

CITY OF MOUNTAIN BROOK, ALABAMA

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2013**

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

September 30, 2013

MAYOR

The Honorable Lawrence T. Oden

CITY COUNCIL

Ms. Virginia C. Smith, President

Mr. Jack D. Carl

Mr. William S. (Billy) Pritchard, III

Ms. Amy G. Carter

Mr. Jesse S. Vogtle, Jr.

CITY MANAGER

Mr. Sam S. Gaston

DEPARTMENT SUPERVISORS

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

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, the fiduciary fund, and the aggregate remaining fund information of City of Mountain Brook, Alabama (the City) as of and for the year ended September 30, 2013, 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 opinion, 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, the fiduciary fund, and the aggregate remaining fund information of the City as of September 30, 2013, 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 budgetary comparison information on pages 7 through 15 and 50 through 51 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 supplementary information as listed in the table of contents is the responsibility of management and was derived from and relates 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 supplementary information as listed in the table of contents is 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 February 11, 2014, 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.

Carly Riggs & Ingram, L.L.C.

Birmingham, Alabama

February 11, 2014



CITY OF MOUNTAIN BROOK, ALABAMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis of the City's financial activities as of and for the year ended September 30, 2013, 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, 2013, by \$115 million (Total Net Position). Of this amount, \$78 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 (\$462,000 for the Emergency Communication District and \$981,000 for road improvements from the State Shared Gasoline Tax special revenue funds). The remaining \$35 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 \$3.5 million in 2013 which includes the net cost of providing core City Services of \$23.7 million plus \$27.2 million in General Revenues.
- As of September 30, 2013, the City reported \$27.4 million in fund balances, a decrease of \$6.4 million from 2012. Of the \$27.4 million fund balances, \$12.1 million (44%) is reported in the General Fund, \$10.5 million (38%) in the Capital Projects Fund, and \$4.8 million (18%) 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 and Capital Projects Fund (which is comprised of three "sub-funds") to be major funds and their respective balance sheets and statements of revenues, expenditures, and changes in fund balance are separately reported. Information from the remaining funds (Debt Service and Special Revenue) have been aggregated and reported in a single column titled "Other Governmental Funds". Additional information about these aggregated non-major funds and the major funds is provided in the other supplementary information.

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

Infrastructure Capital Assets

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

	<u>Useful Life</u>	<u>Cost</u>	<u>Depreciation</u>	<u>Accumulated Depreciation</u>
Land	N/A	\$ 16,525,671	N/A	N/A
Streets and alleys	20	17,260,755	\$ 521,304	\$ 12,380,459
Storm sewers	20	13,946,471	686,080	3,346,623
Sidewalks	15	9,303,328	297,590	7,397,816
Park facilities	20	8,122,416	351,178	4,874,793
Street lights and signs	15	1,278,755	63,394	871,405
Library reference materials	5	4,683,561	353,121	3,826,427
Totals		<u>\$ 71,120,957</u>	<u>\$ 2,272,667</u>	<u>\$ 32,697,523</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>2013</u>	<u>2012</u>
Current assets	\$ 30,873,958	\$ 37,572,501
Other assets	12,068,657	11,560,203
Capital assets	82,233,249	73,921,834
Total assets	<u>125,175,864</u>	<u>123,054,538</u>
Current and other liabilities	3,694,353	4,983,349
Long-term liabilities	6,620,109	6,707,718
Total liabilities	<u>10,314,462</u>	<u>11,691,067</u>
Net position:		
Net investment in capital assets	78,143,249	69,636,834
Restricted	1,443,216	1,287,828
Unrestricted	35,274,937	40,438,809
Total net position	<u>\$ 114,861,402</u>	<u>\$ 111,363,471</u>

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

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

	<u>2013</u>	<u>2012</u>
Revenues		
Program revenues		
Fees, fines and charges for services	\$ 5,961,384	\$ 5,164,486
Operating grants and contributions	986,104	981,427
Capital grants and contributions	1,734,547	1,686,817
General revenues		
Ad valorem taxes	14,720,970	15,026,059
Sales and use taxes	9,889,449	9,406,314
Other taxes	178,386	175,910
Utility taxes	1,284,421	1,365,487
Franchise fees	641,751	607,791
Investment earnings	298,391	598,322
Gain (loss) on disposals of capital assets	103,652	66,317
Miscellaneous revenues	17,778	18,916
Transfers from component unit	20,885	53,817
Total revenues	<u>35,837,718</u>	<u>35,151,663</u>
Expenses		
General government	3,699,945	3,747,727
Public safety	14,636,956	13,611,275
Street and sanitation	8,902,821	8,530,360
Recreational	1,803,280	1,825,946
Library	3,296,785	3,177,161
Total expenses	<u>32,339,787</u>	<u>30,892,469</u>
Increase in net position	3,497,931	4,259,194
Net position, beginning of year	<u>111,363,471</u>	<u>107,104,277</u>
Net position, end of year	<u>\$ 114,861,402</u>	<u>\$ 111,363,471</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 2013. Real estate ad valorem taxes decreased \$361,000 (02.6%) during 2013.

The second largest source of revenue for the City is sales and use tax which totaled 29% of total General Fund revenues in 2013. Sales and use tax revenue increased by \$466,000 (5%) during 2013.

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>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Real estate ad valorem tax	\$ 13,512,485	\$ 13,873,635	\$ (361,150)
Sales and use tax	9,578,337	9,112,494	465,843
Business licenses	2,492,623	2,223,912	268,711
Personal property ad valorem tax	1,208,485	1,152,424	56,061
Garbage service fees	35,589	39,235	(3,646)
Utility taxes	1,284,421	1,365,487	(81,066)
Investment earnings	138,162	199,151	(60,989)
All other General Fund revenues	5,200,318	4,614,017	586,301
Totals	<u>\$ 33,450,420</u>	<u>\$ 32,580,355</u>	<u>\$ 870,065</u>

Expenditures

Salaries and benefits increased \$703,000 (4%) in 2013 to \$18.8 million. Labor-related costs made up (58%) of the City's total General Fund expenditures in 2013. 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>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Salaries and benefits	\$ 18,768,059	\$ 18,064,882	\$ 703,177
Garbage contract fees	2,722,982	2,683,440	39,542
Capital outlay	12,871,305	10,505,221	2,366,084
Intergovernmental services	775,843	809,144	(33,301)
Utilities and communication	868,123	796,630	71,493
Development agreement payments	1,017,710	1,118,466	(100,756)
Property and casualty insurance	271,722	268,207	3,515
Legal and accounting	329,275	445,639	(116,364)
Fuel and lubricants	371,067	373,113	(2,046)
Debt service	358,928	361,388	(2,460)
Birmingham Zoo, Inc. subsidy	75,000	75,000	0
All other	3,931,752	3,632,417	299,335
Totals	<u>\$ 42,361,766</u>	<u>\$ 39,133,547</u>	<u>\$ 3,228,219</u>

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

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

- Actual General Fund revenue exceeded the final budgeted revenue by \$1,220,000 (3.8%). 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>	<u>Favorable (Unfavorable)</u>
Real estate ad valorem tax	\$ 13,484,000	\$ 13,512,485	\$ 28,485
Sales and use tax	9,084,950	9,578,337	493,387
Other taxes	944,433	1,038,515	94,082
Utility taxes	1,412,850	1,284,421	(128,429)
Road and bridge tax	578,790	565,066	(13,724)
Construction permits	882,510	1,100,204	217,694
Fines and forfeitures	498,940	559,465	60,525
Charges for services	743,241	728,997	(14,244)
Fees for road repairs	78,110	214,947	136,837
Grants	12,062	15,755	3,693
Investment earnings	126,777	138,162	11,385
All other	<u>4,383,846</u>	<u>4,714,066</u>	<u>330,220</u>
Totals	<u>\$ 32,230,509</u>	<u>\$ 33,450,420</u>	<u>\$ 1,219,911</u>

- Total General Fund expenditures were \$802,000 (2.8%) less than the final budget. The favorable (unfavorable) budget General Fund variance was comprised largely of the following categories:

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Salaries and benefits	\$ 19,089,982	\$ 18,768,059	\$ 321,923
Garbage contract fees	2,773,980	2,722,982	50,998
Intergovernmental services	835,712	775,843	59,869
Utilities and communication	822,300	868,123	(45,823)
Development agreement payments	960,000	1,017,710	(57,710)
Fuel and lubricants	360,750	371,067	(10,317)
Legal and accounting	423,700	329,275	94,425
Street striping	145,000	148,215	(3,215)
Street cut repairs	100,000	151,179	(51,179)
Park and recreation special projects	0	1,510	(1,510)
All other	<u>3,141,254</u>	<u>2,696,729</u>	<u>444,525</u>
Totals	<u>\$ 28,652,678</u>	<u>\$ 27,850,692</u>	<u>\$ 801,986</u>

- Total operating transfers out exceeded the amount budgeted by \$1,589,792. This variance resulted primarily from the Council's decision (after year-end) to transfer an additional \$1,625,000 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 \$1,083,257 was \$473,045 more than budgeted.

CITY OF MOUNTAIN BROOK, ALABAMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

- The final General Fund budgeted surplus of \$610,212 was increased by \$100,000 from the amount originally budgeted in the amount of \$510,212. The City Council passed one budget ordinance during the year amending the 2013 budget. The budget amendments involved various revisions to revenue and expenditure line items resulting from revenues exceeding original estimates and other transactions that were not considered when the budget was originally adopted.

Other Matters of Interest

Pension Plan

As more fully described in Note 6, the City participates in a multi-employer, defined benefit pension plan which is administered by the Employees' Retirement System of Alabama (RSA). The most recent actuarial valuation data available and included in the accompanying report is as of and for the year ended September 30, 2012.

As of September 30, 2012, the RSA reported an unfunded actuarial accrued liability of \$20.5 million. The actuarial value of assets was set equal to the market value of assets as of September 30, 2012.

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, 2013, the City had accumulated \$3 million in the Debt Service Fund for such purpose.

Cash and Temporary Investments

As of September 30, 2013, the City reported cash and temporary investments of \$28.3 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 \$28.1 million and \$212,000, respectively. Following is a summary of the carrying value of the cash and investments by fund as of September 30, 2013.

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

	<u>Unrestricted</u>	<u>Restricted</u>
General Fund	\$ 12,471,922	\$ 211,803
Capital Projects Fund	10,874,418	0
Other Governmental Funds (Debt Service)	3,375,296	0
Other Governmental Funds (Special Revenue)	1,409,984	0
Section 115 irrevocable, retiree medical trust	0	1,260,448
Discretely presented component unit	<u>0</u>	<u>2,974,666</u>
Totals	<u>\$ 28,131,620</u>	<u>\$ 4,446,917</u>

The \$12.5 million General Fund cash and investment balance as of September 30, 2013, represents 5 months of General Fund expenditures.

Capital Assets and Related Replacement Reserves

Regarding capital assets, the City Council has adopted a policy of funding its depreciation expense in order to accumulate monies for the eventual replacement of property, plant and equipment. As of September 30, 2013, the City had accumulated approximately \$10.5 million in the Capital Projects Fund for such purpose. Accumulated depreciation (considered by management to be the benchmark with respect to measuring the funding status of the property, plant and equipment replacement reserve) totaled \$52 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>2013</u>	<u>2012</u>
Capital expenditures	\$ 12,871,305	\$ 10,505,221
Depreciation expense	<u>\$ 4,532,754</u>	<u>\$ 4,011,827</u>
Transfers to the Capital Projects Fund:		
Funded depreciation policy	\$ 1,803,473	\$ 1,668,332
Other transfers to fund current and future capital acquisitions	<u>2,288,791</u>	<u>2,194,391</u>
Totals	<u>\$ 4,092,264</u>	<u>\$ 3,862,723</u>

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

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

	2013	2012
Revenues		
State shared gasoline tax revenues	\$ 372,534	\$ 377,541
Alabama Trust Fund Earnings	460,955	173,440
Transfers from the City's General Fund	100,000	100,000
Investment earnings	3,702	2,966
Total Revenues	937,191	653,947
Street paving expenditures	736,582	588,958
Excess of Revenues Over Expenditures	200,609	64,989
Fund balance, beginning of the year	780,227	715,238
Fund Balance, end of year	\$ 980,836	\$ 780,227

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 2013 and 2012, the City realized \$35,589 and \$39,235, respectively, in garbage service fees collected from its commercial garbage accounts.

Requests for Additional Information

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

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City of Mountain Brook, Alabama
Government-wide Statement of Net Position
September 30, 2013 with Comparative Data

	Governmental Activities		Component Unit Library Foundation
	2013	2012	2013
ASSETS			
CURRENT ASSETS			
Cash and temporary investments	\$ 28,131,620	\$ 35,077,817	\$ 0
Receivables	2,223,972	2,035,659	0
Notes receivable	77,585	74,548	0
Due from related organization	84,547	85,613	0
Inventory and prepaid expenses	144,431	119,313	0
Cash and temporary investments - restricted	211,803	179,551	2,974,666
TOTAL CURRENT ASSETS	30,873,958	37,572,501	2,974,666
NONCURRENT ASSETS			
Notes receivable	136,395	213,980	0
Net pension asset	10,495,319	10,310,876	0
Net OPEB asset	1,436,943	1,035,347	0
Capital assets, net of accumulated depreciation	60,809,683	39,247,108	174,721
Land	18,698,005	18,698,005	552,611
Construction in progress	2,725,561	15,976,721	0
TOTAL NONCURRENT ASSETS	94,301,906	85,482,037	727,332
TOTAL ASSETS	125,175,864	123,054,538	3,701,998
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	1,639,909	1,893,707	0
Accrued salaries and wages	700,584	626,619	0
Accrued interest payable	79,681	83,459	0
Due to related organization	58,967	54,710	0
Other current liabilities	1,010,212	2,129,854	0
Long-term debt	205,000	195,000	0
TOTAL CURRENT LIABILITIES	3,694,353	4,983,349	0
NONCURRENT LIABILITIES			
Compensated absences	2,735,109	2,616,008	0
Long-term debt	3,885,000	4,090,000	0
Other liabilities	0	1,710	0
TOTAL NONCURRENT LIABILITIES	6,620,109	6,707,718	0
TOTAL LIABILITIES	10,314,462	11,691,067	0
PENSION OBLIGATION (SEE NOTE 6)			
NET POSITION			
Net investment in capital assets	78,143,249	69,636,834	727,332
Restricted	1,443,216	1,287,828	2,974,666
Unrestricted	35,274,937	40,438,809	0
TOTAL NET POSITION	\$ 114,861,402	\$ 111,363,471	\$ 3,701,998

See accompanying notes to basic financial statements.

City of Mountain Brook, Alabama
Government-wide Statement of Activities
For the Year Ended September 30, 2013 with Comparative Data

Program Activities	Program Revenues			
Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:				
General government	\$ 3,699,945	\$ 2,942,794	\$ 924,949	\$ 0
Public safety	14,636,956	2,565,561	4,507	278,123
Street and sanitation	8,902,821	273,460	0	1,330,755
Recreational	1,803,280	110,565	45,400	41,932
Library	3,296,785	69,004	11,248	83,737
Total	\$ 32,339,787	\$ 5,961,384	\$ 986,104	\$ 1,734,547
Component unit:				
Library Foundation	\$ 31,503	\$ 0	\$ 89,593	\$ 6,000

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 position at beginning of year

Net position at end of year

See accompanying notes to basic financial statements.

2013 Total Net (Expense) Revenue and Changes in Net Position	2012 Total Net (Expense) Revenue and Changes in Total Net	2013 Component Unit (Library Foundation)	2012 Component Unit (Library Foundation)
\$ 167,798	\$ (149,449)	\$ 0	\$ 0
(11,788,765)	(11,442,376)	0	0
(7,298,606)	(6,813,959)	0	0
(1,605,383)	(1,630,143)	0	0
<u>(3,132,796)</u>	<u>(3,023,812)</u>	<u>0</u>	<u>0</u>
<u>\$ (23,657,752)</u>	<u>\$ (23,059,739)</u>		

\$ 64,090 \$ (15,517)

14,720,970	15,026,059	0	0
9,889,449	9,406,314	0	0
178,386	175,910	0	0
1,284,421	1,365,487	0	0
641,751	607,791	0	0
298,391	598,322	314,076	355,682
103,652	66,317	0	0
17,778	18,916	3,897	3,772
20,885	53,817	<u>(20,885)</u>	<u>(53,817)</u>
<u>27,155,683</u>	<u>27,318,933</u>	<u>297,088</u>	<u>305,637</u>
3,497,931	4,259,194	361,178	290,120
<u>111,363,471</u>	<u>107,104,277</u>	<u>3,340,820</u>	<u>3,050,700</u>
<u>\$ 114,861,402</u>	<u>\$ 111,363,471</u>	<u>\$ 3,701,998</u>	<u>\$ 3,340,820</u>

**City of Mountain Brook, Alabama
Balance Sheet
Governmental Funds
September 30, 2013**

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and temporary investments	\$ 12,471,922	\$ 10,874,418	\$ 4,785,280	\$ 28,131,620
Cash and temporary investments - restricted	211,803	0	0	211,803
Receivables	1,841,394	336,208	46,370	2,223,972
Due from related organizations	84,547	0	0	84,547
Inventory and prepaid expenses	<u>144,431</u>	<u>0</u>	<u>0</u>	<u>144,431</u>
TOTAL ASSETS	<u>\$ 14,754,097</u>	<u>\$ 11,210,626</u>	<u>\$ 4,831,650</u>	<u>\$ 30,796,373</u>
LIABILITIES				
Accounts payable	\$ 923,065	\$ 703,706	\$ 13,138	\$ 1,639,909
Accrued salaries and wages	712,405	0	0	712,405
Due to related organizations	58,967	0	0	58,967
Other liabilities	<u>998,391</u>	<u>0</u>	<u>0</u>	<u>998,391</u>
TOTAL LIABILITIES	<u>2,692,828</u>	<u>703,706</u>	<u>13,138</u>	<u>3,409,672</u>
Pension obligation (see Note 6)				
FUND BALANCES				
Nonspendable	144,431	0	0	144,431
Restricted	0	0	1,443,216	1,443,216
Committed	53,934	10,506,920	0	10,560,854
Assigned	2,409,112	0	3,375,296	5,784,408
Unassigned	<u>9,453,792</u>	<u>0</u>	<u>0</u>	<u>9,453,792</u>
TOTAL FUND BALANCES	<u>12,061,269</u>	<u>10,506,920</u>	<u>4,818,512</u>	<u>27,386,701</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 14,754,097</u>	<u>\$ 11,210,626</u>	<u>\$ 4,831,650</u>	<u>\$ 30,796,373</u>

See accompanying notes to basic financial statements

City of Mountain Brook, Alabama
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
September 30, 2013

Fund balance - total governmental funds \$ 27,386,701

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. 213,980

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	134,185,695	
Less accumulated depreciation	<u>(51,952,446)</u>	82,233,249

Net pension assets are not current financial resources and therefore are not reported in the governmental funds balance sheet. 10,495,319

Net OPEB assets are not current financial resources and therefore are not reported in the governmental funds balance sheet. 1,436,943

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	(4,090,000)	
Compensated absences	(2,735,109)	
Accrued interest payable	<u>(79,681)</u>	<u>(6,904,790)</u>

Net position of governmental activities \$ 114,861,402

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, 2013

	<u>General</u>	<u>Capital Projects</u>
Revenues:		
Taxes	\$ 27,187,309	\$ 0
Licenses and permits	4,296,693	0
Intergovernmental	84,547	0
Charges for services	728,997	0
Fines and forfeitures	559,465	0
Grants	15,755	498,889
Other operating revenues	<u>577,654</u>	<u>251,061</u>
Total revenues	<u>33,450,420</u>	<u>749,950</u>
Expenditures:		
Current (operating):		
General government	5,067,000	9,919,627
Public safety	12,884,029	1,383,880
Street and sanitation	6,109,529	1,368,869
Recreational	1,112,903	59,107
Library	2,677,231	13,715
Debt service:		
Principal	0	0
Interest	<u>0</u>	<u>0</u>
Total expenditures	<u>27,850,692</u>	<u>12,745,198</u>
Excess (deficiency) of revenues over expenditures	<u>5,599,728</u>	<u>(11,995,248)</u>
Other financing sources (uses):		
Operating transfers in	0	4,092,264
Operating transfers (out)	(4,624,661)	(358,141)
Operating transfers in - component unit	20,885	0
Donations	<u>87,305</u>	<u>276,500</u>
Total other financing sources (uses)	<u>(4,516,471)</u>	<u>4,010,623</u>
Excess of revenues and other financing sources over expenditures and other financing uses	1,083,257	(7,984,625)
Fund balances, beginning of year	<u>10,978,012</u>	<u>18,491,545</u>
FUND BALANCES, END OF YEAR	<u>\$ 12,061,269</u>	<u>\$ 10,506,920</u>

See accompanying notes to basic financial statements.

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 372,534	\$ 27,559,843
0	4,296,693
0	84,547
313,297	1,042,294
177,785	737,250
0	514,644
<u>490,728</u>	<u>1,319,443</u>
 <u>1,354,344</u>	 <u>35,554,714</u>
 215,896	 15,202,523
455,257	14,723,166
736,582	8,214,980
0	1,172,010
0	2,690,946
 195,000	 195,000
<u>163,141</u>	<u>163,141</u>
 <u>1,765,876</u>	 <u>42,361,766</u>
 <u>(411,532)</u>	 <u>(6,807,052)</u>
 890,538	 4,982,802
0	(4,982,802)
0	20,885
<u>0</u>	<u>363,805</u>
 <u>890,538</u>	 <u>384,690</u>
 479,006	 (6,422,362)
<u>4,339,506</u>	<u>33,809,063</u>
 <u>\$ 4,818,512</u>	 <u>\$ 27,386,701</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, 2013

Net change in fund balances - total governmental funds		\$ (6,422,362)
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.		
	(74,548)	
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	12,871,306	
Less current year depreciation	<u>(4,532,754)</u>	8,338,552
Net book value of assets disposed during the year.		
		(27,137)
The net effect of transactions involving net pension assets is to increase net position.		
		184,443
The net effect of transactions involving net OPEB assets is to increase net position.		
		401,596
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		195,000
Repayment of development fee obligation in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		1,017,710
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	(119,101)	
Change in accrued interest payable	<u>3,778</u>	<u>(115,323)</u>
Change in net position of governmental activities		<u>\$ 3,497,931</u>

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>2013</u>	<u>2012</u>
ASSETS		
Certificates of deposit, at fair value	\$ 1,260,448	\$ 925,335
TOTAL ASSETS	<u>1,260,448</u>	<u>925,335</u>
LIABILITIES		
Accounts payable and accrued liabilities	<u>0</u>	<u>0</u>
TOTAL LIABILITIES	<u>0</u>	<u>0</u>
NET POSITION HELD IN TRUST FOR OTHER POST-EMPLOYMENT BENEFITS	<u>\$ 1,260,448</u>	<u>\$ 925,335</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>2013</u>	<u>2012</u>
ADDITIONS		
Contributions		
Employer	\$ 670,923	\$ 654,828
Plan members	128,202	126,308
Investment earnings	<u>15,375</u>	<u>11,762</u>
TOTAL ADDITIONS	814,500	792,898
DEDUCTIONS		
Benefits	479,125	476,136
Administrative expense	<u>262</u>	<u>5,000</u>
TOTAL DEDUCTIONS	<u>479,387</u>	<u>481,136</u>
NET INCREASE	335,113	311,762
Net position held in trust for other post-employment benefits, beginning of year	<u>925,335</u>	<u>613,573</u>
NET POSITION HELD IN TRUST FOR OTHER POST-EMPLOYMENT BENEFITS, END OF YEAR	<u>\$ 1,260,448</u>	<u>\$ 925,335</u>

See accompanying notes to basic financial statements.

City of Mountain Brook, Alabama

Notes to Financial Statements

1. Summary of significant accounting policies

The City of Mountain Brook, Alabama (the City) was incorporated on March 24, 1942. The City operates under the Council-Manager form of government organized to comply with the provisions of Title 11, Chapter 43, Sections 20-22 of the Code of Alabama 1975, as amended. The City Council is composed of five officials all of whom are elected at-large. The members of the City Council and Mayor hold office for four year terms. The terms of office for the elected officials are staggered (beginning in October 2004) with Council places 1, 3, and 5 up for election in even years and Council places 2 and 4 and the Mayor's office up for election in odd years. The next election is scheduled for August 26, 2014. The City Manager is appointed by the City Council as the executive officer to serve at the will and pleasure of that body. The Mayor and members of the City Council receive no salary or other compensation for their service to the City.

A. Accounting and reporting

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

B. Related organizations

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

During years ended September 30, 2013 and 2012, the City reported the following revenues from the Board:

	2013	2012
General Fund		
Community athletic fields shared maintenance	\$ 84,547	\$ 85,613
High school sewer treatment facility maintenance	7,200	7,200
Total	\$ 91,747	\$ 92,813

At September 30, 2013 and 2012, the City reported receivables from the Board in the amounts as follows (See Note 3):

	2013	2012
General Fund		
Community athletic fields shared maintenance	\$ 84,547	\$ 85,613
Total	\$ 84,547	\$ 85,613

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, 2013 and 2012, the City owed the Board \$58,967 and \$54,710, respectively, for its share of property taxes which is included in other liabilities of the General Fund.

City of Mountain Brook, Alabama

Notes to Financial Statements

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

In 2005, the City entered into a long-term lease agreement with the Mountain Brook Sports Park Foundation (MBSPF), a non-profit organization. Under the terms of the agreement, MBSPF was granted the right to use City land to be used primarily for community soccer fields. MBSPF paid for the construction of such fields from private donations and a \$500,000 loan from the City. The construction costs totaled \$1,952,936. In 2009, MBSPF constructed a restroom/concession stand at the complex which was financed from private donations, a contribution from the City in the amount of \$62,500, and a loan from the City in the amount of \$62,500. The outstanding loan balance of \$213,980 and \$288,528 has been presented as a note receivable in the statement of net position as of September 30, 2013 and 2012, respectively.

During the years ended September 30, 2013 and 2012, 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>2013</u>	<u>2012</u>
Revenues		
The Board of Education	\$ 41,882	\$ 42,042
Mountain Brook Athletics, Inc.	20,941	21,021
Mountain Brook Soccer Club, Inc.	20,941	21,021
Charges for services (MBSPF)	<u>84,732</u>	<u>84,732</u>
Total revenues	168,496	168,816
Expenditures		
Recreational (operating and maintenance)	126,394	126,126
Capital outlay (\$1,952,936 cumulative)	<u>0</u>	<u>0</u>
Total expenditures	126,394	126,126
Other financing sources (uses), net		
Transfers to City General Fund	<u>(42,850)</u>	<u>(42,690)</u>
Net other financing sources	<u>(42,850)</u>	<u>(42,690)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other assets	(748)	0
Fund balance (deficit) at the beginning of the year	<u>0</u>	<u>0</u>
Fund balance (deficit) at the end of the year	<u>\$ (748)</u>	<u>\$ 0</u>

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

City of Mountain Brook, Alabama

Notes to Financial Statements

Another related organization is The Mountain Brook Library Foundation ("the Foundation"). 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.

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.

City of Mountain Brook, Alabama

Notes to Financial Statements

C. Debt Service Funds

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

D. Capital Projects Funds

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

Major and non-major funds

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

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

E. Fund Balance

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

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

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

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

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

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

City of Mountain Brook, Alabama

Notes to Financial Statements

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

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

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

Fund Balances	General	Capital Projects	Other Governmental Funds	Total
<u>Nonspendable:</u>				
Prepaid expenses	\$ 80,069	\$ 0	\$ 0	\$ 80,069
Inventory	64,362	0	0	64,362
Total Nonspendable	144,431	0	0	144,431
<u>Restricted:</u>				
Emergency Communication District (E-911)	0	0	462,380	462,380
State Shared Gasoline Taxes:				
5 Cent	0	0	148,194	148,194
7 Cent	0	0	595,980	595,980
4 Cent	0	0	209,743	209,743
2 Cent	0	0	26,919	26,919
Total Restricted	0	0	1,443,216	1,443,216
<u>Committed:</u>				
Capital Projects	0	10,506,920	0	10,506,920
Library Endowment	53,934	0	0	53,934
Total Committed	53,934	10,506,920	0	10,560,854
<u>Assigned:</u>				
Emergency Reserve Fund	2,238,123	0	0	2,238,123
Debt Service Fund	0	0	3,375,296	3,375,296
Asset Forfeitures	20,100	0	0	20,100
Library Book Fund	139,919	0	0	139,919
Community Fund	10,970	0	0	10,970
Total Assigned	2,409,112	0	3,375,296	5,784,408
<u>Unassigned</u>	9,453,792	0	0	9,453,792
Total Fund Balances	\$12,061,269	\$10,506,920	\$ 4,818,512	\$27,386,701

F. Measurement focus and basis of accounting

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

City of Mountain Brook, Alabama

Notes to Financial Statements

Measurement focus

On the Government-wide Statement of Net 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 upon the impairment of an asset.

H. Worker's compensation

The City provides workers' compensation coverage to its employees as required by law. The City has elected to self-insure with respect to its workers' compensation claims risk and has contracted with a third-party administrator to provide claims management services. In order to limit its exposure to claims risk, the City has purchased excess loss insurance coverage. The excess loss insurance pays the remainder of statutory obligations over the first \$250,000 for specific claims and all claims cost in excess of \$811,977 in the aggregate incurred during a policy year. Workers' compensation cost charged by the City during 2013 and 2012 was approximately \$155,000 and \$187,000, respectively. The accompanying financial statements include an estimated accrual of unpaid workers' compensation claims as of September 30, 2013 and September 30, 2012 in the amount of \$690,200 and 686,100, respectively.

I. Cash and temporary investments

Cash resources of various funds are combined to form a cash and investment pool. Interest from this pool is allocated monthly to each fund based on their respective month-end cash and investment balances. Restricted cash and temporary investments of \$211,803 and \$179,551 as of September 30, 2013 and 2012, respectively, represent temporary and permanently restricted funds donated to the Emmet O'Neal Library, a department of the City.

J. Receivables

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

City of Mountain Brook, Alabama

Notes to Financial Statements

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

K. Equity classifications

Government-wide Statements

Equity is classified as net 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.

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 \$2,735,109 as of September 30, 2013 and \$2,616,008 as of September 30, 2012. The City paid \$11,821 and \$9,279 after September 30, 2013 and 2012, respectively, representing all vested compensated absences to employees who retired or otherwise ended their employment with the City prior to year end. Such amounts have been reported as current liabilities in the Government-Wide Statement of Activities.

City of Mountain Brook, Alabama

Notes to Financial Statements

N. Longevity pay plan

The City has a longevity pay plan which covers all full-time employees that have completed a minimum of six years of service as of September 30. Longevity pay for a qualifying employee is the product of the percentage factor (which is based on the number of years of completed services) and their annual rate of pay. The percentage factor is 1.5% after six years and increases 0.5% per year to a maximum rate of 8.5% which is attained after twenty years of service. The plan also limits the City's maximum annual longevity pay to a total of \$440,000 in 2013 and \$420,000 in 2012. 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, 2013 and September 30, 2012 reported in the Government-Wide and Fund financial statements totaled \$434,258 and \$411,770, 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, 2013:

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>
Operating transfers in (out):			
Capital transfers for the payment of current year asset acquisitions and the future replacement of capital assets	\$ (4,092,264)	\$ 4,092,264	\$ 0
Corrections fund transfer to fund operations	(132,397)	0	132,397
Debt service transfer for the accumulation of funds for the future repayment of City obligations	(300,000)	0	300,000
Debt service fund transfer for the repayment of General Obligation principal and interest	0	(358,141)	358,141
Gasoline tax fund transfer to supplement the annual street resurfacing program	<u>(100,000)</u>	<u>0</u>	<u>100,000</u>
Operating transfers, net	<u>\$ (4,624,661)</u>	<u>\$ 3,734,123</u>	<u>\$ 890,538</u>

Following is a summary of the operating transfers between funds during the year ended September 30, 2012:

City of Mountain Brook, Alabama

Notes to Financial Statements

	General	Capital Projects	Other Governmental Funds
Operating transfers in (out):			
Capital transfers for the payment of current year asset acquisitions and the future replacement of capital assets	\$ (3,784,954)	\$ 3,862,723	\$ (77,769)
Corrections fund transfer to fund operations	(152,134)	0	152,134
Debt service transfer for the accumulation of funds for the future repayment of City obligations	(300,000)	0	300,000
Debt service fund transfer for the repayment of General Obligation principal and interest	0	(360,600)	360,600
Gasoline tax fund transfer to supplement the annual street resurfacing program	(100,000)	0	100,000
Operating transfers, net	\$ (4,337,088)	\$ 3,502,123	\$ 834,965

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.

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:

Entity	Amount Per \$100 of Assessed	
	Mills	Value
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
	99.0	\$ 9.90

City of Mountain Brook, Alabama

Notes to Financial Statements

S. Major revenue sources and taxpayers

The City's primary sources of revenue include ad valorem taxes, sales and use taxes, and business licenses. Collectively, these taxes and licenses totaled approximately \$26.9 million (79%) and \$26.6 million (82%) of the total General Fund revenues during the years ended September 30, 2013 and 2012, 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 \$6.33 million (19%) and \$6.26 million (19%) of the City's total General Fund revenues during the years ended September 30, 2013 and 2012, respectively.

T. Expenditures/Expenses

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

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

Governmental Funds - By Character:	Current (further classified by function and includes Capital Outlay) Debt Service
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In the fund financial statements, governmental funds report expenditures of financial resources.

U. Inventory

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

V. Comparative Data

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

W. Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are reported in the government-wide or fund financial statements. In the government-wide financial statements, fixed assets with initial individual costs of more than \$1,000 (amounts not rounded) and an estimated useful life in excess of one year are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Historical cost was used to value the majority of the assets.

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

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net 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.

City of Mountain Brook, Alabama

Notes to Financial Statements

X. Management estimates

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

Y. Subsequent events

The City has evaluated subsequent events through the date these financial statements were available to be issued.

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

At September 30, 2013, the City had the following cash and investments and maturities:

	Investment Maturity in Years			
	Fair Value	Less Than 1	1 - 2	3 - 5
Cash on-hand	\$ 2,760	\$ 2,760	\$ 0	\$ 0
Bank deposits	10,519,374	10,519,374	0	0
Investments:				
Cash and money market accounts	130,115	130,115	0	0
Certificates of deposit	17,660,931	6,519,706	9,426,773	1,714,452
U. S. Treasury bonds/notes	400	400	0	0
576 shares VMC common stock (donated)	29,843	0	0	29,843
Total portfolio	\$28,343,423	\$17,172,355	\$ 9,426,773	\$ 1,744,295

At September 30, 2013, the discretely presented component unit had the following cash and investments and maturities:

	Investment Maturity in Years			
	Fair Value	Less Than 1	1 - 2	3 - 5
Bank deposits	\$ 74,020	\$ 74,020	\$ 0	\$ 0
Money market	252,024	252,024	0	0
Mutual funds	2,648,622	2,648,622	0	0
Total portfolio	\$ 2,974,666	\$ 2,974,666	\$ 0	\$ 0

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy restricts General Fund investments to those with maturities of two years or less and Capital Project and Debt Service Fund investments to those with maturities of five years or less. Cash and investment maturities (excluding the discretely presented component unit) as of September 30, 2013, were as follows:

<u>Maturity</u>	<u>Portion of Portfolio</u>
Less than one year	60.59%
1 - 2 years	33.26%
3 - 5 years	6.15%
	<u>100.00%</u>

Credit Risk. Act No. 2000-748 of the Code of Alabama requires that all public deposits held in banks be secured by collateral pledged to the Security for Alabama Funds Enhancement (SAFE) collateral pool established in the Office of the State Treasurer. The City's policy is to deposit funds only in financial institutions that are qualified public depositories of the State of Alabama SAFE program. All of the City's bank deposits are either insured by Federal Depository Insurance (FDIC) or collateralized in accordance with Act 2000-748. Neither the City or Foundation had uninsured bank deposits at September 30, 2013.

City of Mountain Brook, Alabama

Notes to Financial Statements

The City's investment policy allows for up to 100% of the portfolio to be invested in direct obligations of the U.S. government or federal agencies thereof in accordance with Sec. 11-81-19 and 11-81-21 of the Code of Alabama. At September 30, 2013, the City had invested \$17.7 million in certificates of deposit and \$400 in direct obligations of the U. S. Treasury. Of the City's \$17.7 million investment in certificates of deposit, the City had one instance where it had invested more than \$250,000 with a financial institution located outside of the State of Alabama. As a result, the City had \$48,000 of uninsured certificates of deposit at September 30, 2013. Following is a summary of the City's top holdings in its cash and investment portfolio:

Description/Creditor	Fair Value	Portion of Portfolio
Iberia Bank (cash deposit accounts)	\$ 8,935,095	31.52%
Regions Bank (cash deposit accounts)	1,584,279	5.59%
Morgan Stanley (cash, deposits, money market funds)	130,115	0.46%
All other (cash on-hand, U.S. Treasuries, and common stock)	33,003	0.12%
Various financial institutions - certificates of deposit	17,660,931	62.31%
	<u>\$28,343,423</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:

Description	CUSIP	Fair Value	Portion of Portfolio
Bank demand deposit accounts		\$ 74,020	2.49%
Prime Money Market Fund		252,024	8.47%
Chase Growth Fund (27,343.905 shares)	CHASX	431,487	14.51%
Dodge & Cox International Stock (8,796.119 shares)	DODFX	356,946	12.00%
Lionleaf Partner Family Value Tr #133 (13,605.228 shares)	LLPFX	432,238	14.53%
PIMCO All Asset Fund Institutional Class (42,929.163 shares)	PAAIX	524,594	17.64%
PIMCO Low Duration Fund Institutional Class (31,678.827 shares)	PTLDX	326,292	10.97%
Vanguard Convert Securities (40,241.617 shares)	VCV SX	577,065	19.39%
		<u>\$ 2,974,666</u>	<u>100.00%</u>

Custodial Risk. For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investments in certificates of deposit and U. S. Treasury Notes are held in trust by the City's custodians in the name of the custodian. The discretely presented component unit's investments are held in book entry form and in trust by its custodian in the name of the custodian.

3. **Receivables**

Receivables at September 30, consisted of the following:

	2013				2012 Total
	General Fund	Capital Projects	Other Governmental Funds	Total	
Taxes	\$ 1,732,309	\$ 0	\$ 34,442	\$ 1,766,751	\$ 1,755,747
E-911 surcharge	0	0	11,928	11,928	35,823
Board of Education	84,547	0	0	84,547	85,613
Grants	13,118	304,134	0	317,252	150,349
Other	95,967	32,074	0	128,041	93,740
Totals	<u>\$ 1,925,941</u>	<u>\$ 336,208</u>	<u>\$ 46,370</u>	<u>\$ 2,308,519</u>	<u>\$ 2,121,272</u>

City of Mountain Brook, Alabama

Notes to Financial Statements

The City loaned the Mountain Brook Sports Park Foundation (MBSPF), a nonprofit organization established to raise funds for the exclusive benefit of Mountain Brook Soccer Club, \$500,000 for their initial (2005) construction of athletic playing fields and \$62,500 for their (2009) construction of a concession/restroom facility at the fields (Note 1.B.). The terms of the loan were renegotiated in May 2011. The loan is to be repaid in sixty (60) monthly installments of \$7,061 including interest at 4% beginning in June 2011. The outstanding balance reported in the statement of net position at September 30, 2013 and 2012 totaled \$213,980 and \$288,528, respectively. The current portion reported at September 30, 2013 and 2012 was \$77,585 and \$74,548, respectively. The City collected interest totaling \$10,184 in 2013 and \$13,103 in 2012.

4. Capital assets

Following is a summary of the changes in the City's capital assets for the year ended September 30, 2013:

	Balance at September 30, 2012	Additions	Disposals/ Retirements/ Completed	Balance at September 30, 2013
Capital assets, not being depreciated:				
Land	\$ 18,698,005	\$ 0	\$ 0	\$ 18,698,005
Construction in progress	15,976,721	10,539,226	(23,790,386)	2,725,561
Total capital assets, not being depreciated	34,674,726	10,539,226	(23,790,386)	21,423,566
Capital assets, being depreciated:				
Land improvements	3,039,881	0	0	3,039,881
Buildings and improvements	10,461,674	78,181	23,516,369	34,056,224
Machinery and equipment	19,556,391	1,885,512	(371,165)	21,070,738
Infrastructure	54,403,129	368,387	(176,230)	54,595,286
Total capital assets, being depreciated	87,461,075	2,332,080	22,968,974	112,762,129
Less accumulated depreciated for:				
Land improvements	353,808	25,789	0	379,597
Buildings and improvements	3,061,532	682,708	0	3,744,240
Machinery and equipment	14,197,541	1,551,590	(618,045)	15,131,086
Infrastructure	30,601,086	2,272,667	(176,230)	32,697,523
Total accumulated depreciation	48,213,967	4,532,754	(794,275)	51,952,446
Total capital assets, being depreciated, net	39,247,108	(2,200,674)	23,763,249	60,809,683
Governmental activities capital assets, net	\$ 73,921,834	\$ 8,338,552	\$ (27,137)	\$ 82,233,249

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

	2013	2012
Governmental activities:		
General government	\$ 144,200	\$ 39,457
Public safety	1,221,470	884,739
Street and sanitation	1,873,655	1,897,927
Recreational	686,142	640,412
Library	607,287	549,292
Total depreciation expense	\$ 4,532,754	\$ 4,011,827

City of Mountain Brook, Alabama

Notes to Financial Statements

5. Long-term debt

Long-term debt outstanding as of September 30, 2013, consisted of the following:

	Balance
\$5,000,000 General Obligation Warrants, Series 2007 dated October 1, 2007 maturing annually on October 1 through the year 2027 plus interest payable on April 1 and October 1 at rate rates ranging from 3.875% to 4.0% (Note 9)	<u>\$ 4,090,000</u>
Total	<u>\$ 4,090,000</u>

The total interest paid by the City during the years ended September 30, 2013 and 2012 relative to general obligation warrants was \$163,141 and \$170,600, 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, 2013 and 2012 was \$159,363 and \$166,919, respectively.

Following is a summary of long-term debt principal transactions for the year ended September 30, 2013:

General obligation warrant balances at October 1, 2012	\$ 4,285,000
Principal payments:	
\$5,000,000 General Obligation Warrants, Series 2007	(195,000)
General obligation warrant balances at September 30, 2013	<u>\$ 4,090,000</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>
2014	\$ 205,000	\$ 155,391	\$ 360,391
2015	210,000	147,350	357,350
2016	220,000	139,019	359,019
2017	230,000	130,300	360,300
2018	240,000	121,194	361,194
Thereafter	2,985,000	625,653	3,610,653
Totals	<u>\$ 4,090,000</u>	<u>\$ 1,318,907</u>	<u>\$ 5,408,907</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, 2013 was 9.65% and 9.57% of covered compensation for tier 1 and tier 2 employees, respectively.

For the year ended September 30, 2013, the City's total compensation was approximately \$14.2 million and the City's total covered compensation used to determine the City's pension contribution was approximately \$13.8 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

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

City of Mountain Brook, Alabama

Notes to Financial Statements

C. Trend information

Following is the trend information from the most recent actuarial valuation dated September 30, 2012:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension (Asset) Obligation</u>
1999	\$ 730,197	100.0%	\$ 0
2000	827,411	100.0%	0
2001	858,468	290.2%	(2,000,000)
2002	881,673	116.7%	(2,150,178)
2003	812,825	102.8%	(2,172,874)
2004	972,887	102.4%	(2,195,810)
2005	1,156,963	100.0%	(2,196,231)
2006	1,210,300	678.4%	(9,196,651)
2007	1,221,176	108.0%	(9,294,170)
2008	911,587	142.5%	(9,681,799)
2009	1,023,066	108.9%	(9,784,928)
2010	830,796	131.9%	(10,043,061)
2011	1,000,454	126.7%	(10,310,876)
2012	814,709	127.3%	(10,495,319)

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

D. Funding progress

Following is the schedule of funding progress obtained from most recent actuarial valuation prepared as of September 30, 2012:

<u>Actuarial Valuation Date September 30</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial 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>
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%

City of Mountain Brook, Alabama

Notes to Financial Statements

E. Additional information

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

Valuation date	September 30, 2012
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	216
Number of retired members and beneficiaries	93
Annual retirement allowances	\$ 3,438,573

7. Post-employment benefits

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

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

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

Fund Policy. Until 2006, the City of Mountain Brook recognized the cost of providing post-employment medical benefits (the City of Mountain Brook's portion of the retiree medical benefit premiums) as an expense when the benefit premiums were due and thus financed the cost of the post-employment benefits on a pay-as-you-go basis. In 2013 and 2012, the City of Mountain Brook's portion of health care funding cost for retired employees totaled \$350,923 and \$354,828, 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:

City of Mountain Brook, Alabama

Notes to Financial Statements

	<u>2013</u>	<u>2012</u>
Normal Cost	\$ 106,399	\$ 99,532
30-year UAL amortization amount	<u>144,468</u>	<u>175,452</u>
Annual required contribution (ARC)	<u>\$ 250,867</u>	<u>\$ 274,984</u>

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

	<u>2013</u>	<u>2012</u>
Beginning Net OPEB Obligation (Asset)	\$ (1,035,347)	\$ (667,403)
Annual required contribution	250,867	274,984
Interest on Net OPEB Obligation (Asset)	(41,414)	(26,696)
ARC Adjustment	<u>59,874</u>	<u>38,596</u>
OPEB Cost	269,327	286,884
Contribution	(320,000)	(300,000)
Current year retiree premium	<u>(350,923)</u>	<u>(354,828)</u>
Change in Net OPEB Obligation	<u>(401,596)</u>	<u>(367,944)</u>
Ending Net OPEB Obligation (Asset)	<u>\$ (1,436,943)</u>	<u>\$ (1,035,347)</u>

The following table shows the City of Mountain Brook's annual post employment benefits (PEB) cost, percentage of the cost contributed, and the net unfunded post employment benefits (PEB) liability for last 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	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)
Medical/Dental	2009	241,244	117.00%	(129,706)

Funded Status and Funding Progress. In the fiscal year ending September 30, 2013 and 2012, the City of Mountain Brook contributed \$320,000 and \$300,000, 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 \$1,260,448 and \$925,335 as of September 30, 2013 and 2012, respectively. Based on the October 1, 2012 actuarial valuation, the most recent valuation, the Actuarial Accrued Liability (AAL) at the end of the year September 30, 2013 was \$3,560,421 which is defined as that portion, as determined by a particular actuarial cost method (the City of Mountain Brook uses the Projected Unit Credit Cost Method), of the actuarial present value of post employment plan benefits and expenses which is not provided by normal cost.

City of Mountain Brook, Alabama

Notes to Financial Statements

	<u>2013</u>	<u>2012</u>
Actuarial Accrued Liability (AAL)	\$ 3,560,421	\$ 3,155,271
Actuarial Value of Plan Assets	<u>1,260,448</u>	<u>925,335</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 2,299,973</u>	<u>\$ 2,636,156</u>
Funded Ratio (Actuarial Value of Assets/AAL)	<u>35.40%</u>	<u>29.33%</u>
Covered Payroll (active plan members)	<u>\$13,750,308</u>	<u>\$12,995,796</u>
UAAL as a percentage of covered payroll	<u>16.73%</u>	<u>17.16%</u>

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

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

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

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.

City of Mountain Brook, Alabama

Notes to Financial Statements

Health Care Cost Trend Rate. The expected rate of increase in medical cost is based on 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.

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>2011</u>	<u>2012</u>	<u>2013</u>
OPEB Costs	\$ 262,390	\$ 286,884	\$ 269,327
Contributions	200,000	300,000	320,000
Retiree premium	<u>364,016</u>	<u>354,828</u>	<u>350,923</u>
Total contribution and premium	<u>564,016</u>	<u>654,828</u>	<u>670,923</u>
Change in net OPEB obligation	<u>\$ (301,626)</u>	<u>\$ (367,944)</u>	<u>\$ (401,596)</u>
Ratio of contributions to cost	<u>76.22%</u>	<u>104.57%</u>	<u>118.81%</u>
Ratio of contributions plus premium to cost	<u>214.95%</u>	<u>228.26%</u>	<u>249.11%</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 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Property tax commissions	\$ 196,534	\$ 197,347
Maintenance of maps and appraisals	206,473	219,780
Jefferson County Health Department	113,620	112,401
Birmingham-Jefferson County Transit Authority	75,012	76,732
Personnel Board of Jefferson County	171,855	190,534
Birmingham Regional Planning Commission	12,350	12,350

City of Mountain Brook, Alabama

Notes to Financial Statements

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

The City has arranged for an independent contractor, Waste Management Company, Inc., to provide for the collection and disposal of refuse and recyclable materials. The base rates for this service for the year ended September 30, 2013, were \$29.79 per month for single and multiple family residential units and \$35.47 per month for commercial units. The annual cost incurred under this agreement for the years ended September 30, 2013 and 2012, was approximately \$2,723,000 and \$2,683,400, respectively. Total garbage service fee revenues collected by the City from its commercial customers during the years ended September 30, 2013 and 2012 were \$35,589 and \$39,235, respectively.

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

In connection with the Consortium's purchase of the property and adoption of restrictive covenants, the City of Birmingham (Birmingham) agreed to lease the adjoining zoo property to Birmingham Zoo, Inc. (BZI), a newly formed non-profit private corporation, for a period twenty-five (25) years with two, twenty-five year renewal options. In consideration of Birmingham's agreement to subsidize the operations of BZI and its commitment to leave the zoo at its present location, the Consortium agreed to pay Birmingham annual installments of \$300,000 commencing in fiscal year 1999 for a period of 9-1/2 years. The City fulfilled its financial commitment under the purchase agreement in 2008. In 2010, the City entered into a service agreement with Birmingham Zoo, Inc. that provides for annual consideration in the amount of \$75,000 through June 2012. In November 2013, the service agreement was extended under the same terms through June 2014.

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 and totaled \$1,017,710 as of September 30, 2012. Amounts reported as a current liability in the Statement of Net Position as of September 30, 2013 and 2012 totaled \$0 and \$1,016,000, respectively. The City paid \$1,017,710 and \$1,016,307 under the terms of the development agreement during the years ended September 30, 2013 and 2012, respectively.

The City has entered into another development agreement with a real estate developer constructing a small shopping center whose principal tenant is a grocery store. Under the terms of the development agreement, the City agreed to pay the developer the sum of \$687,500 for the purpose of promoting economic development within the City as provided by Amendment No. 772 adopted by the Alabama Legislature. In addition, the City agreed to abate the City's portion of property taxes for a period of fifteen (15) years provided the annual retail sales equal or exceed \$5 million. The real estate tax abatement commitment ends in fiscal year 2021. The City's \$687,500 development agreement commitment was paid from 50% of the sales tax generated by the stores in the development. The City's development agreement obligation was satisfied during the fiscal year ended September 30, 2012 in the amount of \$102,159.

City of Mountain Brook, Alabama

Notes to Financial Statements

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

	<u>2013</u>	<u>2012</u>
Public buildings	\$ 0	\$13,857,382
Sidewalks	2,414,681	2,004,944
Drainage projects	21,802	21,802
Park improvements	<u>289,078</u>	<u>92,593</u>
Total	<u>\$ 2,725,561</u>	<u>\$15,976,721</u>

The public buildings included the razing and reconstruction of a new municipal complex. The municipal complex was completed in April 2013 at a total cost of \$23.5 million.

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, 2013:

<u>Project Description</u>	<u>Contract Commitment and Anticipated Overruns</u>	<u>Expended in Fiscal 2013 ⁽¹⁾</u>	<u>Federal Awards Reported in 2013</u>	<u>Estimated Cost to Complete</u>	<u>Anticipated Completion Date</u>
Mountain Brook Village Walkway System, Phase 6 - CMAQ-9802(921)	\$ 2,689,868	\$ 605,288	\$ 478,588	\$ 456,000	January 2014
Safe Routes to Schools, Mountain Brook Elementary and Crestline Elementary Schools - SRTS-SR09 (903) and (904)	838,987	34,404	12,422	805,000	May 2014
Mountain Brook Village Walkway System, Phase 9 along Brookwood Road, Crosshill Road, and Oakdale Drive CMAQ-PE12() - Design only ⁽²⁾	196,849	5,945	4,756	191,000	February 2014

(1) The amounts expended in fiscal 2013 include projected-related expenditures not eligible for federal reimbursement.

(2) Project has been approved by ALDOT but not under [construction] contract as of September 30, 2013. 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>2013</u>	<u>2012</u>
Assessed value of taxable real and personal property as provided by the Jefferson County Tax Assessor	<u>\$533,517,820</u>	<u>\$523,923,088</u>
Constitutional debt limit, 20 percent of assessed value	\$106,703,564	\$104,784,618
Outstanding long-term debt as of September 30	<u>4,090,000</u>	<u>4,285,000</u>
Legal Debt Margin	<u>\$102,613,564</u>	<u>\$100,499,618</u>

City of Mountain Brook, Alabama

Notes to Financial Statements

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.

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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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Taxes	\$ 26,621,313	\$ 26,621,313	\$ 27,187,309	\$ 565,996
Licenses and permits	3,728,500	3,845,809	4,296,693	450,884
Intergovernmental	89,707	89,707	84,547	(5,160)
Charges for services	657,921	743,241	728,997	(14,244)
Fines and forfeitures	498,940	498,940	559,465	60,525
Grants	12,062	12,062	15,755	3,693
Other operating revenues	<u>419,437</u>	<u>419,437</u>	<u>577,654</u>	<u>158,217</u>
Total revenues	<u>32,027,880</u>	<u>32,230,509</u>	<u>33,450,420</u>	<u>1,219,911</u>
Expenditures:				
Current (operating):				
General government	5,251,220	5,251,220	5,067,000	184,220
Public safety	13,147,833	13,147,833	12,884,029	263,804
Street and sanitation	6,319,859	6,319,859	6,109,529	210,330
Recreational	1,186,884	1,186,884	1,112,903	73,981
Library	<u>2,729,573</u>	<u>2,746,882</u>	<u>2,677,231</u>	<u>69,651</u>
Total expenditures	<u>28,635,369</u>	<u>28,652,678</u>	<u>27,850,692</u>	<u>801,986</u>
Excess of revenues over expenditures	<u>3,392,511</u>	<u>3,577,831</u>	<u>5,599,728</u>	<u>2,021,897</u>
Other financing sources (uses):				
Operating transfers in	40,315	0	0	0
Operating transfers (out)	(3,075,184)	(3,034,869)	(4,624,661)	(1,589,792)
Operating transfers in - component unit	43,000	43,000	20,885	(22,115)
Donations	<u>109,570</u>	<u>24,250</u>	<u>87,305</u>	<u>63,055</u>
Total other financing sources (uses)	<u>(2,882,299)</u>	<u>(2,967,619)</u>	<u>(4,516,471)</u>	<u>(1,548,852)</u>
Excess of revenues and other financing sources over expenditures and other financing uses	510,212	610,212	1,083,257	473,045
Fund balances, beginning of year	<u>10,978,012</u>	<u>10,978,012</u>	<u>10,978,012</u>	<u>0</u>
FUND BALANCES, END OF YEAR	<u>\$ 11,488,224</u>	<u>\$ 11,588,224</u>	<u>\$ 12,061,269</u>	<u>\$ 473,045</u>

City of Mountain Brook, Alabama

Notes to Required Supplementary Information

1. Summary of significant accounting policies

A. Budgets and budgetary accounting

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

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

Budget information presented in the financial statements is based on the budget as adopted by the City Council on September 24, 2012 (Resolution No. 2012-152) and subsequently revised on May 28, 2013 (Ordinance No. 1890).

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SUPPLEMENTARY INFORMATION

City of Mountain Brook, Alabama

Combining Balance Sheet
Other Governmental Funds
September 30, 2013

	State Shared Gasoline Tax Funds			
	Seven Cent	Four Cent	Five Cent	Two Cent
ASSETS				
Cash and temporary investments	\$ 577,517	\$ 199,039	\$ 142,919	\$ 26,919
Receivables	18,463	10,704	5,275	0
TOTAL ASSETS	\$ 595,980	\$ 209,743	\$ 148,194	\$ 26,919
LIABILITIES				
Accounts payable	\$ 0	\$ 0	\$ 0	\$ 0
Total liabilities	0	0	0	0
FUND EQUITY				
Fund balance	595,980	209,743	148,194	26,919
Total fund equity	595,980	209,743	148,194	26,919
TOTAL LIABILITIES AND FUND EQUITY	\$ 595,980	\$ 209,743	\$ 148,194	\$ 26,919

<u>Emergency Communication District</u>	<u>Corrections Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
\$ 458,352	\$ 5,238	\$ 3,375,296	\$ 4,785,280
<u>11,928</u>	<u>0</u>	<u>0</u>	<u>46,370</u>
<u>\$ 470,280</u>	<u>\$ 5,238</u>	<u>\$ 3,375,296</u>	<u>\$ 4,831,650</u>
\$ 7,900	\$ 5,238	\$ 0	\$ 13,138
<u>7,900</u>	<u>5,238</u>	<u>0</u>	<u>13,138</u>
<u>462,380</u>	<u>0</u>	<u>3,375,296</u>	<u>4,818,512</u>
<u>462,380</u>	<u>0</u>	<u>3,375,296</u>	<u>4,818,512</u>
<u>\$ 470,280</u>	<u>\$ 5,238</u>	<u>\$ 3,375,296</u>	<u>\$ 4,831,650</u>

City of Mountain Brook, Alabama

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances – Other Governmental Funds
Year Ended September 30, 2013**

	<u>State Shared Gasoline Tax Funds</u>			
	<u>Seven Cent</u>	<u>Four Cent</u>	<u>Five Cent</u>	<u>Two Cent</u>
Revenues:				
Taxes	\$ 190,258	\$ 119,502	\$ 58,212	\$ 4,562
Charges for services	0	0	0	0
Fines and forfeitures	0	0	0	0
Other operating revenues:				
Investment earnings	<u>462,556</u>	<u>1,443</u>	<u>571</u>	<u>87</u>
Total revenues	<u>652,814</u>	<u>120,945</u>	<u>58,783</u>	<u>4,649</u>
Expenditures:				
General government	0	0	0	0
Public safety	0	0	0	0
Street and sanitation	380,206	300,204	55,968	204
Recreational	0	0	0	0
Debt service:				
Principal	0	0	0	0
Interest	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total expenditures	<u>380,206</u>	<u>300,204</u>	<u>55,968</u>	<u>204</u>
Excess (deficiency) of revenues over expenditures	<u>272,608</u>	<u>(179,259)</u>	<u>2,815</u>	<u>4,445</u>
Other financing sources (uses):				
Operating transfers in	<u>100,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total other financing sources (uses)	<u>100,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	372,608	(179,259)	2,815	4,445
Fund balances, beginning of year	<u>223,372</u>	<u>389,002</u>	<u>145,379</u>	<u>22,474</u>
FUND BALANCES, END OF YEAR	<u>\$ 595,980</u>	<u>\$ 209,743</u>	<u>\$ 148,194</u>	<u>\$ 26,919</u>

Emergency Communication District	Corrections Fund	Debt Service Fund	Totals Fund
\$ 0	\$ 0	\$ 0	\$ 372,534
313,297	0	0	313,297
2,359	175,426	0	177,785
<u>1,665</u>	<u>0</u>	<u>24,406</u>	<u>490,728</u>
<u>317,321</u>	<u>175,426</u>	<u>24,406</u>	<u>1,354,344</u>
0	215,108	788	215,896
362,542	92,715	0	455,257
0	0	0	736,582
0	0	0	0
0	0	195,000	195,000
<u>0</u>	<u>0</u>	<u>163,141</u>	<u>163,141</u>
<u>362,542</u>	<u>307,823</u>	<u>358,929</u>	<u>1,765,876</u>
<u>(45,221)</u>	<u>(132,397)</u>	<u>(334,523)</u>	<u>(411,532)</u>
<u>0</u>	<u>132,397</u>	<u>658,141</u>	<u>890,538</u>
<u>0</u>	<u>132,397</u>	<u>658,141</u>	<u>890,538</u>
(45,221)	0	323,618	479,006
<u>507,601</u>	<u>0</u>	<u>3,051,678</u>	<u>4,339,506</u>
<u>\$ 462,380</u>	<u>\$ 0</u>	<u>\$ 3,375,296</u>	<u>\$ 4,818,512</u>

City of Mountain Brook, Alabama

**Combining Balance Sheet – Capital Projects Funds
September 30, 2013**

	<u>City Capital Projects</u>	<u>Village Improvement Projects</u>	<u>Village Trail System Projects</u>	<u>Totals</u>
ASSETS				
Cash and temporary investments	\$ 7,020,152	\$ 3,289,519	\$ 564,747	\$ 10,874,418
Receivables	32,074	0	304,134	336,208
TOTAL ASSETS	<u>\$ 7,052,226</u>	<u>\$ 3,289,519</u>	<u>\$ 868,881</u>	<u>\$ 11,210,626</u>
LIABILITIES				
Accounts payable	<u>\$ 299,390</u>	<u>\$ 13,515</u>	<u>\$ 390,801</u>	<u>\$ 703,706</u>
TOTAL LIABILITIES	<u>299,390</u>	<u>13,515</u>	<u>390,801</u>	<u>703,706</u>
FUND BALANCE				
Fund balance	<u>6,752,836</u>	<u>3,276,004</u>	<u>478,080</u>	<u>10,506,920</u>
TOTAL FUND BALANCE	<u>6,752,836</u>	<u>3,276,004</u>	<u>478,080</u>	<u>10,506,920</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 7,052,226</u>	<u>\$ 3,289,519</u>	<u>\$ 868,881</u>	<u>\$ 11,210,626</u>

City of Mountain Brook, Alabama

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances – Capital Projects Funds
Year Ended September 30, 2013**

	<u>City Capital Projects</u>	<u>Village Improvement Projects</u>	<u>Village Trail System Projects</u>	<u>Totals</u>
Revenues:				
Grants	\$ 3,123	\$ 0	\$ 495,766	\$ 498,889
Other operating revenues:				
Investment earnings	101,510	16,281	2,481	120,272
Miscellaneous	<u>130,789</u>	<u>0</u>	<u>0</u>	<u>130,789</u>
Total revenues	<u>235,422</u>	<u>16,281</u>	<u>498,247</u>	<u>749,950</u>
Expenditures:				
General government	9,919,627	0	0	9,919,627
Public safety	1,383,880	0	0	1,383,880
Street and sanitation	470,106	109,283	789,480	1,368,869
Recreational	30,648	28,459	0	59,107
Library	<u>13,715</u>	<u>0</u>	<u>0</u>	<u>13,715</u>
Total expenditures	<u>11,817,976</u>	<u>137,742</u>	<u>789,480</u>	<u>12,745,198</u>
Excess (deficiency) of revenues over expenditures	<u>(11,582,554)</u>	<u>(121,461)</u>	<u>(291,233)</u>	<u>(11,995,248)</u>
Other financing sources (uses):				
Operating transfers in	5,734,923	(1,642,659)	0	4,092,264
Operating transfers (out)	0	(358,141)	0	(358,141)
Donations	<u>275,000</u>	<u>1,500</u>	<u>0</u>	<u>276,500</u>
Total other financing sources (uses)	<u>6,009,923</u>	<u>(1,999,300)</u>	<u>0</u>	<u>4,010,623</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>(5,572,631)</u>	<u>(2,120,761)</u>	<u>(291,233)</u>	<u>(7,984,625)</u>
Fund balances, beginning of year	<u>12,325,467</u>	<u>5,396,765</u>	<u>769,313</u>	<u>18,491,545</u>
FUND BALANCES, END OF YEAR	<u>\$ 6,752,836</u>	<u>\$ 3,276,004</u>	<u>\$ 478,080</u>	<u>\$ 10,506,920</u>

City of Mountain Brook, Alabama

**Schedule of General Fund Revenues by Source
For the Years Ended September 30, 2004 through 2013**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Taxes				
Real property	\$ 10,244,362	\$ 11,094,902	\$ 11,976,292	\$ 13,181,868
Sales and use	6,086,944	6,534,289	7,033,452	7,829,375
Occupational	929,454	939,127	248,283	1,475
Utility	953,228	992,143	1,088,234	1,266,253
Personal property (automobiles)	1,076,449	1,108,807	1,131,386	1,139,952
Road and bridge	425,985	460,216	497,326	543,682
Other	<u>1,072,439</u>	<u>1,053,130</u>	<u>1,316,806</u>	<u>1,275,315</u>
Total taxes	20,788,861	22,182,614	23,291,779	25,237,920
Licenses and permits				
Business	1,647,641	1,756,226	1,729,727	1,872,058
Construction permits	667,971	519,277	893,161	851,266
Cable TV franchise fees	245,986	257,695	282,379	300,204
Waterworks Board	115,220	123,202	137,964	161,961
Other	<u>55,717</u>	<u>55,535</u>	<u>60,966</u>	<u>60,985</u>
Total licenses and permits	2,732,535	2,711,935	3,104,197	3,246,474
Intergovernmental	40,430	41,736	50,517	40,544
Charges for services				
Garbage fees	1,526,500	1,573,788	1,604,281	462,747
Other	<u>481,656</u>	<u>486,567</u>	<u>486,385</u>	<u>517,251</u>
Total charges for services	2,008,156	2,060,355	2,090,666	979,998
Fines and forfeitures - court	496,457	587,397	623,579	597,961
Grants	172,338	1,907,290	73,278	51,434
Other operating revenue				
Investment earnings	126,245	141,783	235,866	653,609
Other	<u>241,746</u>	<u>247,971</u>	<u>325,757</u>	<u>161,303</u>
Total other operating revenue	<u>367,991</u>	<u>389,754</u>	<u>561,623</u>	<u>814,912</u>
TOTAL REVENUES	<u>\$ 26,606,768</u>	<u>\$ 29,881,081</u>	<u>\$ 29,795,639</u>	<u>\$ 30,969,243</u>

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$ 13,919,181	\$ 14,592,638	\$ 14,322,580	\$ 13,890,843	\$ 13,873,635	\$ 13,512,485
8,412,007	7,666,594	7,854,903	8,476,522	9,112,494	9,578,337
0	0	0	0	0	0
1,336,420	1,413,759	1,450,440	1,460,206	1,365,487	1,284,421
1,130,239	1,022,666	1,047,869	1,079,079	1,152,424	1,208,485
572,272	596,000	590,899	572,584	575,000	565,066
985,588	1,075,676	1,016,068	903,688	1,030,680	1,038,515
<u>26,355,707</u>	<u>26,367,333</u>	<u>26,282,759</u>	<u>26,382,922</u>	<u>27,109,720</u>	<u>27,187,309</u>
1,994,039	1,998,980	2,130,822	2,165,612	2,223,912	2,492,623
1,036,354	634,059	624,309	753,444	800,820	1,100,204
323,082	328,641	347,757	352,964	391,701	424,912
167,341	157,794	159,242	207,939	216,090	216,839
63,382	57,966	64,720	60,310	61,928	62,115
<u>3,584,198</u>	<u>3,177,440</u>	<u>3,326,850</u>	<u>3,540,269</u>	<u>3,694,451</u>	<u>4,296,693</u>
149,710	84,723	82,826	84,874	85,613	84,547
71,252	39,094	34,062	32,436	39,235	35,589
<u>498,576</u>	<u>486,785</u>	<u>591,636</u>	<u>619,716</u>	<u>714,561</u>	<u>693,408</u>
569,828	525,879	625,698	652,152	753,796	728,997
470,020	443,400	514,542	529,522	446,682	559,465
37,355	50,799	19,708	282,423	12,062	15,755
428,304	271,788	207,214	131,706	199,151	138,162
<u>230,717</u>	<u>371,526</u>	<u>254,173</u>	<u>300,657</u>	<u>278,880</u>	<u>439,492</u>
659,021	643,314	461,387	432,363	478,031	577,654
<u>\$ 31,825,839</u>	<u>\$ 31,292,888</u>	<u>\$ 31,313,770</u>	<u>\$ 31,904,525</u>	<u>\$ 32,580,355</u>	<u>\$ 33,450,420</u>

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

	2013	2012
ASSETS		
Cash and temporary investments	\$ 12,471,922	\$ 11,406,361
Cash and temporary investments - restricted	211,803	179,551
Receivables	1,841,394	1,844,064
Due from related organizations	84,547	85,613
Inventory and prepaid expenses	144,431	119,313
TOTAL ASSETS	\$ 14,754,097	\$ 13,634,902
 LIABILITIES		
Accounts payable	\$ 923,065	\$ 861,707
Accrued salaries and wages	712,405	635,899
Due to related organizations	58,967	54,710
Other liabilities	998,391	1,104,574
TOTAL LIABILITIES	2,692,828	2,656,890
 Pension obligation (see Note 6)		
FUND BALANCES		
Nonspendable	144,431	119,313
Restricted	0	0
Committed	53,934	53,696
Assigned	2,409,112	2,275,673
Unassigned	9,453,792	8,529,330
FUND BALANCES	12,061,269	10,978,012
TOTAL LIABILITIES AND FUND BALANCES	\$ 14,754,097	\$ 13,634,902

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

	<u>2013</u>	<u>2012</u>
Revenues:		
Taxes	\$ 27,187,309	\$ 27,109,720
Licenses and permits	4,296,693	3,694,451
Intergovernmental	84,547	85,613
Charges for services	728,997	753,796
Fines and forfeitures	559,465	446,682
Grants	15,755	12,062
Other operating revenues	<u>577,654</u>	<u>478,031</u>
Total revenues	<u>33,450,420</u>	<u>32,580,355</u>
Expenditures:		
Current (operating):		
General government	5,067,000	5,305,752
Public safety	12,884,029	12,271,377
Street and sanitation	6,109,529	5,996,599
Recreational	1,112,903	1,173,043
Library	<u>2,677,231</u>	<u>2,617,671</u>
Total expenditures	<u>27,850,692</u>	<u>27,364,442</u>
Excess (deficiency) of revenues over expenditures	<u>5,599,728</u>	<u>5,215,913</u>
Other financing sources (uses):		
Operating transfers in	0	0
Operating transfers (out)	(4,624,661)	(4,337,088)
Operating transfers in - component unit	20,885	53,817
Donations	<u>87,305</u>	<u>72,261</u>
Total other financing sources (uses)	<u>(4,516,471)</u>	<u>(4,211,010)</u>
Excess of revenues and other financing sources over expenditures and other financing uses	1,083,257	1,004,903
Fund balances, beginning of year	<u>10,978,012</u>	<u>9,973,109</u>
FUND BALANCES, END OF YEAR	<u>\$ 12,061,269</u>	<u>\$ 10,978,012</u>

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

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and temporary investments	\$ 10,874,418	\$ 19,389,427
Receivables	<u>336,208</u>	<u>121,707</u>
TOTAL ASSETS	<u>\$ 11,210,626</u>	<u>\$ 19,511,134</u>
 LIABILITIES		
Accounts payable	<u>\$ 703,706</u>	<u>\$ 1,019,589</u>
TOTAL LIABILITIES	<u>703,706</u>	<u>1,019,589</u>
Pension obligation (see Note 6)		
 FUND BALANCES		
Committed	<u>10,506,920</u>	<u>18,491,545</u>
FUND BALANCES	<u>10,506,920</u>	<u>18,491,545</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 11,210,626</u>	<u>\$ 19,511,134</u>

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

	<u>2013</u>	<u>2012</u>
Revenues:		
Grants	\$ 498,889	\$ 1,021,656
Other operating revenues	<u>251,061</u>	<u>472,834</u>
Total revenues	<u>749,950</u>	<u>1,494,490</u>
Expenditures:		
Current (operating):		
General government	9,919,627	7,414,753
Public safety	1,383,880	747,469
Street and sanitation	1,368,869	1,872,401
Recreational	59,107	146,343
Library	<u>13,715</u>	<u>43,833</u>
Total expenditures	<u>12,745,198</u>	<u>10,224,799</u>
Excess (deficiency) of revenues over expenditures	<u>(11,995,248)</u>	<u>(8,730,309)</u>
Other financing sources (uses):		
Operating transfers in	4,092,264	3,862,723
Operating transfers (out)	(358,141)	(360,600)
Operating transfers in - component unit	0	0
Donations	<u>276,500</u>	<u>0</u>
Total other financing sources (uses)	<u>4,010,623</u>	<u>3,502,123</u>
Excess of revenues and other financing sources over expenditures and other financing uses	(7,984,625)	(5,228,186)
Fund balances, beginning of year	<u>18,491,545</u>	<u>23,719,731</u>
FUND BALANCES, END OF YEAR	<u>\$ 10,506,920</u>	<u>\$ 18,491,545</u>

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

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and temporary investments	\$ <u>3,375,296</u>	\$ <u>3,051,678</u>
TOTAL ASSETS	<u>\$ 3,375,296</u>	<u>\$ 3,051,678</u>
 LIABILITIES	 \$ <u>0</u>	 \$ <u>0</u>
 FUND BALANCES		
Assigned	<u>3,375,296</u>	<u>3,051,678</u>
FUND BALANCES	<u>3,375,296</u>	<u>3,051,678</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,375,296</u>	<u>\$ 3,051,678</u>

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

	<u>2013</u>	<u>2012</u>
Revenues:		
Other operating revenues	\$ 24,406	\$ 33,423
Total revenues	<u>24,406</u>	<u>33,423</u>
Expenditures:		
Current (operating):		
General government	788	788
Debt service:		
Principal	195,000	190,000
Interest	<u>163,141</u>	<u>170,600</u>
Total expenditures	<u>358,929</u>	<u>361,388</u>
Excess (deficiency) of revenues		
over expenditures	<u>(334,523)</u>	<u>(327,965)</u>
Other financing sources (uses):		
Operating transfers in	658,141	660,600
Operating transfers (out)	<u>0</u>	<u>0</u>
Total other financing sources (uses)	<u>658,141</u>	<u>660,600</u>
Excess of revenues and other financing sources		
over expenditures and other financing uses	323,618	332,635
Fund balances, beginning of year	<u>3,051,678</u>	<u>2,719,043</u>
FUND BALANCES, END OF YEAR	<u>\$ 3,375,296</u>	<u>\$ 3,051,678</u>



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**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, the fiduciary fund, and the aggregate remaining fund information of the City of Mountain Brook, Alabama (the City), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated February 11, 2014.

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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies: **2013-001**.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

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.

Carly Riggs & Ingram, L.L.C.

Birmingham, Alabama
February 11, 2014

**City of Mountain Brook
Schedule of Findings and Responses
For the Year Ended September 30, 2013**

2013-001 Finding:

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.

Response of responsible officials and planned corrective actions:



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February 11, 2014

To the City Council
Mountain Brook, Alabama

We have audited the financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Mountain Brook (the "City") for the year ended September 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 9, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements were:

Management's estimate of the liability to the Jefferson County Personnel Board is based on Jefferson County's estimate of actual amount due. We evaluated the key factors and assumptions used to develop the liability to the Jefferson County Personnel Board in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the Self-Insured Workers' Compensation Loss Reserves which is based on certain actuarial assumptions and the Accrued Compensated Absences Liability which is based on assumptions related to certain personnel and payroll matters. We evaluated the key factors and assumptions used to develop the Self-Insured Workers' Compensation Loss Reserves and the Accrued Compensated Absences Liability in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the City's pension plan and post-employment benefits other than pensions in Note 6 and Note 7, respectively, to the financial statements. These disclosures contain actuarial assumptions and valuations that may differ from actual results.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Managements

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 11, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

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

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Birmingham, Alabama

