

**CITY OF MOUNTAIN BROOK, ALABAMA**

**BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2014**

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

**SEPTEMBER 30, 2014**

**MAYOR**

The Honorable Lawrence T. Oden

**CITY COUNCIL**

Ms. Virginia C. Smith, President

Mr. Jack D. Carl

Mr. Lloyd C. Shelton

Mr. William S. (Billy) Pritchard, III

Ms. Alice B. Womack

**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. Shanda Williams

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# City of Mountain Brook, Alabama

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Mountain Brook, Alabama (the City) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Mountain Brook Library Foundation (the Foundation), which represents the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinions, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Report on Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The 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.

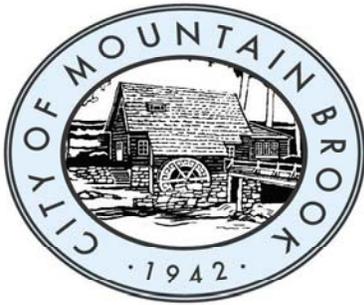
The accompanying schedule of expenditures of federal awards and supplementary information as listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the accompanying schedule of expenditures of federal awards and supplementary information as listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated January 27, 2015, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Birmingham, Alabama  
January 27, 2015



## CITY OF MOUNTAIN BROOK, ALABAMA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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This narrative overview and analysis of the City's financial activities as of and for the year ended September 30, 2014, 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, 2014, by \$117.7 million (Total Net Position). Of this amount, \$77.5 million represents the net book value of the City's capital assets including infrastructure net of outstanding long-term debt and \$1.4 million is restricted (\$548,000 for the Emergency Communication District and \$809,000 for road improvements from the State Shared Gasoline Tax special revenue funds). The remaining \$38.9 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 Position increased by \$2.8 million in 2014 which includes the net cost of providing core City Services of \$24.8 million plus \$27.7 million in General Revenues.
- As of September 30, 2014, the City reported \$30.5 million in fund balances, an increase of \$3 million from 2013. Of the \$30.5 million fund balances, \$13 million (43%) is reported in the General Fund, \$12.4 million (41%) in the Capital Projects Fund, \$3.7 million (12%) in the Debt Service Fund, and \$1.4 million (4%) 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 Position 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 Position depicts all of the primary government's assets and liabilities with the difference between the two reported as Net Position. Over time, changes in net position 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 position 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, Capital Projects Fund (which is comprised of three "sub-funds"), and Debt Service Fund 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 (various Special Revenue funds) 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	17,386,195	\$ 505,948	\$ 12,886,407
Storm sewers	20	13,946,471	682,727	4,029,350
Sidewalks	15	12,626,962	309,602	7,707,418
Park facilities	20	8,164,316	278,060	5,152,853
Street lights and signs	15	1,292,532	61,302	932,708
Library reference materials	5	4,804,901	379,956	4,023,854
<b>Totals</b>		<u>\$ 74,747,048</u>	<u>\$ 2,217,595</u>	<u>\$ 34,732,590</u>

**Government-wide Financial Analysis**

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

	<u>2014</u>	<u>2013 (Restated)</u>
Current assets	\$ 32,909,778	\$ 30,727,021
Other assets	12,512,203	12,068,657
Capital assets	81,346,990	82,156,362
<b>Total assets</b>	<u>126,768,971</u>	<u>124,952,040</u>
Current and other liabilities	2,579,563	3,421,246
Long-term liabilities	6,461,528	6,620,109
<b>Total liabilities</b>	<u>9,041,091</u>	<u>10,041,355</u>
Net position:		
Net investment in capital assets	77,461,990	78,066,362
Restricted	1,357,086	1,443,216
Unrestricted	38,908,804	35,401,107
<b>Total net position</b>	<u>\$ 117,727,880</u>	<u>\$ 114,910,685</u>

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

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

	<u>2014</u>	<u>2013 (Restated)</u>
<b>Revenues</b>		
Program revenues		
Fees, fines and charges for services	\$ 6,286,138	\$ 5,961,384
Operating grants and contributions	1,039,178	986,104
Capital grants and contributions	1,588,884	2,103,695
General revenues		
Ad valorem taxes (real and personal property)	15,084,993	14,720,970
Sales and use taxes	10,142,427	9,889,449
Other taxes	242,618	178,386
Utility taxes	1,288,163	1,284,421
Franchise fees	582,375	641,751
Investment earnings	182,262	298,391
Gain (loss) on disposals of capital assets	117,480	103,652
Miscellaneous revenues	20,370	17,778
Transfers from component unit	4,477	20,885
<b>Total revenues</b>	<u>36,579,365</u>	<u>36,206,866</u>
<b>Expenses</b>		
General government	5,072,572	3,699,945
Public safety	15,254,744	14,636,956
Street and sanitation	8,745,152	8,902,821
Recreational	1,685,015	1,803,280
Library	3,004,687	3,296,785
<b>Total expenses</b>	<u>33,762,170</u>	<u>32,339,787</u>
<b>Increase in net position</b>	2,817,195	3,867,079
Net position, beginning of year (as previously reported)	114,910,685	111,363,471
Prior period adjustments (Note 11)	<u>0</u>	<u>(319,865)</u>
Net position, beginning of year (as restated)	<u>114,910,685</u>	<u>111,043,606</u>
<b>Net position, end of year</b>	<u>\$ 117,727,880</u>	<u>\$ 114,910,685</u>

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

***Revenues***

The City's primary source of revenue is real estate ad valorem taxes which comprised 40% of total General Fund revenues in 2014. Real estate ad valorem taxes increased \$355,000 (2.6%) during 2014.

The second largest source of revenue for the City is sales and use tax which totaled 29% of total General Fund revenues in 2014. Sales and use tax revenue increased by \$230,000 (2.4%) during 2014.

**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>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Real estate ad valorem tax	\$ 13,867,794	\$ 13,512,485	\$ 355,309
Sales and use tax	9,808,223	9,578,337	229,886
Business licenses	2,531,307	2,492,623	38,684
Personal property ad valorem tax	1,217,199	1,208,485	8,714
Garbage service fees	34,086	35,589	(1,503)
Utility taxes	1,288,163	1,284,421	3,742
Investment earnings	69,522	138,162	(68,640)
All other General Fund revenues	<u>5,478,171</u>	<u>5,200,318</u>	<u>277,853</u>
<b>Totals</b>	<b><u>\$ 34,294,465</u></b>	<b><u>\$ 33,450,420</u></b>	<b><u>\$ 844,045</u></b>

***Expenditures***

Salaries and benefits increased \$468,000 (2%) in 2014 to \$19.2 million. Labor-related costs made up (58%) of the City's total General Fund expenditures (including intrafund transfers) in 2014. 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>2014</u>	<u>2013 (Restated)</u>	<u>Increase (Decrease)</u>
Salaries and benefits	\$ 19,236,520	\$ 18,768,059	\$ 468,461
Garbage contract fees	2,751,075	2,722,982	28,093
Capital outlay	4,028,993	13,369,892	(9,340,899)
Intergovernmental services	803,704	775,843	27,861
Utilities and communication	820,566	868,123	(47,557)
Development agreement payments	0	1,017,710	(1,017,710)
Property and casualty insurance	330,267	271,722	58,545
Legal and accounting	283,156	329,275	(46,119)
Fuel and lubricants	365,902	371,067	(5,165)
Debt service	361,197	358,928	2,269
Birmingham Zoo, Inc. subsidy	75,000	75,000	0
All other	<u>4,589,702</u>	<u>3,931,752</u>	<u>657,950</u>
<b>Totals</b>	<b><u>\$ 33,646,082</u></b>	<b><u>\$ 42,860,353</u></b>	<b><u>\$ (9,214,271)</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 \$1,437,000 (4.4%). 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	\$ 13,507,435	\$ 13,867,794	\$ 360,359
Sales and use tax	9,450,000	9,808,223	358,223
Other taxes	1,012,650	1,127,178	114,528
Utility taxes	1,324,950	1,288,163	(36,787)
Road and bridge tax	576,900	550,686	(26,214)
Construction permits	928,240	1,347,583	419,343
Fines and forfeitures	527,040	577,844	50,804
Charges for services	770,249	764,433	(5,816)
Fees for road repairs	143,340	73,226	(70,114)
Grants	26,250	100,187	73,937
Investment earnings	155,855	69,522	(86,333)
All other	4,434,095	4,719,626	285,531
<b>Totals</b>	<u>\$ 32,857,004</u>	<u>\$ 34,294,465</u>	<u>\$ 1,437,461</u>

- Total General Fund expenditures were \$653,000 (2.3%) less than the final budget. The favorable (unfavorable) budget variance was comprised largely of the following categories:

	<u>Budget</u>	<u>Actual</u>	<b>Favorable (Unfavorable)</b>
Salaries and benefits	\$ 19,863,093	\$ 19,236,520	\$ 626,573
Garbage contract fees	2,765,001	2,751,075	13,926
Intergovernmental services	789,462	803,704	(14,242)
Utilities and communication	837,550	820,566	16,984
Appropriations to the Board of Education	174,800	540,782	(365,982)
Fuel and lubricants	318,800	365,902	(47,102)
Legal and accounting	381,500	283,156	98,344
Property and casualty insurance	284,750	330,267	(45,517)
Employee development and travel	288,562	233,131	55,431
Street striping	145,000	145,556	(556)
Street cut repairs	100,000	52,609	47,391
Park and recreation special projects	0	1,844	(1,844)
All other	2,700,206	2,430,884	269,322
<b>Totals</b>	<u>\$ 28,648,724</u>	<u>\$ 27,995,996</u>	<u>\$ 652,728</u>

- Total operating transfers out exceeded the amount budgeted by \$1,533,860. This variance resulted primarily from the Council's decision (after year-end) to transfer an additional \$1,576,000 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 \$1,038,421 was \$575,846 more than budgeted.

**CITY OF MOUNTAIN BROOK, ALABAMA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

***Other Matters of Interest  
Pension Plan***

As more fully described in Note 6 to Financial Statements and Note 2 to Required Supplementary Information, 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, 2013.

As of September 30, 2013, the RSA reported an unfunded actuarial accrued liability of \$22.7 million. The actuarial value of assets was \$2.1 million less than the market value of assets as of September 30, 2013.

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 since 2008.

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, 2014, the City had accumulated \$3.7 million in the Debt Service Fund for such purpose. These funds are also available for the possible early redemption of the Series 2007 General Obligation warrants which may be redeemed without penalty beginning October 1, 2015.

***Cash and Temporary Investments***

As of September 30, 2014, the City reported cash and temporary investments of \$30.3 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 \$30.1 million and \$205,000, respectively. Following is a summary of the carrying value of the cash and investments by fund as of September 30, 2014.

**CITY OF MOUNTAIN BROOK, ALABAMA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

	<u>Unrestricted</u>	<u>Restricted</u>
General Fund	\$ 12,445,515	\$ 204,853
Capital Projects Fund	12,653,237	0
Debt Service Fund	3,688,993	0
Other Governmental Funds (Special Revenue)	1,287,023	0
Section 115 irrevocable, retiree medical trust	0	1,571,336
Discretely presented component unit	<u>0</u>	<u>3,365,585</u>
 <b>Totals</b>	 <b><u>\$ 30,074,768</u></b>	 <b><u>\$ 5,141,774</u></b>

The \$12.4 million General Fund cash and investment balance as of September 30, 2014, represents approximately 5 months of General Fund expenditures.

***Capital Assets and Related Replacement Reserves***

Regarding capital assets, the City Council has adopted a policy of (partially) funding its depreciation expense in order to accumulate monies for the eventual replacement of property, plant and equipment. As of September 30, 2014, the City had accumulated approximately \$12.4 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 reserves) totaled \$56 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>2014</u>	<u>2013 (Restated)</u>
Capital expenditures	<u>\$ 4,028,993</u>	<u>\$ 13,369,892</u>
Depreciation expense	<u>\$ 4,826,928</u>	<u>\$ 4,532,754</u>
Transfers to the Capital Projects Fund:		
Funded depreciation policy	\$ 2,060,211	\$ 1,803,473
Other transfers to fund current and future capital acquisitions	<u>2,722,741</u>	<u>2,288,791</u>
 <b>Totals</b>	 <b><u>\$ 4,782,952</u></b>	 <b><u>\$ 4,092,264</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>2014</b>	<b>2013</b>
<b>Revenues</b>		
State shared gasoline tax revenues	\$ 374,880	\$ 372,534
Alabama Trust Fund Earnings	175,286	460,955
Transfers from the City's General Fund	100,000	100,000
Investment earnings	3,713	3,702
<b>Total Revenues</b>	653,879	937,191
Street paving expenditures	825,514	736,582
<b>Excess of Revenues Over Expenditures</b>	(171,635)	200,609
Fund balance, beginning of the year	980,836	780,227
<b>Fund Balance, end of year</b>	<b>\$ 809,201</b>	<b>\$ 980,836</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 fee. In 2014 and 2013, the City realized \$34,086 and \$35,589, respectively, in garbage service fees collected from its commercial garbage service 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 Position**  
**September 30, 2014 with Comparative Data**

	<b>Governmental Activities</b>		<b>Component Unit</b>
	<b>2014</b>	<b>2013</b>	<b>Library</b>
		<b>(Restated)</b>	<b>Foundation</b>
			<b>2014</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and temporary investments	\$ 30,074,768	\$ 28,131,620	\$ 0
Receivables	2,045,204	2,077,035	0
Notes receivable	80,746	77,585	0
Due from related organization	85,443	84,547	0
Inventory and prepaid expenses	418,764	144,431	0
Cash and temporary investments - restricted	204,853	211,803	3,365,585
<b>TOTAL CURRENT ASSETS</b>	<b>32,909,778</b>	<b>30,727,021</b>	<b>3,365,585</b>
<b>NONCURRENT ASSETS</b>			
Notes receivable	55,649	136,395	0
Net pension asset	10,651,655	10,495,319	0
Net OPEB asset	1,804,899	1,436,943	0
Capital assets, net of accumulated depreciation	61,794,911	60,695,451	159,528
Land	18,698,005	18,698,005	552,611
Construction in progress	854,074	2,762,906	0
<b>TOTAL NONCURRENT ASSETS</b>	<b>93,859,193</b>	<b>94,225,019</b>	<b>712,139</b>
<b>TOTAL ASSETS</b>	<b>126,768,971</b>	<b>124,952,040</b>	<b>4,077,724</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	843,226	1,366,802	0
Accrued salaries and wages	748,505	700,584	0
Accrued interest payable	75,709	79,681	0
Due to related organization	63,797	58,967	0
Other current liabilities	638,326	1,010,212	0
Long-term debt	210,000	205,000	0
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,579,563</b>	<b>3,421,246</b>	<b>0</b>
<b>NONCURRENT LIABILITIES</b>			
Compensated absences	2,786,528	2,735,109	0
Long-term debt	3,675,000	3,885,000	0
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>6,461,528</b>	<b>6,620,109</b>	<b>0</b>
<b>TOTAL LIABILITIES</b>	<b>9,041,091</b>	<b>10,041,355</b>	<b>0</b>
<b>PENSION OBLIGATION (SEE NOTE 6)</b>			
<b>NET POSITION</b>			
Net investment in capital assets	77,461,990	78,066,362	712,139
Restricted	1,357,086	1,443,216	3,365,585
Unrestricted	38,908,804	35,401,107	0
<b>TOTAL NET POSITION</b>	<b>\$ 117,727,880</b>	<b>\$ 114,910,685</b>	<b>\$ 4,077,724</b>

See accompanying notes to basic financial statements.

**City of Mountain Brook, Alabama**  
**Government-wide Statement of Activities**  
**For the Year Ended September 30, 2014 with Comparative Data**

<u>Program Activities</u>	<b>Program Revenues</b>			
<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	\$ 5,072,572	\$ 3,009,568	\$ 892,784	\$ 0
Public safety	15,254,744	2,955,893	14,985	100
Street and sanitation	8,745,152	133,658	71,110	1,470,286
Recreational	1,685,015	114,313	46,207	41,208
Library	3,004,687	72,706	14,092	77,290
<b>Total</b>	<b>\$ 33,762,170</b>	<b>\$ 6,286,138</b>	<b>\$ 1,039,178</b>	<b>\$ 1,588,884</b>
Component unit:				
Library Foundation	\$ 58,755	\$ 0	\$ 159,086	\$ 7,895

**General revenues:**

Taxes:

Ad Valorem (real and personal property)

Sales and use

Other taxes

Utility taxes

Franchise fees

Investment earnings

Gain on sale/disposal of capital assets

Miscellaneous revenues

Transfers

Total general revenues and transfers

Change in net position

Net assets at beginning of year (as originally reported)

Prior period adjustments

Net position at beginning of year, as restated

**Net position at end of year**

See accompanying notes to basic financial statements.

2014 Total Net (Expense) Revenue and Changes in Net Position	2013 (Restated) Total Net (Expense) Revenue and Changes in Total Net	2014 Component Unit (Library Foundation)	2013 Component Unit (Library Foundation)
\$ (1,170,220)	\$ 167,798	\$ 0	\$ 0
(12,283,766)	(11,788,765)	0	0
(7,070,098)	(6,929,458)	0	0
(1,483,287)	(1,605,383)	0	0
(2,840,599)	(3,132,796)	0	0
<u>\$ (24,847,970)</u>	<u>\$ (23,288,604)</u>		
		<u>\$ 108,226</u>	<u>\$ 64,090</u>
15,084,993	14,720,970	0	0
10,142,427	9,889,449	0	0
242,618	178,386	0	0
1,288,163	1,284,421	0	0
582,375	641,751	0	0
182,262	298,391	269,174	314,076
117,480	103,652	0	0
20,370	17,778	2,803	3,897
4,477	20,885	(4,477)	(20,885)
<u>27,665,165</u>	<u>27,155,683</u>	<u>267,500</u>	<u>297,088</u>
2,817,195	3,867,079	375,726	361,178
114,910,685	111,363,471	3,701,998	3,340,820
<u>0</u>	<u>(319,865)</u>	<u>0</u>	<u>0</u>
<u>114,910,685</u>	<u>111,043,606</u>	<u>3,701,998</u>	<u>3,340,820</u>
<u>\$ 117,727,880</u>	<u>\$ 114,910,685</u>	<u>\$ 4,077,724</u>	<u>\$ 3,701,998</u>

**City of Mountain Brook, Alabama**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2014**

	<b>General</b>	<b>Capital Projects</b>	<b>Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Cash and temporary investments	\$ 12,445,515	\$ 12,653,237	\$ 3,688,993	\$ 1,287,023	\$ 30,074,768
Cash and temporary investments - restricted	204,853	0	0	0	204,853
Receivables	1,905,543	62,956	0	76,705	2,045,204
Due from related organizations	85,443	0	0	0	85,443
Inventory and prepaid expenses	418,764	0	0	0	418,764
<b>TOTAL ASSETS</b>	<b>\$ 15,060,118</b>	<b>\$ 12,716,193</b>	<b>\$ 3,688,993</b>	<b>\$ 1,363,728</b>	<b>\$ 32,829,032</b>
<b>LIABILITIES</b>					
Accounts payable	\$ 509,800	\$ 326,784	\$ 0	\$ 6,642	\$ 843,226
Accrued salaries and wages	748,505	0	0	0	748,505
Due to related organizations	63,797	0	0	0	63,797
Other liabilities	638,326	0	0	0	638,326
<b>TOTAL LIABILITIES</b>	<b>1,960,428</b>	<b>326,784</b>	<b>0</b>	<b>6,642</b>	<b>2,293,854</b>
<b>Pension obligation (see Note 6)</b>					
<b>FUND BALANCES</b>					
Nonspendable	418,764	0	0	0	418,764
Restricted	0	0	0	1,357,086	1,357,086
Committed	54,005	12,389,409	0	0	12,443,414
Assigned	2,574,925	0	3,688,993	0	6,263,918
Unassigned	10,051,996	0	0	0	10,051,996
<b>TOTAL FUND BALANCES</b>	<b>13,099,690</b>	<b>12,389,409</b>	<b>3,688,993</b>	<b>1,357,086</b>	<b>30,535,178</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 15,060,118</b>	<b>\$ 12,716,193</b>	<b>\$ 3,688,993</b>	<b>\$ 1,363,728</b>	<b>\$ 32,829,032</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 Position**  
**September 30, 2014**

Fund balance - total governmental funds \$ 30,535,178

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

Note receivable charged to capital outlay in the fund financial statements less principal recoveries. 136,395

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

Governmental capital assets	\$ 137,217,980	
Less accumulated depreciation	<u>(55,870,990)</u>	81,346,990

Net pension assets are not current financial resources and therefore are not reported in the governmental funds balance sheet. 10,651,655

Net OPEB assets are not current financial resources and therefore are not reported in the governmental funds balance sheet. 1,804,899

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

Governmental bonds payable	(3,885,000)	
Compensated absences	(2,786,528)	
Accrued interest payable	<u>(75,709)</u>	<u>(6,747,237)</u>

**Net position of governmental activities \$ 117,727,880**

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, 2014**

	<u>General</u>	<u>Capital Projects</u>
<b>Revenues:</b>		
Taxes	\$ 27,859,243	\$ 0
Licenses and permits	4,526,419	0
Intergovernmental	85,443	0
Charges for services	764,433	0
Fines and forfeitures	577,844	0
Grants	100,187	857,939
Other operating revenues	<u>380,896</u>	<u>214,790</u>
<b>Total revenues</b>	<u>34,294,465</u>	<u>1,072,729</u>
<b>Expenditures:</b>		
<b>Current (operating):</b>		
General government	4,856,992	439,734
Public safety	13,284,027	1,019,576
Street and sanitation	6,100,185	1,680,544
Recreational	1,043,408	457,057
Library	2,711,384	204,342
Debt service:		
Principal	0	0
Interest	<u>0</u>	<u>0</u>
<b>Total expenditures</b>	<u>27,995,996</u>	<u>3,801,253</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>6,298,469</u>	<u>(2,728,524)</u>
<b>Other financing sources (uses):</b>		
Operating transfers in	0	4,782,952
Operating transfers (out)	(5,346,815)	(360,391)
Operating transfers in - component unit	4,477	0
Donations	<u>82,290</u>	<u>62,282</u>
<b>Total other financing sources (uses)</b>	<u>(5,260,048)</u>	<u>4,484,843</u>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	<u>1,038,421</u>	<u>1,756,319</u>
<b>Fund balances, beginning of year (as originally reported)</b>	12,061,269	10,506,920
Prior period adjustments	<u>0</u>	<u>126,170</u>
<b>Fund balances, beginning of year (as restated)</b>	<u>12,061,269</u>	<u>10,633,090</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 13,099,690</u>	<u>\$ 12,389,409</u>

See accompanying notes to basic financial statements.

<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 0	\$ 374,880	\$ 28,234,123
0	0	4,526,419
0	0	85,443
0	396,418	1,160,851
0	185,843	763,687
0	0	958,126
<u>14,503</u>	<u>180,502</u>	<u>790,691</u>
<u>14,503</u>	<u>1,137,643</u>	<u>36,519,340</u>
806	252,188	5,549,720
0	409,934	14,713,537
0	825,514	8,606,243
0	0	1,500,465
0	0	2,915,726
205,000	0	205,000
<u>155,391</u>	<u>0</u>	<u>155,391</u>
<u>361,197</u>	<u>1,487,636</u>	<u>33,646,082</u>
<u>(346,694)</u>	<u>(349,993)</u>	<u>2,873,258</u>
660,391	273,707	5,717,050
0	(9,844)	(5,717,050)
0	0	4,477
<u>0</u>	<u>0</u>	<u>144,572</u>
<u>660,391</u>	<u>263,863</u>	<u>149,049</u>
<u>313,697</u>	<u>(86,130)</u>	<u>3,022,307</u>
3,375,296	1,443,216	27,386,701
<u>0</u>	<u>0</u>	<u>126,170</u>
<u>3,375,296</u>	<u>1,443,216</u>	<u>27,512,871</u>
<u>\$ 3,688,993</u>	<u>\$ 1,357,086</u>	<u>\$ 30,535,178</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, 2014**

Net change in fund balances - total governmental funds		\$ 3,022,307
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 position.		(77,585)
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	\$ 4,028,993	
Less current year depreciation	<u>(4,826,928)</u>	(797,935)
Net book value of assets disposed during the year.		(11,437)
The net effect of transactions involving net pension assets is to increase net position.		156,336
The net effect of transactions involving net OPEB assets is to increase net position.		367,956
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		205,000
Some expenses reported in the government-wide statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in long-term compensated absences	(51,419)	
Change in accrued interest payable	<u>3,972</u>	<u>(47,447)</u>
<b>Change in net position of governmental activities</b>		<b><u>\$ 2,817,195</u></b>

See accompanying notes to basic financial statements.

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

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Certificates of deposit, at fair value	\$ 1,571,336	\$ 1,260,448
<b>TOTAL ASSETS</b>	<u>1,571,336</u>	<u>1,260,448</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 POSITION HELD IN TRUST FOR OTHER POST-EMPLOYMENT BENEFITS</b>	<u>\$ 1,571,336</u>	<u>\$ 1,260,448</u>

See accompanying notes to basic financial statements.

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

	<u>2014</u>	<u>2013</u>
<b>ADDITIONS</b>		
Contributions		
Employer	\$ 659,756	\$ 670,923
Plan members	136,765	128,202
Investment earnings	<u>14,110</u>	<u>15,375</u>
<b>TOTAL ADDITIONS</b>	810,631	814,500
<b>DEDUCTIONS</b>		
Benefits	496,521	479,125
Administrative expense	<u>3,222</u>	<u>262</u>
<b>TOTAL DEDUCTIONS</b>	<u>499,743</u>	<u>479,387</u>
<b>NET INCREASE</b>	310,888	335,113
Net position held in trust for other post-employment benefits, beginning of year	<u>1,260,448</u>	<u>925,335</u>
<b>NET POSITION HELD IN TRUST FOR OTHER POST-EMPLOYMENT BENEFITS, END OF YEAR</b>	<u>\$ 1,571,336</u>	<u>\$ 1,260,448</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 23, 2016. 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.

**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, 2014 and 2013, the City reported the following revenues from the Board:

	<u>2014</u>	<u>2013</u>
<b>General Fund</b>		
Community athletic fields shared maintenance	\$ 85,443	\$ 84,547
High school sewer treatment facility maintenance	<u>7,200</u>	<u>7,200</u>
<b>Total</b>	<u>\$ 92,643</u>	<u>\$ 91,747</u>

At September 30, 2014 and 2013, the City reported receivables from the Board in the amounts as follows (See Note 3):

	<u>2014</u>	<u>2013</u>
<b>General Fund</b>		
Community athletic fields shared maintenance	<u>\$ 85,443</u>	<u>\$ 84,547</u>
<b>Total</b>	<u>\$ 85,443</u>	<u>\$ 84,547</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, 2014 and 2013, the City owed the Board \$63,797 and \$58,967, respectively, for its share of property taxes which is included in other liabilities of the General Fund.

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

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

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 \$136,395 and \$213,980 has been presented as a note receivable in the statement of net position as of September 30, 2014 and 2013, respectively.

During the years ended September 30, 2014 and 2013, 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>2014</u>	<u>2013</u>
<b>Revenues</b>		
The Board of Education	\$ 41,207	\$ 41,882
Mountain Brook Athletics, Inc.	20,604	20,941
Mountain Brook Soccer Club, Inc.	20,604	20,941
Charges for services (MBSPF)	<u>84,732</u>	<u>84,732</u>
<b>Total revenues</b>	<u>167,147</u>	<u>168,496</u>
<b>Expenditures</b>		
Recreational (operating and maintenance)	121,471	126,394
Capital outlay (\$1,952,936 cumulative)	<u>0</u>	<u>0</u>
<b>Total expenditures</b>	<u>121,471</u>	<u>126,394</u>
<b>Other financing sources (uses), net</b>		
Transfers to City General Fund	<u>(43,525)</u>	<u>(42,850)</u>
<b>Net other financing sources</b>	<u>(43,525)</u>	<u>(42,850)</u>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other assets</b>	2,151	(748)
Fund balance (deficit) at the beginning of the year	<u>(748)</u>	<u>0</u>
<b>Fund balance (deficit) at the end of the year</b>	<u>\$ 1,403</u>	<u>\$ (748)</u>

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

Another related organization is The Mountain Brook Library Foundation ("the Foundation"). 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 Foundation has received contributions from individual, corporation, and private foundations that 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.

## City of Mountain Brook, Alabama

### Notes to 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 Emmet O'Neal Library Board, 50 Oak Street, Mountain Brook, Alabama 35213.

#### C. Government-wide Financial Statements

The Statement of Net Position 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.

##### **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 a) early redemption of its Series 2007 General Obligation Warrants (see Note 5) or b) future repayment of its unfunded pension obligation (see Note 6).

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

**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, Capital Projects Funds, and Debt Service Fund are classified as major funds and are described above. The City has elected to present all Capital Projects Funds and the Debt Service Fund 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 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.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

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

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

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

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

<b>Fund Balances</b>	<b>General</b>	<b>Capital Projects</b>	<b>Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<u>Nonspendable:</u>					
Prepaid expenses	\$ 346,913	\$ 0	\$ 0	\$ 0	\$ 346,913
Inventory	71,851	0	0	0	71,851
<b>Total Nonspendable</b>	<u>418,764</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>418,764</u>
<u>Restricted:</u>					
Emergency Communication District (E911)	0	0	0	547,885	547,885
State Shared Gasoline Taxes:					
5 Cent	0	0	0	46,912	46,912
7 Cent	0	0	0	600,635	600,635
4 Cent	0	0	0	130,259	130,259
2 Cent	0	0	0	31,395	31,395
<b>Total Restricted</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,357,086</u>	<u>1,357,086</u>
<u>Committed:</u>					
Capital Projects	0	12,389,409		0	12,389,409
Library Endowment	54,005	0	0	0	54,005
<b>Total Committed</b>	<u>54,005</u>	<u>12,389,409</u>	<u>0</u>	<u>0</u>	<u>12,443,414</u>
<u>Assigned:</u>					
Emergency Reserve Fund	2,400,000	0	0	0	2,400,000
Debt Service Fund	0	0	3,688,993	0	3,688,993
Asset Forfeitures	20,100	0	0	0	20,100
Library Book Fund	143,855	0	0	0	143,855
Community Fund	10,970	0	0	0	10,970
<b>Total Assigned</b>	<u>2,574,925</u>	<u>0</u>	<u>3,688,993</u>	<u>0</u>	<u>6,263,918</u>
<u>Unassigned</u>	<u>10,051,996</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>10,051,996</u>
<b>Total Fund Balances</b>	<u>\$13,099,690</u>	<u>\$12,389,409</u>	<u>\$ 3,688,993</u>	<u>\$ 1,357,086</u>	<u>\$30,535,178</u>

City of Mountain Brook, Alabama

Notes to Financial Statements

F. Measurement focus and basis of accounting

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

Measurement focus

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

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

Basis of accounting

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

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under 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 at the time of a purchase or the incurrence of a liability.

H. Worker's compensation

The City provides workers' compensation coverage to its employees as required by law. In February 2013, the City implemented a high deductible insurance program for its workers' compensation program administered by the Municipal Workers' Compensation Fund (MWCF). The MWCF assumed the administration of open claims incurred prior to February 1, 2013 when the City was self-insured (with excess loss coverage). The City's exposure for workers' compensation claims is since February 1, 2013 is as follows:

For claims incurred on or after:	Liability Limits	
	Specific	Aggregate
February 1, 2014	\$ 300,000	\$ 845,467
February 1, 2013	250,000	909,034

Prior to February 1, 2013, the City's excess loss coverage paid losses for specific claims over \$500,000 and (two-year) aggregate claims costs over \$1,500,983 (limited to \$2 million in coverage).

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

Pursuant to regulations promulgated by the State of Alabama Department of Industrial Relations with respect to self-insured workers' compensation programs, the City engages an actuary every three years to determine its discounted total estimated liability for outstanding workers' compensation claims. The actuarial valuation of the discounted total estimated liability for outstanding claims was \$256,404 as of September 30, 2014 and \$616,407 as of September 30, 2011. The accompanying financial statements include an estimated accrual of unpaid workers' compensation claims as of September 30, 2014 and 2013 in the amount of \$330,600 and \$690,200, respectively. Workers' compensation cost charged by the City during 2014 and 2013 was approximately (\$149,000) and \$155,000, respectively. The decrease in workers' compensation costs charged to operations in 2014 is the result of the City's change from a self-insured program to a high deductible program which in turn resulted in the reduction of the actuarially determined discounted estimated total liability for outstanding claims described above.

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 \$204,853 and \$211,803 as of September 30, 2014 and 2013, 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.

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 position and displayed in three components:

1. Net investment in capital assets - 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 - 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 - All other net position 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.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

**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 Position includes a noncurrent liability for compensated absences in the amount of \$2,786,528 as of September 30, 2014 and \$2,735,109 as of September 30, 2013. The City paid \$-0- and \$11,821 after September 30, 2014 and 2013, respectively, representing all vested compensated absences to employees who retired or otherwise ended their employment with the City prior to year end. Such amounts have been reported as current liabilities in the Government-Wide Statement of Activities.

**N. Longevity pay plan**

The City has a longevity pay plan which covers all full-time employees that have completed a minimum of six years of service as of September 30. Longevity pay for a qualifying employee is the product of the percentage factor (which is based on the number of years of completed services) and their annual rate of pay. The percentage factor is 1.5% after six years and increases 0.5% per year to a maximum rate of 8.5% which is attained after twenty years of service. The plan also limits the City's maximum annual longevity pay to a total of \$440,000 in 2014 and 2013. 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, 2014 and September 30, 2013 reported in the Government-Wide and Fund financial statements totaled \$433,120 and \$434,258, 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, 2014:

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service Fund</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	\$ (4,773,108)	\$ 4,782,952	\$ 0	\$ (9,844)
Corrections fund transfer to fund operations	(173,707)	0	0	173,707
Debt service transfer for the accumulation of funds for the future repayment of City obligations	(300,000)	0	300,000	0
Debt service fund transfer for the repayment of General Obligation principal and interest	0	(360,391)	360,391	0
Gasoline tax fund transfer to supplement the annual street resurfacing program	<u>(100,000)</u>	<u>0</u>	<u>0</u>	<u>100,000</u>
<b>Operating transfers, net</b>	<b><u>\$ (5,346,815)</u></b>	<b><u>\$ 4,422,561</u></b>	<b><u>\$ 660,391</u></b>	<b><u>\$ 263,863</u></b>

Following is a summary of the operating transfers between funds during the year ended September 30, 2013:

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service Fund</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	\$ (4,092,264)	\$ 4,092,264	\$ 0	\$ 0
Corrections fund transfer to fund operations	(132,397)	0	0	132,397
Debt service transfer for the accumulation of funds for the future repayment of City obligations	(300,000)	0	300,000	0
Debt service fund transfer for the repayment of General Obligation principal and interest	0	(358,141)	358,141	0
Gasoline tax fund transfer to supplement the annual street resurfacing program	<u>(100,000)</u>	<u>0</u>	<u>0</u>	<u>100,000</u>
<b>Operating transfers, net</b>	<b><u>\$ (4,624,661)</u></b>	<b><u>\$ 3,734,123</u></b>	<b><u>\$ 658,141</u></b>	<b><u>\$ 232,397</u></b>

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

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

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	26.1	2.61
	<u>99.0</u>	<u>\$ 9.90</u>

S. Major revenue sources and taxpayers

The City's primary sources of revenue include ad valorem taxes, sales utility taxes, and use taxes, and business licenses. Collectively, these taxes and licenses totaled approximately \$27.5 million (80%) and \$26.9 million (80%) of the total General Fund revenues during the years ended September 30, 2014 and 2013, 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, and Marcus Cable (doing business as Charter Communications) collectively, provided approximately \$6.4 million (19%) and \$6.3 million (19%) of the City's total General Fund revenues during the years ended September 30, 2014 and 2013, respectively.

T. Expenditures/Expenses

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

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.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

**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

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 Position. 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.

**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 these financial statements were available to be issued.

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

At September 30, 2014, the City had the following cash and investments and maturities:

	<b>Investment Maturity in Years</b>			
	<b>Fair Value</b>	<b>Less Than 1</b>	<b>1 - 2</b>	<b>3 - 5</b>
Cash on-hand	\$ 2,760	\$ 2,760	\$ 0	\$ 0
Bank deposits	12,308,746	12,308,746	0	0
Investments:				
Cash and money market accounts	9,808	9,808	0	0
Certificates of deposit	17,923,615	7,187,060	9,730,685	1,005,870
576 shares VMC common stock (donated)	<u>34,692</u>	<u>0</u>	<u>0</u>	<u>34,692</u>
<b>Total portfolio</b>	<b><u>\$30,279,621</u></b>	<b><u>\$19,508,374</u></b>	<b><u>\$ 9,730,685</u></b>	<b><u>\$ 1,040,562</u></b>

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

At September 30, 2014, the discretely presented component unit had the following cash and investments and maturities:

	<b>Investment Maturity in Years</b>			
	<b>Fair Value</b>	<b>Less Than 1</b>	<b>1 - 2</b>	<b>3 - 5</b>
Bank deposits	\$ 31,470	\$ 31,470	\$ 0	\$ 0
Money market	417,371	417,371	0	0
Mutual funds	2,916,744	2,916,744	0	0
<b>Total portfolio</b>	<b>\$ 3,365,585</b>	<b>\$ 3,365,585</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, 2014, were as

<u>Maturity</u>	<u>Portion of Portfolio</u>
Less than one year	64.43%
1 - 2 years	32.14%
3 - 5 years	3.43%
	<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 or other federally insured financial institutions. All of the City's bank deposits are either insured by Federal Depository Insurance (FDIC) or collateralized in accordance with Act 2000-748.

The City'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, 2014, the City had invested \$17.9 million in certificates of deposit. Of the City's \$17.9 million investment in certificates of deposit, the City had no instances where it had invested more than \$250,000 with a financial institution located outside of the State of Alabama. 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)	\$10,562,378	34.88%
Regions Bank (cash deposit accounts)	1,746,368	5.77%
Morgan Stanley (cash, deposits, money market funds)	9,808	0.03%
All other (cash on-hand, U.S. Treasuries, and common stock)	37,452	0.12%
Various financial institutions - certificates of deposit	17,923,615	59.20%
	<u>\$30,279,621</u>	<u>100.00%</u>

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

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

<b>Description</b>	<b>CUSIP</b>	<b>Fair Value</b>	<b>Portion of Portfolio</b>
Bank demand deposit accounts		\$ 196,284	5.83%
Prime Money Market Fund		252,557	7.50%
Chase Growth Fund (35,542.980 shares)	CHASX	524,614	15.59%
Dodge & Cox International Stock (8,942.265 shares)	DODFX	404,012	12.00%
Longleaf Partner Family Value Tr #133 (14,055.286 shares)	LLPFX	490,530	14.57%
PIMCO All Asset Fund Institutional Class (44,924.667 shares)	PAAIX	551,675	16.39%
PIMCO Low Duration Fund Institutional Class (32,160.317 shares)	PTLDX	331,251	9.84%
Vanguard Convert Securities (44,379.883 shares)	VCVSX	614,662	18.28%
		<u>\$ 3,365,585</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. The discretely presented component unit had uninsured deposits in the amount of \$198,841 at September 30, 2014.

**3. Receivables**

Receivables at September 30, consisted of the following:

	2014			Total	2013 Total
	General Fund	Capital Projects	Other Governmental Funds		
Taxes	\$ 1,815,936	\$ 0	\$ 35,502	\$ 1,851,438	\$ 1,766,751
E-911 surcharge	0	0	41,203	41,203	11,928
Board of Education	85,443	0	0	85,443	84,547
Grants	0	62,956	0	62,956	170,315
Other	89,607	0	0	89,607	128,041
<b>Totals</b>	<u>\$ 1,990,986</u>	<u>\$ 62,956</u>	<u>\$ 76,705</u>	<u>\$ 2,130,647</u>	<u>\$ 2,161,582</u>

The City loaned the Mountain Brook Sports Park Foundation (MBSPF), a nonprofit organization established to raise funds for the exclusive benefit of Mountain Brook Soccer Club, \$500,000 for their initial (2005) construction of athletic playing fields and \$62,500 for their (2009) construction of a concession/restroom facility at the fields (Note 1.B.). The terms of the loan were renegotiated in May 2011. The loan is to be repaid in sixty (60) monthly installments of \$7,061 including interest at 4% beginning in June 2011. The outstanding balance reported in the statement of net position at September 30, 2014 and 2013 totaled \$136,395 and \$213,980, respectively. The current portion reported at September 30, 2014 and 2013 was \$80,746 and \$77,585, respectively. The City collected interest totaling \$7,147 in 2014 and \$10,184 in 2013.

City of Mountain Brook, Alabama

Notes to Financial Statements

4. Capital assets

Following is a summary of the changes in the City's capital assets for the year ended September 30, 2014:

	Balance at September 30, 2013	Additions	Disposals/ Retirements/ Completed	Balance at September 30, 2014
<b>Capital assets, not being depreciated:</b>				
Land	\$18,698,005	\$ 0	\$ 0	\$18,698,005
Construction in progress	2,762,906	1,511,034	(3,419,866)	854,074
<b>Total capital assets, not being depreciated</b>	<u>21,460,911</u>	<u>1,511,034</u>	<u>(3,419,866)</u>	<u>19,552,079</u>
<b>Capital assets, being depreciated:</b>				
Land improvements	3,039,881	0	0	3,039,881
Buildings and improvements	34,056,224	537,392	0	34,593,616
Machinery and equipment	21,070,737	1,477,583	(737,292)	21,811,028
Infrastructure	54,481,054	502,984	3,237,338	58,221,376
<b>Total capital assets, being depreciated</b>	<u>112,647,896</u>	<u>2,517,959</u>	<u>2,500,046</u>	<u>117,665,901</u>
<b>Less accumulated depreciated for:</b>				
Land improvements	379,597	25,789	0	405,386
Buildings and improvements	3,744,239	1,107,115	0	4,851,354
Machinery and equipment	15,131,086	1,658,958	(908,383)	15,881,661
Infrastructure	32,697,523	2,035,066	0	34,732,589
<b>Total accumulated depreciation</b>	<u>51,952,445</u>	<u>4,826,928</u>	<u>(908,383)</u>	<u>55,870,990</u>
<b>Total capital assets, being depreciated, net</b>	<u>60,695,451</u>	<u>(2,308,969)</u>	<u>3,408,429</u>	<u>61,794,911</u>
<b>Governmental activities capital assets, net</b>	<u>\$82,156,362</u>	<u>\$ (797,935)</u>	<u>\$ (11,437)</u>	<u>\$81,346,990</u>

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

	2014	2013
Governmental activities:		
General government	\$ 327,083	\$ 144,200
Public safety	1,457,824	1,221,470
Street and sanitation	1,822,094	1,873,655
Recreational	627,945	686,142
Library	591,982	607,287
<b>Total depreciation expense</b>	<u>\$ 4,826,928</u>	<u>\$ 4,532,754</u>

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

**5. Long-term debt**

Long-term debt outstanding as of September 30, 2014, 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)	\$ 3,885,000
<b>Total</b>	<u>\$ 3,885,000</u>

The total interest paid by the City during the years ended September 30, 2014 and 2013 relative to general obligation warrants was \$155,391 and \$163,141, 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, 2014 and 2013 was \$151,419 and \$159,363, respectively.

Following is a summary of long-term debt principal transactions for the year ended September 30, 2014:

General obligation warrant balances at October 1, 2013	\$ 4,090,000
Principal payments:	
\$5,000,000 General Obligation Warrants, Series 2007	<u>(205,000)</u>
General obligation warrant balances at September 30, 2014	<u>\$ 3,885,000</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>
2015	\$ 210,000	\$ 147,350	\$ 357,350
2016	220,000	139,019	359,019
2017	230,000	130,300	360,300
2018	240,000	121,194	361,194
2019	245,000	111,797	356,797
Thereafter	<u>2,740,000</u>	<u>513,856</u>	<u>3,253,856</u>
<b>Totals</b>	<u>\$ 3,885,000</u>	<u>\$ 1,163,516</u>	<u>\$ 5,048,516</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, 201 South Union Street (P. O. Box 302150), Montgomery, Alabama 36130-2150.

**B. Funding**

In 2012, the Alabama Legislature adopted Act 2012-377 which created a new defined benefit pension plan tier ("tier 2") for employees with no previous creditable retirement service hired on or after January 1, 2013. 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 7.5% and 6% of compensation for tier 1 and 2 employees, respectively (8.5% for tier 1 and 7% for tier 2 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, 2014 was 11.70% and 11.62% of covered compensation for tier 1 and tier 2 employees, respectively.

For the year ended September 30, 2014, the City's total compensation was approximately \$14.5 million and the City's total covered compensation used to determine the City's pension contribution was approximately \$14.2 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:

<u>Year Ended September 30</u>	<u>Employer Contribution</u>	<u>Employer</u>	<u>Employee</u>	<u>Combined</u>
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
2013	9.65%	1,226,000	1,108,000	2,334,000
2014	11.70%	1,579,000	1,137,000	2,716,000

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

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

**C. Funding progress**

Following is the schedule of funding progress obtained from most recent actuarial valuation prepared as of September 30, 2013:

<u>Actuarial Valuation Date September 30</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>Ratio of UAAL to Covered Payroll (b-a)/c)</u>
2013	43,032,194	65,744,579	22,712,385	65.5%	13,796,658	164.6%

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

**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. The earliest retirement eligibility provisions are as follows: 25 years of service at any age; or, age 60 and 10 years of service (called "Tier I members"). Employees hired on and after January 1, 2013 (called "Tier II" members) are eligible to retire only after attainment of age 62 (age 56 for police and firefighters) or later completion of 25 years of service.

**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 2014 and 2013, the City of Mountain Brook's portion of health care funding cost for retired employees totaled \$359,756 and \$350,923, 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). This amount was applied toward the Net OPEB Benefit Obligation as shown in the following table.

**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:

	<u>2014</u>	<u>2013</u>
Normal Cost	\$ 117,078	\$ 106,399
30-year UAL amortization amount	149,101	144,468
Annual required contribution (ARC)	<u>\$ 266,179</u>	<u>\$ 250,867</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:

City of Mountain Brook, Alabama

Notes to Financial Statements

	<u>2014</u>	<u>2013</u>
Beginning Net OPEB Obligation (Asset)	\$(1,436,943)	\$(1,035,347)
Annual required contribution	266,179	250,867
Interest on Net OPEB Obligation (Asset)	(57,478)	(41,414)
ARC Adjustment	<u>83,099</u>	<u>59,874</u>
OPEB Cost	291,800	269,327
Contribution	(300,000)	(320,000)
Current year retiree premium	<u>(359,756)</u>	<u>(350,923)</u>
Change in Net OPEB Obligation	<u>(367,956)</u>	<u>(401,596)</u>
Ending Net OPEB Obligation (Asset)	<u>\$(1,804,899)</u>	<u>\$(1,436,943)</u>

**Funded Status and Funding Progress.** In the fiscal year ending September 30, 2014 and 2013, the City of Mountain Brook contributed \$300,000 and \$320,000, 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 \$1,571,336 and \$1,260,448 as of September 30, 2014 and 2013, respectively. Based on the October 1, 2013 actuarial valuation, the most recent valuation, the Actuarial Accrued Liability (AAL) at the end of the year September 30, 2014 was \$3,992,253 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.

Actuarial Valuation Date September 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Ratio of UAAL to Covered Payroll (b-a)/c)
2014	1,571,336	3,992,253	2,420,917	39.36%	14,512,291	16.68%

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

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

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

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

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

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

**Turnover Rate.** An age-related turnover scale based on actual experience 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.

**Health Care Cost Trend Rate.** The expected rate of increase in medical cost is based on a graded schedule beginning with 8% annually, down to an ultimate annual rate of 5.0% for ten years out 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. Projected future mortality improvement has not been used since it is our opinion that this table contains sufficiently conservative margin for the population involved in this valuation.

**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.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

**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>2012</u>	<u>2013</u>	<u>2014</u>
OPEB Costs	\$ 286,884	\$ 269,327	\$ 291,800
Contributions	300,000	320,000	300,000
Retiree premium	<u>354,828</u>	<u>350,923</u>	<u>359,756</u>
Total contribution and premium	<u>654,828</u>	<u>670,923</u>	<u>659,756</u>
Change in net OPEB obligation	<u>\$ (367,944)</u>	<u>\$ (401,596)</u>	<u>\$ (367,956)</u>
Ratio of contributions to cost	<u>104.57%</u>	<u>118.81%</u>	<u>102.81%</u>
Ratio of contributions plus premium to cost	<u>228.26%</u>	<u>249.11%</u>	<u>226.10%</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 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Property tax commissions	\$ 199,986	\$ 196,534
Maintenance of maps and appraisals	211,369	206,473
Jefferson County Health Department	112,850	113,620
Birmingham-Jefferson County Transit Authority	90,716	75,012
Personnel Board of Jefferson County	176,432	171,855
Birmingham Regional Planning Commission	12,350	12,350

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, 2014, were \$30.70 per month for single and multiple family residential units and \$38.18 per month for commercial units. The annual cost incurred under this agreement for the years ended September 30, 2014 and 2013, was approximately \$2,751,000 and \$2,723,000, respectively. Total garbage service fee revenues collected by the City from its commercial customers during the years ended September 30, 2014 and 2013 were \$34,086 and \$35,589, 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.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

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 2014. In October 2014, the City Council authorized the extension of the agreement through June 2015 in consideration of \$50,000.

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 was satisfied during the fiscal year ended September 30, 2013. The City paid \$1,017,710 under the terms of the development agreement during the year ended September 30, 2013.

In August 2013, the City entered into another development agreement with a real estate developer constructing a 28-acre, \$120 million planned unit development. Under the terms of the development agreement, the City will reimburse the developer up \$4 million for its costs of constructing a new road and widening and improving existing roads upon completion of such improvements. In addition, the City has agreed to a \$10 million revenue sharing arrangement. To the extent that sales tax revenue generated from the new development exceeds the pre-development annual baseline of \$728,000, the City shall pay the developer 90% of the excess. The City shall also pay the developer 90% of the new lodging tax revenue generated and the City's portion of real estate taxes in excess of the pre-development annual baseline of \$65,000.

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

	<u>2014</u>	<u>2013 (Restated)</u>
Park improvements	\$ 391,981	\$ 289,078
Sidewalks	440,291	2,452,026
Drainage projects	<u>21,802</u>	<u>21,802</u>
<b>Total</b>	<b>\$ <u>854,074</u></b>	<b>\$ <u>2,762,906</u></b>

The park improvement projects are expected to be completed in winter of 2015. The remaining contract balance as of September 30, 2014 is approximately \$120,000.

The City has executed various contracts with the Alabama Department of Transportation (ALDOT) and engineering firms with respect to the Village Walkway System and Safe Routes to Schools sidewalk construction projects. The projects are being administered by ALDOT and federal awards have been granted ranging from 80% to 100% of construction costs. Following is a summary of the contracts underway as of September 30, 2014:

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

<b>Project Description</b>	<b>Contract Commitment and Anticipated Overruns</b>	<b>Expended in Fiscal 2014 <sup>(1)</sup></b>	<b>Federal Awards Reported in 2014</b>	<b>Estimated Cost to Complete</b>	<b>Anticipated Completion Date</b>
Mountain Brook Village Walkway System, Phase 6 - CMAQ-9802(921)	\$ 2,689,868	\$ 460,676	\$ 300,792	\$ 181,000	December 2014
Safe Routes to Schools, Mountain Brook Elementary and Crestline Elementary Schools - SRTS-SR09 (903) and (904)	838,987	659,254	489,167	12,000	December 2014
Mountain Brook Village Walkway System, Phase 9 along Brookwood Road, Crosshill Road, and Oakdale Drive CMAQ-PE12( ) - Design only <sup>(2)</sup>	196,849	84,975	67,980	106,000	Construction expected to begin in 2015
Village Trail System, Phase 7A - Memory Lane - STPTE-TE09(918)	276,574	0	0	2,300	November 2014
Jemson Trail/Shades Creek Parkway Phase 5B - STPBH-CN13(907)	68,000	1,165	0	0	In planning phase
<b>Totals</b>		<u>\$ 1,206,070</u>	<u>\$ 857,939</u>	<u>\$ 301,300</u>	

<sup>(1)</sup> The amounts expended in fiscal 2014 include project-related expenditures not eligible for federal reimbursement.

<sup>(2)</sup> Project has been approved by ALDOT but not under [construction] contract as of September 30, 2014. Construction is estimated to be \$1.6 million pending approval to proceed by the City Council.

The costs incurred for the drainage and park improvement projects are for preliminary design and planning of the projects. Construction contracts are expected to be executed in 2014 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>2014</u>	<u>2013</u>
Assessed value of taxable real and personal property as provided by the Jefferson County Tax Assessor	\$544,623,360	\$533,517,820
Constitutional debt limit, 20 percent of assessed value	\$108,924,672	\$106,703,564
Outstanding long-term debt as of September 30	<u>3,885,000</u>	<u>4,090,000</u>
Legal Debt Margin	<u>\$105,039,672</u>	<u>\$102,613,564</u>

**10. Litigation**

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

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

**11. Prior period adjustments**

In prior years, the City miscalculated its federal awards and related capital outlay for a sidewalk construction project administered by the State of Alabama. To correct these misstatements, 2013 beginning net position and capital projects fund balance and 2013 revenues, expenditures, and fixed asset additions have been adjusted as follows:

<b>Government-wide Financial Statements</b>	<b>Net Position As Originally Reported</b>	<b>Prior Period Adjustments</b>	<b>Net Position As Restated</b>
September 30, 2012	\$111,363,471	\$ 0	\$111,363,471
Record the increase (decrease) in net position for the year ended September 30, 2012:			
Reduction in federal awards		(319,865)	(319,865)
Reduction in capital outlay		575,475	575,475
Increase in prepaid expenses (federal award match)		255,610	255,610
Capital assets (construction in progress)		(575,475)	(575,475)
September 30, 2012	111,363,471	(319,865)	111,043,606
Change in net position originally reported for the year ended September 30, 2013	3,497,931	0	3,497,931
Reduction of federal (capital) awards		(114,232)	(114,232)
Record the increase (decrease) in net position for the year ended September 30, 2013:			
Receivables (federal awards)		(146,937)	(146,937)
Prepaid expenses (federal award match)		(255,610)	(255,610)
Capital assets (construction in progress)		612,820	612,820
Accounts payable (capital outlay)	0	273,107	273,107
Net increase in the net position for the year	3,497,931	369,148	3,867,079
September 30, 2013	<u>\$114,861,402</u>	<u>\$ 49,283</u>	<u>\$114,910,685</u>
	<b>Fund Balance As Originally Reported</b>	<b>Prior Period Adjustments</b>	<b>Fund Balance As Restated</b>
<b>Capital Projects Fund</b>			
September 30, 2012	\$ 18,491,545	\$ 0	\$ 18,491,545
Prepaid expenses (federal award match)	0	255,610	255,610
September 30, 2012	18,491,545	255,610	18,747,155
Excess of revenues and other financing sources over (under) expenditures and other financing uses for the year ended September 30, 2013	(7,984,625)		(7,984,625)
Reduction of federal (capital) awards		(114,232)	(114,232)
Reduction of capital outlay (street and sanitation)		114,232	114,232
Record the increase (decrease) in assets and liabilities for the year ended September 30, 2013:			
Receivables (federal awards)		(146,937)	(146,937)
Prepaid expenses (federal award match)		(255,610)	(255,610)
Accounts payable (capital outlay)	0	273,107	273,107
Excess of revenues and other financing sources over expenditures and other financing uses	(7,984,625)	(129,440)	(8,114,065)
September 30, 2013	<u>\$ 10,506,920</u>	<u>\$ 126,170</u>	<u>\$ 10,633,090</u>

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**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, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues:</b>				
Taxes	\$ 27,054,155	\$ 27,054,155	\$ 27,859,243	\$ 805,088
Licenses and permits	3,869,500	3,869,500	4,526,419	656,919
Intergovernmental	88,655	88,655	85,443	(3,212)
Charges for services	770,249	770,249	764,433	(5,816)
Fines and forfeitures	527,040	527,040	577,844	50,804
Grants	11,250	26,250	100,187	73,937
Other operating revenues	<u>521,155</u>	<u>521,155</u>	<u>380,896</u>	<u>(140,259)</u>
<b>Total revenues</b>	<u>32,842,004</u>	<u>32,857,004</u>	<u>34,294,465</u>	<u>1,437,461</u>
<b>Expenditures:</b>				
<b>Current (operating):</b>				
General government	4,591,070	4,591,070	4,856,992	(265,922)
Public safety	13,790,988	13,805,988	13,284,027	521,961
Street and sanitation	6,234,699	6,234,699	6,100,185	134,514
Recreational	1,109,442	1,109,442	1,043,408	66,034
Library	<u>2,907,525</u>	<u>2,907,525</u>	<u>2,711,384</u>	<u>196,141</u>
<b>Total expenditures</b>	<u>28,633,724</u>	<u>28,648,724</u>	<u>27,995,996</u>	<u>652,728</u>
<b>Excess of revenues over expenditures</b>	<u>4,208,280</u>	<u>4,208,280</u>	<u>6,298,469</u>	<u>2,090,189</u>
<b>Other financing sources (uses):</b>				
Operating transfers (out)	(3,812,955)	(3,812,955)	(5,346,815)	(1,533,860)
Operating transfers in - component unit	43,000	43,000	4,477	(38,523)
Donations	<u>24,250</u>	<u>24,250</u>	<u>82,290</u>	<u>58,040</u>
<b>Total other financing sources (uses)</b>	<u>(3,745,705)</u>	<u>(3,745,705)</u>	<u>(5,260,048)</u>	<u>(1,514,343)</u>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	462,575	462,575	1,038,421	575,846
<b>Fund balances, beginning of year</b>	<u>12,061,269</u>	<u>12,061,269</u>	<u>12,061,269</u>	<u>0</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 12,523,844</u>	<u>\$ 12,523,844</u>	<u>\$ 13,099,690</u>	<u>\$ 575,846</u>

**City of Mountain Brook, Alabama**  
**Defined Benefits Pension Plan**  
**Trend Information, Funding Progress, and Additional Information**  
**Year Ended September 30, 2014**

**1. Pension plan (See also Note 6)**

**A. Trend information**

Following is the trend information from the most recent actuarial valuation dated September 30, 2013:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension (Asset) Obligation
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)
2012	814,709	127.3%	(10,495,319)
2013	1,049,035	114.9%	(10,651,655)

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. Funding progress**

Following is the schedule of funding progress obtained from most recent actuarial valuation prepared as of September 30, 2013:

Actuarial Valuation Date September 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Ratio of UAAL to Covered Payroll (b-a)/c)
1996	\$11,432,073	\$15,123,539	\$ 3,691,466	75.6%	\$ 7,197,023	51.3%
1997	14,482,615	18,815,172	4,332,557	77.0%	7,745,713	55.9%
1998	16,250,881	20,474,800	4,223,919	79.4%	7,901,352	53.5%
1999	18,366,682	21,750,075	3,383,393	84.4%	7,965,312	42.5%
2000	20,708,080	25,584,241	4,876,161	80.9%	8,980,574	54.3%
2001	24,842,909	29,636,890	4,793,981	83.8%	9,282,996	51.6%
2002	26,589,001	33,716,032	7,127,031	78.9%	9,935,345	71.7%
2003	28,153,151	36,592,800	8,439,649	76.9%	9,994,458	84.4%
2004	29,873,086	37,849,401	7,976,315	78.9%	10,343,086	77.1%
2005	31,850,510	43,304,015	11,453,505	73.6%	11,079,436	103.4%
2006	40,804,372	47,811,288	7,006,916	85.3%	11,575,036	60.5%
2007	43,522,954	50,487,356	6,964,402	86.2%	12,117,551	57.5%
2008	44,857,398	53,591,533	8,734,135	83.7%	12,527,394	69.7%
2009	44,476,775	57,488,111	13,011,336	77.4%	12,980,770	100.2%
2010	43,435,390	60,671,273	17,235,883	71.6%	12,830,545	134.3%
2011	42,195,893	63,185,649	20,989,756	66.8%	13,597,833	154.4%
2012	40,549,213	61,022,021	20,472,808	66.5%	12,832,269	159.5%
2013	43,032,194	65,744,579	22,712,385	65.5%	13,796,658	164.6%

**City of Mountain Brook, Alabama  
 Defined Benefits Pension Plan  
 Trend Information, Funding Progress, and Additional Information  
 Year Ended September 30, 2014**

**C. Additional information**

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

Valuation date	September 30, 2013
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	3.75 - 7.25%
Includes inflation at	3.00%
Cost-of-living adjustments	None
Number of active members	223
Number of retired members and beneficiaries	98
Annual retirement allowances	\$ 3,638,561

**City of Mountain Brook, Alabama  
Other Post-Employment Benefits  
Funding Progress and Trend Information  
Year Ended September 30, 2014**

**1. Post-employment benefits (See also Note 7)**

A. 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 five years:

<u>Post Employment Benefit</u>	<u>Fiscal Year Ended September 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
Medical/Dental	2014	\$ 291,800	226.10%	\$ (1,804,899)
Medical/Dental	2013	269,327	249.11%	(1,436,943)
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)

B. **Funded Status and Funding Progress.** In the fiscal year ending September 30, 2014 and 2013, the City of Mountain Brook contributed \$300,000 and \$320,000, 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 \$1,571,336 and \$1,260,448 as of September 30, 2014 and 2013, respectively. Based on the October 1, 2013 actuarial valuation, the most recent valuation, the Actuarial Accrued Liability (AAL) at the end of the year September 30, 2014 was \$3,992,253 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.

Following is the schedule of funding progress obtained from the actuarial valuations:

<u>Actuarial Valuation Date September 30</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>Ratio of UAAL to Covered Payroll (b-a)/c)</u>
2009	\$ 196,320	\$ 2,859,543	\$ 2,663,223	6.87%	\$13,285,976	20.05%
2010	403,024	3,473,472	3,070,448	11.60%	13,329,530	23.03%
2011	613,573	3,249,729	2,636,156	18.88%	13,591,314	19.40%
2012	925,335	3,155,271	2,229,936	29.33%	12,995,796	17.16%
2013	1,260,448	3,560,421	2,299,973	35.40%	13,750,308	16.73%
2014	1,571,336	3,992,253	2,420,917	39.36%	14,512,291	16.68%

**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 23, 2013 (Ordinance No. 1894) and subsequently revised with administrative reclassifications that did not change the surplus.

## **SUPPLEMENTARY INFORMATION**

**City of Mountain Brook, Alabama**

**Combining Balance Sheet  
Other Governmental Funds  
September 30, 2014**

	<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	\$ 581,606	\$ 119,223	\$ 41,475	\$ 31,395
Receivables	19,029	11,036	5,437	0
<b>TOTAL ASSETS</b>	<b>\$ 600,635</b>	<b>\$ 130,259</b>	<b>\$ 46,912</b>	<b>\$ 31,395</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	600,635	130,259	46,912	31,395
<b>Total fund equity</b>	<b>600,635</b>	<b>130,259</b>	<b>46,912</b>	<b>31,395</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 600,635</b>	<b>\$ 130,259</b>	<b>\$ 46,912</b>	<b>\$ 31,395</b>

<u>Emergency Communication District</u>	<u>Corrections Fund</u>	<u>Totals</u>
\$ 507,210	\$ 6,114	\$ 1,287,023
<u>41,203</u>	<u>0</u>	<u>76,705</u>
<u>\$ 548,413</u>	<u>\$ 6,114</u>	<u>\$ 1,363,728</u>
\$ 528	\$ 6,114	\$ 6,642
<u>528</u>	<u>6,114</u>	<u>6,642</u>
<u>547,885</u>	<u>0</u>	<u>1,357,086</u>
<u>547,885</u>	<u>0</u>	<u>1,357,086</u>
<u>\$ 548,413</u>	<u>\$ 6,114</u>	<u>\$ 1,363,728</u>

**City of Mountain Brook, Alabama**

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances – Other Governmental Funds  
Year Ended September 30, 2014**

	<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	\$ 191,407	\$ 120,237	\$ 58,541	\$ 4,695
Charges for services	0	0	0	0
Fines and forfeitures	0	0	0	0
Other operating revenues:				
Investment earnings	<u>177,682</u>	<u>730</u>	<u>492</u>	<u>95</u>
<b>Total revenues</b>	<u>369,089</u>	<u>120,967</u>	<u>59,033</u>	<u>4,790</u>
<b>Expenditures:</b>				
General government	0	0	0	0
Public safety	0	0	0	0
Street and sanitation	464,434	200,451	160,315	314
Recreational	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total expenditures</b>	<u>464,434</u>	<u>200,451</u>	<u>160,315</u>	<u>314</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(95,345)</u>	<u>(79,484)</u>	<u>(101,282)</u>	<u>4,476</u>
<b>Other financing sources (uses):</b>				
Operating transfers in	100,000	0	0	0
Operating transfers (out)	<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>	4,655	(79,484)	(101,282)	4,476
<b>Fund balances, beginning of year</b>	<u>595,980</u>	<u>209,743</u>	<u>148,194</u>	<u>26,919</u>
<b>FUND BALANCES, END OF YEAR</b>	<u><u>\$ 600,635</u></u>	<u><u>\$ 130,259</u></u>	<u><u>\$ 46,912</u></u>	<u><u>\$ 31,395</u></u>

<u>Emergency Communication District</u>	<u>Corrections Fund</u>	<u>Totals Fund</u>
\$ 0	\$ 0	\$ 374,880
396,418	0	396,418
2,205	183,638	185,843
<u>1,503</u>	<u>0</u>	<u>180,502</u>
<u>400,126</u>	<u>183,638</u>	<u>1,137,643</u>
0	252,188	252,188
304,777	105,157	409,934
0	0	825,514
<u>0</u>	<u>0</u>	<u>0</u>
<u>304,777</u>	<u>357,345</u>	<u>1,487,636</u>
<u>95,349</u>	<u>(173,707)</u>	<u>(349,993)</u>
0	173,707	273,707
<u>(9,844)</u>	<u>0</u>	<u>(9,844)</u>
<u>(9,844)</u>	<u>173,707</u>	<u>263,863</u>
85,505	0	(86,130)
<u>462,380</u>	<u>0</u>	<u>1,443,216</u>
<u>\$ 547,885</u>	<u>\$ 0</u>	<u>\$ 1,357,086</u>

**City of Mountain Brook, Alabama**

**Combining Balance Sheet – Capital Projects Funds  
September 30, 2014**

	<u>City Capital Projects</u>	<u>Village Improvement Projects</u>	<u>Village Trail System Projects</u>	<u>Totals</u>
<b>ASSETS</b>				
Cash and temporary investments	\$ 7,674,662	\$ 4,574,286	\$ 404,289	\$ 12,653,237
Receivables	0	0	62,956	62,956
<b>TOTAL ASSETS</b>	<u>\$ 7,674,662</u>	<u>\$ 4,574,286</u>	<u>\$ 467,245</u>	<u>\$ 12,716,193</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 141,112	\$ 145,592	\$ 40,080	\$ 326,784
<b>TOTAL LIABILITIES</b>	<u>141,112</u>	<u>145,592</u>	<u>40,080</u>	<u>326,784</u>
<b>FUND BALANCE</b>				
Fund balance	<u>7,533,550</u>	<u>4,428,694</u>	<u>427,165</u>	<u>12,389,409</u>
<b>TOTAL FUND BALANCE</b>	<u>7,533,550</u>	<u>4,428,694</u>	<u>427,165</u>	<u>12,389,409</u>
 <b>TOTAL LIABILITIES AND FUND BALANCE</b>	 <u>\$ 7,674,662</u>	 <u>\$ 4,574,286</u>	 <u>\$ 467,245</u>	 <u>\$ 12,716,193</u>

City of Mountain Brook, Alabama

Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances – Capital Projects Funds  
Year Ended September 30, 2014

	<u>City Capital Projects</u>	<u>Village Improvement Projects</u>	<u>Village Trail System Projects</u>	<u>Totals</u>
<b>Revenues:</b>				
Grants	\$ 0	\$ 0	\$ 857,939	\$ 857,939
Other operating revenues:				
Investment earnings	75,172	9,508	1,193	85,873
Miscellaneous	<u>128,917</u>	<u>0</u>	<u>0</u>	<u>128,917</u>
<b>Total revenues</b>	<u>204,089</u>	<u>9,508</u>	<u>859,132</u>	<u>1,072,729</u>
<b>Expenditures:</b>				
General government	439,734	0	0	439,734
Public safety	1,019,576	0	0	1,019,576
Street and sanitation	305,957	238,370	1,136,217	1,680,544
Recreational	49,300	407,757	0	457,057
Library	<u>204,342</u>	<u>0</u>	<u>0</u>	<u>204,342</u>
<b>Total expenditures</b>	<u>2,018,909</u>	<u>646,127</u>	<u>1,136,217</u>	<u>3,801,253</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(1,814,820)</u>	<u>(636,619)</u>	<u>(277,085)</u>	<u>(2,728,524)</u>
<b>Other financing sources (uses):</b>				
Operating transfers in	2,595,434	2,087,518	100,000	4,782,952
Operating transfers (out)	0	(360,391)	0	(360,391)
Donations	<u>100</u>	<u>62,182</u>	<u>0</u>	<u>62,282</u>
<b>Total other financing sources (uses)</b>	<u>2,595,534</u>	<u>1,789,309</u>	<u>100,000</u>	<u>4,484,843</u>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	<u>780,714</u>	<u>1,152,690</u>	<u>(177,085)</u>	<u>1,756,319</u>
<b>Fund balances, beginning of year as previously reported</b>	6,752,836	3,276,004	478,080	10,506,920
Prior period adjustments	<u>0</u>	<u>0</u>	<u>126,170</u>	<u>126,170</u>
<b>Fund balances, beginning of year as restated</b>	<u>6,752,836</u>	<u>3,276,004</u>	<u>604,250</u>	<u>10,633,090</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 7,533,550</u>	<u>\$ 4,428,694</u>	<u>\$ 427,165</u>	<u>\$ 12,389,409</u>

**City of Mountain Brook, Alabama**

**Schedule of General Fund Revenues by Source  
For the Years Ended September 30, 2005 through 2014**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<b>Taxes</b>				
Real property	\$ 11,094,902	\$ 11,976,292	\$ 13,181,868	\$ 13,919,181
Sales and use	6,534,289	7,033,452	7,829,375	8,412,007
Occupational	939,127	248,283	1,475	0
Utility	992,143	1,088,234	1,266,253	1,336,420
Personal property (automobiles)	1,108,807	1,131,386	1,139,952	1,130,239
Road and bridge	460,216	497,326	543,682	572,272
Other	1,053,130	1,316,806	1,275,315	985,588
<b>Total taxes</b>	<u>22,182,614</u>	<u>23,291,779</u>	<u>25,237,920</u>	<u>26,355,707</u>
<b>Licenses and permits</b>				
Business	1,756,226	1,729,727	1,872,058	1,994,039
Construction permits	519,277	893,161	851,266	1,036,354
Cable TV franchise fees	257,695	282,379	300,204	323,082
Waterworks Board	123,202	137,964	161,961	167,341
Other	55,535	60,966	60,985	63,382
<b>Total licenses and permits</b>	<u>2,711,935</u>	<u>3,104,197</u>	<u>3,246,474</u>	<u>3,584,198</u>
<b>Intergovernmental</b>	41,736	50,517	40,544	149,710
<b>Charges for services</b>				
Garbage fees	1,573,788	1,604,281	462,747	71,252
Other	486,567	486,385	517,251	498,576
<b>Total charges for services</b>	<u>2,060,355</u>	<u>2,090,666</u>	<u>979,998</u>	<u>569,828</u>
<b>Fines and forfeitures - court</b>	587,397	623,579	597,961	470,020
<b>Grants</b>	1,907,290	73,278	51,434	37,355
<b>Other operating revenue</b>				
Investment earnings	141,783	235,866	653,609	428,304
Other	247,971	325,757	161,303	230,717
<b>Total other operating revenue</b>	<u>389,754</u>	<u>561,623</u>	<u>814,912</u>	<u>659,021</u>
<b>TOTAL REVENUES</b>	<u>\$ 29,881,081</u>	<u>\$ 29,795,639</u>	<u>\$ 30,969,243</u>	<u>\$ 31,825,839</u>

<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
\$ 14,592,638	\$ 14,322,580	\$ 13,890,843	\$ 13,873,635	\$ 13,512,485	\$ 13,867,794
7,666,594	7,854,903	8,476,522	9,112,494	9,578,337	9,808,223
0	0	0	0	0	0
1,413,759	1,450,440	1,460,206	1,365,487	1,284,421	1,288,163
1,022,666	1,047,869	1,079,079	1,152,424	1,208,485	1,217,199
596,000	590,899	572,584	575,000	565,066	550,686
<u>1,075,676</u>	<u>1,016,068</u>	<u>903,688</u>	<u>1,030,680</u>	<u>1,038,515</u>	<u>1,127,178</u>
26,367,333	26,282,759	26,382,922	27,109,720	27,187,309	27,859,243
1,998,980	2,130,822	2,165,612	2,223,912	2,492,623	2,531,307
634,059	624,309	753,444	800,820	1,100,204	1,347,583
328,641	347,757	352,964	391,701	424,912	389,500
157,794	159,242	207,939	216,090	216,839	192,875
<u>57,966</u>	<u>64,720</u>	<u>60,310</u>	<u>61,928</u>	<u>62,115</u>	<u>65,154</u>
3,177,440	3,326,850	3,540,269	3,694,451	4,296,693	4,526,419
84,723	82,826	84,874	85,613	84,547	85,443
39,094	34,062	32,436	39,235	35,589	34,086
<u>486,785</u>	<u>591,636</u>	<u>619,716</u>	<u>714,561</u>	<u>693,408</u>	<u>730,347</u>
525,879	625,698	652,152	753,796	728,997	764,433
443,400	514,542	529,522	446,682	559,465	577,844
50,799	19,708	282,423	12,062	15,755	100,187
271,788	207,214	131,706	199,151	138,162	69,522
<u>371,526</u>	<u>254,173</u>	<u>300,657</u>	<u>278,880</u>	<u>439,492</u>	<u>311,374</u>
643,314	461,387	432,363	478,031	577,654	380,896
<u>\$ 31,292,888</u>	<u>\$ 31,313,770</u>	<u>\$ 31,904,525</u>	<u>\$ 32,580,355</u>	<u>\$ 33,450,420</u>	<u>\$ 34,294,465</u>

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**City of Mountain Brook, Alabama**

**Comparative Balance Sheet – General Fund  
September 30**

	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
Cash and temporary investments	\$ 12,445,515	\$ 12,471,922
Cash and temporary investments - restricted	204,853	211,803
Receivables	1,905,543	1,841,394
Due from related organizations	85,443	84,547
Inventory and prepaid expenses	418,764	144,431
<b>TOTAL ASSETS</b>	<b>\$ 15,060,118</b>	<b>\$ 14,754,097</b>
 <b>LIABILITIES</b>		
Accounts payable	\$ 509,800	\$ 923,065
Accrued salaries and wages	748,505	712,405
Due to related organizations	63,797	58,967
Other liabilities	638,326	998,391
<b>TOTAL LIABILITIES</b>	<b>1,960,428</b>	<b>2,692,828</b>
 <b>Pension obligation (see Note 6)</b>		
<b>FUND BALANCES</b>		
Nonspendable	418,764	144,431
Restricted	0	0
Committed	54,005	53,934
Assigned	2,574,925	2,409,112
Unassigned	10,051,996	9,453,792
<b>FUND BALANCES</b>	<b>13,099,690</b>	<b>12,061,269</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 15,060,118</b>	<b>\$ 14,754,097</b>

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

	<u>2014</u>	<u>2013</u>
<b>Revenues:</b>		
Taxes	\$ 27,859,243	\$ 27,187,309
Licenses and permits	4,526,419	4,296,693
Intergovernmental	85,443	84,547
Charges for services	764,433	728,997
Fines and forfeitures	577,844	559,465
Grants	100,187	15,755
Other operating revenues	<u>380,896</u>	<u>577,654</u>
<b>Total revenues</b>	<u>34,294,465</u>	<u>33,450,420</u>
<b>Expenditures:</b>		
<b>Current (operating):</b>		
General government	4,856,992	5,067,000
Public safety	13,284,027	12,884,029
Street and sanitation	6,100,185	6,109,529
Recreational	1,043,408	1,112,903
Library	<u>2,711,384</u>	<u>2,677,231</u>
<b>Total expenditures</b>	<u>27,995,996</u>	<u>27,850,692</u>
<b>Excess (deficiency) of revenues     over expenditures</b>	<u>6,298,469</u>	<u>5,599,728</u>
<b>Other financing sources (uses):</b>		
Operating transfers in	0	0
Operating transfers (out)	(5,346,815)	(4,624,661)
Operating transfers in - component unit	4,477	20,885
Donations	<u>82,290</u>	<u>87,305</u>
<b>Total other financing sources (uses)</b>	<u>(5,260,048)</u>	<u>(4,516,471)</u>
<b>Excess of revenues and other financing sources     over expenditures and other financing uses</b>	1,038,421	1,083,257
<b>Fund balances, beginning of year</b>	<u>12,061,269</u>	<u>10,978,012</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 13,099,690</u>	<u>\$ 12,061,269</u>

**City of Mountain Brook, Alabama**

**Comparative Balance Sheet – Capital Projects Funds  
September 30**

	<u>2014</u>	<u>2013 (Restated)</u>
<b>ASSETS</b>		
Cash and temporary investments	\$ 12,653,237	\$ 10,874,418
Receivables	<u>62,956</u>	<u>189,271</u>
<b>TOTAL ASSETS</b>	<u>\$ 12,716,193</u>	<u>\$ 11,063,689</u>
<b>LIABILITIES</b>		
Accounts payable	<u>\$ 326,784</u>	<u>\$ 430,599</u>
<b>TOTAL LIABILITIES</b>	<u>326,784</u>	<u>430,599</u>
<b>Pension obligation (see Note 6)</b>		
<b>FUND BALANCES</b>		
Committed	<u>12,389,409</u>	<u>10,633,090</u>
<b>FUND BALANCES</b>	<u>12,389,409</u>	<u>10,633,090</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 12,716,193</u>	<u>\$ 11,063,689</u>

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

	<b>2014</b>	<b>2013 (Restated)</b>
<b>Revenues:</b>		
Grants	\$ 857,939	\$ 868,036
Other operating revenues	214,790	251,061
<b>Total revenues</b>	<b>1,072,729</b>	<b>1,119,097</b>
<b>Expenditures:</b>		
<b>Current (operating):</b>		
General government	439,734	9,919,627
Public safety	1,019,576	1,383,880
Street and sanitation	1,680,544	1,867,456
Recreational	457,057	59,107
Library	204,342	13,715
<b>Total expenditures</b>	<b>3,801,253</b>	<b>13,243,785</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(2,728,524)</b>	<b>(12,124,688)</b>
<b>Other financing sources (uses):</b>		
Operating transfers in	4,782,952	4,092,264
Operating transfers (out)	(360,391)	(358,141)
Operating transfers in - component unit	0	0
Donations	62,282	276,500
<b>Total other financing sources (uses)</b>	<b>4,484,843</b>	<b>4,010,623</b>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	<b>1,756,319</b>	<b>(8,114,065)</b>
<b>Fund balances, beginning of year (as previously reported)</b>	10,506,920	18,491,545
Prior period adjustments	126,170	255,610
<b>Fund balances, beginning of year (as restated)</b>	<b>10,633,090</b>	<b>18,747,155</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 12,389,409</b>	<b>\$ 10,633,090</b>

City of Mountain Brook, Alabama

Comparative Balance Sheet – Debt Service Fund  
September 30

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Cash and temporary investments	\$ 3,688,993	\$ 3,375,296
<b>TOTAL ASSETS</b>	<u>\$ 3,688,993</u>	<u>\$ 3,375,296</u>
<b>LIABILITIES</b>	\$ 0	\$ 0
<b>FUND BALANCES</b>		
Assigned	<u>3,688,993</u>	<u>3,375,296</u>
<b>FUND BALANCES</b>	<u>3,688,993</u>	<u>3,375,296</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 3,688,993</u>	<u>\$ 3,375,296</u>

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

	<b>2014</b>	<b>2013</b>
<b>Revenues:</b>		
Other operating revenues	\$ 14,503	\$ 24,406
<b>Total revenues</b>	14,503	24,406
<b>Expenditures:</b>		
<b>Current (operating):</b>		
General government	806	788
Debt service:		
Principal	205,000	195,000
Interest	155,391	163,141
<b>Total expenditures</b>	361,197	358,929
<b>Excess (deficiency) of revenues over expenditures</b>	(346,694)	(334,523)
<b>Other financing sources (uses):</b>		
Operating transfers in	660,391	658,141
Operating transfers (out)	0	0
<b>Total other financing sources (uses)</b>	660,391	658,141
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	313,697	323,618
<b>Fund balances, beginning of year</b>	3,375,296	3,051,678
<b>FUND BALANCES, END OF YEAR</b>	\$ 3,688,993	\$ 3,375,296



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**Independent Auditor's 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Mountain Brook, Alabama (the City), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 27, 2015.

**Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: 2014-001.

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. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies: 2014-002.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

### **Response to Findings**

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

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

Birmingham, Alabama  
January 27, 2015



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## **Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133**

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

### **Report on Compliance for Each Major Federal Program**

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, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

#### ***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

### **Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

Birmingham, Alabama  
January 27, 2015

**CITY OF MOUNTAIN BROOK, ALABAMA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

<b>Description</b>	<b>Federal CFDA Number</b>	<b>Total Grant Award</b>	<b>Revenue Recognized</b>	<b>Expenditures</b>
<b><u>Federal Emergency Management Agency</u></b>				
Passed through State of Alabama				
Emergency Management Agency				
April 27, 2011 Storm Disaster Recovery				
Public Assistant Grant				
FEMA 1971-DR-AL				
	97.036	\$ 301,172	\$ 71,110	\$ 71,110
<b>Total Federal Emergency Management Agency</b>		301,172	71,110	71,110
<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	1,811,307	300,792	300,792
Safe Routes to Schools Mountain Brook Elementary				
and Crestline Elementary Schools				
SRTS-SR09(903) and (904)				
	20.205	583,213	489,167	489,167
Mountain Brook Village Walkway System Phase 9				
along Brookwood Road, Crosshill Road, and Oakdale Drive				
CMAQ-PE12( )				
	20.205	133,120	67,980	67,980
<b>Total U.S. Department of Transportation</b>		2,767,640	857,939	857,939
<b>TOTAL FEDERAL AWARDS</b>		\$ 3,068,812	\$ 929,049	\$ 929,049

## 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, 2014**

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

**Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u> X </u> yes	<u> </u> no
Significant deficiency(ies) identified?	<u> 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: Unmodified

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

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

Auditee qualified as low-risk auditee   yes  X  no

**Section II - Financial Statement Findings**

The following significant deficiencies were disclosed in the 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, 2014**

**2014-001 Prior Period Adjustment**

Auditing Standards AU-C Section 265 indicates that the "restatement of previously issued financial statements to reflect the correction of a material misstatement" represents a material weakness in internal controls. In the current year, a prior period adjustment restated beginning net position by a material amount. The City misinterpreted information obtained from its engineer and the State in its determination of the City's payables and receivables; however, the accrued expenses were paid directly by the State rather than the City. The adjustment to reduce the project payable and the related grant receivable to the correct amounts resulted in an adjustment totaling \$126,170 to the capital project fund balance.

**Management's response:**

The City agrees with this finding. The City will exercise greater caution and attempt to obtain more documentary evidence from State construction project managers and finance personnel in the course of determining the value of construction completed by the State and the calculation of the federal awards related thereto.

**2014-002 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.

**Section III - Federal Awards Findings and Questioned Costs**

There were no matters to be reported.