

Following is a summary of the pertinent General Fund budget variances:

- Actual General Fund revenue exceeded the final budgeted revenue by \$891,369 (3%). The favorable (unfavorable) budget variance was comprised of the following:

	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Real estate ad valorem tax	\$13,900,000	\$13,890,843	(\$9,157)
Sales and use tax	8,075,400	8,476,522	401,122
Other taxes	897,664	903,688	6,024
Utility taxes	1,460,100	1,460,206	106
Road and bridge tax	578,000	572,584	(5,416)
Construction permits	632,200	753,444	121,244
Fines and forfeitures	472,700	529,522	56,822
Charges for services	673,502	652,152	(21,350)
Fees for road repairs	58,000	83,086	25,086
Grants	28,830	282,423	253,593
Investment earnings	216,025	131,706	(84,319)
All other	<u>4,020,735</u>	<u>4,168,349</u>	<u>147,614</u>
Totals	<u>\$31,013,156</u>	<u>\$31,904,525</u>	<u>\$891,369</u>

CITY OF MOUNTAIN BROOK, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS

- Total General Fund expenditures were \$330,447 (1.2%) less than the final budget. The favorable (unfavorable) General Fund budget variance was comprised largely of the following categories:

	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Salaries and benefits	\$17,936,556	\$17,606,360	\$330,196
Garbage contract fees	2,580,000	2,569,512	10,488
Intergovernmental services - Note 8	982,910	717,500	265,410
Utilities and communication	740,200	733,536	6,664
Development agreement payments	596,000	892,448	(296,448)
Fuel and lubricants	293,800	238,717	55,083
Legal and accounting	382,900	499,495	(116,595)
Street striping	145,000	38,950	106,050
Street cut repairs	120,000	55,088	64,912
Park and recreation special projects	115,807	51,980	63,827
All other	<u>3,720,209</u>	<u>3,879,349</u>	<u>(159,140)</u>
Totals	<u>\$27,613,382</u>	<u>\$27,282,935</u>	<u>\$330,447</u>

- The operating transfers out exceeded the amount budgeted by approximately \$786,000. This variance resulted primarily from the Council's decision (after year end) to transfer an additional \$575,000 from the General Fund to the Capital Projects Fund.
- The excess of General Fund revenues and other financing sources over expenditures in the amount of \$1,048,411 was \$507,738 more than budgeted.
- The final General Fund budgeted surplus of \$540,673 was increased by \$147,165 from the amount originally budgeted in the amount of \$393,508. The City Council passed one resolution during 2011 amending the 2011 budget. The budget amendment involved various revisions to revenue and expenditure line items resulting from revenues exceeding original estimates and other transactions that were not considered when the budget was originally adopted.

Other Matters of Interest

Pension Plan

As more fully described in Note 6, the City participates in a multi-employer, defined benefit pension plan which is administered by the Employees' Retirement System of Alabama (RSA). The most recent actuarial valuation data available and included in the accompanying report is as of and for the year ended September 30, 2010.

As of September 30, 2010, the RSA reported an unfunded actuarial accrued liability of \$17 million. However, the actuarial valuation of the plan assets (\$43.4 million) used to determine the unfunded actuarial accrued liability does not include actual investment gains and losses but rather employs the 5-year smoothed market approach. Accordingly, the actuarial valuation of the assets is more than the actual value by \$7.4 million due to the exclusion of unamortized net market losses (realized and unrealized) over the preceding five years.

CITY OF MOUNTAIN BROOK, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Due to the City Council's concern about the unfunded actuarial accrued liability, the City Council has authorized the accumulation of cash reserves in the Debt Service Fund which may ultimately be necessary to pay toward this obligation. As of September 30, 2011, the City had accumulated \$2.7 million in the Debt Service Fund for such purpose. During 2001, the City paid \$2 million more into the pension trust fund than the annual required contribution. In 2007, the City paid an extra \$7 million from the Debt Service Fund to the pension trust fund in order to further reduce the unfunded actuarial accrued liability. In 2008, the City paid \$300,000 more than the actuarially determined annual required contribution from its General Fund. Due in part to the investment performance of the pension trust fund, the City Council has remitted only the annual required contribution to the pension trust fund in 2010 and 2011.

Cash and Temporary Investments

As of September 30, 2011, the City reported cash and temporary investments of \$37.4 million (excluding the cash and investments held by the Section 115 trust and discretely presented component unit) which consisted of unrestricted and donor-restricted cash and temporary investments of \$37.3 million and \$141,000, respectively. Following is a summary of the carrying value of the cash and investments by fund as of September 30, 2011:

	<u>Unrestricted</u>	<u>Restricted</u>
General Fund	\$9,790,734	\$ 140,760
Capital Projects Fund	23,589,897	0
Other Governmental Funds (Debt Service)	2,719,043	0
Other Governmental Funds (Special Revenue)	1,185,459	0
Section 115 irrevocable, retiree medical trust	0	613,573
Discretely presented component unit	<u>0</u>	<u>3,050,700</u>
Totals	<u>\$37,285,133</u>	<u>\$ 3,805,033</u>

The \$9.8 million dollar General Fund cash and investment balance as of September 30, 2011, represents approximately four (4.3) months of General Fund expenditures.

Capital Assets and Related Replacement Reserves

Regarding capital assets, the City Council has adopted a policy of funding its depreciation expense in order to accumulate monies for the eventual replacement of property, plant and equipment. As of September 30, 2011, the City had accumulated approximately \$24 million in the Capital Projects Fund for such purpose. Accumulated depreciation (considered by management to be the benchmark with respect to measuring the funding status of the property, plant and equipment replacement reserve) totaled \$45 million as of year-end. Following is a summary of the capital expenditures, depreciation expense and transfers to the Capital Projects Fund for the years ended September 30:

	<u>2011</u>	<u>2010</u>
Capital expenditures	<u>\$9,646,113</u>	<u>\$9,576,104</u>
Depreciation expense	<u>\$4,248,840</u>	<u>\$4,511,151</u>

CITY OF MOUNTAIN BROOK, ALABAMA
MANAGEMENT'S DISCUSSION AND ANALYSIS

	2011	2010
Transfers to the Capital Projects Fund:		
Funded depreciation policy	\$1,911,624	\$1,886,248
Other transfers to fund current and future capital acquisitions	<u>1,315,269</u>	<u>1,878,622</u>
Totals	<u>\$3,226,893</u>	<u>\$3,764,870</u>

The City maintains approximately 200 miles of paved roadways and alleys. The state shared gasoline tax revenues, the City's allocation of the Alabama Trust Fund Earnings, and other monies transferred from the General Fund are used to fund the City's street maintenance program. Following is a summary of the revenues and expenditures as they pertain to the maintenance of the City's roadways:

	2011	2010
Revenues		
State shared gasoline tax revenues	\$411,995	\$414,088
Alabama Trust Fund Earnings	130,296	137,328
Transfers from the City's General Fund	100,000	0
Investment earnings	<u>2,264</u>	<u>1,333</u>
Total Revenues	644,555	552,749
Street paving expenditures	<u>603,569</u>	<u>530,930</u>
Excess of Revenues Over Expenditures	40,986	21,819
Fund balance, beginning of the year	<u>674,252</u>	<u>652,433</u>
Fund Balance, end of year	<u>\$715,238</u>	<u>\$674,252</u>

Residential Garbage Service Fee Elimination

In 2007, the City adopted an ordinance (No. 1732) lowering the residential garbage service fees by more than 70% effective January 1, 2007. In 2008, the City adopted another ordinance (No. 1769) eliminating the residential garbage service fees. In 2011 and 2010, the City realized \$32,436 and \$34,062, respectively, in garbage service fees collected from its commercial garbage accounts.

Requests for Additional Information

The financial report is designed to provide the residents of the City, investors, creditors and other users with a general overview of the City's finances. Inquiries about this report or requests for additional information may be directed to the Director of Finance at the City of Mountain Brook, P. O. Box 130009, Mountain Brook, Alabama 35213-0009. Inquiries about The Emmet O'Neal Library Board and/or The Mountain Brook Library Foundation (the discretely presented component unit) may be directed to the Library Director at 50 Oak Street, Mountain Brook, Alabama 35213.

City of Mountain Brook, Alabama
Government-Wide Statement of Net Assets
September 30, 2011 with Comparative Data

	Governmental Activities		Component Unit Library Foundation
	2011	2010	2011
ASSETS			
CURRENT ASSETS			
Cash and temporary investments	\$ 37,285,133	\$ 39,159,087	\$ 0
Receivables	2,693,453	3,573,555	0
Notes receivable	121,629	132,288	0
Due from related organization	84,874	81,745	0
Inventory and prepaid expenses	110,366	117,586	0
Cash and temporary investments - restricted	140,760	109,062	2,498,089
TOTAL CURRENT ASSETS	40,436,215	43,173,323	2,498,089
NONCURRENT ASSETS			
Notes receivable	288,528	375,212	0
Net pension asset	10,043,061	9,784,928	0
Net OPEB asset	667,403	365,777	0
Capital assets, net of accumulated depreciation	41,726,089	34,453,482	0
Land	18,698,005	18,481,042	552,611
Construction in progress	7,062,710	9,894,114	0
TOTAL NONCURRENT ASSETS	78,485,796	73,354,555	552,611
TOTAL ASSETS	118,922,011	116,527,878	3,050,700
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	1,105,463	2,263,644	0
Accrued salaries and wages	575,323	1,010,684	0
Accrued interest payable	87,141	90,628	0
Due to related organization	51,855	47,761	0
Other current liabilities	1,810,990	1,402,796	0
Long-term debt	190,000	180,000	0
TOTAL CURRENT LIABILITIES	3,820,772	4,995,513	0
NONCURRENT LIABILITIES			
Compensated absences	2,517,945	2,387,454	0
Long-term debt	4,285,000	4,475,000	0
Other liabilities	1,194,017	2,138,955	0
TOTAL NONCURRENT LIABILITIES	7,996,962	9,001,409	0
TOTAL LIABILITIES	11,817,734	13,996,922	0
PENSION OBLIGATION (SEE NOTE 6)			
NET ASSETS			
Invested in capital assets (net of related debt)	63,011,804	58,173,638	552,611
Restricted	1,249,072	1,178,380	2,498,089
Unrestricted	42,843,401	43,178,938	0
TOTAL NET ASSETS	\$ 107,104,277	\$ 102,530,956	\$ 3,050,700

See accompanying notes to basic financial statements.

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City of Mountain Brook, Alabama
Government-Wide Statement of Activities
For the Year Ended September 30, 2011 with Comparative Data

Program Activities	Program Revenues			
Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:				
General government	\$ 3,924,528	\$ 2,590,651	\$ 904,276	\$ 0
Public safety	14,148,930	2,150,626	16,450	3,976
Street and sanitation	8,505,687	135,346	227,618	3,492,971
Recreational	1,764,768	113,880	43,925	41,425
Library	2,889,717	74,593	38,354	65,571
Total	\$ 31,233,630	\$ 5,065,096	\$ 1,230,623	\$ 3,603,943
Component unit:				
Library Foundation	\$ 68,361	\$ 0	\$ 187,632	\$ 0

General revenues:

Taxes:

Ad Valorem (real and personal property)

Sales and use

Other taxes

Occupational license fees

Utility taxes

Franchise fees

Investment earnings (loss)

Gain (loss) on sale/disposal of capital assets

Miscellaneous revenues

Transfers

Total general revenues and transfers

Change in net assets

Net assets at beginning of year (as originally reported)

Prior period adjustments

Net assets at beginning of year (as restated)

Net assets at end of year

See accompanying notes to basic financial statements.

2011		2010	
Total Net (Expense)	Total Net (Expense)	2011	2010
Revenue and Changes in Net Assets	Revenue and Changes in Net Assets	Component Unit (Library Foundation)	Component Unit (Library Foundation)
\$ (429,601)	\$ (705,311)	\$ 0	\$ 0
(11,977,878)	(11,368,398)	0	0
(4,649,752)	(4,257,050)	0	0
(1,565,538)	(1,403,764)	0	0
(2,711,199)	(2,691,256)	0	0
<u>(21,333,968)</u>	<u>(20,425,779)</u>		
		<u>119,271</u>	<u>90,963</u>
14,969,921	15,370,449	0	0
8,732,996	8,193,985	0	0
149,793	151,097	0	0
0	0	0	0
1,460,206	1,450,440	0	0
560,903	506,999	0	0
655,861	1,195,866	(43,147)	251,221
(753,165)	149,027	0	0
11,355	20,938	3,600	0
119,419	34,469	(119,419)	(34,469)
<u>25,907,289</u>	<u>27,073,270</u>	<u>(158,966)</u>	<u>216,752</u>
4,573,321	6,647,491	(39,695)	307,715
102,530,956	86,071,960	3,090,395	2,782,680
0	9,811,505	0	0
<u>102,530,956</u>	<u>95,883,465</u>	<u>3,090,395</u>	<u>2,782,680</u>
<u>\$ 107,104,277</u>	<u>\$ 102,530,956</u>	<u>\$ 3,050,700</u>	<u>\$ 3,090,395</u>

City of Mountain Brook, Alabama
Balance Sheet
Governmental Funds
September 30, 2011

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and temporary investments \$	9,790,734	\$ 23,589,897	\$ 3,904,502	\$ 37,285,133
Cash and temporary investments - restricted	140,760	0	0	140,760
Receivables	2,056,819	650,942	70,566	2,778,327
Inventory and prepaid expenses	<u>110,366</u>	<u>0</u>	<u>0</u>	<u>110,366</u>
TOTAL ASSETS	\$ <u>12,098,679</u>	\$ <u>24,240,839</u>	\$ <u>3,975,068</u>	\$ <u>40,314,586</u>
LIABILITIES				
Accounts payable	\$ 527,402	\$ 521,108	\$ 6,953	\$ 1,055,463
Accrued salaries and wages	589,081	0	0	589,081
Other liabilities	<u>1,009,087</u>	<u>0</u>	<u>0</u>	<u>1,009,087</u>
TOTAL LIABILITIES	<u>2,125,570</u>	<u>521,108</u>	<u>6,953</u>	<u>2,653,631</u>
Pension obligation (see Note 6)				
FUND BALANCES				
Nonspendable	110,366	0	0	110,366
Restricted	0	0	1,249,072	1,249,072
Committed	53,455	23,719,731	0	23,773,186
Assigned	2,117,555	0	2,719,043	4,836,598
Unassigned	<u>7,691,733</u>	<u>0</u>	<u>0</u>	<u>7,691,733</u>
TOTAL FUND BALANCES	<u>9,973,109</u>	<u>23,719,731</u>	<u>3,968,115</u>	<u>37,660,955</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>12,098,679</u>	\$ <u>24,240,839</u>	\$ <u>3,975,068</u>	\$ <u>40,314,586</u>

See accompanying notes to basic financial statements.

City of Mountain Brook, Alabama
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
September 30, 2011

Fund balance - total governmental funds		\$	37,660,955
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>			
Note receivable charged to capital outlay in the fund financial statements less principal recoveries.			360,157
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.</p>			
Governmental capital assets	\$	112,089,139	
Less accumulated depreciation		<u>(44,602,335)</u>	67,486,804
<p>Net pension assets are not current financial resources and therefore are not reported in the governmental funds balance sheet.</p>			
			10,043,061
<p>Net OPEB assets are not current financial resources and therefore are not reported in the governmental funds balance sheet.</p>			
			667,403
<p>Long-term liabilities are not due and payable in the current period and therefore, they are not reported in the governmental funds balance sheet.</p>			
Governmental bonds payable		(4,475,000)	
Compensated absences		(2,517,945)	
Accrued interest payable		(87,141)	
Accrued development agreement obligations		<u>(2,034,017)</u>	<u>(9,114,103)</u>
Net assets of governmental activities			\$ <u>107,104,277</u>

See accompanying notes to basic financial statements.

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City of Mountain Brook, Alabama
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2011

	<u>General</u>	<u>Capital Projects</u>
Revenues:		
Taxes	\$ 26,382,922	\$ 0
Licenses and permits	3,540,269	0
Intergovernmental	84,874	0
Charges for services	652,152	0
Fines and forfeitures	529,522	0
Grants	282,423	2,746,851
Other operating revenues	432,363	498,100
	<hr/>	<hr/>
Total revenues	31,904,525	3,244,951
	<hr/>	<hr/>
Expenditures:		
Current (operating):		
General government	4,868,781	4,488,545
Public safety	12,615,874	543,658
Street and sanitation	6,036,984	3,443,420
Recreational	1,195,140	755,282
Library	2,566,156	0
Debt service:		
Principal	0	0
Interest	0	0
	<hr/>	<hr/>
Total expenditures	27,282,935	9,230,905
	<hr/>	<hr/>
Excess (deficiency) of revenues over expenditures	4,621,590	(5,985,954)
	<hr/>	<hr/>
Other financing sources (uses):		
Operating transfers in	0	3,226,893
Operating transfers (out)	(3,760,668)	(358,556)
Operating transfers in - component unit	119,419	0
Donations	68,070	207,804
	<hr/>	<hr/>
Total other financing sources (uses)	(3,573,179)	3,076,141
	<hr/>	<hr/>
Excess of revenues and other financing sources over expenditures and other financing uses	1,048,411	(2,909,813)
	<hr/>	<hr/>
Fund balances, beginning of year	8,924,698	26,629,544
	<hr/>	<hr/>
FUND BALANCES, END OF YEAR	\$ 9,973,109	\$ 23,719,731
	<hr/>	<hr/>

See accompanying notes to basic financial statements.

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 411,995	\$ 26,794,917
0	3,540,269
0	84,874
329,353	981,505
177,892	707,414
0	3,029,274
179,391	1,109,854
<u>1,098,631</u>	<u>36,248,107</u>
219,618	9,576,944
393,012	13,552,544
603,569	10,083,973
0	1,950,422
0	2,566,156
180,000	180,000
178,556	178,556
<u>1,574,755</u>	<u>38,088,595</u>
<u>(476,124)</u>	<u>(1,840,488)</u>
892,331	4,119,224
0	(4,119,224)
0	119,419
0	275,874
<u>892,331</u>	<u>395,293</u>
416,207	(1,445,195)
<u>3,551,908</u>	<u>39,106,150</u>
<u>\$ 3,968,115</u>	<u>\$ 37,660,955</u>

City of Mountain Brook, Alabama
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balance of Governmental Funds to the Government-wide Statement of Activities
September 30, 2011

Net change in fund balances - total governmental funds	\$	(1,445,195)
Amounts reported for governmental activities in the statement of activities are different because:		
Construction loan principal receipts charged to other operating revenues in the governmental funds and as a reduction in the note receivable in the statement of activities.		(97,343)
Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Expenditures for capital assets	\$ 9,646,113	
Less current year depreciation	<u>(4,248,840)</u>	5,397,273
Net book value of assets disposed during the year.		(789,107)
Capital asset accrued in the government-wide statement of net assets.		50,000
The net effect of transactions involving net pension assets is to increase net assets.		258,133
The net effect of transactions involving net OPEB assets is to increase net assets.		301,626
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		180,000
Repayment of development fee obligation in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		844,938
Some expenses reported in the government-wide statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in long-term compensated absences	(130,491)	
Change in accrued interest payable	<u>3,487</u>	<u>(127,004)</u>
Change in net assets of governmental activities	\$	<u>4,573,321</u>

See accompanying notes to basic financial statements.

City of Mountain Brook, Alabama
Statement of Fiduciary Net Assets
Other Post-Employment Benefits Trust Fund
September 30

	<u>2011</u>	<u>2010</u>
ASSETS		
Certificates of deposit, at fair value	\$ <u>613,573</u>	\$ <u>403,024</u>
TOTAL ASSETS	613,573	403,024
LIABILITIES		
Accounts payable and accrued liabilities	<u>0</u>	<u>0</u>
TOTAL LIABILITIES	0	0
NET ASSETS HELD IN TRUST FOR OTHER POST-EMPLOYMENT BENEFITS	<u>\$ 613,573</u>	<u>\$ 403,024</u>

See accompanying notes to basic financial statements.

**City of Mountain Brook, Alabama
Statement of Changes in Fiduciary Net Assets
Other Post-Employment Benefits Trust Fund
Year Ended September 30**

	<u>2011</u>	<u>2010</u>
ADDITIONS		
Contributions		
Employer	\$ 564,016	\$ 522,671
Plan members	124,616	151,601
Investment earnings	<u>10,549</u>	<u>6,704</u>
 TOTAL ADDITIONS	 <u>699,181</u>	 <u>680,976</u>
 DEDUCTIONS		
Benefits	483,632	473,272
Administrative expense	<u>5,000</u>	<u>1,000</u>
 TOTAL DEDUCTIONS	 <u>488,632</u>	 <u>474,272</u>
 NET INCREASE	 210,549	 206,704
 Net assets held in trust for other post-employment benefits, beginning of year	 <u>403,024</u>	 <u>196,320</u>
 NET ASSETS HELD IN TRUST FOR OTHER POST-EMPLOYMENT BENEFITS, END OF YEAR	 <u>\$ 613,573</u>	 <u>\$ 403,024</u>

See accompanying notes to basic financial statements.

City of Mountain Brook, Alabama

Notes to Financial Statements

1. Summary of significant accounting policies

The City of Mountain Brook, Alabama (the City) was incorporated on March 24, 1942. 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 all of whom are elected at-large. The members of the City Council and Mayor hold office for four year terms. The terms of office for the elected officials are staggered (beginning in October 2004) with Council places 1, 3, and 5 coming up for election in even years and Council places 2 and 4 and the Mayor's office coming up for election in odd years. The next election is scheduled for August 28, 2012. The City Manager is appointed by the City Council as the executive officer to serve at the will and pleasure of that body. The Mayor and members of the City Council receive no salary or other compensation for their service to the City.

A. Accounting and reporting

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

B. Related organizations

The City is also responsible for appointing the Board of Trustees of the Mountain Brook 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.

During years ended September 30, 2011 and 2010, the City reported the following revenues from the Board:

	<u>2011</u>	<u>2010</u>
General Fund		
Proceeds from the sale of real property	\$ 0	\$ 150,000
Athletic fields shared maintenance	84,874	81,745
High school sewer treatment facility maintenance	7,200	7,200
Reimbursed services	<u>0</u>	<u>1,081</u>
Total	\$ <u>92,074</u>	\$ <u>240,026</u>

City of Mountain Brook, Alabama

Notes to Financial Statements

At September 30, 2011 and 2010, the City reported receivables from the Board in the amounts as follows (See Note 3):

	2011	2010
General Fund		
Note receivable	\$ 50,000	\$ 100,000
Athletic field shared maintenance	84,874	81,745
Total	\$ 134,874	\$ 181,745

The City receives 36.7 mills of the 99.0 mill property tax (Note 1.Q.) from Jefferson County. From the 36.7 mills, the City transfers 10.6 mills to the Board. For financial reporting purposes, the City includes the net property tax of 26.1 mills in its General Fund revenues. At September 30, 2011 and 2010, the City owed the Board \$51,855 and \$47,761, respectively, for its share of property taxes which is included in other liabilities of the General Fund.

In 1998, the City agreed to serve as the fiscal agent for the third phase of the Board's improvements to the community athletic fields. The improvements totaling approximately \$1 million were financed through the issuance of Series 1998-A general obligation warrants. The athletic fields are maintained by the City's Parks and Recreation Department. The routine maintenance of the fields are shared by the City (1/3), the Board (1/3), two unaffiliated local athletic groups - Mountain Brook Athletics, Inc. (1/6), and Mountain Brook Soccer Club, Inc. (1/6).

In 2005, the City entered into a long-term lease agreement with the Mountain Brook Sports Park Foundation (MBSPF), a non-profit organization. Under the terms of the agreement, MBSPF was granted the right to use City land to be used primarily for community soccer fields. MBSPF paid for the construction of such fields from private donations and a \$500,000 loan from the City. The construction costs totaled \$1,952,936. In 2009, MBSPF constructed a restroom/concession stand at the complex which was financed from private donations, a contribution from the City in the amount of \$62,500, and a loan from the City in the amount of \$62,500. The outstanding loan balance of \$360,157 has been presented as a note receivable in the statement of net assets.

During the years ended September 30, 2011 and 2010, the City reported the following transactions in conjunction with the above joint ventures which are included in the General Fund in the accompanying financial statements:

City of Mountain Brook, Alabama

Notes to Financial Statements

	<u>2011</u>	<u>2010</u>
Revenues		
The Board	\$ 41,425	\$ 38,376
Mountain Brook Athletics, Inc.	20,713	19,188
Mountain Brook Soccer Club, Inc.	20,712	19,188
Investment income	0	0
Total revenues	<u>82,850</u>	<u>76,752</u>
Expenditures		
Recreational (operating and maintenance)	124,016	115,518
Capital outlay (\$1,952,936 cumulative)	0	0
Total expenditures	<u>124,016</u>	<u>115,518</u>
Other financing sources (uses), net		
Transfers to City General Fund	(18,819)	52,859
Donations	60,244	48,000
Net other financing sources	<u>41,425</u>	<u>100,859</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other assets	259	62,093
Fund balance (deficit) at the beginning of the year	<u>(259)</u>	<u>(62,352)</u>
Fund balance (deficit) at the end of the year	\$ <u>0</u>	\$ <u>(259)</u>

The City and School Board fulfilled their respective financial commitments in 2005. The general obligation warrants were repaid in 2008 with funds donated to the City for that purpose.

Another related organization is the Mountain Brook Library Foundation. The Foundation is a non-profit organization formed for the benefit of the Emmet O'Neal Library, a department of the City. Several of the Foundation's Board members are also members of The Emmet O'Neal Library Board. The Library Foundation has received contributions from residents which were utilized to construct, furnish, and equip the City's new library facilities. These facilities were contributed to the City of Mountain Brook during 2001, and are included in the accompanying financial statements.

The financial position and results of operations of the Foundation are reported as a component unit of the City in the accompanying government-wide financial statements. A copy of the Foundation's audited financial statements can be obtained from the Library.

City of Mountain Brook, Alabama

Notes to Financial Statements

C. Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds and component units that are fiduciary in nature.

Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

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

D. Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for in 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 had no proprietary funds at year end). An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund are at least ten percent (10%) of the corresponding total for all funds of that category or type; and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least five percent (5%) of the corresponding total for all governmental funds combined.

The funds of the financial reporting entity are described below:

Governmental funds

A. General Fund

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

City of Mountain Brook, Alabama

Notes to Financial Statements

B. 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.

C. Debt Service Funds

Debt Service Fund is used to account for financial resources related the City's debt service. In addition, the City is accumulating resources in the Debt Service Fund for future repayment of its unfunded pension obligation (see Note 6).

D. Capital Project Funds

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

Major and non-major funds

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

The Special Revenue Fund and Debt Service Fund are classified as non-major and are described above.

E. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of intrafund loans, if any.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party such as residents, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

City of Mountain Brook, Alabama

Notes to Financial Statements

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City ordinance.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

City of Mountain Brook, Alabama

Notes to Financial Statements

Fund Balances	General	Capital Projects	Other Governmental Funds	Total
<u>Nonspendable</u>				
Prepaid expenses	50,755	0	0	50,755
Inventory	59,611	0	0	59,611
Total Nonspendable	110,366	0	0	110,366
<u>Restricted:</u>				
Emergency Communication District (E-911)	0	0	533,834	533,834
State Gasoline Taxes:				
5 Cent	0	0	146,108	146,108
7 Cent	0	0	157,260	157,260
4 Cent	0	0	392,338	392,338
2 Cent	0	0	19,532	19,532
Corrections Fund	0	0	0	0
Total Restricted	0	0	1,249,072	1,249,072
<u>Committed:</u>				
Capital Projects	0	23,719,731	0	23,719,731
Library Endowment	53,455	0	0	53,455
Total Committed	53,455	23,719,731	0	23,773,186
<u>Assigned:</u>				
Unanticipated storm debris removal	2,002,845	0	0	2,002,845
Debt Service Fund	0	0	2,719,043	2,719,043
Asset Forfeitures	23,885	0	0	23,885
Library Book Fund	80,519	0	0	80,519
Community Fund	10,306	0	0	10,306
Total Assigned	2,117,555	0	2,719,043	4,836,598
<u>Unassigned</u>	<u>7,691,733</u>	<u>0</u>	<u>0</u>	<u>7,691,733</u>
Total Fund Balances \$	\$ 9,973,109	\$ 23,719,731	\$ 3,968,115	\$ 37,660,955

City of Mountain Brook, Alabama

Notes to Financial Statements

F. Measurement focus and basis of accounting

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

Measurement focus

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

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

Basis of accounting

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

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

G. Encumbrances

In the Fund Financial Statements, the City does not utilize encumbrance accounting techniques which means that fund balances are not committed or assigned upon the issuance of purchase orders. Expenditures are recorded upon the impairment of an asset.

H. Worker's compensation

The City provides workers' compensation coverage to its employees as required by law. The City has elected to self-insure with respect to its workers' compensation claims risk and has contracted with a third-party administrator to provide claims management services. In order to limit its exposure to claims risk, the City has purchased excess loss

City of Mountain Brook, Alabama

Notes to Financial Statements

insurance coverage. The excess loss insurance pays the remainder of statutory obligations over the first \$500,000 for specific claims and up to \$2,000,000 after the first \$1,504,439 in the aggregate during the two year policy term. Workers' compensation cost charged by the City during 2011 and 2010 was approximately \$597,000 and \$227,500, respectively. The accompanying financial statements include an estimated accrual of reported but unpaid workers' compensation claims as of September 30, 2011 and September 30, 2010 in the amount of \$678,400 and 287,500, respectively.

I. Cash and temporary investments

Cash resources of various funds are combined to form a cash and investment pool. Interest from this pool is allocated monthly to each fund based on their respective month-end cash and investment balances. Restricted cash and temporary investments of \$140,760 represent temporary and permanently restricted funds donated to the Emmet O'Neal Library, a department of the City.

J. Receivables

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

In the fund financial statements, material 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. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available.

K. Equity classifications

Government-wide Statements

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

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

City of Mountain Brook, Alabama

Notes to Financial Statements

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified in accordance with section E. of this note.

L. Long-term debt

The accounting treatment of long-term debt depends on whether the assets are reported in the government-wide or fund financial statements.

All long-term debts to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable and accrued compensated absences.

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

M. Compensated absences

Full-time City employees earn sick leave at the rate of one day per month of service and can accumulate up to sixty days of sick leave. Vacation leave is earned at graduated rates based on length of service (one day per month of service initially, one and one-half days per month of service after twelve years, and two days per month of service after twenty-five years). Employees are allowed to accumulate up to forty days of vacation leave (sixty for sworn police officers and firefighters).

A full-time employee may retire after twenty-five years of creditable service or after attaining sixty years of age with at least ten years of creditable service. A retiring employee or separating employee in good standing receives termination pay equivalent to their unused vacation pay not to exceed forty days. In addition, a retiring employee or separating employee in good standing with five years of service receives termination pay based on 50% of their accrued sick leave limited to thirty days pay.

The Government-wide Statement of Net Assets includes a non-current liability for compensated absences in the amount of \$2,517,945 as of September 30, 2011 and \$2,387,454 as of September 30, 2010. The City paid \$13,758 and \$-0- after September 30, 2011 and 2010, respectively, representing all vested compensated absences to employees who retired or otherwise ended their employment with the City prior to year end. Such amounts have been reported as current liabilities in the Government-Wide Statement of Activities.

N. Longevity pay plan

The City has a longevity pay plan which covers all full-time employees that have completed a minimum of six years of service as of September 30. Longevity pay for a qualifying employee is the product of the percentage factor (which is based on the number of years of completed services) and their annual rate of pay. The percentage factor is 1.5% after six years and increases 0.5% per year to a maximum rate of 8.5% which is attained after twenty years of service. The plan also limits the City's maximum annual longevity pay to a total of \$420,000. The City has adopted the informal policy of liquidating the liability for longevity pay in November of each year. The liability for

City of Mountain Brook, Alabama

Notes to Financial Statements

longevity pay as of September 30, 2011 and September 30, 2010 reported in the Government-Wide and Fund financial statements totaled \$409,888 and \$409,480, respectively.

O. Holiday pay

Holiday pay can be accumulated (principally police and fire personnel) up to 80 hours. Accumulations in excess of 80 hours are not permitted and such time is paid to employees as earned.

P. Pension expense

All full-time employees participate in the City's defined benefit pension plan. The City funds pension expense as actuarially determined and required by the plan (Note 6).

Q. Intrafund transactions

During the course of normal operations, the City incurs numerous transactions between funds to provide services, construct or acquire 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. Following is a summary of the operating transfers between funds during the year ended September 30, 2011:

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>
Operating transfers in (out):			
Capital transfer for the payment of current year asset acquisitions and the future replacement of capital assets	\$ (3,226,893)	\$ 3,226,893	\$ 0
Corrections fund transfer to fund operations	(133,775)	0	133,775
Debt service transfer for the accumulation of funds for the future repayment of City obligations	(300,000)	0	300,000
Debt service fund transfer for the repayment of General Obligation principal and interest	0	(358,556)	358,556
Gasoline tax fund transfer to supplement the annual street resurfacing program	(100,000)	0	100,000
Operating transfers, net	\$ (3,760,668)	\$ 2,868,337	\$ 892,331

Intrafund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. The purpose of the intrafund receivable balance, if any, to non-major governmental funds from the General fund is for the reimbursement of operating expenditures paid from non-major governmental funds on behalf of the General fund.

Permanent reallocations of resources between funds of the reporting entity are classified as intrafund transfers. For the purposes of the Statement of Activities, all intrafund transfers between individual governmental funds have been eliminated.

City of Mountain Brook, Alabama

Notes to Financial Statements

R. Property taxes

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

For years beginning October 1, 1996, assessed values are calculated by multiplying the market value by the following percentages:

Residential owner occupant	10%
All other	20%

Millage distributions for real and personal property located within the City's corporate limits are as follows:

<u>Entity</u>	<u>Mills</u>	<u>Amount Per \$100 of Assessed Value</u>
State of Alabama	6.5	\$0.65
Jefferson County Commission	13.5	1.35
County-wide school tax	8.2	0.82
Mountain Brook Board of Education	44.7	4.47
City of Mountain Brook General Fund	<u>26.1</u>	<u>2.61</u>
	<u>99.0</u>	<u>\$9.90</u>

S. Major revenue sources and taxpayers

The City's primary sources of revenue include ad valorem taxes, sales and use taxes, and business licenses. Collectively, these taxes and licenses totaled approximately \$25.8 million or 82% of the total General Fund revenues during the year ended September 30, 2011. Of the City's taxpayers, Macy's Department Store, Alabama Power Company, Western Supermarket, Publix (grocery store), Whole Foods, Energen Corporation (gas company), Diamonds Direct, Piggly Wiggly grocery stores, and Marcus Cable (doing business as Charter Communications) collectively, provided approximately \$6.0 million or 19% of the City's total General Fund revenues during the year ended September 30, 2011.

T. 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:

City of Mountain Brook, Alabama

Notes to Financial Statements

Governmental Funds -

By Character: Current (further classified by function and includes Capital Outlay) Debt Service

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

U. Inventory

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

V. Comparative Data

Comparative total data for the prior year has been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the City's financial position and operations. Certain reclassifications have been made to previous year's presentation to conform with the current year presentation. Such reclassifications have had no net effects on the statements previously reported.

W. Fixed Assets

The accounting treatment over 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 \$1,000 (amounts not rounded) and an estimated useful life in excess of one year are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Historical cost was used to value the majority of the assets.

Prior to October 1, 2003, governmental funds' infrastructure assets were not capitalized. These assets have been valued at historical cost or estimated historical costs.

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 asset is as follows:

- Buildings 20-50 years
- Improvements 10-50 years
- Machinery and Equipment 3-20 years
- Infrastructure 5-75 years

Fund financial statements

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

City of Mountain Brook, Alabama

Notes to Financial Statements

X. 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.

2. Deposits and investments, interest rate risk, credit risk, and custodial risk

At September 30, 2011, the City had the following cash and investments and maturities:

	Investment Maturities in Years			
	Fair Value	Less Than 1	1 - 2	3 - 5
Cash on-hand	\$ 2,960	\$ 2,960	\$ 0	\$ 0
Bank deposits	7,917,505	7,917,505	0	0
Investments:				
Cash and money market accounts	608,220	608,220	0	0
Certificates of deposit	28,880,935	6,005,039	14,960,107	7,915,789
U. S. Treasury bonds/notes	397	0	397	0
576 shares VMC common stock (donated)	15,876	0	0	15,876
Total portfolio	\$ 37,425,893	\$ 14,533,724	\$ 14,960,504	\$ 7,931,665

At September 30, 2011, the discretely presented component unit had the following cash and investments and maturities:

	Investment Maturities in Years			
	Fair Value	Less Than 1	1 - 2	3 - 5
Bank deposits	\$ 265,469	\$ 265,469	\$ 0	\$ 0
Money market	251,974	251,974	0	0
Mutual funds	1,980,646	1,980,646	0	0
Total portfolio	\$ 2,498,089	\$ 2,498,089	\$ 0	\$ 0

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 General Fund investments to those with maturities of two years or less and Capital Project and Debt Service Fund investments to those with maturities of five years or less. Cash and investment maturities (excluding the discretely presented component unit) as of September 30, 2011, were as follows:

City of Mountain Brook, Alabama

Notes to Financial Statements

<u>Maturity</u>	<u>Portion of Portfolio</u>
Less than one year	38.83%
1 - 2 years	39.97%
3 - 5 years	21.20%
	<u>100.00%</u>

Credit Risk. Act No. 2000-748 of the Code of Alabama requires that all public deposits held in banks be secured by collateral pledged to the Security for Alabama Funds Enhancement (SAFE) collateral pool established in the Office of the State Treasurer. The City's policy is to deposit funds only in financial institutions that are qualified public depositories of the State of Alabama SAFE program. All of the City's bank deposits are either insured by Federal Depository Insurance (FDIC) or collateralized in accordance with Act 2000-748. The City had no uninsured bank deposits at September 30, 2011. The discretely presented component unit had bank deposits in excess of insurance limits at September 30, 2011 in the amount of \$15,469.

The City's investment policy allows for up to 100% of the portfolio to be invested in direct obligations of the U.S. government or federal agencies thereof in accordance with Sec. 11-81-19 and 11-81-21 of the Code of Alabama. At September 30, 2011, the City had invested \$28.8 million in certificates of deposit and \$400 in direct obligations of the U. S. Treasury. Of the City's \$28.8 million investment in certificates of deposit, the City had not invested more than \$250,000 with any financial institution located outside of the State of Alabama. Accordingly, the City had no uninsured certificates of deposit at September 30, 2011. Following is a summary of the City's top holdings in its cash and investment portfolio:

Description/Creditor	Fair Value	Portion of Portfolio
Regions Bank (cash deposit accounts)	\$ 7,912,505	21.14%
Morgan Stanley (cash, deposits, money market funds)	608,220	1.63%
Various financial institutions - certificates of deposit	28,880,935	77.17%
	<u>\$ 37,401,660</u>	<u>99.94%</u>

The discretely presented component unit does not follow the investment policies of the City. Their policy allows for investments that may potentially produce the highest returns on capital. The following are the holdings in the discretely presented component unit's cash and investment portfolio:

City of Mountain Brook, Alabama

Notes to Financial Statements

Description	CUSIP	Fair Value	Portion of Portfolio
Bank demand deposit accounts		\$ 265,469	10.63%
Prime Money Market Fund		251,974	10.09%
Chase Growth Fund (18,622.453 shares)	CHASX	299,821	12.00%
Dodge & Cox International Stock (8,389.799 shares)	DODFX	241,542	9.67%
Longleaf Partner Family Value Tr #133 (11,222.444 shares)	LLPFX	278,766	11.16%
PIMCO All Asset Fund Institutional Class (38,085.973 shares)	PAAIX	437,989	17.53%
PIMCO Low Duration Fund Institutional Class (29,710.450 shares)	PTLDX	305,423	12.23%
Vanguard Convert Securities (35,895.411 shares)	VCVSX	417,105	16.69%
		<u>\$ 2,498,089</u>	<u>100.00%</u>

Custodial Risk. For an investment, custodial 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 investments in certificates of deposit and U. S. Treasury Notes are held in trust by the City's custodians in the name of the custodian. The discretely presented component unit's investments are held in book entry form and in trust by its custodian in the name of the custodian.

3. Receivables

Receivables at September 30, 2011, consisted of the following:

	General Fund	Capital Projects	Other Governmental Funds	Total
Taxes	\$ 1,650,855	\$ 0	\$ 37,156	\$ 1,688,011
E-911 surcharge	0	0	33,410	33,410
Board of Education	84,874	0	0	84,874
Grants	225,331	650,942	0	876,273
Other	95,759	0	0	95,759
	<u>\$ 2,056,819</u>	<u>\$ 650,942</u>	<u>\$ 70,566</u>	<u>\$ 2,778,327</u>

The City loaned the Mountain Brook Sports Park Foundation (MBSPF), a nonprofit organization established to raise funds for the exclusive benefit of Mountain Brook Soccer Club, \$500,000 for their initial (2005) construction of athletic playing fields and \$62,500 for their (2009) construction of a concession/restroom facility at the fields (Note 1.B.). The terms of the loan were renegotiated in May 2011. The loan is to be repaid in sixty (60) monthly installments of \$7,061 including interest at 4% beginning in June 2011. The outstanding balance reported in the statement of net assets at September 30, 2011 totaled \$360,157 of which \$71,629 is expected to be repaid within the next fiscal year once the repayment terms are renegotiated. The City collected \$12,901 in interest during 2011.

City of Mountain Brook, Alabama

Notes to Financial Statements

4. Capital assets

Following is a summary of the changes in the City's capital assets for the year ended September 30, 2011:

	<u>Balance at September 30, 2010</u>	<u>Additions</u>	<u>Disposals/ Retirements/ Completed</u>	<u>Balance at September 30, 2011</u>
Capital assets, not being depreciated:				
Land	\$ 18,481,042	\$ 216,963	\$ 0	\$ 18,698,005
Construction in progress	<u>9,894,114</u>	<u>7,907,641</u>	<u>(10,739,045)</u>	<u>7,062,710</u>
Total capital assets, not being depreciated	<u>28,375,156</u>	<u>8,124,604</u>	<u>(10,739,045)</u>	<u>25,760,715</u>
Capital assets, being depreciated:				
Land improvements	3,003,891	43,659	(7,670)	3,039,880
Buildings and improvements	10,381,720	41,967	40,982	10,464,669
Machinery and equipment	18,500,023	742,039	(434,033)	18,808,029
Infrastructure	<u>45,229,213</u>	<u>743,844</u>	<u>8,042,789</u>	<u>54,015,846</u>
Total capital assets, being depreciated	<u>77,114,847</u>	<u>1,571,509</u>	<u>7,642,068</u>	<u>86,328,424</u>
Less accumulated depreciated for:				
Land improvements	301,958	31,871	(5,810)	328,019
Buildings and improvements	3,789,899	361,219	(1,486,133)	2,664,985
Machinery and equipment	12,068,992	1,629,336	(428,061)	13,270,267
Infrastructure	<u>26,500,516</u>	<u>2,226,414</u>	<u>(387,866)</u>	<u>28,339,064</u>
Total accumulated depreciation	<u>42,661,365</u>	<u>4,248,840</u>	<u>(2,307,870)</u>	<u>44,602,335</u>
Total capital assets, being depreciated, net	<u>34,453,482</u>	<u>(2,677,331)</u>	<u>9,949,938</u>	<u>41,726,089</u>
Governmental activities capital assets, net	<u>\$ 62,828,638</u>	<u>\$ 5,447,273</u>	<u>\$ (789,107)</u>	<u>\$ 67,486,804</u>

City of Mountain Brook, Alabama

Notes to Financial Statements

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

Governmental activities:	
General government	\$ 55,158
Public safety	1,056,007
Street and sanitation	1,833,978
Recreational	563,431
Library	<u>740,266</u>
Total depreciation expense	<u>\$ 4,248,840</u>

5. Long-term debt

Long-term debt outstanding as of September 30, 2011, consisted of the following:

	<u>Balance</u>
\$5,000,000 General Obligation Warrants, Series 2007 dated October 1, 2007 maturing annually on October 1 through the year 2027 plus interest payable on April 1 and October 1 at rates ranging from 3.875% to 4.0% (Note 9)	\$ <u>4,475,000</u>
Total	\$ <u>4,475,000</u>

The total interest paid by the City during 2011 relative to general obligation warrants was \$177,769. The current debt of the City supports the general government function and, as such, all interest expense has been charged to this function in the Government-Wide Statement of Activities. The total amount of interest charged to expense of the general government function for the year ended September 30, 2011 was \$174,281.

Following is a summary of long-term debt principal transactions for the year ended September 30, 2011:

	<u>Balance</u>
General obligation warrant balances at October 1, 2010	\$ 4,655,000
Principal payments:	
\$5,000,000 General Obligation Warrants, Series 2007	<u>(180,000)</u>
General obligation warrant balances at September 30, 2011	\$ <u>4,475,000</u>

The future principal and interest maturities on the general obligation warrants by fiscal year are as follows:

City of Mountain Brook, Alabama

Notes to Financial Statements

Fiscal Year	Principal	Interest	Total
2012	\$ 190,000	\$ 170,600	\$ 360,600
2013	195,000	163,141	358,141
2014	205,000	155,391	360,391
2015	210,000	147,350	357,350
2016	220,000	139,019	359,019
Thereafter	3,455,000	877,147	4,332,147
Totals	\$ 4,475,000	\$ 1,652,648	\$ 6,127,648

6. Pension plan**A. Plan description**

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

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

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

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

City of Mountain Brook, Alabama

Notes to Financial Statements

B. Funding

The RSA requires that covered employees contribute to the pension plan at the rate of 5% of compensation (6% for sworn police officers and firefighters). In addition, the RSA requires that the City remit monthly matching contributions to the pension plan. The City's matching contributions are actuarially determined annually and stated as a percentage of covered compensation. The City's actuarially determined matching contribution for the year ended September 30, 2011 was 9.96% of covered compensation.

For the year ended September 30, 2011, the City's total compensation was approximately \$13.6 million and the City's total covered compensation used to determine the City's pension contribution was approximately \$13.3 million. The City's policy is to fund the required contribution as actuarially determined by the RSA and stated as a percentage of eligible compensation; however, during 2008, 2007 and 2001, the City elected to contribute \$300,000, \$7 million and \$2 million, respectively, more than the actuarially determined required amount.

Following are the pension contributions for each fiscal year since January 1, 1995:

Year Ended September 30	Employer Contribution	Employer	Employee	Combined
1995*	5.48%	\$ 254,000	\$ 232,000	\$ 486,000
1996	5.48%	368,000	336,000	704,000
1997	6.70%	515,000	390,000	905,000
1998	8.25%	624,000	390,000	1,014,000
1999	9.45%	729,000	394,000	1,123,000
2000	9.45%	828,000	447,000	1,275,000
2001	9.45%	2,853,000	509,000	3,362,000
2002	9.45%	898,000	537,000	1,435,000
2003	8.31%	818,000	556,000	1,374,000
2004	9.83%	996,000	583,000	1,579,000
2005	10.90%	1,168,000	613,000	1,781,000
2006	10.90%	1,209,000	640,000	1,849,000
2007	11.51%	8,303,000	665,000	8,968,000
2008	7.98%	1,308,000	697,000	2,005,000
2009	9.06%	1,140,000	719,000	1,859,000
2010	8.84%	1,091,000	723,000	1,814,000
2011	9.96%	1,357,000	808,000	2,165,000

* Nine month period from January 1, 1995 through September 30, 1995.

City of Mountain Brook, Alabama

Notes to Financial Statements

C. Trend information

Following is the trend information from the most recent actuarial valuation dated September 30, 2010:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Negative)
1999	\$ 730,197	100%	\$ 0
2000	827,411	100%	0
2001	858,468	290%	(2,000,000)
2002	881,673	117%	(2,150,178)
2003	812,825	103%	(2,172,874)
2004	972,887	102%	(2,195,810)
2005	1,156,963	100%	(2,196,231)
2006	1,210,300	100%	(9,196,651)
2007	1,221,176	100%	(9,294,170)
2008	911,587	147%	(9,681,799)
2009	1,023,066	109%	(9,784,928)
2010	830,796	132%	(10,043,061)

D. Funding progress

Following is the schedule of funding progress obtained from most recent actuarial valuation prepared as of September 30, 2010:

Actuarial Valuation Date Sept. 30	Actuarial Value of Assets (a)	Actuarial Liability (AAL) -Entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Ratio of UAAL to Covered Payroll (b-a)/c
1996	\$ 11,432,073	\$ 15,123,539	\$ 3,691,466	75.6%	\$ 7,197,023	51.3%
1997	14,482,615	18,815,172	4,332,557	77.0%	7,745,713	55.9%
1998	16,250,881	20,474,800	4,223,919	79.4%	7,901,352	53.5%
1999	18,366,682	21,750,075	3,383,393	84.4%	7,965,312	42.5%
2000	20,708,080	25,584,241	4,876,161	80.9%	8,980,574	54.3%
2001	24,842,909	29,636,890	4,793,981	83.8%	9,282,996	51.6%
2002	26,589,001	33,716,032	7,127,031	78.9%	9,935,345	71.7%
2003	28,153,151	36,592,800	8,439,649	76.9%	9,994,458	84.4%
2004	29,873,086	37,849,401	7,976,315	78.9%	10,343,086	77.1%
2005	31,850,510	43,304,015	11,453,505	73.6%	11,079,436	103.4%
2006	40,804,372	47,811,288	7,006,916	85.3%	11,575,036	60.5%
2007	43,522,954	50,487,356	6,964,402	86.2%	12,117,551	57.5%
2008	44,857,398	53,591,533	8,734,135	83.7%	12,527,394	69.7%
2009	44,476,775	57,488,111	13,011,336	77.4%	12,980,770	100.2%
2010	43,435,390	60,671,273	17,235,883	71.6%	12,830,545	134.3%

City of Mountain Brook, Alabama

Notes to Financial Statements

E. Additional information

Following is additional information obtained from the most recent actuarial valuation:

Valuation date	September 30, 2010
Actuarial cost method	Entry age
Amortization method	Level percent open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	4.61 – 7.75%
Includes inflation at	4.50%
Cost-of-living adjustments	None
Number of active members	217
Number of retired members and beneficiaries	78
Annual retirement allowances	\$2,821,352

7. Post-employment benefits

Plan Description. The City of Mountain Brook’s medical benefits are provided to employees upon their retirement through participation in the Local Government Health Insurance Plan (LGHIP) administered by the State Employees’ Insurance Board (SEIB).

The employer pays a portion of the medical coverage for the retirees and dependents for a maximum of thirteen years after retirement or, if earlier, until the attainment of Medicare eligibility. Eligibility for post-retirement coverage is as follows: completion of 30 years of service at any age or 15 years of service at age 60. Periodically, eligibility is extended to employees at 20 years of service and any age or at age 60 and completion of 10 years of service. See the section below entitled "Expected Time of Commencement of Benefits" for the assumption as to time of actual retirement. Complete plan provisions are contained in the official plan documents.

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

Fund Policy. Until fiscal year ending September 30, 2006, the City of Mountain Brook recognized the cost of providing post-employment medical benefits (the City of Mountain Brook’s portion of the retiree medical benefit premiums) as an expense when the benefit premiums were due and thus financed the cost of the post-employment benefits on a pay-as-you-go basis. Effective with the Fiscal Year beginning October 1, 2006, the City of Mountain Brook implemented Government Accounting Standards Board Statement Number 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions (GASB 45). In fiscal year ending September 30, 2009, the City began funding the annual required contribution (ARC) by making additional contributions over and above of the current year’s retiree funding costs.

In the fiscal year ending September 30, 2011, the City of Mountain Brook’s portion of health care and dental funding cost for retired employees totaled \$364,016. These amounts were

City of Mountain Brook, Alabama

Notes to Financial Statements

applied toward the Net Other Post-Employment Benefits Obligation (OPEB) as shown in the table below.

Annual Required Contribution. The City of Mountain Brook's Annual Required Contribution (ARC) is an amount actuarially determined in accordance with GASB 45. The Annual Required Contribution (ARC) is the sum of the Normal Cost plus the contribution to amortize the Unfunded Actuarial Accrued Liability (UAAL). A level dollar, open amortization period of 30 years (the maximum amortization period allowed by GASB 43/45) has been used for the post-employment benefits. The total ARC for the fiscal year beginning October 1, 2010 is \$255,868, as set forth below:

	Medical
Normal Cost	\$ 98,471
30-year UAL amortization amount	<u>157,397</u>
Annual required contribution (ARC)	<u>\$ 255,868</u>

Net Post-employment Benefit Obligation (Asset). The table below shows the City of Mountain Brook's Net Other Post-employment Benefit (OPEB) Obligation (Asset) for fiscal year ending September 30, 2011:

	Medical
1. Beginning Net OPEB Obligation (Asset) 10/1/2010	\$ (365,777)
2. Annual required contribution	255,868
3. Interest on Net OPEB Obligation (Asset): [1] X 4%	(14,631)
4. ARC Adjustment: [1]/17.292	<u>(21,153)</u>
5. OPEB Cost: [2] + [3] - [4]	262,390
6. Contribution	200,000
7. Current year retiree premium	<u>364,016</u>
8. Change in Net OPEB Obligation: [5] - [6] - [7]	(301,626)
9. Ending Net OPEB Obligation: (Asset) 9/30/2011: [1] + [8]	<u>\$ (667,403)</u>

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

Post Employment Benefit	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation (Asset)
Medical/Dental	September 30, 2011	\$262,390	214.95%	\$(667,403)
Medical/Dental	September 30, 2010	287,773	182.03%	(365,777)
Medical/Dental	September 30, 2009	241,244	117.00%	(129,706)

Funded Status and Funding Progress. In each of the fiscal years ending September 30, 2011 and 2010, the City of Mountain Brook contributed \$200,000 to its post-employment benefits plan over and above the retiree premium costs. The plan, with accrued interest and

City of Mountain Brook, Alabama

Notes to Financial Statements

unrealized gains/losses, thus had assets of \$613,573 and \$403,024 as of September 30, 2011 and 2010, respectively. The Actuarial Accrued Liability (AAL) as of September 30, 2011, the end of the fiscal year, was \$3,249,729, which is defined as that portion, as determined by a particular actuarial cost method (the City of Mountain Brook uses the Projected Unit Credit Cost Method), of the actuarial present value of post-employment plan benefits and expenses which is not provided by normal cost. The development of the funded ratio and UAAL as a percentage of valuation payroll as of September 30, 2011 are set forth in the table below:

Actuarial Accrued Liability (AAL)	\$ 3,249,729
Actuarial Value of Plan Assets	<u>613,573</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>2,636,156</u>
Funded Ratio (Actuarial Value of Assets/AAL)	<u>18.88%</u>
Covered Payroll (active plan members)	<u>13,591,314</u>
UAAL as a percentage of covered payroll	<u>19.40%</u>

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

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

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

City of Mountain Brook, Alabama

Notes to Financial Statements

Actuarial Value of Plan Assets. Because of the nature of the investments in the trust, we have used actual market value as the actuarial value of assets. It is anticipated that in future valuations, should more volatile investments be used, a smoothed market value consistent with Actuarial Standards Board Actuarial Standards of Practice Number 6 (ASOP 6), as provided in paragraph number 125 of GASB Statement 45 would be used.

Turnover Rate. An age-related turnover scale based on actual experience as described by administrative staff has been used. The rates, when applied to the active employee census, produce an annual turnover of approximately 10%. The rates for each age are below:

Age	Percent Turnover
18 - 25	15.0%
26 - 40	12.0%
41 - 54	10.0%
55+	7.5%

Post-employment Benefit Plan Eligibility Requirements. It has been assumed that entitlement to benefits will commence three years after the earliest eligibility for retirement. Because of the variations in eligibility described under "Plan Terms" above, eligibility for retirement has been assumed to be the earlier of: (1), attainment of age 60 with at least fifteen (15) years of service, and (2), completion of thirty (30) years of service at any age. Entitlement to benefits ceases upon the earlier of thirteen years after retirement and the date the retiree becomes eligible for Medicare benefits (whether by age or disability).

Investment Return Assumption (Discount Rate). GASB Statement 45 states that the investment return assumption should be the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits. Since the ARC is currently being funded and invested with relatively conservative investments, we have performed this valuation using a 4% annual investment return assumption.

Health Care Cost Trend Rate. The expected rate of increase in medical cost is based on projections performed by the Office of the Actuary at the Centers for Medicare & Medicaid Services as published in National Health Care Expenditures Projections: 2003 to 2013, Table 3: National Health Expenditures, Aggregate and per Capita Amounts, Percent Distribution and Average Annual Percent Change by Source of Funds: Selected Calendar Years 1990-2013, released in January, 2004 by the Health Care Financing Administration (www.cms.hhs.gov). "State and Local" rates for 2008 through 2013 from this report were used, with rates beyond 2013 graduated down to an ultimate annual rate of 5.0% for 2016 and later.

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

Method of Determining Value of Benefits. The "value of benefits" has been assumed to be the portion of the premium after retirement date expected to be paid by the employer for

City of Mountain Brook, Alabama

Notes to Financial Statements

each retiree and has been used as the basis for calculating the actuarial present value of OPEB benefits to be paid. We have used the "unblended" rates provided as required by GASB 45 for valuation purposes.

8. Commitments and contingencies

The City is charged by the Jefferson County Commission for shared services. The assessments for shared services charged to the City during 2011 were as follows:

	<u>Amount</u>
Property tax commissions	\$ 193,913
Maintenance of maps and appraisals	159,999
Jefferson County Health Department	130,482
Birmingham-Jefferson County Transit Authority	75,490
Personnel Board of Jefferson County	150,652
Birmingham Regional Planning Commission	12,465

With the exception of the Personnel Board and Planning Commission costs, the above expenses are deducted from the ad valorem property taxes remitted by the Jefferson County Tax collector (Note 1.Q.) to the City of Mountain Brook. For financial reporting purposes, the City grosses-up the General Fund ad valorem tax revenues and general government expenditures by these amounts.

The City has arranged for an independent contractor, Waste Management Company, Inc., to provide for the collection and disposal of refuse and recyclable materials. The base rates for this service for the year ended September 30, 2011, were \$28.84 per month for single and multiple family residential units and \$35.87 per month for commercial units. The annual cost incurred under this agreement for the year ended September 30, 2011, was approximately \$2,602,500. Total garbage service fee revenues collected by the City from its commercial customers during the year were approximately \$32,436.

During 1999, the City entered into an agreement whereby the City, along with the City of Homewood, and Jefferson County (collectively referred to as "the Consortium") purchased approximately 16.6 acres of land and the buildings thereon from the Jefferson County Board of Education at a total cost of \$4,884,000. The City's share of the total purchase price totaled approximately \$1,050,000. In conjunction with the purchase, the consortium adopted covenants that expire at the end of seventy-five (75) years restricting the use of the property for programs and activities to benefit the community including, but not limited to: 1) public parks, playgrounds, or zoo; 2) schools, daycare, churches, or philanthropic organizations; 3) government buildings, libraries, community centers, museums, or art galleries; or 4) headquarters for scouting organizations or youth facilities.

In connection with the Consortium's purchase of the property and adoption of restrictive covenants, the City of Birmingham (Birmingham) agreed to lease the adjoining zoo property to Birmingham Zoo, Inc. (BZI), a newly formed non-profit private corporation, for a period twenty-five (25) years with two, twenty-five year renewal options. In consideration of Birmingham's agreement to subsidize the operations of BZI and its commitment to leave the zoo at its present location, the Consortium agreed to pay Birmingham annual installments of \$300,000 commencing in fiscal 1999 for a period of 9-1/2 years. The City fulfilled its

City of Mountain Brook, Alabama

Notes to Financial Statements

financial commitment under the purchase agreement in 2008. In 2010, the City entered into a service agreement with Birmingham Zoo, Inc. that provides for annual consideration in the amount of \$75,000 through June 2012.

In 2005, the City entered into a development agreement with a real estate developer constructing a mixed use development in the City. The development agreement provides that the City will reimburse the developer for certain costs incurred for the construction of public infrastructure including a roadway relocation and improvements, construction of an acceleration lane, sidewalks, curbing, and drainage systems. The reimbursement is limited to \$4.9 million regardless of the actual costs incurred by the developer and payable solely from a portion (50%) of the sales tax receipts realized by the City from the commercial development. Any portion of the \$4.9 million development agreement obligation not repaid after fifteen (15) years shall be cancelled.

The cumulative infrastructure costs incurred was \$5,332,981 which has been capitalized. As of September 30, 2011, the City's obligation under the terms of the development agreement totaled \$2,034,017 of which \$840,000 is reported as a current liability in the Government-Wide Statement of Net Assets. During 2011, the City paid \$844,938 under the terms of the development agreement.

The City has entered into another development agreement with a real estate developer constructing a small shopping center whose principal tenant is a grocery store. Under the terms of the development agreement, the City agreed to pay the developer the sum of \$687,500 for the purpose of promoting economic development within the City as provided by Amendment No. 772 adopted by the Alabama Legislature. In addition, the City agreed to abate the City's portion of property taxes for a period of fifteen (15) years provided the annual retail sales equal or exceed \$5 million. The City's \$687,500 commitment will be paid from 50% of the sales tax generated by the stores in the development. During 2011, the City paid \$137,419 under the terms of the agreement. The remaining balance due for the development agreement as of September 30, 2011 was approximately \$102,200.

Construction in progress (Note 4) at September 30, 2011 includes the following projects:

	<u>Amount</u>
Public buildings	\$ 6,549,062
Sidewalks	<u>513,648</u>
Total	\$ <u>7,062,710</u>

The public buildings include the razing and reconstruction of a new municipal complex and the construction of a new Park and Recreation building. The municipal complex is estimated to cost \$16.3 million. The City has entered into numerous contracts with its architects, construction manager, landlords, building contractor, and others for design, construction and oversight, temporary space, and other aspects of the project. The new municipal complex is expected to be completed in the winter of 2012.

City of Mountain Brook, Alabama

Notes to Financial Statements

The City has executed a contract with the Alabama Department of Transportation (ALDOT) for Phase 6 of the Mountain Brook Village Walkway System. The project is being administered by ALDOT. The contract amount totals \$1,988,750 of which \$1,591,000 will be paid by a federal award. In addition to the construction contract, the City has entered into other contracts for engineering and inspection services totaling \$245,000. The sidewalk project is scheduled for completion in November 2011.

9. Constitutional debt limit

Section 225, as amended, of the Constitution of the State of Alabama limits for municipalities with populations of 6,000 or more to 20 percent of the assessed value of taxable property. Excluded from this limitation are bonds issued for the construction of schools, waterworks, sewers, and assessed improvements.

Following are the constitution debt limit and legal debt margin:

	<u>Amount</u>
Assessed value of taxable real and personal property as provided by the Jefferson County Tax Assessor	\$ <u>536,266,781</u>
Constitutional debt limit, 20 percent of assessed value	\$ 107,253,356
Outstanding long-term debt as of September 30, 2011	<u>4,475,000</u>
Legal Debt Margin	\$ <u>102,778,356</u>

10. Litigation

Several claims, suits, and complaints, common to municipalities, have been filed or are pending against the City. In the opinion of management and the City's attorney, all such matters are without merit or involve such amounts as would not have a material adverse effect on the City's financial statements.

11. Prior period adjustments

In prior years, the City paid amounts above the annual required contribution for both its defined benefit pension plan (Note 6) and its other post-employment benefits (Note 7). These additional payments created 1) a net pension benefit asset in the amount of \$9,681,799 as of September 30, 2009 and 2) a net other-post-employment benefit asset in the amount of \$129,706 as of September 30, 2009 in the accompanying Government-wide financial statements. The City originally reported these additional payments as expenses in its Government-wide financial statements. These misstatements resulted in an understatement of net assets and an overstatement of expenses in the prior years on the Government-wide financial statements.

City of Mountain Brook, Alabama

Notes to Financial Statements

To correct these misstatements, beginning net assets and 2010 general governmental expenditures have been adjusted as follows:

Government-wide Financial Statements	Net Assets Originally Reported	Prior Period Adjustments	Net Assets as Restated
September 30, 2009	\$ 86,071,960	\$	\$ 86,071,960
Record net pension asset		9,681,799	9,681,799
Record net OPEB asset		129,706	129,706
September 30, 2009	86,071,960	9,811,505	95,883,465
Change in net assets originally reported for the year ended September 30, 2010	6,308,291		6,308,291
Record the increase in the assets for the year ended September 30, 2010 (reported as a reduction to the General Government expenditures):			
Net pension asset		103,129	103,129
Net OPEB asset		236,071	236,071
Net increase in the net assets for the year	6,308,291	339,200	6,647,491
September 30, 2010	\$ <u>92,380,251</u>	\$ <u>9,472,305</u>	\$ <u>102,530,956</u>

REQUIRED SUPPLEMENTARY INFORMATION

City of Mountain Brook, Alabama
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended September 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Taxes	\$ 25,403,964	\$ 25,922,964	\$ 26,382,922	\$ 459,958
Licenses and permits	3,154,383	3,427,383	3,540,269	112,886
Intergovernmental	44,700	86,902	84,874	(2,028)
Charges for services	563,300	625,502	652,152	26,650
Fines and forfeitures	472,700	472,700	529,522	56,822
Grants	12,380	12,380	282,423	270,043
Other operating revenues	509,325	465,325	432,363	(32,962)
Total revenues	<u>30,160,752</u>	<u>31,013,156</u>	<u>31,904,525</u>	<u>891,369</u>
Expenditures:				
General government	4,915,475	5,077,975	4,868,781	209,194
Public safety	12,473,300	12,424,300	12,615,874	(191,574)
Street and sanitation	5,826,960	6,371,880	6,036,984	334,896
Recreational	1,084,496	1,232,601	1,195,140	37,461
Library	2,506,626	2,506,626	2,566,156	(59,530)
Total expenditures	<u>26,806,857</u>	<u>27,613,382</u>	<u>27,282,935</u>	<u>330,447</u>
Excess of revenues over expenditures	<u>3,353,895</u>	<u>3,399,774</u>	<u>4,621,590</u>	<u>1,221,816</u>
Other financing sources (uses):				
Operating transfers (out)	(3,027,637)	(2,974,351)	(3,760,668)	(786,317)
Operating transfers in - component unit	43,000	43,000	119,419	76,419
Donations	24,250	72,250	68,070	(4,180)
Total other financing (uses)	<u>(2,960,387)</u>	<u>(2,859,101)</u>	<u>(3,573,179)</u>	<u>(714,078)</u>
Excess of revenues and other financing sources over expenditures and other financing uses	393,508	540,673	1,048,411	507,738
Fund balances, beginning of year	<u>8,880,937</u>	<u>8,924,698</u>	<u>8,924,698</u>	<u>0</u>
FUND BALANCES, END OF YEAR	<u>\$ 9,274,445</u>	<u>\$ 9,465,371</u>	<u>\$ 9,973,109</u>	<u>\$ 507,738</u>

See accompanying notes to required supplementary information.

City of Mountain Brook, Alabama

Notes to Required Supplementary Information

1. Summary of significant accounting policies

A. Budgets and budgetary accounting

The City has adopted and adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed budget for the fiscal year commencing October 1. The budget includes proposed expenditures and the means of financing those expenditures.
2. A public hearing is conducted to obtain taxpayers' comments.
3. The budget is legally enacted through the passage of a resolution.
4. The City Manager is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total expenditures of any fund or transfer of funds between departments must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, and Capital Projects Funds.
6. At the end of the year, unencumbered appropriations automatically lapse.

Budget information presented in the financial statements is based on the budget as adopted by the City Council on September 27, 2010 (Resolution No. 10-162) and subsequently revised on July 11, 2011 (Resolution No. 11-111) and September 26, 2011 (Ordinance No. 1860 – Fund Balance Classification Policies).

SUPPLEMENTARY INFORMATION

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City of Mountain Brook, Alabama

**Combining Balance Sheet
Other Governmental Funds
September 30, 2011**

	<u>State Shared Gasoline Tax Funds</u>			
	<u>Seven Cent</u>	<u>Four Cent</u>	<u>Five Cent</u>	<u>Two Cent</u>
ASSETS				
Cash and temporary investments	\$ 137,341	\$ 380,792	\$ 140,417	\$ 19,532
Receivables	19,919	11,546	5,691	0
TOTAL ASSETS	<u>\$ 157,260</u>	<u>\$ 392,338</u>	<u>\$ 146,108</u>	<u>\$ 19,532</u>
LIABILITIES				
Accounts payable	\$ 0	\$ 0	\$ 0	\$ 0
Total liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND EQUITY				
Fund balance	<u>157,260</u>	<u>392,338</u>	<u>146,108</u>	<u>19,532</u>
Total fund equity	<u>157,260</u>	<u>392,338</u>	<u>146,108</u>	<u>19,532</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 157,260</u>	<u>\$ 392,338</u>	<u>\$ 146,108</u>	<u>\$ 19,532</u>

<u>Emergency Communication District</u>	<u>Corrections Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
\$ 501,409	\$ 5,968	\$ 2,719,043	\$ 3,904,502
<u>33,410</u>	<u>0</u>	<u>0</u>	<u>70,566</u>
\$ <u>534,819</u>	\$ <u>5,968</u>	\$ <u>2,719,043</u>	\$ <u>3,975,068</u>
\$ 985	\$ 5,968	\$ 0	\$ 6,953
<u>985</u>	<u>5,968</u>	<u>0</u>	<u>6,953</u>
<u>533,834</u>	<u>0</u>	<u>2,719,043</u>	<u>3,968,115</u>
<u>533,834</u>	<u>0</u>	<u>2,719,043</u>	<u>3,968,115</u>
\$ <u>534,819</u>	\$ <u>5,968</u>	\$ <u>2,719,043</u>	\$ <u>3,975,068</u>

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City of Mountain Brook, Alabama

**Combining Statement of Revenues, Expenditures and Changes
in Fund Balances - Other Governmental Funds
For the Year Ended September 30, 2011**

	<u>State Shared Gasoline Tax Funds</u>			
	<u>Seven Cent</u>	<u>Four Cent</u>	<u>Five Cent</u>	<u>Two Cent</u>
Revenues:				
Taxes	\$ 216,158	\$ 130,591	\$ 64,138	\$ 1,108
Intergovernmental	0	0	0	0
Charges for services	0	0	0	0
Fines and forfeitures	0	0	0	0
Other operating revenues:				
Investment earnings	130,980	1,110	418	52
Total revenues	<u>347,138</u>	<u>131,701</u>	<u>64,556</u>	<u>1,160</u>
Expenditures:				
General government	0	0	0	0
Public safety	0	0	0	0
Street and sanitation	418,569	125,000	60,000	0
Recreational	0	0	0	0
Debt service	0	0	0	0
Total expenditures	<u>418,569</u>	<u>125,000</u>	<u>60,000</u>	<u>0</u>
Excess (deficiency) of revenues over expenditures	<u>(71,431)</u>	<u>6,701</u>	<u>4,556</u>	<u>1,160</u>
Other financing sources (uses):				
Operating transfers in	100,000	0	0	0
Operating transfers (out)	0	0	0	0
Donations	0	0	0	0
Total other financing sources	<u>100,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	28,569	6,701	4,556	1,160
Fund balances, beginning of year	<u>128,691</u>	<u>385,637</u>	<u>141,552</u>	<u>18,372</u>
FUND BALANCES, END OF YEAR	<u>\$ 157,260</u>	<u>\$ 392,338</u>	<u>\$ 146,108</u>	<u>\$ 19,532</u>

<u>Emergency Communication District</u>	<u>Corrections Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
\$ 0	\$ 0	\$ 0	\$ 411,995
0	0	0	0
329,353	0	0	329,353
0	177,892	0	177,892
<u>1,316</u>	<u>0</u>	<u>45,515</u>	<u>179,391</u>
<u>330,669</u>	<u>177,892</u>	<u>45,515</u>	<u>1,098,631</u>
0	219,618	0	219,618
300,963	92,049	0	393,012
0	0	0	603,569
0	0	0	0
0	0	358,556	358,556
<u>300,963</u>	<u>311,667</u>	<u>358,556</u>	<u>1,574,755</u>
<u>29,706</u>	<u>(133,775)</u>	<u>(313,041)</u>	<u>(476,124)</u>
0	133,775	658,556	892,331
0	0	0	0
0	0	0	0
<u>0</u>	<u>133,775</u>	<u>658,556</u>	<u>892,331</u>
29,706	0	345,515	416,207
<u>504,128</u>	<u>0</u>	<u>2,373,528</u>	<u>3,551,908</u>
<u>\$ 533,834</u>	<u>\$ 0</u>	<u>\$ 2,719,043</u>	<u>\$ 3,968,115</u>

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City of Mountain Brook, Alabama

Combining Balance Sheet - Capital Projects Funds
September 30, 2011

	<u>City Capital Projects</u>	<u>Village Improvement Projects</u>
ASSETS		
Cash and temporary investments	\$ 18,234,695	\$ 4,848,011
Receivables	<u>0</u>	<u>650,942</u>
TOTAL ASSETS	<u>\$ 18,234,695</u>	<u>\$ 5,498,953</u>
LIABILITIES		
Accounts payable	\$ <u>513,109</u>	\$ <u>6,424</u>
Total liabilities	<u>513,109</u>	<u>6,424</u>
FUND EQUITY		
Fund balance	<u>17,721,586</u>	<u>5,492,529</u>
Total fund equity	<u>17,721,586</u>	<u>5,492,529</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 18,234,695</u>	<u>\$ 5,498,953</u>

<u>Village Trail System Projects</u>	<u>Totals</u>
\$ 507,191	\$ 23,589,897
<u>0</u>	<u>650,942</u>
<u>\$ 507,191</u>	<u>\$ 24,240,839</u>

<u>\$ 1,575</u>	<u>\$ 521,108</u>
<u>1,575</u>	<u>521,108</u>

<u>505,616</u>	<u>23,719,731</u>
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<u>505,616</u>	<u>23,719,731</u>
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<u>\$ 507,191</u>	<u>\$ 24,240,839</u>
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City of Mountain Brook, Alabama

**Combining Statement of Revenues, Expenditures, and Changes
Changes in Fund Balances - Capital Projects Funds
For the Year Ended September 30, 2011**

	<u>City Capital Projects</u>	<u>Village Improvement Projects</u>
Revenues:		
Revenues - grants	\$ 3,976	\$ 2,742,108
Investment earnings	449,012	11,755
Miscellaneous	35,942	0
Total revenues	<u>488,930</u>	<u>2,753,863</u>
Expenditures:		
General government	4,488,545	0
Public safety	543,658	0
Street and sanitation	6,658	3,391,274
Recreational	194,890	560,392
Library	0	0
Total expenditures	<u>5,233,751</u>	<u>3,951,666</u>
Excess (deficiency) of revenues over expenditures	<u>(4,744,821)</u>	<u>(1,197,803)</u>
Other financing sources (uses):		
Operating transfers in	2,748,024	478,869
Operating transfers (out)	0	(358,556)
Donations	0	207,804
Total other financing sources	<u>2,748,024</u>	<u>328,117</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>(1,996,797)</u>	<u>(869,686)</u>
Fund balances, beginning of year	<u>19,718,383</u>	<u>6,362,215</u>
FUND BALANCES, END OF YEAR	<u>\$ 17,721,586</u>	<u>\$ 5,492,529</u>

Village Trail System Projects		Totals	
\$	767	\$	2,746,851
	1,391		462,158
	0		35,942
	<u>2,158</u>		<u>3,244,951</u>
	0		4,488,545
	0		543,658
	45,488		3,443,420
	0		755,282
	0		0
	<u>45,488</u>		<u>9,230,905</u>
	<u>(43,330)</u>		<u>(5,985,954)</u>
	0		3,226,893
	0		(358,556)
	0		207,804
	<u>0</u>		<u>3,076,141</u>
	<u>(43,330)</u>		<u>(2,909,813)</u>
	<u>548,946</u>		<u>26,629,544</u>
\$	<u>505,616</u>	\$	<u>23,719,731</u>

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City of Mountain Brook, Alabama

Schedule of General Fund Revenues by Source
For the Years Ended September 30, 2002 through 2011

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Taxes				
Real property	\$ 8,177,532	\$ 8,422,094	\$ 10,244,362	\$ 11,094,902
Sales and use	5,506,591	5,701,970	6,086,944	6,534,289
Occupational	945,302	905,432	929,454	939,127
Utility	1,007,657	941,086	953,228	992,143
Personal property (automobiles)	967,329	1,054,267	1,076,449	1,108,807
Road and bridge	340,021	351,477	425,985	460,216
Other	931,057	974,690	1,072,439	1,053,130
Total taxes	<u>17,875,489</u>	<u>18,351,016</u>	<u>20,788,861</u>	<u>22,182,614</u>
Licenses and permits				
Business	1,632,925	1,567,743	1,647,641	1,756,226
Construction permits	380,206	413,416	667,971	519,277
Cable TV franchise fees	218,235	223,181	245,986	257,695
Waterworks Board	96,938	124,717	115,220	123,202
Other	47,100	51,380	55,717	55,535
Total licenses and permits	<u>2,375,404</u>	<u>2,380,437</u>	<u>2,732,535</u>	<u>2,711,935</u>
Intergovernmental	<u>36,297</u>	<u>37,248</u>	<u>40,430</u>	<u>41,736</u>
Charges for services				
Garbage fees	1,459,625	1,443,383	1,526,500	1,573,788
Other	711,632	508,902	481,656	486,567
Total charges for services	<u>2,171,257</u>	<u>1,952,285</u>	<u>2,008,156</u>	<u>2,060,355</u>
Fines and forfeitures - court	<u>298,824</u>	<u>364,031</u>	<u>496,457</u>	<u>587,397</u>
Grants	<u>5,738</u>	<u>32,748</u>	<u>172,338</u>	<u>1,907,290</u>
Other operating revenue				
Investment earnings	268,893	235,998	126,245	141,783
Other	238,153	245,403	241,746	247,971
Total other operating revenue	<u>507,046</u>	<u>481,401</u>	<u>367,991</u>	<u>389,754</u>
TOTAL REVENUES	<u>\$ 23,270,055</u>	<u>\$ 23,599,166</u>	<u>\$ 26,606,768</u>	<u>\$ 29,881,081</u>

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
\$	11,976,292	\$ 13,181,868	\$ 13,919,181	\$ 14,592,638	\$ 14,322,580	\$ 13,890,843
	7,033,452	7,829,375	8,412,007	7,666,594	7,854,903	8,476,522
	248,283	1,475	0	0	0	0
	1,088,234	1,266,253	1,336,420	1,413,759	1,450,440	1,460,206
	1,131,386	1,139,952	1,130,239	1,022,666	1,047,869	1,079,079
	497,326	543,682	572,272	596,000	590,899	572,584
	1,316,806	1,275,315	985,588	1,075,676	1,016,068	903,688
	<u>23,291,779</u>	<u>25,237,920</u>	<u>26,355,707</u>	<u>26,367,333</u>	<u>26,282,759</u>	<u>26,382,922</u>
	1,729,727	1,872,058	1,994,039	1,998,980	2,130,822	2,165,612
	893,161	851,266	1,036,354	634,059	624,309	753,444
	282,379	300,204	323,082	328,641	347,757	352,964
	137,964	161,961	167,341	157,794	159,242	207,939
	60,966	60,985	63,382	57,966	64,720	60,310
	<u>3,104,197</u>	<u>3,246,474</u>	<u>3,584,198</u>	<u>3,177,440</u>	<u>3,326,850</u>	<u>3,540,269</u>
	<u>50,517</u>	<u>40,544</u>	<u>149,710</u>	<u>84,723</u>	<u>82,826</u>	<u>84,874</u>
	1,604,281	462,747	71,252	39,094	34,062	32,436
	486,385	517,251	498,576	486,785	591,636	619,716
	<u>2,090,666</u>	<u>979,998</u>	<u>569,828</u>	<u>525,879</u>	<u>625,698</u>	<u>652,152</u>
	<u>623,579</u>	<u>597,961</u>	<u>470,020</u>	<u>443,400</u>	<u>514,542</u>	<u>529,522</u>
	<u>73,278</u>	<u>51,434</u>	<u>37,355</u>	<u>50,799</u>	<u>19,708</u>	<u>282,423</u>
	235,866	653,609	428,304	271,788	207,214	131,706
	<u>325,757</u>	<u>161,303</u>	<u>230,717</u>	<u>371,526</u>	<u>254,173</u>	<u>300,657</u>
	<u>561,623</u>	<u>814,912</u>	<u>659,021</u>	<u>643,314</u>	<u>461,387</u>	<u>432,363</u>
\$	<u>29,795,639</u>	<u>\$ 30,969,243</u>	<u>\$ 31,825,839</u>	<u>\$ 31,292,888</u>	<u>\$ 31,313,770</u>	<u>\$ 31,904,525</u>

City of Mountain Brook, Alabama

Comparative Balance Sheet - General Fund
September 30

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and temporary investments	\$ 9,931,494	\$ 9,613,968
Receivables	1,971,945	1,691,410
Due from related organizations	84,874	81,745
Inventory and prepaid expenses	<u>110,366</u>	<u>117,586</u>
TOTAL ASSETS	<u>\$ 12,098,679</u>	<u>\$ 11,504,709</u>
LIABILITIES		
Accounts payable	\$ 527,402	\$ 858,770
Accrued salaries and wages	589,081	1,010,684
Due to related organizations	51,855	37,259
Other liabilities	<u>957,232</u>	<u>673,298</u>
TOTAL LIABILITIES	<u>2,125,570</u>	<u>2,580,011</u>
FUND BALANCES		
Nonspendable	110,366	117,586
Restricted	0	0
Committed	53,455	52,912
Assigned	2,117,555	2,025,145
Unassigned	<u>7,691,733</u>	<u>6,729,055</u>
FUND BALANCES	<u>9,973,109</u>	<u>8,924,698</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 12,098,679</u>	<u>\$ 11,504,709</u>

City of Mountain Brook, Alabama

**Comparative Statement of Revenues, Expenditures and
Changes in Fund Balances - General Fund
For the year ended September 30**

	<u>2011</u>	<u>2010</u>
Revenues:		
Taxes	\$ 26,382,922	\$ 26,282,759
Licenses and permits	3,540,269	3,326,850
Intergovernmental	84,874	82,826
Charges for services	652,152	625,698
Fines and forfeitures	529,522	514,542
Grants	282,423	19,708
Other operating revenues	432,363	461,387
Total revenues	<u>31,904,525</u>	<u>31,313,770</u>
Expenditures:		
Current (operating):		
General government	4,868,781	4,759,472
Public safety	12,615,874	11,853,021
Street and sanitation	6,036,984	5,888,827
Recreational	1,195,140	1,118,235
Library	2,566,156	2,461,932
Total expenditures	<u>27,282,935</u>	<u>26,081,487</u>
Excess of revenues over expenditures	<u>4,621,590</u>	<u>5,232,283</u>
Other financing sources (uses):		
Operating transfers in	0	3,905
Operating transfers out	(3,760,668)	(4,184,775)
Operating transfers in - component unit	119,419	34,469
Donations	68,070	124,853
Total other financing sources (uses)	<u>(3,573,179)</u>	<u>(4,021,548)</u>
Excess of revenues and other financing sources over expenditures and other financing uses	1,048,411	1,210,735
Fund balances, beginning of year	<u>8,924,698</u>	<u>7,713,963</u>
FUND BALANCES, END OF YEAR	<u>\$ 9,973,109</u>	<u>\$ 8,924,698</u>

City of Mountain Brook, Alabama

Comparative Balance Sheet - Capital Projects Funds
September 30

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and temporary investments	\$ 23,589,897	\$ 26,143,180
Receivables	<u>650,942</u>	<u>1,885,749</u>
TOTAL ASSETS	<u>\$ 24,240,839</u>	<u>\$ 28,028,929</u>
LIABILITIES		
Accounts payable	\$ <u>521,108</u>	\$ <u>1,399,385</u>
TOTAL LIABILITIES	<u>521,108</u>	<u>1,399,385</u>
FUND BALANCES		
Nonspendable	0	0
Restricted	0	0
Committed	23,719,731	26,629,544
Assigned	0	0
Unassigned	<u>0</u>	<u>0</u>
FUND BALANCES	<u>23,719,731</u>	<u>26,629,544</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 24,240,839</u>	<u>\$ 28,028,929</u>

City of Mountain Brook, Alabama

**Comparative Statement of Revenues, Expenditures and
Changes in Fund Balances - Capital Projects Fund
For the Year Ended September 30**

	<u>2011</u>	<u>2010</u>
Revenues:		
Grants	\$ 2,746,851	\$ 3,477,307
Other operating revenues	498,100	1,087,995
Total revenues	<u>3,244,951</u>	<u>4,565,302</u>
Expenditures:		
General government	4,488,545	1,597,366
Public safety	543,658	716,518
Street and sanitation	3,443,420	4,870,366
Recreational	755,282	2,051,661
Library	0	9,015
Total expenditures	<u>9,230,905</u>	<u>9,244,926</u>
Excess (deficiency) of revenues over expenditures	<u>(5,985,954)</u>	<u>(4,679,624)</u>
Other financing sources (uses):		
Proceeds from the issuance of debt	0	0
Operating transfers in	3,226,893	3,764,870
Operating transfers (out)	(358,556)	0
Donations	207,804	0
Total other financing sources	<u>3,076,141</u>	<u>3,764,870</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>(2,909,813)</u>	<u>(914,754)</u>
Fund balances, beginning of year	<u>26,629,544</u>	<u>27,544,298</u>
FUND BALANCES, END OF YEAR	<u>\$ 23,719,731</u>	<u>\$ 26,629,544</u>

City of Mountain Brook, Alabama
Comparative Balance Sheet - Debt Service Fund
September 30

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and temporary investments	\$ 2,719,043	\$ 2,373,528
Receivables	<u>0</u>	<u>0</u>
TOTAL ASSETS	<u>\$ 2,719,043</u>	<u>\$ 2,373,528</u>
LIABILITIES	<u>\$ 0</u>	<u>\$ 0</u>
FUND BALANCES		
Nonspendable	0	0
Restricted	0	0
Committed	0	0
Assigned	2,719,043	2,373,528
Unassigned	<u>0</u>	<u>0</u>
FUND BALANCES	<u>2,719,043</u>	<u>2,373,528</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,719,043</u>	<u>\$ 2,373,528</u>

City of Mountain Brook, Alabama

**Comparative Statement of Revenues, Expenditures and
Changes in Fund Balances - Debt Service Fund
For the Year Ended September 30**

	<u>2011</u>	<u>2010</u>
Revenues:		
Other operating revenues	\$ 45,515	\$ 96,383
Total revenues	<u>45,515</u>	<u>96,383</u>
Expenditures:		
General government	0	0
Debt Service	358,556	359,647
Total expenditures	<u>358,556</u>	<u>359,647</u>
Excess (deficiency) of revenues over expenditures	<u>(313,041)</u>	<u>(263,264)</u>
Other financing sources (uses):		
Operating transfers in	658,556	624,247
Operating transfers (out)	0	0
Total other financing sources	<u>658,556</u>	<u>624,247</u>
Excess of revenues and other financing sources over expenditures and other financing uses	345,515	360,983
Fund balances, beginning of year	<u>2,373,528</u>	<u>2,012,545</u>
FUND BALANCES, END OF YEAR	<u>\$ 2,719,043</u>	<u>\$ 2,373,528</u>

**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***

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To the Mayor and City Council
City of Mountain Brook, Alabama

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mountain Brook, Alabama (the "City"), as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting (11-1). 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 determination of financial statement amounts. 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*.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Carri Riggs & Ingram, L.L.C.

Birmingham, Alabama
June 19, 2012

**Independent Auditors' Report on Compliance with
Requirements That Could Have a Direct and Material
Effect on Each Major Program and on Internal
Control Over Compliance in Accordance
with OMB Circular A-133**

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To the City Council
City of Mountain Brook, Alabama

Compliance

We have audited the City of Mountain Brook, Alabama's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2011. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

The Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's 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 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of the City's management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Caru, Riggs & Ingram, L.L.C.

Birmingham, Alabama
June 19, 2012

CITY OF MOUNTAIN BROOK, ALABAMA
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011**

<u>Description</u>	<u>Federal CFDA Number</u>	<u>Total Grant Award</u>	<u>Revenue Recog- nized</u>	<u>Expend- itures</u>
<u>Federal Emergency Management Agency</u>				
Passed through State of Alabama				
Emergency Management Agency				
Watkins Branch Flood Hazard Mitigation Project				
HMGP 1549-0166	97.039	\$ 6,149,102	\$ 2,394,072	\$ 2,394,072
April 27, 2011 Storm Disaster Recovery				
Public Assistant Grant				
FEMA 1971-DR-AL	97.036	<u>227,618</u>	<u>227,618</u>	<u>227,618</u>
Total Federal Emergency Management Agency		6,376,720	2,621,690	2,621,690
<u>U.S. Department of Transportation</u>				
Passed through Alabama Department of Transportation				
Watkins Creek Bridge Widening for Pedestrian Use				
STMTE-TE09(922)	20.205	282,000	231,725	231,725
Village Trail System, Phase 7A - Memory Lane				
STPTE-TE09(918)	20.205	<u>240,000</u>	<u>116,311</u>	<u>116,311</u>
Total U.S. Department of Transportation		522,000	348,036	348,036
<u>U.S. Department of Justice</u>				
Office of Justice Assistance				
Bulletproof Vest Program				
2009BUBX09049721	16.607	<u>5,070</u>	<u>3,976</u>	<u>3,976</u>
Total U. S. Department of Justice		<u>5,070</u>	<u>3,976</u>	<u>3,976</u>
TOTAL FEDERAL AWARDS		\$ <u>6,903,790</u>	\$ <u>2,973,702</u>	\$ <u>2,973,702</u>

Notes to Schedule of Expenditures and 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 Mountain Brook, 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.

CITY OF MOUNTAIN BROOK, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

	_____	yes	_____	<u>X</u>	no
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Federal Awards

Internal control over major programs:

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

Type of auditors' report issued on Compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

	_____	yes	_____	<u>X</u>	no
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Identification of major programs:

CFDA Numbers
97.039

Name of Federal Program or Cluster
Federal Emergency Management Agency--Watkins Branch Flood Hazard Mitigation Project

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ yes X no

Section II - Financial Statement Findings

The following significant deficiencies were disclosed in the financial statements during the audit of the City of Mountain Brook:

CITY OF MOUNTAIN BROOK, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

2011-1 Segregation of Duties

Due to the limited number of people working in the accounting department, certain critical duties are combined and assigned to the available employees. To the extent possible, duties should be segregated to serve as a check and balance on employees' integrity and to maintain the best control system possible. We suggest that the segregation of duties be reviewed and adjusted where possible to strengthen the system of internal control.

Management's response:

The City agrees with this finding. The duties will be separated as much as possible and alternative controls will be used to compensate for lack of separation. The City also uses part-time employees to mitigate this condition.

Section III - Federal Awards Findings and Questioned Costs

There were no matters to be reported.