

**CITY OF MOUNTAIN BROOK, ALABAMA**

**BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2012**



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

**September 30, 2012**

**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
Streets and Sanitation . . . . .	Mr. Ronald D. Vaughn
Parks and Recreation . . . . .	Mr. J. Lyman Tidwell



City of Mountain Brook, Alabama

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Carr, Riggs & Ingram, LLC  
2100 16th Avenue South  
Suite 300  
Birmingham, Alabama 35205

## Independent Auditors' Report

Mailing Address:  
P.O. Box 55765  
Birmingham, Alabama 35255

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

(205) 933-7822  
(205) 933-7944 (fax)  
[www.cricpa.com](http://www.cricpa.com)

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, the fiduciary 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, 2012, 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 2011 financial statements and, in our report dated June 19, 2012, 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, the fiduciary fund, and the aggregate remaining fund information of the City, as of September 30, 2012, 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

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 January 11, 2013, 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 48, 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 supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying supplementary information as listed in the table of contents 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.

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

Birmingham, Alabama  
January 11, 2013



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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, 2012, 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, 2012, by \$111 million (Total Net Assets). Of this amount, \$70 million represents the net book value of the City's capital assets including infrastructure net of outstanding long-term debt and \$1.3 million is restricted (\$508,000 for the Emergency Communication District and \$780,000 for road improvements from the State Shared Gasoline Tax special revenue funds). The remaining \$40 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 \$4.3 million in 2012 which includes the net cost of providing core City Services of \$23.0 million plus \$27.3 million in General Revenues.
- As of September 30, 2012, the City reported \$33.8 million in fund balances, a decrease of \$3.9 million from 2011. Of the \$33.8 million fund balances, \$11.0 million (32%) is reported in the General Fund, \$18.5 million (55%) in the Capital Projects Fund, and \$4.3 million (13%) 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.

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

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.

***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.

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

**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	17,260,755	\$ 533,473	\$ 11,859,154
Storm sewers	20	13,946,471	679,427	2,660,543
Sidewalks	15	9,303,328	353,469	7,100,226
Park facilities	20	8,122,416	369,718	4,523,615
Street lights and signs	15	1,203,398	63,052	808,012
Library reference materials	5	4,566,760	262,883	3,649,536
<b>Totals</b>		<u>\$ 70,928,799</u>	<u>\$ 2,262,022</u>	<u>\$ 30,601,086</u>

**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>2012</u>	<u>2011</u>
Current assets	\$ 37,572,501	\$ 40,436,215
Other assets	11,560,203	10,998,992
Capital assets	73,921,834	67,486,804
<b>Total assets</b>	<u>123,054,538</u>	<u>118,922,011</u>
Current and other liabilities	4,983,349	3,820,772
Long-term liabilities	6,707,718	7,996,962
<b>Total liabilities</b>	<u>11,691,067</u>	<u>11,817,734</u>
Net assets:		
Invested in capital assets, net of related debt	69,636,834	63,011,804
Restricted	1,287,828	1,249,072
Unrestricted	40,438,809	42,843,401
<b>Total net assets</b>	<u>\$ 111,363,471</u>	<u>\$ 107,104,277</u>

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

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

	<u>2012</u>	<u>2011</u>
<b>Revenues</b>		
Program revenues		
Fees, fines and charges for services	\$ 5,164,486	\$ 5,065,096
Operating grants and contributions	981,427	1,230,623
Capital grants and contributions	1,686,817	3,603,943
General revenues		
Ad valorem taxes	15,026,059	14,969,922
Sales and use taxes	9,406,314	8,732,996
Other taxes	175,910	149,792
Utility taxes	1,365,487	1,460,206
Franchise fees	607,791	560,903
Investment earnings	598,322	655,861
Gain (loss) on disposals of capital assets	66,317	(753,165)
Miscellaneous revenue	18,916	11,355
Transfers from component unit	53,817	119,419
	<u>35,151,663</u>	<u>35,806,951</u>
<b>Total revenues</b>		
<b>Expenses</b>		
General government	3,747,727	3,924,528
Public safety	13,611,275	14,148,930
Street and sanitation	8,530,360	8,505,687
Recreational	1,825,946	1,764,768
Library	3,177,161	2,889,717
	<u>30,892,469</u>	<u>31,233,630</u>
<b>Total expenses</b>		
<b>Increase in net assets</b>	4,259,194	4,573,321
Net assets, beginning of year	<u>107,104,277</u>	<u>102,530,956</u>
<b>Net assets, end of year</b>	<u>\$ 111,363,471</u>	<u>\$ 107,104,277</u>

***Analysis of the City's Operations***

***Revenues***

The City's primary source of revenue is real estate ad valorem taxes which comprised 43% of total General Fund revenues in 2012. Real estate ad valorem taxes decreased \$17,000 (0.1%) during 2012.

The second largest source of revenue for the City is sales and use tax which totaled 28% of total General Fund revenues in 2012. Sales and use tax revenue increased by \$636,000 (8%) during 2012.

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

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

	<u>2012</u>	<u>2011</u>	<b>Increase (Decrease)</b>
Real estate ad valorem tax	\$ 13,873,635	\$ 13,890,843	\$ (17,208)
Sales and use tax	9,112,494	8,476,522	635,972
Business licenses	2,223,912	2,165,612	58,300
Personal property ad valorem tax	1,152,424	1,079,079	73,345
Garbage service fees	39,235	32,436	6,799
Utility taxes	1,365,487	1,460,206	(94,719)
Investment earnings	199,151	131,706	67,445
All other General Fund revenues	<u>4,614,017</u>	<u>4,668,121</u>	<u>(54,104)</u>
<b>Totals</b>	<b><u>\$ 32,580,355</u></b>	<b><u>\$ 31,904,525</u></b>	<b><u>\$ 675,830</u></b>

***Expenditures***

Salaries and benefits decreased \$231,000 (1%) in 2012 to \$18.1 million. Labor-related costs made up (57%) of the City's total General Fund expenditures in 2012. Following is a comparative summary of the major expenditure categories (all funds combined) of the City as reported in the Governmental Funds financial statements.

	<u>2012</u>	<u>2011</u>	<b>Increase (Decrease)</b>
Salaries and benefits	\$ 18,064,882	\$ 18,295,826	\$ (230,944)
Garbage contract fees	2,683,440	2,602,521	80,919
Capital outlay	10,505,221	9,646,113	859,108
Intergovernmental services	809,144	723,001	86,143
Utilities and communication	796,630	733,575	63,055
Development agreement payments	1,118,466	982,358	136,108
Property and casualty insurance	268,207	295,815	(27,608)
Legal and accounting	445,639	372,593	73,046
Fuel and lubricants	373,113	378,213	(5,100)
Debt service	361,388	358,556	2,832
Birmingham Zoo, Inc. subsidy	75,000	75,000	0
All other	<u>3,632,417</u>	<u>3,625,024</u>	<u>7,393</u>
<b>Totals</b>	<b><u>\$ 39,133,547</u></b>	<b><u>\$ 38,088,595</u></b>	<b><u>\$ 1,044,952</u></b>

***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 \$862,000 (2.7%). The favorable (unfavorable) budget variance was comprised of the following:

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

	<u>Budget</u>	<u>Actual</u>	<b>Favorable (Unfavorable)</b>
Real estate ad valorem tax	\$ 13,618,750	\$ 13,873,635	\$ 254,885
Sales and use tax	8,805,000	9,112,494	307,494
Other taxes	938,910	1,030,680	91,770
Utility taxes	1,365,000	1,365,487	487
Road and bridge tax	584,450	575,000	(9,450)
Construction permits	791,000	800,820	9,820
Fines and forfeitures	460,000	446,682	(13,318)
Charges for services	693,342	753,796	60,454
Fees for road repairs	54,000	73,632	19,632
Grants	12,380	12,062	(318)
Investment earnings	130,325	199,151	68,826
All other	4,265,131	4,336,916	71,785
<b>Totals</b>	<b><u>\$ 31,718,288</u></b>	<b><u>\$ 32,580,355</u></b>	<b><u>\$ 862,067</u></b>

- Total General Fund expenditures were \$367,000 (1.3%) less than the final budget. The favorable (unfavorable) budget General Fund variance was comprised largely of the following categories:

	<u>Budget</u>	<u>Actual</u>	<b>Favorable (Unfavorable)</b>
Salaries and benefits	\$ 18,617,966	\$ 18,064,882	\$ 553,084
Garbage contract fees	2,658,732	2,683,440	(24,708)
Intergovernmental services	823,000	809,144	13,856
Utilities and communication	756,842	796,630	(39,788)
Development agreement payments	918,000	1,118,466	(200,466)
Fuel and lubricants	341,120	373,113	(31,993)
Legal and accounting	388,700	445,639	(56,939)
Street striping	145,000	140,886	4,114
Street cut repairs	80,000	105,576	(25,576)
Park and recreation special projects	20,000	20,000	0
All other	2,982,196	2,806,666	175,530
<b>Totals</b>	<b><u>\$ 27,731,556</u></b>	<b><u>\$ 27,364,442</u></b>	<b><u>\$ 367,114</u></b>

- Total operating transfers out exceeded the amount budgeted by \$778,850. This variance resulted primarily from the Council's decision (after year-end) to transfer an additional \$750,000 from the General Fund to the Capital Projects Fund.
- The total excess of General Fund revenues and other financing sources over expenditures in the amount of \$1,004,903 was \$509,159 more than budgeted.

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

- The final General Fund budgeted surplus of \$495,744 was increased by \$102,236 from the amount originally budgeted in the amount of \$393,508. The City Council passed four budget resolutions during the year amending the 2012 budget. The budget amendments 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***

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, 2011.

As of September 30, 2011, the RSA reported an unfunded actuarial accrued liability of \$21 million. However, the actuarial valuation of the plan assets (\$42.2 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.

Due to concern about the unfunded actuarial accrued pension liability, the City Council has on occasion contributed more than the actuarially determined annual required contribution (ARC). During 2001, the City paid \$2 million more into the pension trust fund than the ARC. 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 ARC from its General Fund. Due in part to the investment performance of the pension trust fund, the City Council has remitted only the ARC to the pension trust fund in 2012 and 2011.

Also out of concern about the unfunded actuarial accrued pension liability, the City Council has authorized the accumulation of cash reserves in the Debt Service Fund which is available to pay toward this obligation. As of September 30, 2012, the City had accumulated \$3 million in the Debt Service Fund for such purpose.

***Cash and Temporary Investments***

As of September 30, 2012, the City reported cash and temporary investments of \$35.3 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 \$35.1 million and \$180,000, respectively. Following is a summary of the carrying value of the cash and investments by fund as of September 30, 2012.

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

	<u>Unrestricted</u>	<u>Restricted</u>
General Fund	\$ 11,406,361	\$ 179,551
Capital Projects Fund	19,389,427	0
Other Governmental Funds (Debt Service)	3,051,678	0
Other Governmental Funds (Special Revenue)	1,230,351	0
Section 115 irrevocable, retiree medical trust	0	925,335
Discretely presented component unit	<u>0</u>	<u>2,788,209</u>
<b>Totals</b>	<b><u>\$ 35,077,817</u></b>	<b><u>\$ 3,893,095</u></b>

The \$11.4 million General Fund cash and investment balance as of September 30, 2012, represents 5 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, 2012, the City had accumulated approximately \$18.5 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 \$48.2 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>2012</u>	<u>2011</u>
Capital expenditures	\$ <u>10,505,221</u>	\$ <u>9,646,113</u>
Depreciation expense	\$ <u>4,011,827</u>	\$ <u>4,248,840</u>
Transfers to the Capital Projects Fund:		
Funded depreciation policy	\$ 1,668,332	\$ 1,911,624
Other transfers to fund current and future capital acquisitions	<u>2,194,391</u>	<u>1,315,269</u>
<b>Totals</b>	<b><u>\$ 3,862,723</u></b>	<b><u>\$ 3,226,893</u></b>

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:

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

	<b>2012</b>	<b>2011</b>
<b>Revenues</b>		
State shared gasoline tax revenues	\$ 377,543	\$ 411,995
Alabama Trust Fund Earnings	173,440	130,296
Transfers from the City's General Fund	100,000	100,000
Investment earnings	2,966	2,264
<b>Total Revenues</b>	653,949	644,555
Street paving expenditures	588,958	603,569
<b>Excess of Revenues Over Expenditures</b>	64,991	40,986
Fund balance, beginning of the year	715,238	674,252
<b>Fund Balance, end of year</b>	<b>\$ 780,229</b>	<b>\$ 715,238</b>

***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 2012 and 2011, the City realized \$39,235 and \$32,436, 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.

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**City of Mountain Brook, Alabama**  
**Government-wide Statement of Net Assets**  
**September 30, 2012 with Comparative Data**

	<b>Governmental Activities</b>		<b>Component Unit</b>
	<b>2012</b>	<b>2011</b>	<b>Library</b>
			<b>Foundation</b>
			<b>2012</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and temporary investments	\$ 35,077,817	\$ 37,285,133	\$ 0
Receivables	2,035,659	2,693,453	0
Notes receivable	74,548	121,629	0
Due from related organization	85,613	84,874	0
Inventory and prepaid expenses	119,313	110,366	0
Cash and temporary investments - restricted	179,551	140,760	2,788,209
<b>TOTAL CURRENT ASSETS</b>	<u>37,572,501</u>	<u>40,436,215</u>	<u>2,788,209</u>
<b>NONCURRENT ASSETS</b>			
Notes receivable	213,980	288,528	0
Net pension asset	10,310,876	10,043,061	0
Net OPEB asset	1,035,347	667,403	0
Capital assets, net of accumulated depreciation	39,247,108	41,726,089	0
Land	18,698,005	18,698,005	552,611
Construction in progress	15,976,721	7,062,710	0
<b>TOTAL NONCURRENT ASSETS</b>	<u>85,482,037</u>	<u>78,485,796</u>	<u>552,611</u>
<b>TOTAL ASSETS</b>	<u>123,054,538</u>	<u>118,922,011</u>	<u>3,340,820</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	1,893,707	1,105,463	0
Accrued salaries and wages	626,619	575,323	0
Accrued interest payable	83,459	87,141	0
Due to related organization	54,710	51,855	0
Other current liabilities	2,129,854	1,810,990	0
Long-term debt	195,000	190,000	0
<b>TOTAL CURRENT LIABILITIES</b>	<u>4,983,349</u>	<u>3,820,772</u>	<u>0</u>
<b>NONCURRENT LIABILITIES</b>			
Compensated absences	2,616,008	2,517,945	0
Long-term debt	4,090,000	4,285,000	0
Other liabilities	1,710	1,194,017	0
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>6,707,718</u>	<u>7,996,962</u>	<u>0</u>
<b>TOTAL LIABILITIES</b>	<u>11,691,067</u>	<u>11,817,734</u>	<u>0</u>
<b>PENSION OBLIGATION (SEE NOTE 6)</b>			
<b>NET ASSETS</b>			
Invested in capital assets (net of related debt)	69,636,834	63,011,804	552,611
Restricted	1,287,828	1,249,072	2,788,209
Unrestricted	40,438,809	42,843,401	0
<b>TOTAL NET ASSETS</b>	<u>\$ 111,363,471</u>	<u>\$ 107,104,277</u>	<u>\$ 3,340,820</u>

See accompanying notes to basic financial statements.

**City of Mountain Brook, Alabama**  
**Government-wide Statement of Activities**  
**For the Year Ended September 30, 2012 with Comparative Data**

**Program Revenues**

<u>Program Activities</u>	<u>Expenses</u>	<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 3,747,727	\$ 2,671,080	\$ 927,198	\$ 0
Public safety	13,611,275	2,168,899	0	0
Street and sanitation	8,530,360	143,762	0	1,572,639
Recreational	1,825,946	110,944	42,167	42,692
Library	<u>3,177,161</u>	<u>69,801</u>	<u>12,062</u>	<u>71,486</u>
<b>Total</b>	<u>\$ 30,892,469</u>	<u>\$ 5,164,486</u>	<u>\$ 981,427</u>	<u>\$ 1,686,817</u>
Component unit:				
Library Foundation	<u>\$ 185,218</u>	<u>\$ 0</u>	<u>\$ 169,701</u>	<u>\$ 0</u>

**General revenues:**

Taxes:

    Ad Valorem (real and personal property)

    Sales and use

    Other taxes

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

**Net assets at end of year**

See accompanying notes to basic financial statements.

<b>2012 Total Net (Expense) Revenue and Changes in Net Assets</b>	<b>2011 Total Net (Expense) Revenue and Changes in Net Assets</b>	<b>2012 Component Unit (Library Foundation)</b>	<b>2011 Component Unit (Library Foundation)</b>
\$ (149,449)	\$ (429,601)	\$ 0	\$ 0
(11,442,376)	(11,977,878)	0	0
(6,813,959)	(4,649,752)	0	0
(1,630,143)	(1,565,538)	0	0
<u>(3,023,812)</u>	<u>(2,711,199)</u>	<u>0</u>	<u>0</u>
<u>\$ (23,059,739)</u>	<u>\$ (21,333,968)</u>		
		<u>\$ (15,517)</u>	<u>\$ 119,271</u>
15,026,059	14,969,922	0	0
9,406,314	8,732,996	0	0
175,910	149,792	0	0
1,365,487	1,460,206	0	0
607,791	560,903	0	0
598,322	655,861	355,682	(43,147)
66,317	(753,165)	0	0
18,916	11,355	3,772	3,600
<u>53,817</u>	<u>119,419</u>	<u>(53,817)</u>	<u>(119,419)</u>
<u>27,318,933</u>	<u>25,907,289</u>	<u>305,637</u>	<u>(158,966)</u>
4,259,194	4,573,321	290,120	(39,695)
<u>107,104,277</u>	<u>102,530,956</u>	<u>3,050,700</u>	<u>3,090,395</u>
<u>\$ 111,363,471</u>	<u>\$ 107,104,277</u>	<u>\$ 3,340,820</u>	<u>\$ 3,050,700</u>

**City of Mountain Brook, Alabama**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2012**

	<b>General</b>	<b>Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and temporary investments	\$ 11,406,361	\$ 19,389,427	\$ 4,282,029	\$ 35,077,817
Cash and temporary investments - restricted	179,551	0	0	179,551
Receivables	1,844,064	121,707	69,888	2,035,659
Due from related organizations	85,613	0	0	85,613
Inventory and prepaid expenses	119,313	0	0	119,313
<b>TOTAL ASSETS</b>	<b>\$ 13,634,902</b>	<b>\$ 19,511,134</b>	<b>\$ 4,351,917</b>	<b>\$ 37,497,953</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 861,707	\$ 1,019,589	\$ 12,411	\$ 1,893,707
Accrued salaries and wages	635,899	0	0	635,899
Due to related organizations	54,710	0	0	54,710
Other liabilities	1,104,574	0	0	1,104,574
<b>TOTAL LIABILITIES</b>	<b>2,656,890</b>	<b>1,019,589</b>	<b>12,411</b>	<b>3,688,890</b>
<b>Pension obligation (see Note 6)</b>				
<b>FUND BALANCES</b>				
Nonspendable	119,313	0	0	119,313
Restricted	0	0	1,287,828	1,287,828
Committed	53,696	18,491,545	0	18,545,241
Assigned	2,275,673	0	3,051,678	5,327,351
Unassigned	8,529,330	0	0	8,529,330
<b>TOTAL FUND BALANCES</b>	<b>10,978,012</b>	<b>18,491,545</b>	<b>4,339,506</b>	<b>33,809,063</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 13,634,902</b>	<b>\$ 19,511,134</b>	<b>\$ 4,351,917</b>	<b>\$ 37,497,953</b>

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, 2012**

Fund balance - total governmental funds		\$ 33,809,063
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Note receivable charged to capital outlay in the fund financial statements less principal recoveries.</p>		288,528
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.</p>		
<p style="padding-left: 40px;">Governmental capital assets</p> <p style="padding-left: 40px;">Less accumulated depreciation</p>	<p>122,135,801</p> <p><u>(48,213,967)</u></p>	<p>73,921,834</p>
<p>Net pension assets are not current financial resources and therefore are not reported in the governmental funds balance sheet.</p>		10,310,876
<p>Net OPEB assets are not current financial resources and therefore are not reported in the governmental funds balance sheet.</p>		1,035,347
<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>		
<p style="padding-left: 40px;">Governmental bonds payable</p> <p style="padding-left: 40px;">Compensated absences</p> <p style="padding-left: 40px;">Accrued interest payable</p> <p style="padding-left: 40px;">Accrued development agreement obligations</p>	<p>(4,285,000)</p> <p>(2,616,008)</p> <p>(83,459)</p> <p><u>(1,017,710)</u></p>	<p><u>(8,002,177)</u></p>
<b>Net assets of governmental activities</b>		<b><u>\$ 111,363,471</u></b>

See accompanying notes to basic financial statements.

**City of Mountain Brook, Alabama**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended September 30, 2012**

	<u>General</u>	<u>Capital Projects</u>
<b>Revenues:</b>		
Taxes	\$ 27,109,720	\$ 0
Licenses and permits	3,694,451	0
Intergovernmental	85,613	0
Charges for services	753,796	0
Fines and forfeitures	446,682	0
Grants	12,062	1,021,656
Other operating revenues	478,031	472,834
	<u>32,580,355</u>	<u>1,494,490</u>
<b>Total revenues</b>		
<b>Expenditures:</b>		
<b>Current (operating):</b>		
General government	5,305,752	7,414,753
Public safety	12,271,377	747,469
Street and sanitation	5,996,599	1,872,401
Recreational	1,173,043	146,343
Library	2,617,671	43,833
Debt service:		
Principal	0	0
Interest	0	0
	<u>27,364,442</u>	<u>10,224,799</u>
<b>Total expenditures</b>		
<b>Excess (deficiency) of revenues     over expenditures</b>	<u>5,215,913</u>	<u>(8,730,309)</u>
<b>Other financing sources (uses):</b>		
Operating transfers in	0	3,862,723
Operating transfers (out)	(4,337,088)	(360,600)
Operating transfers in - component unit	53,817	0
Donations	72,261	0
	<u>(4,211,010)</u>	<u>3,502,123</u>
<b>Total other financing sources (uses)</b>		
<b>Excess of revenues and other financing sources     over expenditures and other financing uses</b>	1,004,903	(5,228,186)
<b>Fund balances, beginning of year</b>	<u>9,973,109</u>	<u>23,719,731</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 10,978,012</u>	<u>\$ 18,491,545</u>

See accompanying notes to basic financial statements.

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 377,541	\$ 27,487,261
0	3,694,451
0	85,613
353,148	1,106,944
138,687	585,369
0	1,033,718
<u>211,356</u>	<u>1,162,221</u>
 <u>1,080,732</u>	 <u>35,155,577</u>
 202,896	 12,923,401
392,006	13,410,852
588,804	8,457,804
0	1,319,386
0	2,661,504
 190,000	 190,000
<u>170,600</u>	<u>170,600</u>
 <u>1,544,306</u>	 <u>39,133,547</u>
 <u>(463,574)</u>	 <u>(3,977,970)</u>
 912,734	 4,775,457
(77,769)	(4,775,457)
0	53,817
<u>0</u>	<u>72,261</u>
 <u>834,965</u>	 <u>126,078</u>
 371,391	 (3,851,892)
<u>3,968,115</u>	<u>37,660,955</u>
<u>\$ 4,339,506</u>	<u>\$ 33,809,063</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, 2012**

Net change in fund balances - total governmental funds		\$ (3,851,892)
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 net assets.		(121,629)
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	10,505,221	
Less current year depreciation	<u>(4,011,827)</u>	6,493,394
Net book value of assets disposed during the year.		(8,364)
The net effect of transactions involving net pension assets is to increase net assets.		267,815
The net effect of transactions involving net OPEB assets is to increase net assets.		367,944
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		190,000
Repayment of development fee obligation in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		1,016,307
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	(98,063)	
Change in accrued interest payable	<u>3,682</u>	<u>(94,381)</u>
<b>Change in net assets of governmental activities</b>		<b>\$ <u>4,259,194</u></b>

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>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Certificates of deposit, at fair value	\$ <u>925,335</u>	\$ <u>613,573</u>
<b>TOTAL ASSETS</b>	<u>925,335</u>	<u>613,573</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	<u>0</u>	<u>0</u>
<b>TOTAL LIABILITIES</b>	<u>0</u>	<u>0</u>
<b>NET ASSETS HELD IN TRUST FOR OTHER POST-EMPLOYMENT BENEFITS</b>	<u>\$ 925,335</u>	<u>\$ 613,573</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>2012</u>	<u>2011</u>
<b>ADDITIONS</b>		
Contributions		
Employer	\$ 654,828	\$ 564,016
Plan members	126,308	124,616
Investment earnings	<u>11,762</u>	<u>10,549</u>
<b>TOTAL ADDITIONS</b>	792,898	699,181
<b>DEDUCTIONS</b>		
Benefits	476,136	483,632
Administrative expense	<u>5,000</u>	<u>5,000</u>
<b>TOTAL DEDUCTIONS</b>	<u>481,136</u>	<u>488,632</u>
<b>NET INCREASE</b>	311,762	210,549
Net assets held in trust for other post-employment benefits, beginning of year	<u>613,573</u>	<u>403,024</u>
<b>NET ASSETS HELD IN TRUST FOR OTHER POST-EMPLOYMENT BENEFITS, END OF YEAR</b>	<u>\$ 925,335</u>	<u>\$ 613,573</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 the 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 up for election in even years and Council places 2 and 4 and the Mayor's office up for election in odd years. The next election is scheduled for August 26, 2014. 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 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, 2012 and 2011, the City reported the following revenues from the Board:

	<u>2012</u>	<u>2011</u>
<b>General Fund</b>		
Community athletic fields shared maintenance	\$ 85,613	\$ 84,874
High school sewer treatment facility maintenance	<u>7,200</u>	<u>7,200</u>
<b>Total</b>	<u>\$ 92,813</u>	<u>\$ 92,074</u>

At September 30, 2012 and 2011, the City reported receivables from the Board in the amounts as follows (See Note 3):

	<u>2012</u>	<u>2011</u>
<b>General Fund</b>		
Note receivable	\$ 0	\$ 50,000
Community athletic fields shared maintenance	<u>85,613</u>	<u>84,874</u>
<b>Total</b>	<u>\$ 85,613</u>	<u>\$ 134,874</u>

The City receives 36.7 mills of the 99.0 mill property tax (Note 1.R.) 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, 2012 and 2011, the City owed the Board \$54,710 and \$51,855, respectively, for its share of property taxes which is included in other liabilities of the General Fund.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

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 \$288,528 and \$360,157 has been presented as a note receivable in the statement of net assets as of September 30, 2012 and 2011, respectively.

During the years ended September 30, 2012 and 2011, 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:

	<u>2012</u>	<u>2011</u>
<b>Revenues</b>		
The Board of Education	\$ 42,042	\$ 41,425
Mountain Brook Athletics, Inc.	21,021	20,713
Mountain Brook Soccer Club, Inc.	21,021	20,712
Charges for services (MBSPF)	84,732	60,244
Investment income	<u>0</u>	<u>0</u>
<b>Total revenues</b>	168,816	143,094
<b>Expenditures</b>		
Recreational (operating and maintenance)	126,126	124,016
Capital outlay (\$1,952,936 cumulative)	<u>0</u>	<u>0</u>
<b>Total expenditures</b>	126,126	124,016
<b>Other financing sources (uses), net</b>		
Transfers to City General Fund	<u>(42,690)</u>	<u>(18,819)</u>
<b>Net other financing sources</b>	<u>(42,690)</u>	<u>(18,819)</u>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other assets</b>	0	259
Fund balance (deficit) at the beginning of the year	<u>0</u>	<u>(259)</u>
<b>Fund balance (deficit) at the end of the year</b>	<u>\$ 0</u>	<u>\$ 0</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.

City of Mountain Brook, Alabama

Notes to Financial Statements

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 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 may be obtained from the Library.

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 City may also elect to present a fund as major if it does not meet the above criteria to emphasize the importance of a certain fund's activity.

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.

**B. Special Revenue Funds**

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

City of Mountain Brook, Alabama

Notes to Financial Statements

**C. Debt Service Funds**

The 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 the possible future repayment of its unfunded pension obligation (see Note 6).

**D. Capital Projects 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 Funds are classified as major funds and are described above. The City has elected to present all Capital Projects Funds as major funds to reflect the importance of their activity separately from other non-major funds regardless of whether these funds meet the reporting criteria described above.

The Special Revenue Funds 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.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance) 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) 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.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

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:

<u>Fund Balances</u>	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>Nonspendable:</u>				
Prepaid expenses	\$ 54,965	\$ 0	\$ 0	\$ 54,965
Inventory	64,348	0	0	64,348
<b>Total Nonspendable</b>	<b>119,313</b>	<b>0</b>	<b>0</b>	<b>119,313</b>
<u>Restricted:</u>				
Emergency Communication District (E-911)	0	0	507,601	507,601
State Shared Gasoline Taxes:				
5 Cent	0	0	145,379	145,379
7 Cent	0	0	223,372	223,372
4 Cent	0	0	389,002	389,002
2 Cent	0	0	22,474	22,474
Corrections Fund	0	0	0	0
<b>Total Restricted</b>	<b>0</b>	<b>0</b>	<b>1,287,828</b>	<b>1,287,828</b>
<u>Committed:</u>				
Capital Projects	0	18,491,545	0	18,491,545
Library Endowment	53,696	0	0	53,696
<b>Total Committed</b>	<b>53,696</b>	<b>18,491,545</b>	<b>0</b>	<b>18,545,241</b>
<u>Assigned:</u>				
Emergency Reserve Fund	2,134,265	0	0	2,134,265
Debt Service Fund	0	0	3,051,678	3,051,678
Asset Forfeitures	21,756	0	0	21,756
Library Book Fund	108,682	0	0	108,682
Community Fund	10,970	0	0	10,970
<b>Total Assigned</b>	<b>2,275,673</b>	<b>0</b>	<b>3,051,678</b>	<b>5,327,351</b>
<u>Unassigned</u>	<u>8,529,330</u>	<u>0</u>	<u>0</u>	<u>8,529,330</u>
<b>Total Fund Balances</b>	<b><u>\$10,978,012</u></b>	<b><u>\$18,491,545</u></b>	<b><u>\$ 4,339,506</u></b>	<b><u>\$33,809,063</u></b>

**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.

City of Mountain Brook, Alabama

Notes to Financial Statements

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 generally 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 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 \$1,500,983 in the aggregate during the two year policy term. Workers' compensation cost charged by the City during 2012 and 2011 was approximately \$187,000 and \$597,000, respectively. The accompanying financial statements include an estimated accrual of unpaid workers' compensation claims as of September 30, 2012 and September 30, 2011 in the amount of \$686,100 and 678,400, 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 \$179,551 and \$140,760 as of September 30, 2012 and 2011, respectively, 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.

City of Mountain Brook, Alabama

Notes to Financial Statements

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 generally 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".

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 noncurrent liability for compensated absences in the amount of \$2,616,008 as of September 30, 2012 and \$2,517,945 as of September 30, 2011. The City paid \$9,279 and \$13,758 after September 30, 2012 and 2011, 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.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

**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 longevity pay as of September 30, 2012 and September 30, 2011 reported in the Government-Wide and Fund financial statements totaled \$411,770 and \$409,888, 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, 2012:

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>
<b>Operating transfers in (out):</b>			
Capital transfers for the payment of current year asset acquisitions and the future replacement of capital assets	\$ (3,784,954)	\$ 3,862,723	\$ (77,769)
Corrections fund transfer to fund operations	(152,134)	0	152,134
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	(360,600)	360,600
Gasoline tax fund transfer to supplement the annual street resurfacing program	(100,000)	0	100,000
	<u>(100,000)</u>	<u>0</u>	<u>100,000</u>
<b>Operating transfers, net</b>	<b><u>\$ (4,337,088)</u></b>	<b><u>\$ 3,502,123</u></b>	<b><u>\$ 834,965</u></b>

Following is a summary of the operating transfers between funds during the year ended September 30, 2011:

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>
<b>Operating transfers in (out):</b>			
Capital transfers 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	<u>(100,000)</u>	<u>0</u>	<u>100,000</u>
<b>Operating transfers, net</b>	<b><u>\$ (3,760,668)</u></b>	<b><u>\$ 2,868,337</u></b>	<b><u>\$ 892,331</u></b>

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.

**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>

City of Mountain Brook, Alabama

Notes to Financial Statements

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 \$26.6 million (82%) and \$25.8 million (82%) of the total General Fund revenues during the years ended September 30, 2012 and 2011, respectively. 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 \$6.25 million (19%) and \$6 million (19%) of the City's total General Fund revenues during the years ended September 30, 2012 and 2011, respectively.

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:

Governmental Funds - By Character:	Current (further classified by function and includes Capital Outlay) Debt Service
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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 effect 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.

**Y. Subsequent events**

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

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

At September 30, 2012, the City had the following cash and investments and maturities:

	Investment Maturity in Years			
	Fair Value	Less Than 1	1 - 2	3 - 5
Cash on-hand	\$ 2,960	\$ 2,960	\$ 0	\$ 0
Bank deposits	9,844,584	9,844,584	0	0
Investments:				
Cash and money market accounts	109,968	109,968	0	0
Certificates of deposit	25,272,212	9,019,556	13,598,524	2,654,132
U. S. Treasury bonds/notes	399	0	399	0
576 shares VMC common stock (donated)	27,245	0	0	27,245
<b>Total portfolio</b>	<b>\$35,257,368</b>	<b>\$18,977,068</b>	<b>\$13,598,923</b>	<b>\$ 2,681,377</b>

At September 30, 2012, the discretely presented component unit had the following cash and investments and maturities:

	Investment Maturity in Years			
	Fair Value	Less Than 1	1 - 2	3 - 5
Bank deposits	\$ 201,296	\$ 201,296	\$ 0	\$ 0
Money market	251,999	251,999	0	0
Mutual funds	2,334,914	2,334,914	0	0
<b>Total portfolio</b>	<b>\$ 2,788,209</b>	<b>\$ 2,788,209</b>	<b>\$ 0</b>	<b>\$ 0</b>

**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, 2012, were as follows:

<u>Maturity</u>	<u>Portion of Portfolio</u>
Less than one year	53.82%
1 - 2 years	38.57%
3 - 5 years	7.61%
	<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. Neither the City or Foundation had uninsured bank deposits at September 30, 2012.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

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, 2012, the City had invested \$25.3 million in certificates of deposit and \$400 in direct obligations of the U. S. Treasury. Of the City's \$25.3 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, 2012. Following is a summary of the City's top holdings in its cash and investment portfolio:

<b>Description/Creditor</b>	<b>Fair Value</b>	<b>Portion of Portfolio</b>
Iberia Bank (cash deposit accounts)	\$ 8,110,800	23.00%
Regions Bank (cash deposit accounts)	1,728,528	4.90%
Morgan Stanley (cash, deposits, money market funds)	109,968	0.31%
Various financial institutions - certificates of deposit	25,272,212	71.69%
	<u>\$35,221,508</u>	<u>99.90%</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:

<b>Description</b>	<b>CUSIP</b>	<b>Fair Value</b>	<b>Portion of Portfolio</b>
Bank demand deposit accounts		\$ 201,296	7.22%
Prime Money Market Fund		251,999	9.04%
Chase Growth Fund (18,907.115 shares)	CHASX	377,008	13.52%
Dodge & Cox International Stock (8,609.912 shares)	DODFX	279,392	10.02%
Longleaf Partner Family Value Tr #133 (11,561.313 shares)	LLPFX	348,227	12.49%
PIMCO All Asset Fund Institutional Class (38,085.973 shares)	PAAIX	512,914	18.40%
PIMCO Low Duration Fund Institutional Class (30,593.482 shares)	PTLDX	326,126	11.70%
Vanguard Convert Securities (38,022.237 shares)	VCVSX	491,247	17.61%
		<u>\$ 2,788,209</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, consisted of the following:

	<b>2012</b>				<b>2011 Total</b>
	<b>General Fund</b>	<b>Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total</b>	
Taxes	\$ 1,721,682	\$ 0	\$ 34,065	\$ 1,755,747	\$ 1,688,011
E-911 surcharge	0	0	35,823	35,823	33,410
Board of Education	85,613	0	0	85,613	84,874
Grants	28,642	121,707	0	150,349	876,273
Other	93,740	0	0	93,740	95,759
<b>Totals</b>	<u>\$ 1,929,677</u>	<u>\$ 121,707</u>	<u>\$ 69,888</u>	<u>\$ 2,121,272</u>	<u>\$ 2,778,327</u>

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

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, 2012 and 2011 totaled \$288,528 and \$360,157, respectively. The current portion reported at September 30, 2012 and 2011 was \$74,548 and \$71,629, respectively. The City collected interest totaling \$13,103 in 2012 and \$12,901 in 2011.

**4. Capital assets**

Following is a summary of the changes in the City's capital assets for the year ended September 30, 2012:

	<u>Balance at September 30, 2011</u>	<u>Additions</u>	<u>Disposals/ Retirements/ Completed</u>	<u>Balance at September 30, 2012</u>
<b>Capital assets, not being depreciated:</b>				
Land	\$18,698,005	\$ 0	\$ 0	\$18,698,005
Construction in progress	<u>7,062,710</u>	<u>8,914,011</u>	<u>0</u>	<u>15,976,721</u>
<b>Total capital assets, not being depreciated</b>	<u>25,760,715</u>	<u>8,914,011</u>	<u>0</u>	<u>34,674,726</u>
<b>Capital assets, being depreciated:</b>				
Land improvements	3,039,881	0	0	3,039,881
Buildings and improvements	10,464,669	0	(2,995)	10,461,674
Machinery and equipment	18,808,028	1,153,927	(405,564)	19,556,391
Infrastructure	<u>54,015,846</u>	<u>387,283</u>	<u>0</u>	<u>54,403,129</u>
<b>Total capital assets, being depreciated</b>	<u>86,328,424</u>	<u>1,541,210</u>	<u>(408,559)</u>	<u>87,461,075</u>
<b>Less accumulated depreciated for:</b>				
Land improvements	328,019	25,789	0	353,808
Buildings and improvements	2,664,985	399,218	(2,671)	3,061,532
Machinery and equipment	13,270,267	1,324,798	(397,524)	14,197,541
Infrastructure	<u>28,339,064</u>	<u>2,262,022</u>	<u>0</u>	<u>30,601,086</u>
<b>Total accumulated depreciation</b>	<u>44,602,335</u>	<u>4,011,827</u>	<u>(400,195)</u>	<u>48,213,967</u>
<b>Total capital assets, being depreciated, net</b>	<u>41,726,089</u>	<u>(2,470,617)</u>	<u>(8,364)</u>	<u>39,247,108</u>
<b>Governmental activities capital assets, net</b>	<u>\$67,486,804</u>	<u>\$ 6,443,394</u>	<u>\$ (8,364)</u>	<u>\$73,921,834</u>

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

	<u>2012</u>	<u>2011</u>
<b>Governmental activities:</b>		
General government	\$ 39,457	\$ 55,158
Public safety	884,739	1,056,007
Street and sanitation	1,897,927	1,833,978
Recreational	640,412	563,431
Library	<u>549,292</u>	<u>740,266</u>
<b>Total depreciation expense</b>	<u>\$ 4,011,827</u>	<u>\$ 4,248,840</u>

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

**5. Long-term debt**

Long-term debt outstanding as of September 30, 2012, 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 rate rates ranging from 3.875% to 4.0% (Note 9)	\$ <u>4,285,000</u>
<b>Total</b>	\$ <u>4,285,000</u>

The total interest paid by the City during the years ended September 30, 2012 and 2011 relative to general obligation warrants was \$170,600 and \$177,769, respectively. 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 years ended September 30, 2012 and 2011 was \$166,919 and \$174,281, respectively.

Following is a summary of long-term debt principal transactions for the year ended September 30, 2012:

General obligation warrant balances at October 1, 2011	\$ 4,475,000
Principal payments:	
\$5,000,000 General Obligation Warrants, Series 2007	<u>(190,000)</u>
General obligation warrant balances at September 30, 2012	\$ <u>4,285,000</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
2017	230,000	130,300	360,300
Thereafter	<u>3,225,000</u>	<u>746,847</u>	<u>3,971,847</u>
<b>Totals</b>	\$ <u>4,285,000</u>	\$ <u>1,482,048</u>	\$ <u>5,767,048</u>

**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.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

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.

**B. Funding**

Effective October 1, 2011, the City elected to come under the provisions of Act 2011-676 which requires that covered employees contribute to the pension plan at the rate of 7.25% of compensation (8.25% 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, 2012 was 8.42% of covered compensation.

For the year ended September 30, 2012, the City's total compensation was approximately \$13.7 million and the City's total covered compensation used to determine the City's pension contribution was approximately \$13 million. The City's policy is to fund the required contribution as actuarially determined by the RSA and stated as a percentage of eligible compensation; 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:

<b>Year Ended September 30</b>	<b>Employer Contribution</b>	<b>Employer</b>	<b>Employee</b>	<b>Combined</b>
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
2012	8.42%	1,016,000	999,000	2,015,000

\* 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, 2011:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension (Asset) Obligation</u>
1999	\$ 730,197	100.0%	\$ 0
2000	827,411	100.0%	0
2001	858,468	290.2%	(2,000,000)
2002	881,673	116.7%	(2,150,178)
2003	812,825	102.8%	(2,172,874)
2004	972,887	102.4%	(2,195,810)
2005	1,156,963	100.0%	(2,196,231)
2006	1,210,300	678.4%	(9,196,651)
2007	1,221,176	108.0%	(9,294,170)
2008	911,587	142.5%	(9,681,799)
2009	1,023,066	108.9%	(9,784,928)
2010	830,796	131.9%	(10,043,061)
2011	1,000,454	126.7%	(10,310,876)

The net pension (asset) above is the result of the City's contributions above the actuarially determined annual required contributions as more fully described in Note 6.B. above.

**D. Funding progress**

Following is the schedule of funding progress obtained from most recent actuarial valuation prepared as of September 30, 2011:

<u>Actuarial Valuation Date</u> <u>September 30</u>	<u>Actuarial Value of Assets</u> <u>(a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry age</u> <u>(b)</u>	<u>Unfunded AAL (UAAL)</u> <u>(b-a)</u>	<u>Funded Ratio</u> <u>(a/b)</u>	<u>Covered Payroll</u> <u>(c)</u>	<u>Ratio of UAAL to Covered Payroll</u> <u>(b-a)/c)</u>
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%
2011	42,195,893	63,185,649	20,989,756	66.8%	13,597,833	154.4%

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, 2011
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	220
Number of retired members and beneficiaries	86
Annual retirement allowances	\$ 3,113,991

**7. Post-employment benefits**

**Plan Description.** The City of Mountain Brook's medical benefits are provided to employees upon actual 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 with 20 years of service and any age or at age 60 and completion of 10 years of service. 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 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. In 2012 and 2011, the City of Mountain Brook's portion of health care funding cost for retired employees totaled \$354,828 and \$364,016, respectively.

Effective 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).

**Annual Required Contribution.** The City of Mountain Brook's Annual Required Contribution (ARC) is an amount actuarially determined in accordance with GASB 45. The ARC is the sum of the Normal Cost plus the contribution to amortize the 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 actuarially computed ARC is as follows:

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

	<u>2012</u>	<u>2011</u>
Normal Cost	\$ 99,532	\$ 98,471
30-year UAL amortization amount	<u>175,452</u>	<u>157,397</u>
Annual required contribution (ARC)	<u>\$ 274,984</u>	<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 for fiscal years ending September 30:

	<u>2012</u>	<u>2011</u>
Beginning Net OPEB Obligation (Asset)	<u>\$ (667,403)</u>	<u>\$ (365,777)</u>
Annual required contribution	274,984	255,868
Interest on Net OPEB Obligation (Asset)	(26,696)	(14,631)
ARC Adjustment	<u>38,596</u>	<u>21,153</u>
OPEB Cost	286,884	262,390
Contribution	(300,000)	(200,000)
Current year retiree premium	<u>(354,828)</u>	<u>(364,016)</u>
Change in Net OPEB Obligation	<u>(367,944)</u>	<u>(301,626)</u>
Ending Net OPEB Obligation (Asset)	<u>\$ (1,035,347)</u>	<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 for last year and this year:

<u>Post Employment Benefit</u>	<u>Fiscal Year Ended September</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
Medical/Dental	2012	\$ 286,884	228.26%	\$ (1,035,347)
Medical/Dental	2011	262,390	214.95%	(667,403)
Medical/Dental	2010	287,773	182.03%	(365,777)
Medical/Dental	2009	241,244	117.00%	(129,706)

**Funded Status and Funding Progress.** During fiscal years ending September 30, 2012 and 2011, the City of Mountain Brook contributed \$300,000 and \$200,000, respectively, to its post-employment benefits plan over and above the retiree premium costs. The plan, with accrued interest and unrealized gains/losses, thus had assets of \$925,335 and \$613,573 as of September 30, 2012 and 2011, respectively. Based on the October 1, 2011 actuarial valuation, the most recent valuation, the Actuarial Accrued Liability (AAL) at the end of the year September 30, 2012 was \$3,155,271 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.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

	<b>2012</b>	<b>2011</b>
Actuarial Accrued Liability (AAL)	\$ 3,155,271	\$ 3,249,729
Actuarial Value of Plan Assets	925,335	613,573
Unfunded Actuarial Accrued Liability (UAAL)	<b>\$ 2,229,936</b>	<b>\$ 2,636,156</b>
Funded Ratio (Actuarial Value of Assets/AAL)	29.33%	18.88%
Covered Payroll (active plan members)	<b>\$12,995,796</b>	<b>\$13,591,314</b>
UAAL as a percentage of covered payroll	17.16%	19.40%

**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.

**Actuarial Value of Plan Assets.** Because of the nature of the investments in the trust, the City has 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 has been used. The rates, when applied to the active employee census, produce a composite average annual turnover of approximately 10%.

**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 Description" 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). Medical benefits are provided to employees upon actual retirement.

**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.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

**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](http://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 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.

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

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

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

Below is a summary of OPEB cost and contributions for the last three fiscal calendar years.

	<u>2010</u>	<u>2011</u>	<u>2012</u>
OPEB Costs	\$ 287,773	\$ 262,390	\$ 286,884
Contributions	200,000	200,000	300,000
Retiree premium	336,694	364,016	354,828
Total contribution and premium	<u>536,694</u>	<u>564,016</u>	<u>654,828</u>
Change in net OPEB obligation	<u>\$ (248,921)</u>	<u>\$ (301,626)</u>	<u>\$ (367,944)</u>
Ratio of contributions to cost	<u>69.50%</u>	<u>76.22%</u>	<u>104.57%</u>
Ratio of contributions plus premium to cost	<u>186.50%</u>	<u>214.95%</u>	<u>228.26%</u>

**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 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Property tax commissions	\$ 197,347	\$ 193,913
Maintenance of maps and appraisals	219,780	159,999
Jefferson County Health Department	112,401	130,482
Birmingham-Jefferson County Transit Authority	76,732	75,490
Personnel Board of Jefferson County	190,534	150,652
Birmingham Regional Planning Commission	12,350	12,465

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

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.R.) 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, 2012, were \$29.79 per month for single and multiple family residential units and \$35.47 per month for commercial units. The annual cost incurred under this agreement for the years ended September 30, 2012 and 2011, was approximately \$2,683,400 and \$2,602,500, respectively. Total garbage service fee revenues collected by the City from its commercial customers during the years ended September 30, 2012 and 2011 were \$39,235 and \$32,436, respectively.

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 year 1999 for a period of 9-1/2 years. The City fulfilled its 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 October 2012, the service agreement was extended under the same terms through June 2013.

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 by the developer was \$5,332,981 which has been capitalized. The City's obligation under the terms of the development agreement totaled \$1,017,710 and \$2,034,017 as of September 30, 2012 and 2011, respectively. Of these amounts, \$1,016,000 and \$840,000 is reported as a current liability in the Government-wide Statement of Net Assets as of September 30, 2012 and 2011, respectively. The City paid \$1,016,307 and \$844,938 under the terms of the development agreement during the years ended September 30, 2012 and 2011, respectively.

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. The City paid \$102,159 and \$137,419 under the terms of the agreement during the years ended September 30, 2012 and 2011, respectively. The remaining balance due for the development agreement as of September 30, 2012 and 2011 was approximately \$0 and \$102,200, respectively.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

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

	<u>2012</u>	<u>2011</u>
Public buildings	\$13,857,382	\$ 6,549,062
Sidewalks	2,004,944	505,348
Drainage projects	21,802	8,300
Park improvements	<u>92,593</u>	<u>0</u>
<b>Total</b>	<b><u>\$15,976,721</u></b>	<b><u>\$ 7,062,710</u></b>

The public buildings include the razing and reconstruction of a new municipal complex. The municipal complex is estimated to cost \$23.5 million. The City has entered into numerous contracts with its architect, construction manager, landlords, building contractor, and others for design, construction and oversight, temporary space, and other aspects of the project. The estimated costs to complete the project as of September 30, 2012 are \$9.6 million. The new municipal complex is expected to be completed in April 2013.

The City has executed contracts with the Alabama Department of Transportation (ALDOT) and engineering firms with respect to the Mountain Brook Village Walkway System. The projects are being administered by ALDOT. The contracts total \$2,667,500 of which \$2,134,000 will be paid by a federal award. The estimated costs to complete the projects as of September 30, 2012 are \$900,000. The sidewalk projects are expected to be completed in April 2013.

The costs incurred for the drainage and park improvement projects are for preliminary design and planning of the projects. Contracts are expected to be executed in 2013 once the projects are defined.

**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>2012</u>	<u>2011</u>
Assessed value of taxable real and personal property as provided by the Jefferson County Tax Assessor	<u>\$523,923,088</u>	<u>\$536,266,781</u>
Constitutional debt limit, 20 percent of assessed value	\$104,784,618	\$107,253,356
Outstanding long-term debt as of September 30, 2012	<u>4,285,000</u>	<u>4,475,000</u>
<b>Legal Debt Margin</b>	<b><u>\$100,499,618</u></b>	<b><u>\$102,778,356</u></b>

**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.

**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, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues:</b>				
Taxes	\$ 25,403,964	\$ 26,410,110	\$ 27,109,720	\$ 699,610
Licenses and permits	3,154,383	3,655,580	3,694,451	38,871
Intergovernmental	44,700	85,071	85,613	542
Charges for services	563,300	693,342	753,796	60,454
Fines and forfeitures	472,700	460,000	446,682	(13,318)
Grants	12,380	12,380	12,062	(318)
Other operating revenues	509,325	401,805	478,031	76,226
<b>Total revenues</b>	<u>30,160,752</u>	<u>31,718,288</u>	<u>32,580,355</u>	<u>862,067</u>
<b>Expenditures:</b>				
<b>Current (operating):</b>				
General government	4,915,475	5,143,424	5,305,752	(162,328)
Public safety	12,473,300	12,655,204	12,271,377	383,827
Street and sanitation	5,826,960	6,119,579	5,996,599	122,980
Recreational	1,084,496	1,167,553	1,173,043	(5,490)
Library	2,506,626	2,645,796	2,617,671	28,125
<b>Total expenditures</b>	<u>26,806,857</u>	<u>27,731,556</u>	<u>27,364,442</u>	<u>367,114</u>
<b>Excess of revenues over expenditures</b>	<u>3,353,895</u>	<u>3,986,732</u>	<u>5,215,913</u>	<u>1,229,181</u>
<b>Other financing sources (uses):</b>				
Operating transfers in	0	0	0	0
Operating transfers (out)	(3,027,637)	(3,558,238)	(4,337,088)	(778,850)
Operating transfers in - component unit	43,000	43,000	53,817	10,817
Donations	24,250	24,250	72,261	48,011
<b>Total other financing sources (uses)</b>	<u>(2,960,387)</u>	<u>(3,490,988)</u>	<u>(4,211,010)</u>	<u>(720,022)</u>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	393,508	495,744	1,004,903	509,159
<b>Fund balances, beginning of year</b>	<u>9,973,109</u>	<u>9,973,109</u>	<u>9,973,109</u>	<u>0</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 10,366,617</u>	<u>\$ 10,468,853</u>	<u>\$ 10,978,012</u>	<u>\$ 509,159</u>

**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 26, 2011 (Resolution No. 2011-148) and subsequently revised on March 26, 2012 (Resolution No. 2012-043), May 14, 2012 (Resolution No. 2012-074), June 11, 2012 (Resolution No. 2012-087), and July 23, 2012 (Resolution No. 2012-109).

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**SUPPLEMENTARY INFORMATION**

City of Mountain Brook, Alabama

Combining Balance Sheet  
Other Governmental Funds  
September 30, 2012

	<b>State Shared Gasoline Tax Funds</b>			
	<b>Seven Cent</b>	<b>Four Cent</b>	<b>Five Cent</b>	<b>Two Cent</b>
<b>ASSETS</b>				
Cash and temporary investments	\$ 205,114	\$ 378,412	\$ 140,162	\$ 22,474
Receivables	18,258	10,590	5,217	0
<b>TOTAL ASSETS</b>	<b>\$ 223,372</b>	<b>\$ 389,002</b>	<b>\$ 145,379</b>	<b>\$ 22,474</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 0	\$ 0	\$ 0	\$ 0
<b>Total liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>FUND EQUITY</b>				
Fund balance	223,372	389,002	145,379	22,474
<b>Total fund equity</b>	<b>223,372</b>	<b>389,002</b>	<b>145,379</b>	<b>22,474</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 223,372</b>	<b>\$ 389,002</b>	<b>\$ 145,379</b>	<b>\$ 22,474</b>

<u>Emergency Communication District</u>	<u>Corrections Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
\$ 475,171	\$ 9,018	\$ 3,051,678	\$ 4,282,029
<u>35,823</u>	<u>0</u>	<u>0</u>	<u>69,888</u>
<u>\$ 510,994</u>	<u>\$ 9,018</u>	<u>\$ 3,051,678</u>	<u>\$ 4,351,917</u>
\$ 3,393	\$ 9,018	\$ 0	\$ 12,411
<u>3,393</u>	<u>9,018</u>	<u>0</u>	<u>12,411</u>
<u>507,601</u>	<u>0</u>	<u>3,051,678</u>	<u>4,339,506</u>
<u>507,601</u>	<u>0</u>	<u>3,051,678</u>	<u>4,339,506</u>
<u>\$ 510,994</u>	<u>\$ 9,018</u>	<u>\$ 3,051,678</u>	<u>\$ 4,351,917</u>

**City of Mountain Brook, Alabama**

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances – Other Governmental Funds  
Year Ended September 30, 2012**

	<u>State Shared Gasoline Tax Funds</u>			
	<u>Seven Cent</u>	<u>Four Cent</u>	<u>Five Cent</u>	<u>Two Cent</u>
<b>Revenues:</b>				
Taxes	\$ 195,110	\$ 120,485	\$ 58,913	\$ 3,033
Intergovernmental	0	0	0	0
Charges for services	0	0	0	0
Fines and forfeitures	0	0	0	0
Other operating revenues:				
Investment earnings	<u>174,497</u>	<u>1,334</u>	<u>512</u>	<u>63</u>
<b>Total revenues</b>	<u>369,607</u>	<u>121,819</u>	<u>59,425</u>	<u>3,096</u>
<b>Expenditures:</b>				
General government	0	0	0	0
Public safety	0	0	0	154
Street and sanitation	403,495	125,155	60,154	0
Recreational	0	0	0	0
Debt service:				
Principal	0	0	0	0
Interest	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total expenditures</b>	<u>403,495</u>	<u>125,155</u>	<u>60,154</u>	<u>154</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(33,888)</u>	<u>(3,336)</u>	<u>(729)</u>	<u>2,942</u>
<b>Other financing sources (uses):</b>				
Operating transfers in	100,000	0	0	0
Operating transfers (out)	0	0	0	0
Donations	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total other financing sources (uses)</b>	<u>100,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	66,112	(3,336)	(729)	2,942
<b>Fund balances, beginning of year</b>	<u>157,260</u>	<u>392,338</u>	<u>146,108</u>	<u>19,532</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 223,372</u>	<u>\$ 389,002</u>	<u>\$ 145,379</u>	<u>\$ 22,474</u>

<u>Emergency Communication District</u>	<u>Corrections Fund</u>	<u>Debt Service Fund</u>	<u>Totals Fund</u>
\$ 0	\$ 0	\$ 0	\$ 377,541
0	0	0	0
353,148	0	0	353,148
0	138,687	0	138,687
<u>1,527</u>	<u>0</u>	<u>33,423</u>	<u>211,356</u>
<u>354,675</u>	<u>138,687</u>	<u>33,423</u>	<u>1,080,732</u>
0	202,108	788	202,896
303,139	88,713	0	392,006
0	0	0	588,804
0	0	0	0
0	0	190,000	190,000
<u>0</u>	<u>0</u>	<u>170,600</u>	<u>170,600</u>
<u>303,139</u>	<u>290,821</u>	<u>361,388</u>	<u>1,544,306</u>
<u>51,536</u>	<u>(152,134)</u>	<u>(327,965)</u>	<u>(463,574)</u>
0	152,134	660,600	912,734
(77,769)	0	0	(77,769)
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>(77,769)</u>	<u>152,134</u>	<u>660,600</u>	<u>834,965</u>
(26,233)	0	332,635	371,391
<u>533,834</u>	<u>0</u>	<u>2,719,043</u>	<u>3,968,115</u>
<u>\$ 507,601</u>	<u>\$ 0</u>	<u>\$ 3,051,678</u>	<u>\$ 4,339,506</u>

**City of Mountain Brook, Alabama**  
**Combining Balance Sheet – Capital Projects Funds**  
**September 30, 2012**

	<u>City Capital Projects</u>	<u>Village Improvement Projects</u>	<u>Village Trail System</u>	<u>Totals</u>
<b>ASSETS</b>				
Cash and temporary investments	\$ 13,241,178	\$ 5,440,339	\$ 707,910	\$ 19,389,427
Receivables	<u>0</u>	<u>0</u>	<u>121,707</u>	<u>121,707</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 13,241,178</b></u>	<u><b>\$ 5,440,339</b></u>	<u><b>\$ 829,617</b></u>	<u><b>\$ 19,511,134</b></u>
<b>LIABILITIES</b>				
Accounts payable	\$ 915,711	\$ 43,574	\$ 60,304	\$ 1,019,589
Other liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL LIABILITIES</b>	<u>915,711</u>	<u>43,574</u>	<u>60,304</u>	<u>1,019,589</u>
<b>FUND BALANCE</b>				
Fund balance	<u>12,325,467</u>	<u>5,396,765</u>	<u>769,313</u>	<u>18,491,545</u>
<b>TOTAL FUND BALANCE</b>	<u>12,325,467</u>	<u>5,396,765</u>	<u>769,313</u>	<u>18,491,545</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><b>\$ 13,241,178</b></u>	<u><b>\$ 5,440,339</b></u>	<u><b>\$ 829,617</b></u>	<u><b>\$ 19,511,134</b></u>

City of Mountain Brook, Alabama

Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances – Capital Projects Funds  
Year Ended September 30, 2012

	City Capital Projects	Village Improvement Projects	Village Trail System Projects	Totals
<b>Revenues:</b>				
Grants	\$ 0	\$ 33,675	\$ 987,981	\$ 1,021,656
Other operating revenues:				
Investment earnings	328,138	18,673	1,341	348,152
Miscellaneous	124,682	0	0	124,682
<b>Total revenues</b>	<u>452,820</u>	<u>52,348</u>	<u>989,322</u>	<u>1,494,490</u>
<b>Expenditures:</b>				
General government	7,414,753	0	0	7,414,753
Public safety	747,469	0	0	747,469
Street and sanitation	267,802	103,974	1,500,625	1,872,401
Recreational	83,383	62,960	0	146,343
Library	43,833	0	0	43,833
<b>Total expenditures</b>	<u>8,557,240</u>	<u>166,934</u>	<u>1,500,625</u>	<u>10,224,799</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(8,104,420)</u>	<u>(114,586)</u>	<u>(511,303)</u>	<u>(8,730,309)</u>
<b>Other financing sources (uses):</b>				
Operating transfers in	2,708,301	379,422	775,000	3,862,723
Operating transfers (out)	0	(360,600)	0	(360,600)
Donations	0	0	0	0
<b>Total other financing sources (uses)</b>	<u>2,708,301</u>	<u>18,822</u>	<u>775,000</u>	<u>3,502,123</u>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	<u>(5,396,119)</u>	<u>(95,764)</u>	<u>263,697</u>	<u>(5,228,186)</u>
<b>Fund balances, beginning of year</b>	<u>17,721,586</u>	<u>5,492,529</u>	<u>505,616</u>	<u>23,719,731</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 12,325,467</u>	<u>\$ 5,396,765</u>	<u>\$ 769,313</u>	<u>\$ 18,491,545</u>

**City of Mountain Brook, Alabama**

**Schedule of General Fund Revenues by Source  
For the Years Ended September 30, 2003 through 2012**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Taxes</b>				
Real property	\$ 8,422,094	\$ 10,244,362	\$ 11,094,902	\$ 11,976,292
Sales and use	5,701,970	6,086,944	6,534,289	7,033,452
Occupational	905,432	929,454	939,127	248,283
Utility	941,086	953,228	992,143	1,088,234
Personal property (automobiles)	1,054,267	1,076,449	1,108,807	1,131,386
Road and bridge	351,477	425,985	460,216	497,326
Other	974,690	1,072,439	1,053,130	1,316,806
<b>Total taxes</b>	<u>18,351,016</u>	<u>20,788,861</u>	<u>22,182,614</u>	<u>23,291,779</u>
<b>Licenses and permits</b>				
Business	1,567,743	1,647,641	1,756,226	1,729,727
Construction permits	413,416	667,971	519,277	893,161
Cable TV franchise fees	223,181	245,986	257,695	282,379
Waterworks Board	124,717	115,220	123,202	137,964
Other	51,380	55,717	55,535	60,966
<b>Total licenses and permits</b>	<u>2,380,437</u>	<u>2,732,535</u>	<u>2,711,935</u>	<u>3,104,197</u>
<b>Intergovernmental</b>	37,248	40,430	41,736	50,517
<b>Charges for services</b>				
Garbage fees	1,443,383	1,526,500	1,573,788	1,604,281
Other	508,902	481,656	486,567	486,385
<b>Total charges for services</b>	<u>1,952,285</u>	<u>2,008,156</u>	<u>2,060,355</u>	<u>2,090,666</u>
<b>Fines and forfeitures - court</b>	364,031	496,457	587,397	623,579
<b>Grants</b>	32,748	172,338	1,907,290	73,278
<b>Other operating revenue</b>				
Investment earnings	235,998	126,245	141,783	235,866
Other	245,403	241,746	247,971	325,757
<b>Total other operating revenue</b>	<u>481,401</u>	<u>367,991</u>	<u>389,754</u>	<u>561,623</u>
<b>TOTAL REVENUES</b>	<u>\$ 23,599,166</u>	<u>\$ 26,606,768</u>	<u>\$ 29,881,081</u>	<u>\$ 29,795,639</u>

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 13,181,868	\$ 13,919,181	\$ 14,592,638	\$ 14,322,580	\$ 13,890,843	\$ 13,873,635
7,829,375	8,412,007	7,666,594	7,854,903	8,476,522	9,112,494
1,475	0	0	0	0	0
1,266,253	1,336,420	1,413,759	1,450,440	1,460,206	1,365,487
1,139,952	1,130,239	1,022,666	1,047,869	1,079,079	1,152,424
543,682	572,272	596,000	590,899	572,584	575,000
<u>1,275,315</u>	<u>985,588</u>	<u>1,075,676</u>	<u>1,016,068</u>	<u>903,688</u>	<u>1,030,680</u>
25,237,920	26,355,707	26,367,333	26,282,759	26,382,922	27,109,720
1,872,058	1,994,039	1,998,980	2,130,822	2,165,612	2,223,912
851,266	1,036,354	634,059	624,309	753,444	800,820
300,204	323,082	328,641	347,757	352,964	391,701
161,961	167,341	157,794	159,242	207,939	216,090
60,985	63,382	57,966	64,720	60,310	61,928
<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>3,694,451</u>
40,544	149,710	84,723	82,826	84,874	85,613
462,747	71,252	39,094	34,062	32,436	39,235
<u>517,251</u>	<u>498,576</u>	<u>486,785</u>	<u>591,636</u>	<u>619,716</u>	<u>714,561</u>
979,998	569,828	525,879	625,698	652,152	753,796
597,961	470,020	443,400	514,542	529,522	446,682
51,434	37,355	50,799	19,708	282,423	12,062
653,609	428,304	271,788	207,214	131,706	199,151
<u>161,303</u>	<u>230,717</u>	<u>371,526</u>	<u>254,173</u>	<u>300,657</u>	<u>278,880</u>
<u>814,912</u>	<u>659,021</u>	<u>643,314</u>	<u>461,387</u>	<u>432,363</u>	<u>478,031</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>	<u>\$ 32,580,355</u>

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**City of Mountain Brook, Alabama**  
**Comparative Balance Sheet – General Fund**  
**September 30**

	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
Cash and temporary investments	\$ 11,406,361	\$ 9,790,734
Cash and temporary investments - restricted	179,551	140,760
Receivables	1,844,064	1,971,945
Due from related organizations	85,613	84,874
Inventory and prepaid expenses	119,313	110,366
<b>TOTAL ASSETS</b>	<b>\$ 13,634,902</b>	<b>\$ 12,098,679</b>
 <b>LIABILITIES</b>		
Accounts payable	\$ 861,707	\$ 527,402
Accrued salaries and wages	635,899	589,081
Due to related organizations	54,710	51,855
Other liabilities	1,104,574	957,232
<b>TOTAL LIABILITIES</b>	<b>2,656,890</b>	<b>2,125,570</b>
<b>Pension obligation (see Note 6)</b>		
<b>FUND BALANCES</b>		
Nonspendable	119,313	110,366
Restricted	0	0
Committed	53,696	53,455
Assigned	2,275,673	2,117,555
Unassigned	8,529,330	7,691,733
<b>FUND BALANCES</b>	<b>10,978,012</b>	<b>9,973,109</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 13,634,902</b>	<b>\$ 12,098,679</b>

**City of Mountain Brook, Alabama**  
**Comparative Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances – General Fund**  
**Years Ended September 30**

	<u>2012</u>	<u>2011</u>
<b>Revenues:</b>		
Taxes	\$ 27,109,720	\$ 26,382,922
Licenses and permits	3,694,451	3,540,269
Intergovernmental	85,613	84,874
Charges for services	753,796	652,152
Fines and forfeitures	446,682	529,522
Grants	12,062	282,423
Other operating revenues	<u>478,031</u>	<u>432,363</u>
<b>Total revenues</b>	<u>32,580,355</u>	<u>31,904,525</u>
<b>Expenditures:</b>		
<b>Current (operating):</b>		
General government	5,305,752	4,868,781
Public safety	12,271,377	12,615,874
Street and sanitation	5,996,599	6,036,984
Recreational	1,173,043	1,195,140
Library	<u>2,617,671</u>	<u>2,566,156</u>
<b>Total expenditures</b>	<u>27,364,442</u>	<u>27,282,935</u>
<b>Excess (deficiency) of revenues     over expenditures</b>	<u>5,215,913</u>	<u>4,621,590</u>
<b>Other financing sources (uses):</b>		
Operating transfers in	0	0
Operating transfers (out)	(4,337,088)	(3,760,668)
Operating transfers in - component unit	53,817	119,419
Donations	<u>72,261</u>	<u>68,070</u>
<b>Total other financing sources (uses)</b>	<u>(4,211,010)</u>	<u>(3,573,179)</u>
<b>Excess of revenues and other financing sources     over expenditures and other financing uses</b>	1,004,903	1,048,411
<b>Fund balances, beginning of year</b>	<u>9,973,109</u>	<u>8,924,698</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 10,978,012</u>	<u>\$ 9,973,109</u>

**City of Mountain Brook, Alabama**  
**Comparative Balance Sheet – Capital Projects Funds**  
**September 30**

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash and temporary investments	\$ 19,389,427	\$ 23,589,897
Receivables	<u>121,707</u>	<u>650,942</u>
<b>TOTAL ASSETS</b>	<u>\$ 19,511,134</u>	<u>\$ 24,240,839</u>
 <b>LIABILITIES</b>		
Accounts payable	<u>\$ 1,019,589</u>	<u>\$ 521,108</u>
<b>TOTAL LIABILITIES</b>	<u>1,019,589</u>	<u>521,108</u>
<b>Pension obligation (see Note 6)</b>		
 <b>FUND BALANCES</b>		
Committed	<u>18,491,545</u>	<u>23,719,731</u>
<b>FUND BALANCES</b>	<u>18,491,545</u>	<u>23,719,731</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 19,511,134</u>	<u>\$ 24,240,839</u>

**City of Mountain Brook, Alabama**  
**Comparative Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances – Capital Projects Funds**  
**Years Ended September 30**

	<u>2012</u>	<u>2011</u>
<b>Revenues:</b>		
Grants	\$ 1,021,656	\$ 2,746,851
Other operating revenues	<u>472,834</u>	<u>498,100</u>
<b>Total revenues</b>	<u>1,494,490</u>	<u>3,244,951</u>
<b>Expenditures:</b>		
<b>Current (operating):</b>		
General government	7,414,753	4,488,545
Public safety	747,469	543,658
Street and sanitation	1,872,401	3,443,420
Recreational	146,343	755,282
Library	<u>43,833</u>	<u>0</u>
<b>Total expenditures</b>	<u>10,224,799</u>	<u>9,230,905</u>
<b>Excess (deficiency) of revenues     over expenditures</b>	<u>(8,730,309)</u>	<u>(5,985,954)</u>
<b>Other financing sources (uses):</b>		
Operating transfers in	3,862,723	3,226,893
Operating transfers (out)	(360,600)	(358,556)
Operating transfers in - component unit	0	0
Donations	<u>0</u>	<u>207,804</u>
<b>Total other financing sources (uses)</b>	<u>3,502,123</u>	<u>3,076,141</u>
<b>Excess of revenues and other financing sources     over expenditures and other financing uses</b>	<u>(5,228,186)</u>	<u>(2,909,813)</u>
<b>Fund balances, beginning of year</b>	<u>23,719,731</u>	<u>26,629,544</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 18,491,545</u>	<u>\$ 23,719,731</u>

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

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash and temporary investments	\$ 3,051,678	\$ 2,719,043
<b>TOTAL ASSETS</b>	<u>\$ 3,051,678</u>	<u>\$ 2,719,043</u>
 <b>LIABILITIES</b>	 \$ 0	 \$ 0
<b>FUND BALANCES</b>		
Assigned	<u>3,051,678</u>	<u>2,719,043</u>
<b>FUND BALANCES</b>	<u>3,051,678</u>	<u>2,719,043</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 3,051,678</u>	<u>\$ 2,719,043</u>

**City of Mountain Brook, Alabama**  
**Comparative Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance – Debt Service Fund**  
**Years Ended September 30**

	<u>2012</u>	<u>2011</u>
<b>Revenues:</b>		
Other operating revenues	\$ 33,423	\$ 45,515
<b>Total revenues</b>	<u>33,423</u>	<u>45,515</u>
<b>Expenditures:</b>		
<b>Current (operating):</b>		
General government	788	787
Debt service:		
Principal	190,000	180,000
Interest	<u>170,600</u>	<u>177,769</u>
<b>Total expenditures</b>	<u>361,388</u>	<u>358,556</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(327,965)</u>	<u>(313,041)</u>
<b>Other financing sources (uses):</b>		
Operating transfers in	660,600	658,556
Operating transfers (out)	<u>0</u>	<u>0</u>
<b>Total other financing sources (uses)</b>	<u>660,600</u>	<u>658,556</u>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	332,635	345,515
<b>Fund balances, beginning of year</b>	<u>2,719,043</u>	<u>2,373,528</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 3,051,678</u>	<u>\$ 2,719,043</u>



Carr, Riggs & Ingram, LLC  
2100 16th Avenue South  
Suite 300  
Birmingham, Alabama 35205

Mailing Address:  
P.O. Box 55765  
Birmingham, Alabama 35255

(205) 933-7822  
(205) 933-7944 (fax)  
[www.cricpa.com](http://www.cricpa.com)

**Independent Auditors' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards**

To the Mayor and City Council  
City of 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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 11, 2013. 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 (2012-1). 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.

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

Birmingham, Alabama  
January 11, 2013



Carr, Riggs & Ingram, LLC  
2100 16th Avenue South  
Suite 300  
Birmingham, Alabama 35205

Mailing Address:  
P.O. Box 55765  
Birmingham, Alabama 35255

(205) 933-7822  
(205) 933-7944 (fax)  
www.cricpa.com

**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**

To the City Council  
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, 2012. 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, 2012.

**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.

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

Birmingham, Alabama  
January 11, 2013

CITY OF MOUNTAIN BROOK, ALABAMA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Description	Federal CFDA Number	Total Grant Award	Revenue Recognized	Expenditures
<b><u>U.S. Department of Transportation</u></b>				
Passed through Alabama Department of Transportation				
Mountain Brook Village Walkway System Phase 6				
CMAQ-9802(921)	20.205	\$ 1,664,040	\$ 987,981	\$ 987,981
Watkins Creek Bridge Widening for Pedestrian Use				
STMTE-TE09(922)	20.205	282,000	2,991	2,991
Village Trail System, Phase 7A - Memory Lane				
STPTE-TE09(918)	20.205	<u>240,000</u>	<u>30,684</u>	<u>30,684</u>
<b>Total U.S. Department of Transportation</b>		<u>2,186,040</u>	<u>1,021,656</u>	<u>1,021,656</u>
<b>TOTAL FEDERAL AWARDS</b>		<u>\$ 2,186,040</u>	<u>\$ 1,021,656</u>	<u>\$ 1,021,656</u>

**City of Mountain Brook, Alabama**

**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, 2012**

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

<u>          </u> yes	<u>  X  </u> no
-----------------------	-----------------

**Federal Awards**

Internal control over major programs:

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

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

Unqualified

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

<u>          </u> yes	<u>  X  </u> no
-----------------------	-----------------

Identification of major programs:

**CFDA Numbers**  
20.205

**Name of Federal Program or Cluster**  
U. S. Department of Transportation  
Village Walkway Systems

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

Auditee qualified as low-risk auditee   X   yes            no

**Section II - Financial Statement Findings**

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

**CITY OF MOUNTAIN BROOK, ALABAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**2012-1 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.