

**CITY OF MOUNTAIN BROOK, ALABAMA**

**BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2017**

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

**SEPTEMBER 30, 2017**

**MAYOR**

The Honorable Stewart H. Welch III

**CITY COUNCIL**

Ms. Virginia C. Smith, President

Mr. Philip E. Black

Mr. Lloyd C. Shelton

Mr. William S. (Billy) Pritchard III

Ms. Alice B. Womack

**CITY MANAGER**

Mr. Sam S. Gaston

**DEPARTMENT SUPERVISORS**

Building Inspections .....	Mr. Glen Merchant
Finance .....	Mr. Steven Boone
Fire Department .....	Mr. Chris Mullins
Planning, Building, and Sustainability .....	Ms. Dana Hazen
Police Department .....	Mr. Theodore J. (Ted) Cook
Streets and Sanitation .....	Mr. Ronald D. Vaughn
Parks and Recreation .....	Mr. Shanda Williams

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# City of Mountain Brook, Alabama

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## Independent Auditors' Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Mountain Brook, Alabama (the City) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2017, 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.

Limited comparative information is included in the accompanying financial statement that are not covered in the scope of our audit.

**Other Matters**

*Report on Supplementary Information*

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

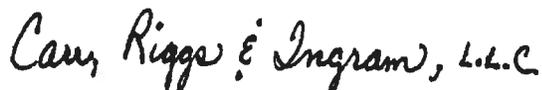
*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information as listed in the table of contents and the Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the accompanying supplementary information as listed in the table of contents and the Schedule of Expenditures of Federal Awards 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 March 12, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Birmingham, Alabama  
March 12, 2018



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

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This narrative overview and analysis of the City's financial activities as of and for the year ended September 30, 2017, 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, 2017, by \$89 million (Total Net Position). Of this amount, \$79.3 million represents the net book value of the City's capital assets including infrastructure and \$856,000 is restricted (\$507,000 for the Emergency Communication District and \$349,000 for road improvements from the State Shared Gasoline Tax special revenue funds). The remaining \$9.2 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 \$1,507,000 in 2017 which includes the net cost of providing core City Services of \$28.8 million plus \$30.3 million in General Revenues.
- As of September 30, 2017, the City reported \$33.3 million in fund balances, an increase of \$171,635 from 2016. Of the \$33.3 million fund balances, \$15.5 million (46%) is reported in the General Fund, \$15.6 million (47%) in the Capital Projects Fund and \$2.2 million (7%) 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.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The City is one of more than thirty suburbs of the City of Birmingham, Alabama. The City's land area is approximately 12 square miles of which approximately 98% is residential. The commercial districts are concentrated into five distinct retail villages and an office park complex. The population is stable at approximately 20,400.

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

The City's revenues are relatively stable and expected to increase modestly in the future with incremental gains attributable to regional economic growth and ongoing redevelopment of commercial and residential properties. The estimated growth in General Fund revenues for the year ending September 30, 2018 is 1.3% above the actual realized for the year ended September 30, 2017.

The residents of the City have expressed high satisfaction in a recent survey with respect to the services and amenities offered by the City. Accordingly, programs and activities and the costs associated with governmental operations are stable. Budgeted General Fund expenditures for 2018 are estimated to increase 3.5% above the actual incurred for the year ended September 30, 2017.

***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.

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.

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

***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 (various Special Revenue funds and the Debt Service fund) have been aggregated and reported in a single column titled "Other Governmental Funds". Additional information about these aggregated, non-major funds and the major funds is provided in the other supplementary information.

***Infrastructure Capital Assets***

In 2003, the City capitalized its infrastructure assets 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	17,692,888	\$ 476,695	\$ 14,340,616
Storm sewers	20	14,125,701	689,028	6,087,131
Sidewalks	15	15,674,242	634,044	9,378,014
Park facilities	20	9,008,644	278,038	5,915,305
Street lights and signs	15	1,591,681	70,130	1,122,810
Library reference materials	5	5,218,559	319,541	4,370,275
<b>Totals</b>		<u>\$ 79,837,386</u>	<u>\$ 2,467,476</u>	<u>\$ 41,214,151</u>

***Government-wide Financial Analysis***

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

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

	<u>2017</u>	<u>2016</u>
Current assets	\$ 36,214,167	\$ 35,826,046
Other assets	2,831,764	2,474,233
Capital assets	79,266,843	77,445,869
Deferred outflows of resources	<u>7,740,992</u>	<u>3,969,788</u>
<b>Total assets and deferred outflows of resources</b>	<b><u>126,053,766</u></b>	<b><u>119,715,936</u></b>
Current and other liabilities	2,902,172	2,685,686
Long-term liabilities	3,020,516	2,965,366
Net pension liability (Note 6)	30,677,678	26,150,090
Deferred inflows of resources	<u>119,553</u>	<u>88,210</u>
<b>Total liabilities and deferred inflows of resources</b>	<b><u>36,719,919</u></b>	<b><u>31,889,352</u></b>
Net position:		
Net investment in capital assets	79,266,843	77,445,869
Restricted	855,994	827,705
Unrestricted	<u>9,211,010</u>	<u>9,553,010</u>
<b>Total net position</b>	<b><u>\$ 89,333,847</u></b>	<b><u>\$ 87,826,584</u></b>

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

	<u>2017</u>	<u>2016</u>
<b>Revenues</b>		
Program revenues		
Fees, fines and charges for services	\$ 6,923,039	\$ 6,536,026
Operating grants and contributions	1,227,831	1,057,792
Capital grants and contributions	2,522,156	887,794
General revenues		
Ad valorem taxes (real and personal property)	16,538,120	15,836,131
Sales and use taxes	11,141,231	10,640,978
Other taxes	379,861	337,449
Utility taxes	1,253,385	1,283,444
Franchise fees	666,962	640,699
Investment earnings	109,904	465,880
Gain (loss) on disposals of capital assets	70,584	77,115
Miscellaneous revenues	19,489	18,991
Transfers from component unit	<u>78,039</u>	<u>86,050</u>
<b>Total revenues</b>	<b><u>40,930,601</u></b>	<b><u>37,868,349</u></b>

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

**Expenses**

General government	6,614,843	4,947,239
Public safety	16,711,225	16,683,667
Street and sanitation	9,434,666	9,754,917
Recreational	2,227,414	1,920,457
Library	<u>4,435,190</u>	<u>3,852,165</u>
<b>Total expenses</b>	<u><b>39,423,338</b></u>	<u><b>37,158,445</b></u>
<b>Increase in net position</b>	1,507,263	709,904
Net position, beginning of year	<u>87,826,584</u>	<u>87,116,680</u>
<b>Net position, end of year</b>	<u><b>\$ 89,333,847</b></u>	<u><b>\$ 87,826,584</b></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 2017. Real estate ad valorem taxes increased \$712,000 (4.9%) during 2017.

The second largest source of revenue for the City is sales and use tax which totaled 28% of total General Fund revenues in 2017. Sales and use tax revenue increased by \$371,000 (3.6%) during 2017.

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

	<u>2017</u>	<u>2016</u>	<b>Increase (Decrease)</b>
Real estate ad valorem tax	\$ 15,155,623	\$ 14,443,548	\$ 712,075
Sales and use tax	10,656,090	10,285,530	370,560
Business licenses	3,046,371	2,815,615	230,756
Personal property ad valorem tax	1,382,497	1,392,583	(10,086)
Construction permits	1,076,879	1,119,259	(42,380)
Utility taxes	1,253,385	1,283,444	(30,059)
Fine and forfeitures	586,293	575,406	10,887
Investment earnings	109,327	170,543	(61,216)
All other General Fund revenues	<u>4,447,582</u>	<u>3,961,960</u>	<u>485,622</u>
<b>Totals</b>	<u><b>\$ 37,714,047</b></u>	<u><b>\$ 36,047,888</b></u>	<u><b>\$ 1,666,159</b></u>

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

***Expenditures***

Salaries and benefits increased \$1,358,000 (7%) in 2017 to \$22.2 million. Labor-related costs made up (60%) of the City's total General Fund expenditures (including intrafund transfers) in 2017. 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>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
Salaries and benefits	\$ 21,641,131	\$ 20,882,647	\$ 758,484
Excess pension contribution	600,000	0	600,000
Garbage contract fees	2,811,311	2,779,964	31,347
Capital outlay	6,956,375	3,668,127	3,288,248
Intergovernmental services	874,597	928,290	(53,693)
Utilities and communication	823,101	908,816	(85,715)
Development agreement payments	1,044,169	601,431	442,738
Property and casualty insurance	211,545	273,897	(62,352)
Legal and accounting	320,780	223,777	97,003
Fuel and lubricants	238,480	207,138	31,342
Debt service	0	3,746,641	(3,746,641)
Birmingham Zoo, Inc. subsidy	20,000	20,000	0
All other	<u>5,225,862</u>	<u>4,981,066</u>	<u>244,796</u>
<b>Totals</b>	<u>\$ 40,767,351</u>	<u>\$ 39,221,794</u>	<u>\$ 1,545,557</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 \$402,000 (1.1%). 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	\$ 15,158,889	\$ 15,155,623	\$ (3,266)
Sales and use tax	11,141,000	10,656,090	(484,910)
Other taxes	1,439,000	1,810,442	371,442
Utility taxes	1,283,400	1,253,385	(30,015)
Road and bridge tax	596,000	627,182	31,182
Construction permits	905,000	1,076,879	171,879
Fines and forfeitures	549,000	586,293	37,293
Charges for services	687,700	709,772	22,072
Fees for road repairs	79,000	36,220	(42,780)
Grants	11,138	111,680	100,542
Investment earnings	126,970	109,327	(17,643)
All other	5,334,998	5,581,154	246,156
<b>Totals</b>	<b><u>\$ 37,312,095</u></b>	<b><u>\$ 37,714,047</u></b>	<b><u>\$ 401,952</u></b>

- Total General Fund expenditures were \$1,232,000 (3.6%) less than the final budget. The favorable (unfavorable) budget variance was comprised largely of the following categories:

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Salaries and benefits	\$ 22,678,774	\$ 22,241,131	\$ 437,643
Garbage contract fees	2,788,000	2,811,311	(23,311)
Intergovernmental services	954,500	874,597	79,903
Utilities and communication	923,700	823,101	100,599
Development agreement payments	996,200	1,044,169	(47,969)
Appropriations to the Board of Education	967,234	517,013	450,221
Fuel and lubricants	387,000	238,480	148,520
Legal and accounting	278,200	320,780	(42,580)
Property and casualty insurance	262,550	211,545	51,005
Employee development and travel	338,060	310,472	27,588
Street striping	145,000	129,977	15,023
Street cut repairs	100,000	85,761	14,239
Park and recreation special projects	4,000	8,876	(4,876)
All other	2,977,881	2,951,639	26,242
<b>Totals</b>	<b><u>\$ 33,801,099</u></b>	<b><u>\$ 32,568,852</u></b>	<b><u>\$ 1,232,247</u></b>

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

- Total operating transfers out exceeded the amount budgeted by \$1,178,000. This variance resulted primarily from the Council's decision (after year-end) to transfer an additional \$400,000 from the General Fund to the Capital Projects Fund and \$300,000 from the General Fund to the Debt Service Fund.
  
- The total excess of General Fund revenues and other financing sources over expenditures in the amount of \$654,000 was \$518,000 more than budgeted.

***Other Matters of Interest***

***Pension Plan***

As more fully described in Note 6 to the Financial Statements, the City participates in an agent multi-employer, defined benefit pension plan which is administered by the Employees' Retirement System of Alabama (RSA). The most recent actuarial valuation data available is as of and for the year ended September 30, 2016.

As of September 30, 2016, the RSA reported the actuarial value of plan assets to be \$51.6 million and the actuarial accrued liability to be \$81.1 million resulting in an unfunded actuarial accrued liability of \$29.5 million. The actuarial value of assets was \$79,000 less than the market value of assets as of September 30, 2016.

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. Beginning in fiscal year 2017, the City Council authorized the payment of \$600,000 more than the ARC resulting in an effective employer matching contribution of 15.6% of covered payroll. The City Council has authorized the excess funding to continue at the 2017 effective matching contribution rate.

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, 2017, the City had accumulated \$1.3 million in the Debt Service Fund for such purpose.

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

***Other Post-Employment Benefits***

As more fully described in Note 7 to the Financial Statements, the City provides continuing medical benefits to qualifying retirees. The City's funding policy is to fund the net cost of retiree medical benefits, related trust operating expenses and deposit additional funds into an irrevocable trust restricted for future benefits. For the year ended September 30, 2017, the net cost of retiree medical benefits and related trust expenses paid by the City totaled \$332,140. The City deposited an additional \$300,000 into the trust. As of September 30, 2017, the City reported an actuarial accrued liability of \$5.2 million and actuarial value of trust assets of \$2.6 million for an unfunded actuarial accrued liability of \$2.6 million.

***Cash and Temporary Investments***

As of September 30, 2017, the City reported cash and temporary investments of \$33.1 million (excluding the cash and investments held by the Other Post-Employment Benefits (OPEB) trust and discretely presented component unit) which consisted of unrestricted and donor-restricted cash and temporary investments of \$32.8 million and \$287,000, respectively. Following is a summary of the carrying value of the cash and investments by fund as of September 30, 2017.

	<b>Unrestricted</b>	<b>Restricted</b>
General Fund	\$ 15,287,087	\$ 286,590
Capital Projects Fund	15,333,613	0
Other Governmental Funds (Debt Service)	1,343,015	0
Other Governmental Funds (Special Revenue)	802,487	0
Section 115 irrevocable, retiree medical trust	0	2,598,720
Discretely presented component unit	0	4,435,765
<b>Totals</b>	<b>\$ 32,766,202</b>	<b>\$ 7,321,075</b>

The \$15.3 million General Fund cash and investment balance as of September 30, 2017, represents slightly less than 6 months of General Fund expenditures.

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

Regarding capital assets, the City Council has adopted a policy of (partially) funding its depreciation expense in order to accumulate reserve funds for the eventual replacement of property, plant and equipment. As of September 30, 2017, the City had accumulated approximately \$15.7 million in the Capital Projects Fund for such purpose. Accumulated depreciation (considered by management to be the benchmark with respect to measuring the funding status of the property, plant and equipment replacement reserves) totaled \$69.3 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:

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

	<b>2017</b>	<b>2016</b>
Capital expenditures	<u>\$ 6,956,375</u>	<u>\$ 3,668,126</u>
Depreciation expense	<u>\$ 5,127,016</u>	<u>\$ 5,003,724</u>
Transfers to the Capital Projects Fund:		
Funded depreciation policy	\$ 2,225,400	\$ 2,139,024
Other transfers to fund current and future capital acquisitions	<u>1,883,016</u>	<u>2,354,805</u>
<b>Totals</b>	<u>\$ 4,108,416</u>	<u>\$ 4,493,829</u>

The City maintains approximately 185 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:

	<b>2017</b>	<b>2016</b>
<b>Revenues</b>		
State shared gasoline tax revenues	\$ 405,610	\$ 402,319
Alabama Trust Fund Earnings	175,051	179,946
Transfers from the City's General Fund	200,000	169,884
Investment earnings	<u>1,690</u>	<u>1,756</u>
<b>Total Revenues</b>	782,351	753,905
Street paving expenditures	<u>807,929</u>	<u>1,199,204</u>
<b>Excess of Revenues Over Expenditures</b>	(25,578)	(445,299)
Fund balance, beginning of the year	<u>374,884</u>	<u>820,183</u>
<b>Fund Balance, end of year</b>	<u>\$ 349,306</u>	<u>\$ 374,884</u>

**Requests for Additional Information**

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

**City of Mountain Brook, Alabama**  
**Government-wide Statement of Net Position**  
**September 30, 2017 with Comparative Data**

	<b>Governmental Activities</b>		<b>Component Unit</b>
	<b>2017</b>	<b>2016</b>	<b>Library Foundation 2017</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and temporary investments	\$ 32,766,202	\$ 32,175,344	\$ 0
Receivables	2,440,345	2,176,962	0
Due from related organization	75,000	0	0
Inventory and prepaid expenses	646,030	1,191,090	0
Cash and temporary investments - restricted	286,590	282,650	4,435,765
<b>TOTAL CURRENT ASSETS</b>	<b>36,214,167</b>	<b>35,826,046</b>	<b>4,435,765</b>
<b>NONCURRENT ASSETS</b>			
Net OPEB asset	2,831,764	2,474,233	0
Capital assets, net of accumulated depreciation	58,029,634	57,283,631	113,949
Land	19,914,153	19,914,153	552,611
Construction in progress	1,323,056	248,085	0
<b>TOTAL NONCURRENT ASSETS</b>	<b>82,098,607</b>	<b>79,920,102</b>	<b>666,560</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Differences between expected and actual earnings on pension plan investments and experience	1,479,679	2,352,243	0
Change in assumptions	3,928,138	0	0
Employer pension contributions subsequent to the measurement date	2,333,175	1,617,545	0
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>7,740,992</b>	<b>3,969,788</b>	<b>0</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>126,053,766</b>	<b>119,715,936</b>	<b>5,102,325</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	1,264,232	1,048,918	0
Accrued salaries and wages	933,751	906,774	0
Due to related organization	66,762	65,775	0
Other current liabilities	637,427	664,219	0
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,902,172</b>	<b>2,685,686</b>	<b>0</b>
<b>NONCURRENT LIABILITIES</b>			
Compensated absences	3,020,516	2,965,366	0
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>3,020,516</b>	<b>2,965,366</b>	<b>0</b>
<b>NET PENSION LIABILITY (NOTE 6)</b>	<b>30,677,678</b>	<b>26,150,090</b>	<b>0</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Differences between projected and actual earnings on plan investments and experience	119,553	88,210	0
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>119,553</b>	<b>88,210</b>	<b>0</b>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>36,719,919</b>	<b>31,889,352</b>	<b>0</b>
<b>NET POSITION</b>			
Net investment in capital assets	79,266,843	77,445,869	666,560
Restricted	855,994	827,705	4,435,765
Unrestricted	9,211,010	9,553,010	0
<b>TOTAL NET POSITION</b>	<b>\$ 89,333,847</b>	<b>\$ 87,826,584</b>	<b>\$ 5,102,325</b>

See accompanying notes to basic financial statements.

City of Mountain Brook, Alabama  
 Government-wide Statement of Activities  
 For the Year Ended September 30, 2017 with Comparative Data

Program Activities	Program Revenues				2017	2016	2017	2016
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Net (Expense) Revenue and Changes in Net Position	Total Net (Expense) Revenue and Changes in Total Net	Component Unit (Library Foundation)	Component Unit (Library Foundation)
Governmental activities:								
General government	\$ 6,614,843	\$ 3,817,964	\$ 1,062,410	\$ 0	\$ (1,734,469)	\$ (453,765)	\$ 0	\$ 0
Public safety	16,711,225	2,665,679	0	0	(14,045,546)	(13,985,631)	0	0
Street and sanitation	9,434,666	86,672	98,928	2,405,569	(6,843,497)	(8,841,121)	0	0
Recreational	2,227,414	290,871	53,742	45,072	(1,837,729)	(1,701,605)	0	0
Library	4,435,190	61,853	12,751	71,515	(4,289,071)	(3,694,711)	0	0
<b>Total</b>	<b>\$ 39,423,338</b>	<b>\$ 6,923,039</b>	<b>\$ 1,227,831</b>	<b>\$ 2,522,156</b>	<b>\$ (28,750,312)</b>	<b>\$ (28,676,833)</b>		
Component unit:								
Library Foundation	\$ 74,268	\$ 0	\$ 759,786	\$ 0			\$ 685,518	\$ 183,981

**General revenues:**

Taxes:								
Ad Valorem (real and personal property)	16,538,120	15,836,131	0	0				
Sales and use	11,141,231	10,640,978	0	0				
Other taxes	379,861	337,449	0	0				
Utility taxes	1,253,385	1,283,444	0	0				
Franchise fees	666,962	640,699	0	0				
Investment earnings (losses)	109,904	465,880	320,032	181,238				
Gain on sale/disposal of capital assets	70,584	77,115	0	0				
Miscellaneous revenues	19,489	18,991	0	0				
Transfers	78,039	86,050	(78,039)	(86,050)				
<b>Total general revenues and transfers</b>	<b>30,257,575</b>	<b>29,386,737</b>	<b>241,993</b>	<b>95,188</b>				
<b>Change in net position</b>	<b>1,507,263</b>	<b>709,904</b>	<b>927,511</b>	<b>279,169</b>				
Net position at beginning of year	87,826,584	87,116,680	4,174,814	3,895,645				
<b>Net position at end of year</b>	<b>\$ 89,333,847</b>	<b>\$ 87,826,584</b>	<b>\$ 5,102,325</b>	<b>\$ 4,174,814</b>				

See accompanying notes to basic financial statements.

**City of Mountain Brook, Alabama  
Balance Sheet  
Governmental Funds  
September 30, 2017**

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and temporary investments	\$ 15,287,087	\$ 15,333,613	\$ 2,145,502	\$ 32,766,202
Cash and temporary investments - restricted	286,590	0	0	286,590
Receivables	2,094,180	279,652	66,513	2,440,345
Due from related organizations	75,000	0	0	75,000
Inventory and prepaid expenses	459,272	186,758	0	646,030
<b>TOTAL ASSETS</b>	<b>\$ 18,202,129</b>	<b>\$ 15,800,023</b>	<b>\$ 2,212,015</b>	<b>\$ 36,214,167</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 1,102,487	\$ 148,739	\$ 13,006	\$ 1,264,232
Accrued salaries and wages	956,838	0	0	956,838
Due to related organizations	66,762	0	0	66,762
Other liabilities	614,340	0	0	614,340
<b>TOTAL LIABILITIES</b>	<b>2,740,427</b>	<b>148,739</b>	<b>13,006</b>	<b>2,902,172</b>
<b>PENSION OBLIGATION (see Note 6)</b>				
<b>FUND BALANCES</b>				
Nonspendable	459,272	186,758	0	646,030
Restricted	0	0	855,994	855,994
Committed	54,251	15,464,526	0	15,518,777
Assigned	268,206	0	1,343,015	1,611,221
Unassigned	14,679,973	0	0	14,679,973
<b>TOTAL FUND BALANCES</b>	<b>15,461,702</b>	<b>15,651,284</b>	<b>2,199,009</b>	<b>33,311,995</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 18,202,129</b>	<b>\$ 15,800,023</b>	<b>\$ 2,212,015</b>	<b>\$ 36,214,167</b>

See accompanying notes to basic financial statements

**City of Mountain Brook, Alabama**  
**Reconciliation of the Governmental Funds Balance Sheet to the**  
**Statement of Net Position**  
**September 30, 2017**

Fund balance - total governmental funds \$ 33,311,995

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

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

Governmental capital assets	\$ 148,535,088	
Less accumulated depreciation	<u>(69,268,245)</u>	79,266,843

Net OPEB assets are not current financial resources and therefore are not reported in the governmental funds balance sheet 2,831,764

Deferred outflows of resources

Differences between expected and actual earnings on pension plan investments and experience	1,479,679	
Change in assumptions	3,928,138	
Employer pension contributions subsequent to the measurement date	<u>2,333,175</u>	7,740,992

Net pension liability is not due and payable in the current period and therefore, not reported in the governmental funds balance sheet (30,677,678)

Net difference between projected and actual earnings on pension plan investments (119,553)

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

Compensated absences		<u>(3,020,516)</u>
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**Net position of governmental activities \$ 89,333,847**

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, 2017

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Taxes	\$ 30,885,219	\$ 0	\$ 405,610	\$ 31,290,829
Licenses and permits	4,856,121	0	0	4,856,121
Intergovernmental	185,943	0	0	185,943
Charges for services	709,772	0	400,441	1,110,213
Fines and forfeitures	586,293	0	181,159	767,452
Grants	111,680	1,717,922	0	1,829,602
Other operating revenues	379,019	75,235	179,363	633,617
<b>Total revenues</b>	<u>37,714,047</u>	<u>1,793,157</u>	<u>1,166,573</u>	<u>40,673,777</u>
<b>Expenditures:</b>				
<b>Current (operating):</b>				
General government	6,729,244	40,751	260,419	7,030,414
Public safety	14,985,533	1,939,167	454,825	17,379,525
Street and sanitation	6,442,783	4,186,147	807,929	11,436,859
Recreational	1,216,830	381,230	0	1,598,060
Library	3,194,462	128,031	0	3,322,493
<b>Total expenditures</b>	<u>32,568,852</u>	<u>6,675,326</u>	<u>1,523,173</u>	<u>40,767,351</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>5,145,195</u>	<u>(4,882,169)</u>	<u>(356,600)</u>	<u>(93,574)</u>
<b>Other financing sources (uses):</b>				
Operating transfers in	0	4,108,416	540,707	4,649,123
Operating transfers (out)	(4,649,123)	0	0	(4,649,123)
Operating transfers in - component unit	78,039	0	0	78,039
Donations	80,185	106,985	0	187,170
<b>Total other financing sources (uses)</b>	<u>(4,490,899)</u>	<u>4,215,401</u>	<u>540,707</u>	<u>265,209</u>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	654,296	(666,768)	184,107	171,635
<b>Fund balances, beginning of year</b>	<u>14,807,406</u>	<u>16,318,052</u>	<u>2,014,902</u>	<u>33,140,360</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 15,461,702</u>	<u>\$ 15,651,284</u>	<u>\$ 2,199,009</u>	<u>\$ 33,311,995</u>

See accompanying notes to basic financial statements.

**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, 2017**

Net change in fund balances - total governmental funds	\$	171,635
Amounts reported for governmental activities in the statement of activities are different because:		
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	\$ 6,956,375	
Less current year depreciation	<u>(5,127,015)</u>	1,829,360
Net book value of assets disposed during the year.		(8,386)
The net effect of transactions involving net OPEB assets is to increase net position.		357,531
The effect of the net increase (decrease) in deferred outflows of resources		
Differences between expected and actual earnings on pension plan investments and experience	(872,564)	
Change in assumptions	3,928,138	
Employer contributions subsequent to the measurement date	<u>715,630</u>	3,771,204
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		(55,150)
The effect of the net (increase) decrease in the pension liability		(4,527,588)
The effect of the net (increase) decrease in the deferred inflows of resources		<u>(31,343)</u>
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b><u>1,507,263</u></b>

See accompanying notes to basic financial statements.

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

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Certificates of deposit, at fair value	\$ 2,598,720	\$ 2,301,227
<b>TOTAL ASSETS</b>	<u>2,598,720</u>	<u>2,301,227</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	<u>0</u>	<u>0</u>
<b>TOTAL LIABILITIES</b>	<u>0</u>	<u>0</u>
<b>NET POSITION RESTRICTED FOR OTHER POST-EMPLOYMENT BENEFITS</b>	<u>\$ 2,598,720</u>	<u>\$ 2,301,227</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**

	<b>2017</b>	<b>2016</b>
<b>ADDITIONS</b>		
Contributions		
Employer	\$ 632,140	\$ 611,433
Plan members	117,374	118,027
Investment earnings	(2,507)	100,995
<b>TOTAL ADDITIONS</b>	<b>747,007</b>	<b>830,455</b>
<b>DEDUCTIONS</b>		
Benefits	444,514	429,460
Administrative expense	5,000	0
<b>TOTAL DEDUCTIONS</b>	<b>449,514</b>	<b>429,460</b>
<b>NET INCREASE IN NET POSITION</b>	<b>297,493</b>	<b>400,995</b>
Net position restricted for other post-employment benefits, beginning of year	2,301,227	1,900,232
<b>NET POSITION RESTRICTED FOR OTHER POST-EMPLOYMENT BENEFITS, END OF YEAR</b>	<b>\$ 2,598,720</b>	<b>\$ 2,301,227</b>

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 28, 2018. 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. The City has elected to present comparative information in the notes to financial statements to enhance the users' understanding of the City's financial position and operations.

**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.

For the years ended September 30, 2017 and 2016, the City reported revenue from the Board in the amount of \$185,943 and \$92,199, respectively, representing the Board's share of community athletic fields maintenance provided by the City and the Board's reimbursement in 2017 of field improvement costs paid by the City in the amount of \$93,744. The outstanding receivables from the Board as of September 30, 2017 and 2016 were \$75,000 and \$0, respectively.

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, 2017 and 2016, the City owed the Board \$66,762 and \$65,775, respectively, for its share of property taxes which is included in other liabilities of the General Fund.

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

In 2016, the City renegotiated the three (3) fields and facilities use and maintenance agreements between the City and Mountain Brook Athletics, Mountain Brook Soccer and Mountain Brook Lacrosse. Under the terms of the new agreements, Mountain Brook Athletics, Mountain Brook Soccer and Mountain Brook Lacrosse shall pay the City \$60,261, \$45,141, and \$6,955, respectively, annually through December 31, 2021. The agreements shall renew automatically for one year terms not to exceed the expiration of master lease term between the City and Mountain Brook Board of Education. The above fees shall be increased by 10% every five years.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

In 2017, the City agreed to advance the Mountain Brook Board of Education the costs associated with its improvements to the junior high practice field and the high school baseball field. The total cost of the two projects is \$962,434. The Board entered into an agreement to reimburse the City in the amount of \$275,000 payable in installments of \$75,000 on or before December 1, 2017 and \$40,000 annually thereafter due on or before December 1 of 2018 through 2022. The City also received commitments from Mountain Brook Athletics and Mountain Brook Lacrosse to reimburse the City in the aggregate amount of \$266,234 payable in annual installments of varying amounts through 2022. As of September 30, 2017, the City paid \$512,000 of the \$962,434 improvement contracts. Also as of September 30, 2017, the City recorded revenue of \$166,233 from the reimbursement agreements of which \$81,861 was collected and \$84,372 is reported as accounts receivable.

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, corporate, 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 in 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:

City of Mountain Brook, Alabama

Notes to Financial Statements

Governmental funds

**A. General Fund**

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

**B. Special Revenue Funds**

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

**C. Debt Service Funds**

The Debt Service Fund is used to account for financial resources related the City's debt service. In addition, the City is accumulating resources in the Debt Service Fund for the possible future repayment (excess funding) 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 the Debt Service Fund are classified as non-major and are described above.

**E. Fund Balance**

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

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

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

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

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

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

**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 City has established a stabilization (emergency reserve) fund within its General Fund. The emergency reserve fund is intended to be used in the event of a natural disaster that jeopardizes public safety and that results in unusual expenditures necessary to provide public safety services that may or may not be reimbursable under federal or state disaster assistance or relief grant award. The stabilization fund is included in the unassigned fund balance.

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

<b>Fund Balances</b>	<b>General</b>	<b>Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b><u>Nonspendable:</u></b>				
Prepaid expenses	\$ 411,876	\$ 186,758	\$ 0	\$ 598,634
Inventory	47,396	0	0	47,396
<b>Total Nonspendable</b>	<b>459,272</b>	<b>186,758</b>	<b>0</b>	<b>646,030</b>
<b><u>Restricted:</u></b>				
Emergency Communication				
District (E911)	0	0	506,688	506,688
State Shared Gasoline Taxes:				
5 Cent	0	0	102,488	102,488
7 Cent	0	0	118,004	118,004
4 Cent	0	0	120,248	120,248
2 Cent	0	0	8,566	8,566
<b>Total Restricted</b>	<b>0</b>	<b>0</b>	<b>855,994</b>	<b>855,994</b>

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

**Committed:**

Capital Projects	0	15,464,526	0	15,464,526
Library Endowment	54,251	0	0	54,251
<b>Total Committed</b>	<b>54,251</b>	<b>15,464,526</b>	<b>0</b>	<b>15,518,777</b>

**Assigned:**

Debt Service Fund	0	0	1,343,015	1,343,015
Asset Forfeitures	50,182	0	0	50,182
Library Book Fund	207,054	0	0	207,054
Community Fund	10,970	0	0	10,970
<b>Total Assigned</b>	<b>268,206</b>	<b>0</b>	<b>1,343,015</b>	<b>1,611,221</b>

**Unassigned**

All other unassigned	12,045,461	0	0	12,045,461
Emergency Reserve (stabilization) Fund	2,634,512	0	0	2,634,512
<b>Total Unassigned</b>	<b>14,679,973</b>	<b>0</b>	<b>0</b>	<b>14,679,973</b>

<b>Total Fund Balances</b>	<b>\$ 15,461,702</b>	<b>\$ 15,651,284</b>	<b>\$ 2,199,009</b>	<b>\$ 33,311,995</b>
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**F. Measurement focus and basis of accounting**

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

**Measurement focus**

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

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

**Basis of accounting**

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

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

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

**G. Encumbrances**

In the Fund Financial Statements, the City does not utilize encumbrance accounting techniques which means that fund balances are not committed or assigned upon the issuance of purchase orders. Expenditures are recorded at the time of a purchase or the incurrence of a liability.

**H. Worker's compensation**

The City provides workers' compensation coverage to its employees as required by law. In February 2017, the City implemented an insured plan administered by Municipal Workers' Compensation Fund (MWCF) that requires a \$300,000 deductible per claim per year. Effective February 1, 2013, the City implemented a high deductible insurance program for its workers' compensation program administered by MWCF. The MWCF assumed the administration of open claims incurred prior to February 1, 2013 when the City was self-insured (with excess loss coverage). The City's exposure for workers' compensation claims and related administrative fees since February 1, 2013 is as follows:

For claims incurred on or after:	<b>Liability Limits</b>	
	<b>Specific</b>	<b>Aggregate</b>
February 1, 2017	\$ 300,000	None
February 1, 2016	300,000	859,553
February 1, 2015	300,000	854,824
February 1, 2014	300,000	845,467
February 1, 2013	250,000	909,034

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

Pursuant to regulations promulgated by the State of Alabama Department of Industrial Relations with respect to self-insured workers' compensation programs, the City engages an actuary every three years to determine its discounted total estimated liability for outstanding workers' compensation claims. The actuarial valuation of the discounted total estimated liability for outstanding claims was \$414,257 as of September 30, 2017 and \$256,404 as of September 30, 2014. The accompanying financial statements include an estimated accrual of unpaid workers' compensation claims as of September 30, 2017 and 2016 in the amount of \$417,000 and \$349,000, respectively. Workers' compensation cost charged by the City during 2017 and 2016 was approximately \$464,000 and \$351,000, 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 \$286,590 and \$282,650 as of September 30, 2017 and 2016, respectively, represent temporary and permanently restricted funds donated to the Emmet O'Neal Library, a department of the City.

**J. Receivables**

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

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

City of Mountain Brook, Alabama

Notes to Financial Statements

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 may be accumulated and carried forward from year to year with no maximum amount. 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.

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 \$3,020,516 as of September 30, 2017 and \$2,965,366 as of September 30, 2016. The City paid \$23,089 and \$4,257 after September 30, 2017 and 2016, 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 2017 and 2016. 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, 2017 and September 30, 2016 reported in the Government-Wide and Fund financial statements totaled \$426,835 and \$425,641, 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 plan**

The Employees' Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report. (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, 2017:

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>
<b>Operating transfers in (out):</b>			
Capital transfers for the payment of current year asset acquisitions and the future replacement of capital assets	\$ (4,108,416)	\$ 4,108,416	\$ 0
Corrections fund transfer to fund operations	(182,715)	0	182,715
Debt service transfer for the accumulation of funds for the future repayment of City obligations	(157,992)	0	157,992
Gasoline tax fund transfer to supplement the annual street resurfacing program	(200,000)	0	200,000
<b>Operating transfers, net</b>	<u>\$ (4,649,123)</u>	<u>\$ 4,108,416</u>	<u>\$ 540,707</u>

Following is a summary of the operating transfers between funds during the year ended September 30, 2016:

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

	General	Capital Projects	Other Governmental Funds
<b>Operating transfers in (out):</b>			
Capital transfers for the payment of current year asset acquisitions and the future replacement of capital assets	\$ (4,493,829)	\$ 4,493,829	\$ 0
Corrections fund transfer to fund operations	(189,996)	0	189,996
Debt service transfer for the accumulation of funds for the future repayment of City obligations	(600,000)	0	600,000
Debt service fund transfer for the repayment of General Obligation principal and interest	0	(291,641)	291,641
Gasoline tax fund transfer to supplement the annual street resurfacing program	(169,884)	0	169,884
<b>Operating transfers, net</b>	<b>\$ (5,453,709)</b>	<b>\$ 4,202,188</b>	<b>\$ 1,251,521</b>

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

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

**R. Property taxes**

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

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:

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

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

**S. Major revenue sources and taxpayers**

The City's primary sources of revenue include ad valorem, sales and use, and utilities taxes and business licenses. Collectively, these taxes and licenses totaled approximately \$30.1 million (80%) and \$28.8 million (80%) of the total General Fund revenues during the years ended September 30, 2017 and 2016, respectively. Of the City's taxpayers, Macy's Department Store, Alabama Power Company, Western Supermarket, Publix, Piggly Wiggly, Whole Foods, Energen Corporation (gas company), Diamonds Direct, Marcus Cable (doing business as Charter Communications), Grand Bohemian Inn, and Shoppes at River Run, LLC (grocery store), collectively, provided approximately \$6.4 million (17%) and \$6.6 million (18%) of the City's total General Fund revenues during the years ended September 30, 2017 and 2016, 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.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

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

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

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

Fund financial statements

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

X. Management estimates

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

Y. Subsequent events

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

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

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical asset; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City, component unit and OPEB Trust have the following recurring fair value measurements as of September 30, 2017:

- The City's certificates of deposit totaling \$24.3 million are valued using current market prices (Level 2 inputs)
- The City's common stock of \$68,890 is valued using quoted market prices obtained from the New York Stock Exchange (Level 1 input)
- Mutual funds, U. S. Treasury Notes, municipal bonds, and corporate bonds held by the component unit in the amount of \$4,292,440 are valued using quoted market prices (Level 1 inputs)
- The OPEB Trust's cash deposits and certificates of deposit held in a brokerage account totaling \$2,598,720 are valued using current market prices (Level 2 inputs)

At September 30, 2017, the City had the following cash and investments and maturities:

	<u>Investment Maturity in Years</u>			
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>From 1 Up To 3</u>	<u>From 3 Up To 5</u>
Cash on-hand	\$ 2,760	\$ 2,760	\$ 0	\$ 0
Bank deposits	8,940,814	8,940,814	0	0
Investments:				
Cash and money market accounts	(232,824)	(232,824)	0	0
Certificates of deposit	24,273,152	8,776,270	11,021,798	4,475,084
576 shares VMC common stock (donated)	68,890	0	0	68,890
<b>Total portfolio</b>	<u>\$ 33,052,792</u>	<u>\$ 17,487,020</u>	<u>\$ 11,021,798</u>	<u>\$ 4,543,974</u>

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

At September 30, 2017, the discretely presented component unit had the following cash and investments and maturities:

	<b>Investment Maturity in Years</b>			
	<b>Fair Value</b>	<b>Less Than 1</b>	<b>1 - 2</b>	<b>3+</b>
Bank deposits	\$ 127,936	\$ 127,936	\$ 0	\$ 0
Deposits held in brokerage accounts	15,390	15,390	0	0
U. S. Treasury Notes	304,563	64,977	64,690	174,896
Corporate bonds	442,596	90,492	140,492	211,612
Municipal bonds	288,022	0	0	288,022
Mutual funds	3,257,258	0	0	3,257,258
<b>Total portfolio</b>	<b>\$ 4,435,765</b>	<b>\$ 298,795</b>	<b>\$ 205,182</b>	<b>\$ 3,931,788</b>

At September 30, 2017, the OPEB Trust had the following cash and investments and maturities:

	<b>Investment Maturity in Years</b>			
	<b>Fair Value</b>	<b>Less Than 1</b>	<b>From 1 Up To 3</b>	<b>From 3 Up To 5</b>
Deposits held in brokerage accounts	\$ 24,776	\$ 24,776	\$ 0	\$ 0
Certificates of deposit	2,573,944	0	899,437	1,674,507
<b>Totals</b>	<b>\$ 2,598,720</b>	<b>\$ 24,776</b>	<b>\$ 899,437</b>	<b>\$ 1,674,507</b>

**Interest Rate Risk.** As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy restricts General Fund investments to those with maturities of two years or less and Capital Project and Debt Service Fund investments to those with maturities of five years or less. Cash and investment maturities as of September 30, 2017, were as follows:

<b>Maturity</b>	<b>Portion of Respective Portfolio</b>		
	<b>City</b>	<b>Component Unit</b>	<b>OPEB Trust</b>
Less than one year	52.91%	6.74%	0.95%
1 - 2 years	33.35%	4.63%	34.61%
3 - 5 years	13.74%	88.63%	64.44%
	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

**Credit Risk.** Act No. 2000-748 of the Code of Alabama requires that all public deposits held in banks be secured by collateral pledged to the Security for Alabama Funds Enhancement (SAFE) collateral pool established in the Office of the State Treasurer. The City's policy is to deposit funds only in financial institutions that are qualified public depositories of the State of Alabama SAFE program or other federally insured financial institutions. All of the City's bank deposits are either insured by Federal Depository Insurance Corporation (FDIC) or collateralized in accordance with Act 2000-748.

The City's investment policy allows for up to 100% of the portfolio to be invested in direct obligations of the U.S. government or federal agencies thereof in accordance with §11-81-19 and §11-81-21 of the Code of Alabama. At September 30, 2017, the City had invested \$24.3 million in certificates of deposit. All of the City's \$24.3 million investment in certificates of deposit were insured by the FDIC. Following is a summary of the City's top holdings in its cash and investment portfolio:

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

<b>Description/Creditor</b>	<b>Fair Value</b>	<b>Portion of Portfolio</b>
Iberia Bank (cash deposit accounts)	\$ 7,819,877	23.66%
Regions Bank (cash deposit accounts)	1,120,937	3.39%
Morgan Stanley (cash, deposits, money market funds) including unsettled investment purchases totaling \$745,000	(232,824)	-0.70%
All other (cash on-hand and common stock)	71,650	0.22%
Various financial institutions - certificates of deposit	24,273,152	73.43%
	<u>\$ 33,052,792</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 discretely presented component unit had uninsured bank deposits in the amount of \$-0- and \$128,321 at September 30, 2017 and September 30, 2016, respectively. The following are the holdings in the discretely presented component unit's cash and investment portfolio:

<b>Description</b>	<b>CUSIP</b>	<b>Fair Value</b>	<b>Portion of Portfolio</b>
Bank demand deposit accounts		\$ 127,936	2.88%
Deposits held in brokerage accounts		15,390	0.35%
U. S. Treasury Notes	Various	304,563	6.87%
Corporate bonds:			
Eclolab, Inc. (1.55%)	278865AQ3	10,000	0.23%
Medtronic, Inc. (1.375%)	585055BA3	19,995	0.45%
The Goldman Sachs (2.9%)	38147MAA3	10,082	0.23%
Total FINA ELF (2.125%)	89152UAG7	10,049	0.23%
BNP Paribas (2.7%)	055746PT9	20,172	0.45%
Toronto-Dominion Bank (2.625%)	89114QAM0	20,194	0.46%
Westpac Banking (2.25%)	961214CF8	20,092	0.45%
Anheuser-Busch, Inc. (1.9%)	035242AG1	10,023	0.23%
Bristol-Meyer Squib (1.6%)	110122BA5	19,987	0.45%
AT&T, Inc. (2.3%)	00206RCC4	10,061	0.23%
American Express (2.125%)	0258M0DK2	20,094	0.45%
Caterpillar Financial (1.35%)	14912L6R7	14,881	0.34%
Citigroup, Inc. (2.5%)	172967HU8	10,083	0.23%
Novartis Cap Corp (1.8%)	66986HAL2	14,952	0.34%
Morgan Stanley (2.8%)	61761JB32	10,146	0.23%
CVS Health Corp. (2.8%)	126650CJ7	10,173	0.23%
Bank of America (2.625%)	06051GFT1	10,104	0.23%
Wells Fargo Bank (2.5%)	949746RS2	20,107	0.45%
Bank of New York (3.55%)	06406HBY4	10,460	0.24%
General Electric (4.65%)	36962G5J9	21,799	0.49%
J P Morgan Chase (4.5%)	46625HJD3	21,593	0.49%
Merck & Co., Inc. (2.35%)	58933YAQ8	20,137	0.45%
Deere & Co. (2.6%)	244199BE4	20,207	0.46%
Comcast Corporation (3.125%)	20030NBD2	15,534	0.35%
Oracle Corporation (2.5%)	68389XAP0	20,109	0.45%
Statoil ASA (2.45%)	85771PAG7	19,936	0.45%
Apple, Inc. (2.85%)	037833BU3	20,407	0.46%
Verizon Communications (5.15%)	92343VBR4	11,219	0.25%
Municipal Bonds:			
Poway California Redevelopment Agency (1.78%)	738798BG1	10,009	0.23%
Cincinnati OH DB UTX (1.837%)	172217VZ1	10,018	0.23%

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

Texas State WTR UTIL (2.412%)	882723EG0	10,117	0.23%
University of Pittsburg (1.829%)	914805EQ5	25,045	0.56%
Minneapolis-St. Paul Metropolitan Airports Commission (2.755%)	603827VA1	15,189	0.34%
South Dakota Conservancy District (1.786%)	837545KZ4	39,814	0.90%
North Texas Tollway Authority (3.419%)	66285WHU3	41,692	0.94%
Port of Morrow OR Power Utility (2.42%)	73474TAF7	25,169	0.57%
New York NY City Transitional Taxable Future Tax (2.35%)	64971QTX1	40,210	0.91%
Board of Water Supply City and Couny of Honolulu (2.619%)	438689JU6	35,279	0.80%
City of Richmond VA GO UTX (2.599%)	76541VKG1	35,480	0.80%
<b>Mutual Funds:</b>			
American Funds EuroPacific Growth Fund (4,182.518 shares)	AEPFX	231,544	5.22%
BlackRock Global Alloc. Fund, Inc. Institutional (5,804.466 shares)	MALOX	117,482	2.65%
Catalyst Hedged Futures Strategy Fund Class I (10,401.276 shares)	HFXIX	88,619	2.00%
Diamond Hill Long Short Fund Class I (4,435.029 shares)	DHLSX	116,153	2.62%
Dodge & Cox International Stock (4,493.32 shares)	DODFX	223,656	5.04%
FPA Crescent (3,306.619 shares)	FPACX	114,343	2.58%
Goldman Sachs Satellite Strategies Portfolio (24,999.636 shares)	GXSIX	208,747	4.71%
PIMCO All Asset Fund Institutional Class (9,326.259 shares)	PAAIX	112,195	2.53%
Schwab Fundamental US Large Co. Index (31,036.61 shares)	SFLNX	517,070	11.66%
Schwab Fundamental US Small Co. Index (13,320.37 shares)	SFSNX	202,337	4.56%
Vanguard 500 Index Fund Admiral Class (1,831.627 shares)	VFIAX	425,982	9.60%
Wells Fargo Absolute Return Fund (10,333.492 shares)	WABIX	117,182	2.64%
Vanguard Ultra Short Bond Fund (33,873.54 shares)	VUSFX	678,147	15.29%
Vanguard Convert Securities Bond Fund (7,700.371 shares)	VCVSX	103,801	2.29%
		<b>\$ 4,435,765</b>	<b>100.00%</b>

The OPEB Trust follows the investment policies of the City. Accordingly, the OPEB Trust generally invests in fixed income securities with maturities of five years or less. At September 30, 2017, the OPEB Trust had invested \$2.6 million in certificates of deposit. Of these investments in certificates of deposit, the OPEB Trust had an investment at one financial institution located outside of the State of Alabama (at market value plus accrued interest) that exceeded the \$250,000 FDIC limit of coverage in the amount of \$498. Following is a summary of the OPEB Trust's top holdings in its cash and investment portfolio:

	<b>Investment Maturity in Years</b>			
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>From 1 Up To 3</u>	<u>From 3 Up To 5</u>
Deposits held in brokerage accounts	\$ 24,776	\$ 24,776	\$ 0	\$ 0
Certificates of deposit	2,573,944	0	899,437	1,674,507
<b>Totals</b>	<b>\$ 2,598,720</b>	<b>\$ 24,776</b>	<b>\$ 899,437</b>	<b>\$ 1,674,507</b>

**Custodial Risk.** For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the investor 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 and OPEB Trust's investments in certificates of deposit are held in separate trusts by the City's and OPEB Trust's custodians in the name of the respective 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:

City of Mountain Brook, Alabama

Notes to Financial Statements

	2017				2016 Total
	General Fund	Capital Projects	Other Governmental Funds	Total	
Taxes	\$ 2,028,546	\$ 0	\$ 37,230	\$ 2,065,776	\$ 2,034,823
E-911 surcharge	0	0	29,283	29,283	40,996
Board of Education (Note 1.B.)	75,000	0	0	75,000	0
Grants	0	279,652	0	279,652	16,876
Other	65,634	0	0	65,634	84,267
<b>Totals</b>	<b>\$ 2,169,180</b>	<b>\$ 279,652</b>	<b>\$ 66,513</b>	<b>\$ 2,515,345</b>	<b>\$ 2,176,962</b>

4. Capital assets

Following is a summary of the changes in the City's capital assets for the year ended September 30, 2017:

	Balance at September 30, 2016	Additions	Disposals/ Retirements/ Completed	Balance at September 30, 2017
<b>Capital assets, not being depreciated:</b>				
Land	\$ 19,914,153	\$ 0	\$ 0	\$ 19,914,153
Construction in progress	248,085	3,947,944	(2,872,973)	1,323,056
<b>Total capital assets, not being depreciated</b>	<b>20,162,238</b>	<b>3,947,944</b>	<b>(2,872,973)</b>	<b>21,237,209</b>
<b>Capital assets, being depreciated:</b>				
Land improvements	3,090,729	32,850	0	3,123,579
Buildings and improvements	34,879,558	76,728	467,763	35,424,049
Machinery and equipment	23,626,469	2,102,394	(290,329)	25,438,534
Infrastructure	60,313,201	796,459	2,202,057	63,311,717
<b>Total capital assets, being depreciated</b>	<b>121,909,957</b>	<b>3,008,431</b>	<b>2,379,491</b>	<b>127,297,879</b>
<b>Less accumulated depreciated for:</b>				
Land improvements	464,074	33,177	0	497,251
Buildings and improvements	7,088,549	1,140,057	0	8,228,606
Machinery and equipment	18,123,874	1,486,306	(281,943)	19,328,237
Infrastructure	38,949,829	2,467,475	(203,153)	41,214,151
<b>Total accumulated depreciation</b>	<b>64,626,326</b>	<b>5,127,015</b>	<b>(485,096)</b>	<b>69,268,245</b>
<b>Total capital assets, being depreciated, net</b>	<b>57,283,631</b>	<b>(2,118,584)</b>	<b>2,864,587</b>	<b>58,029,634</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 77,445,869</b>	<b>\$ 1,829,360</b>	<b>\$ (8,386)</b>	<b>\$ 79,266,843</b>

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

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

	<u>2017</u>	<u>2016</u>
Governmental activities:		
General government	\$ 373,099	\$ 363,898
Public safety	1,463,643	1,413,289
Street and sanitation	2,178,598	2,040,474
Recreational	616,871	652,124
Library	<u>494,804</u>	<u>533,939</u>
<b>Total depreciation expense</b>	<b><u>\$ 5,127,015</u></b>	<b><u>\$ 5,003,724</u></b>

**5. Long-term debt**

The City redeemed early without penalty the outstanding principle balance of the \$5 million General Obligation Warrants, Series 2007 on October 1, 2015. The total interest paid by the City during the years ended September 30, 2017 and 2016 relative to general obligation warrants was \$0 and \$71,641, respectively. The debt of the City supported the general government function and, as such, all interest expense was 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 each of the years ended September 30, 2017 and 2016 was \$0.

**6. Pension plan**

**A. General information about the pension plan**

**Plan description.** The Employees' Retirement System of Alabama (ERS), an agent multiple-employer plan, was established October 1, 1945 under the provisions of Act 515 of the Legislature of 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 the general administration and operation of ERS is vested in its Board of Control. The ERS Board of Control consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). Title 36-Chapter 27 of the Code of Alabama grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at [www.rsa-al.gov](http://www.rsa-al.gov).

The ERS Board of Control consists of 13 trustees as follows:

- 1) The Governor, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Personnel Director, ex officio.
- 4) The State Director of Finance, ex officio.
- 5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
- 6) Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
  - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
  - b. Two vested active state employees.
  - c. Two vested active employees of an employer participating in ERS pursuant to Alabama Code §36-27-6.

City of Mountain Brook, Alabama

Notes to Financial Statements

**Benefits provided.** State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of state police service in computing the formula method.

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary on the member's age, service credit, employment status and eligibility for retirement.

The ERS serves approximately 875 local participating employers. These participating employers include 294 cities, 65 counties, and 516 other public entities. The ERS membership includes 83,642 participants. As of September 30, 2015, membership consisted of:

Retirees and beneficiaries currently receiving benefits	22,248
Terminated employees entitled to but not yet receiving benefits	6,767
Active members	<u>54,627</u>
Total	<u>83,642</u>

**Contributions.** Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members. The City Council elected to increase the employee contribution rates as described above as provided in Act 2011-676 of the Regular Session of the 2011 Alabama Legislature effective October 1, 2011.

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. Tier 2 State Police members of the ERS contribute 10% of earnable compensation. These contributions rates are the same for Tier 2 covered members of ERS local participating employers.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2017, the City's active employee contribution rates were 7.50% (Tier 1) and 6% (Tier 2) for civilian employees and 8.5% (Tier 1) and 7% (Tier 2) for sworn police officers and firefighters. For the year ended September 30, 2017, the City's actuarially determined contribution rates for active employee (including pre-retirement death benefits of 0.02% and administrative expenses of 0.35%) expressed as a percentage of covered employee payroll was as follows:

<b>Unit (Collectively, "The City of Mountain Brook")</b>	<b>Tier 1</b>	<b>Tier 2</b>
2460 City of Mountain Brook	13.30%	13.00%
4791 Mountain Brook Library Board	3.38%	2.60%
4792 Mountain Brook Park and Recreation Board	2.97%	1.04%

The weighted average contribution rate (excluding pre-retirement death benefits of 0.02% and administrative expenses of 0.35%) to fund the normal and accrued liability costs was 11.41%.

The required contribution rates above are based upon the actuarial valuation dated September 30, 2014, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total contributions to the pension plan were \$3,528,766 (\$1,733,175 employer actuarially determined amount, excess employer contributions of \$600,000, and \$1,195,591 employee excluding pre-retirement death benefits of 0.02% and administrative expenses of 0.35%) for the year ended September 30, 2017.

**B. Net pension liability**

The City's net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015 rolled forward to September 30, 2016 using standard roll-forward techniques as shown below:

	<b>Unit</b>			<b>Combined</b>
	<b>City 2460 MTB</b>	<b>Library 4791 MBL</b>	<b>Park Board 4792 MBP</b>	
Total pension liability as of September 30, 2015 (a)	\$ 68,723,365	\$ 4,146,180	\$ 1,773,008	\$ 74,642,553
Changes of assumptions	3,563,466	786,677	269,051	4,619,194
Difference between expected and actual experience	481,170	(35,703)	(16,164)	429,303
Transfers among employers	(76,980)	37,200	0	(39,780)
Entry age normal cost for the period				
October 1, 2015 through September 30, 2016 (b)	1,175,371	108,084	52,740	1,336,195
Actual benefit payments and refunds for the period				
October 1, 2015 through September 30, 2016 (c)	<u>(4,150,241)</u>	<u>(131,624)</u>	<u>(83,507)</u>	<u>(4,365,372)</u>
Total pension liability as of September 30, 2016	<u>\$ 75,048,011</u>	<u>\$ 5,237,243</u>	<u>\$ 2,133,628</u>	<u>\$ 82,418,882</u>
[(a) X (1.08)] + (b) - [(c) X (1.04)]				

**Actuarial assumptions.** The total pension liability in the September 30, 2015 actuarial valuation was determined

Inflation	2.75%
Salary increases	3.25%—5.00%
Investment rate of return*	7.75%

\*Net of pension plan investment expense

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

Mortality rates for ERS were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward three years for males and one years for females. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disability Mortality Table.

The actuarial assumptions used in the September 30, 2015 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	<b>Target Allocation</b>	<b>Long-Term Expected Rate of Return*</b>
Fixed Income	17.00%	4.40%
U.S. Large Stocks	32.00%	8.00%
U.S. Mid Stocks	9.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash	3.00%	1.50%
	<hr/>	
Total	100.00%	
	<hr/>	

\*Includes assumed rate of inflation of 2.50%.

**Discount rate.** The discount rate used to measure the total pension liability was the long term rate of return, 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current pan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Mountain Brook, Alabama

Notes to Financial Statements

C. Changes in net pension liability

	<u>Increase (Decrease)</u>		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances at September 30, 2015	\$ 74,642,553	\$ 48,492,463	\$ 26,150,090
Changes for the year:			
Service cost	1,336,195	0	1,336,195
Interest	5,796,789	0	5,796,789
Changes of assumptions	4,619,194		4,619,194
Differences between expected and actual experience	429,303	0	429,303
Contribtuions—employer	0	1,619,070	(1,619,070)
Contribtuions—employee	0	1,178,166	(1,178,166)
Net investment income	0	4,856,657	(4,856,657)
Benefit payments, including refunds of employee contributions	(4,365,372)	(4,365,372)	0
Administrative expense	0	0	0
Transfers among employers	(39,780)	(39,780)	0
Net changes	<u>7,776,329</u>	<u>3,248,741</u>	<u>4,527,588</u>
Balances at September 30, 2016	<u>\$ 82,418,882</u>	<u>\$ 51,741,204</u>	<u>\$ 30,677,678</u>

**Sensitivity of the net pension liability to changes in the discount rate.** The following table presents the City's net pension liability calculated using the discount rate of 7.75%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increase (8.75%)
City's net pension liability	<u>\$ 39,949,774</u>	<u>\$ 30,677,678</u>	<u>\$ 22,816,459</u>

**Pension plan fiduciary net position.** Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2016. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2016. The auditor's report dated September 18, 2017, on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

D. Pension expense and deferred outflows of resources and deferred inflows of resources related to pension

For the year ended September 30, 2017, the City recognized pension expense of \$3,122,427. At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

City of Mountain Brook, Alabama

Notes to Financial Statements

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,038,444	\$ 119,553
Changes of assumptions	3,928,138	0
Net difference between projected and actual earnings on pension plan investments	441,235	0
Employer contributions subsequent to the measurement date	<u>2,333,175</u>	<u>0</u>
<b>Total</b>	<b><u>\$ 7,740,992</u></b>	<b><u>\$ 119,553</u></b>

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

Year ended September 30:	<u>Deferred Outflows/ Inflows Resources</u>
2018	\$ 982,690
2019	982,688
2020	1,338,003
2021	676,294
2022	809,619
Thereafter	498,970

**E. Payable to the pension plan**

The City reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended September 30, 2017 (and accrued pension contributions in the amount of \$104,747 applicable to accrued [pensionable] salaries and wages as of September 30, 2017).

**F. Membership as of the Measurement Date September 30, 2016**

	<u>City 2460 MTB</u>	<u>Library 4791 MBL</u>	<u>Park Board 4792 MBP</u>	<u>Combined</u>
Retired members or their beneficiaries currently receiving benefits	103	8	4	115
Non-vested inactive members	3	2	0	5
Active members	<u>178</u>	<u>27</u>	<u>17</u>	<u>222</u>
Total	<u>284</u>	<u>37</u>	<u>21</u>	<u>342</u>

**7. Post-employment benefits**

**Plan Description.** The City of Mountain Brook has established a cost-sharing post-employment benefits plan. The City's medical benefits are provided to former employees upon actual retirement through participation in the Local Government Health Insurance Plan (LGHIP), a multiple-employer self-insured welfare plan administered by the State Employees' Insurance Board (SEIB).

Article VII of the Trust represents that the City Council had the authority to establish the Trust and Article V, Sec. 5.4 assigns authority manage the plan and amend the benefit provisions to the City Council (or Board of Trustees), which consists of the five members elected at-large. Because these members of the City Council are elected to office, the members of the Plan's Board of Trustees vary from time-to-time. Additionally, the Board of Trustees may designate certain City officials as signatories on the Trust's investment account.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

**Plan Membership.** At September 30, 2017, the Plan's membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	29
Inactive plan members entitled to, but not yet receiving, benefit payments	0
Active plan members	<u>217</u>
<b>Total</b>	<b><u>246</u></b>

**Benefits Provided.** The employer pays a portion of the medical coverage for the retirees and dependents for a maximum of thirteen years after retirement or, if earlier, until the attainment of Medicare eligibility. The earliest retirement eligibility provisions are as follows: 25 years of service at any age; or, age 60 and 10 years of service (called "Tier I members"). Employees hired on and after January 1, 2013 (called "Tier II" members) are eligible to retire only after attainment of age 62 (age 56 for police and firefighters) or later and completion of 25 years of service.

**Contributions.** Employees do not contribute to their post-employment benefit costs until they become retirees and begin receiving benefits. The plan provisions are contained in the official plan documents. The contributions for retirees for the year ended September 30, 2017, were as follows:

	<b>Total</b>	<b>City Portion</b>	<b>Retiree</b>
	<b>Premium</b>	<b>City Portion</b>	<b>Portion</b>
Family coverage, none Medicare eligible	\$ 1,686	\$ 1,187	\$ 499
Family coverage, dependent Medicare eligible	1,368	869	499
Individual coverage, not Medicare eligible	916	760	156

**Investment policy.** The Plan's policy regarding the allocation of invested assets is established and may be amended by the Board of Trustees. The following was the asset allocation policy as of September 30, 2017:

<b>Asset Class</b>	<b>Target</b>
<u>Asset Class</u>	<u>Allocation</u>
Certificates of deposit	100%

**Concentrations.** All plan assets are held in book entry form in a brokerage account. The investments in certificates of deposit are protected by Federal Depository Insurance (FDIC).

**Rate of Return.** For the year ended September 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 1.93%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**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 2017 and 2016, the City of Mountain Brook's portion of health care funding cost for retired employees totaled \$327,140 and \$311,433, 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>2017</u>	<u>2016</u>
Normal Cost	\$ 86,975	\$ 134,094
30-year UAL amortization amount	<u>152,839</u>	<u>134,347</u>
Annual required contribution (ARC)	<u>\$ 239,814</u>	<u>\$ 268,441</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>2017</u>	<u>2016</u>
Beginning Net OPEB Obligation (Asset)	\$ (2,474,233)	\$ (2,169,932)
Annual required contribution	239,814	268,441
Interest on Net OPEB Obligation (Asset)	(86,598)	(86,797)
ARC Adjustment	<u>134,527</u>	<u>125,488</u>
OPEB Cost	287,743	307,132
Contribution	(300,000)	(300,000)
Current year retiree premium	<u>(345,274)</u>	<u>(311,433)</u>
Change in Net OPEB Obligation	<u>(357,531)</u>	<u>(304,301)</u>
Ending Net OPEB Obligation (Asset)	<u>\$ (2,831,764)</u>	<u>\$ (2,474,233)</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 this year and last year:

Fiscal Year	Annual OPEB Cost	Percentage of Annual Cost Contributed	NET OPEB Liability (Asset)
September			
2017	\$ 287,743	224.25%	\$ (2,831,764)
2016	307,132	199.08%	(2,474,233)

**Funded Status and Funding Progress.** In each of the fiscal years ending September 30, 2017 and 2016, the City of Mountain Brook contributed \$300,000 into its post-employment benefits plan in excess of the retiree premium costs and administrative expenses. Including accrued interest and unrealized gains/losses, the plan had assets of \$2,598,720 and \$2,301,227 as of September 30, 2017 and 2016, respectively. Based on the October 1, 2016 (most recent) actuarial valuation, the Actuarial Accrued Liability (AAL) at the end of the year September 30, 2017 was \$5,173,695 which is defined as that portion, as determined by a particular actuarial cost method (the City of Mountain Brook uses the Projected Unit Credit Cost Method), of the actuarial present value of post employment plan benefits and expenses which is not provided by normal cost.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL) -Entry age	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Ratio of UAAL to Covered Payroll ((b-a)/c)
September 30	(a)	(b)		(a/b)	(c)	((b-a)/c)
2017	\$ 2,598,720	\$ 5,173,695	\$ 2,574,975	50.23%	\$ 15,189,454	16.95%
2016	2,301,227	4,392,295	2,091,068	52.39%	14,888,056	14.05%

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

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

**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). Employees hired on and after January 1, 2013 (called "Tier 2" members) are eligible to retire only after attainment of age 62 or later completion of 10 years of service. 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 3.5% annual investment return assumption.

**Health Care Cost Trend Rate.** The expected rate of increase in medical cost is based on a graded schedule beginning with 8% annually, down to an ultimate annual rate of 5.0% for ten years out and later.

**Mortality Rate.** The 1994 Group Annuity Reserving (94GAR) table, projected to 2002, based on a fixed blend of 50% of the unloaded male mortality rate and 50% of the unloaded female mortality rates, was used. This is a published mortality table which was designed to be used in determining the value of accrued benefits in defined benefit pension plans. Projected future mortality improvement has not been used since it is our opinion that this table contains sufficiently conservative margin for the population involved in this valuation.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

**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 45/74 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 years.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
OPEB Costs	\$ 287,743	\$ 307,132	\$ 281,296
Contributions	300,000	300,000	300,000
Retiree premium	<u>345,274</u>	<u>311,433</u>	<u>346,328</u>
Total contribution and premium	<u>645,274</u>	<u>611,433</u>	<u>646,328</u>
Change in net OPEB obligation	<u>\$ (357,531)</u>	<u>\$ (304,301)</u>	<u>\$ (365,032)</u>
Ratio of contributions to cost	<u>104.26%</u>	<u>97.68%</u>	<u>106.65%</u>
Ratio of contributions plus premium to cost	<u>224.25%</u>	<u>199.08%</u>	<u>229.77%</u>

**Net OPEB Liability**

The components of the net OPEB liability of the City of Mountain Brook at September 30, 2017, were as follows:

Total OPEB liability	\$ 5,173,695
Plan fiduciary net position	<u>2,598,720</u>
Net OPEB Liability	<u>\$ 2,574,975</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>50.23%</u>

**Actuarial Assumptions.** The total OPEB liability was determined by an actuarial valuation as of October 1, 2016, using the following actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary increases	3.0%
Investment rate of return	3.5%, net of OPEB plan investment expense, including inflation
Health care cost trend rates	Graded from 8% down to 5% over ten years

The actuarial assumptions used in the October 1, 2016 valuation were based on the results of ongoing evaluations of the assumptions from October 1, 2006 to September 30, 2017.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of September 30, 2017, are summarized in the following table:

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

<b>Asset Class</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic equity	6%
Corporate bonds	5%
Certificates of Deposit	1%
Cash	0%

**Discount Rate.** The discount rate used to measure the total OPEB liability was 3.5%. The projection of cash flows used to determine the discount rate assumed that City of Mountain Brook contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate – The following represents the net OPEB liability of the City of Mountain Brook, as well as what the City of Mountain Brook's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.5%) or 1-percentage-point higher (4.5%) than the current discount rate:

	<b>1% Decrease (2.5%)</b>	<b>Current Rate (3.5%)</b>	<b>1% Increase (4.7%)</b>
<b>Net OPEB Liability</b>	<b>\$ 3,107,534</b>	<b>\$ 2,574,975</b>	<b>\$ 2,106,454</b>

**Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.** The following represents the net OPEB liability of the City of Mountain Brook, as well as what the City of Mountain Brook's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7.0% decreasing to 4.0%) or 1-percentage-point higher (9.0% decreasing to 6.0%) than the current healthcare trend rates:

	<b>1% Decrease (7% to 4%)</b>	<b>Current Discount Rate (8% to 5%)</b>	<b>1% Increase (9% to 6%)</b>
<b>Net OPEB Liability</b>	<b>\$ 2,072,059</b>	<b>\$ 2,574,975</b>	<b>\$ 3,150,833</b>

**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 2017 and 2016 were as follows:

	<b>2017</b>	<b>2016</b>
Property tax commissions	\$ 221,789	\$ 215,162
Maintenance of maps and appraisals	221,487	230,255
Jefferson County Health Department	122,188	118,439
Birmingham-Jefferson County Transit Authority	123,066	103,765
Personnel Board of Jefferson County	186,067	235,969
Birmingham Regional Planning Commission	0	24,700

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.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

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, 2017, were \$31.29 per month for single and multiple family residential units and \$38.38 per month for commercial units. The annual cost incurred under this agreement for the years ended September 30, 2017 and 2016, was approximately \$2,811,000 and \$2,780,000, respectively. Total garbage service fee revenues collected by the City from its commercial customers during the years ended September 30, 2017 and 2016 were \$30,977 and \$29,175, 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 2014. In October 2014, the City Council authorized the extension of the agreement through June 2015 in consideration of \$50,000.

In August 2013, the City entered into a development agreement with a real estate developer constructing a 28-acre, \$120 million planned unit development. Under the terms of the development agreement, the City will reimburse the developer \$4 million for its infrastructure costs of constructing a new road and widening and improving existing roads upon completion of such improvements. In addition, the City has agreed to a \$10 million revenue sharing arrangement. To the extent that sales tax revenue generated from the new development exceeds the pre-development annual baseline of \$728,000 (to be indexed annually at the rate of 2%), the City shall pay the developer 90% of the excess. The City shall also pay the developer 90% of the new lodging tax revenue generated and the City's portion of real estate taxes in excess of the pre-development annual baseline of \$65,000 (to be indexed annually at the rate of 2%). The accompanying financial statements include infrastructure incentive expense of \$931,882 and revenue sharing development incentive expense of \$770,736 for the year ended September 30, 2017. The outstanding development incentive commitment balance was \$11,749,627 as of September 30, 2017 (\$3,068,118 of the \$4 million infrastructure incentive and \$8,681,509 of the \$10 million revenue sharing).

In 2014, the City entered into a development agreement for the construction of a new grocery store. Under the terms of the development agreement, the City will pay the developer monthly amounts equal to 75% of the sales tax derived from the store for five years and 50% of the sales tax derived from the store thereafter up to \$4 million in the aggregate or twenty years (whichever occurs first). Additionally, the City shall pay the developer an amount equal to the City's 26.1 mil share of the 99 mil ad valorem tax in any year that taxable sales exceed defined targets increased annually based on pre-construction projections. The incentive payments commenced in 2016 upon the opening of the store. The accompanying financial statements include revenue sharing incentive expense of \$268,433 for the year ended September 30, 2017. The outstanding development incentive commitment balance was \$3,653,354 as of September 30, 2017.

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

	<u>2017</u>	<u>2016</u>
Streets and bridge	\$ 1,000,667	\$ 0

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

Public building improvements	127,053	28,168
Sidewalks and pedestrian bridge	<u>195,336</u>	<u>219,917</u>
<b>Total</b>	<b><u>\$ 1,323,056</u></b>	<b><u>\$ 248,085</u></b>

The City has entered into 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 sidewalk contracts underway as of September 30, 2017:

<u>Project Description</u>	<u>Contract Commitment and Anticipated Overruns</u>	<u>Expended in Fiscal 2017 <sup>(1)</sup></u>	<u>Federal Awards Reported in 2017</u>	<u>Estimated Cost to Complete</u>	<u>Anticipated Completion Date</u>
Intersection improvements Cahaba Road/ US 280/Culver Road/Lane Park Road CMAQ-3715(266)	412,000	138,306	110,644	274,000	
Jemison Trail/Shades Creek Parkway Phase 5B - STPBH-CN13(907)	907,000	<u>858,527</u>	<u>686,822</u>	<u>40,000</u>	Pending Close-out
<b>Totals</b>		<b><u>\$ 996,833</u></b>	<b><u>\$ 797,466</u></b>	<b><u>\$ 314,000</u></b>	

<sup>(1)</sup> The amounts expended in fiscal 2017 include project-related expenditures not eligible for federal reimbursement.

**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>2017</u>	<u>2016</u>
Assessed value of taxable real and personal property as provided by the Jefferson County Tax Assessor	<u>\$604,325,020</u>	<u>\$585,850,540</u>
Constitutional debt limit, 20 percent of assessed value	\$120,865,004	\$117,170,108
Outstanding long-term debt as of September 30	<u>0</u>	<u>0</u>
Legal Debt Margin	<u>\$120,865,004</u>	<u>\$117,170,108</u>

**10. Tax Abatements (Revenue Sharing Agreements)**

The City has entered into various tax abatement (revenue sharing agreements) with property owners, businesses and real estate developers for the purpose of a) annexing commercial/recreational properties, b) recruiting new business development and c) promoting the redevelopment of commercial parcels within the City. The agreements have limited terms and are entered into by the City as they are expected to benefit the City or increase revenue. These incentive agreements require approval by the City Council and are authorized by Amendment 772 to the Constitution of Alabama (1901) (Article 94.01 of the Recompiled Constitution of Alabama). The incentive agreements generally expire upon the earlier of a specified term of years or the satisfaction of the agreed upon incentive amount. Following is a summary of such agreements:

City of Mountain Brook, Alabama

Notes to Financial Statements

Nature of Incentive	Type of Tax	Percentage of City Taxes Abated	Abatement Amount	Expiration of Incentive	Maximum Incentive Amount
Retail/recreational annexation	Ad valorem	100%	\$ 98,113	2017	Not applicable
Grocer annexation/development	Ad valorem	100%	<u>12,699</u>	2020	Not applicable
<b>Offset against related ad valorem tax revenue</b>			110,812		
Redevelopment of commercial and multi-family parcels					
Revenue sharing				2035 <sup>(2)</sup>	\$ 10,000,000
	Ad valorem	100% <sup>(1)</sup>	347,865		
	Lodging and Sales Tax <sup>(1)</sup>	90%	422,871		
Redevelopment of parcels for commercial use	Sales Tax	75%	<u>268,433</u>	2034 <sup>(2)</sup>	\$ 4,000,000
<b>General government expense</b>			<u>1,039,169</u>		
<b>Total incentive</b>			<u>\$ 1,149,981</u>		

<sup>(1)</sup> The development incentive is equal to 100% of ad valorem and 90% of sales taxes collected in excess of the pre-development baseline collections. The pre-development baseline collections are increased annually at the rate of 1-1/2%.

<sup>(2)</sup> The defined expiration of the incentive agreement based on the expressed term in years. The City is confident that the incentive agreement will be satisfied much earlier based on the maximum incentive amount.

**10. Litigation**

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

**11. Future Accounting Pronouncements**

The Governmental Accounting Standards Board has issued statements that will become effective in subsequent fiscal years. The statements address:

- OPEB - accounting and financial reporting by employers;
- Split-interest agreements;
- Various practice issues (Omnibus); and
- Certain debt extinguishment issues.

The City is currently evaluating the effects that these statements will have on its financial statements for subsequent fiscal years.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**City of Mountain Brook, Alabama**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual - General Fund**  
**Year Ended September 30, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues:</b>				
Taxes	\$ 30,660,989	\$ 31,010,989	\$ 30,885,219	\$ (125,770)
Licenses and permits	4,511,900	4,511,900	4,856,121	344,221
Intergovernmental	96,498	96,498	185,943	89,445
Charges for services	687,700	687,700	709,772	22,072
Fines and forfeitures	549,000	549,000	586,293	37,293
Grants	11,138	11,138	111,680	100,542
Other operating revenues	<u>444,870</u>	<u>444,870</u>	<u>379,019</u>	<u>(65,851)</u>
<b>Total revenues</b>	<u>36,962,095</u>	<u>37,312,095</u>	<u>37,714,047</u>	<u>401,952</u>
<b>Expenditures:</b>				
<b>Current (operating):</b>				
General government	5,334,715	7,247,149	6,729,244	517,905
Public safety	15,355,093	15,355,093	14,985,533	369,560
Street and sanitation	6,675,645	6,675,645	6,442,783	232,862
Recreational	1,291,478	1,291,478	1,216,830	74,648
Library	<u>3,231,734</u>	<u>3,231,734</u>	<u>3,194,462</u>	<u>37,272</u>
<b>Total expenditures</b>	<u>31,888,665</u>	<u>33,801,099</u>	<u>32,568,852</u>	<u>1,232,247</u>
<b>Excess of revenues over expenditures</b>	<u>5,073,430</u>	<u>3,510,996</u>	<u>5,145,195</u>	<u>1,634,199</u>
<b>Other financing sources (uses):</b>				
Operating transfers (out)	(4,403,621)	(3,471,187)	(4,649,123)	(1,177,936)
Operating transfers in - component unit	25,000	25,000	78,039	53,039
Donations	<u>71,400</u>	<u>71,400</u>	<u>80,185</u>	<u>8,785</u>
<b>Total other financing sources (uses)</b>	<u>(4,307,221)</u>	<u>(3,374,787)</u>	<u>(4,490,899)</u>	<u>(1,116,112)</u>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	766,209	136,209	654,296	518,087
<b>Fund balances, beginning of year</b>	<u>14,807,406</u>	<u>14,807,406</u>	<u>14,807,406</u>	<u>0</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 15,573,615</u>	<u>\$ 14,943,615</u>	<u>\$ 15,461,702</u>	<u>\$ 518,087</u>

**City of Mountain Brook, Alabama**  
**Required Supplementary Information**  
**Schedule of Changes in the Net Pension Liability and Related Ratios**  
**Year Ended September 30**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total pension liability</b>			
Service costs	\$ 1,336,195	\$ 1,300,723	\$ 1,271,006
Interest	5,796,789	5,523,394	5,313,180
Change in assumptions	4,619,194	0	0
Differences between expected and actual experience	429,303	809,623	0
Benefit payments, including refunds of employee contributions	(4,365,372)	(4,067,215)	(3,845,824)
Transfers among employers	(39,780)	0	0
Net change in total pension liability	7,776,329	3,566,525	2,738,362
Total pension liability, beginning	<u>74,642,553</u>	<u>71,076,028</u>	<u>68,337,666</u>
Total pension liability, ending (a)	<u>\$ 82,418,882</u>	<u>\$ 74,642,553</u>	<u>\$ 71,076,028</u>
<b>Plan fiduciary net position</b>			
Contributions - employer	\$ 1,619,070	\$ 1,578,733	\$ 1,527,445
Contributions - employee	1,178,166	1,163,946	1,140,706
Net investment income	4,856,657	576,080	5,337,652
Benefit payments, including refunds of employee contributions	(4,365,372)	(4,067,215)	(3,845,824)
Transfers among employers	(39,780)	41,498	(125,527)
Net change in plan fiduciary net	3,248,741	(706,958)	4,034,452
Plan net position, beginning	<u>48,492,463</u>	<u>49,199,421</u>	<u>45,164,969</u>
Plan net position, ending (b)	<u>\$ 51,741,204</u>	<u>\$ 48,492,463</u>	<u>\$ 49,199,421</u>
Net pension liability (asset), ending	\$ 30,677,678	\$ 26,150,090	\$ 21,876,607
Plan fiduciary net position as a percentage of the total pension liability	62.78%	64.97%	69.22%
Covered-employee payroll <sup>(1)</sup>	\$ 14,888,056	\$ 14,580,566	\$ 14,200,725
Net pension liability (asset) as a percentage of the covered-employee payroll	206.06%	179.35%	154.05%

<sup>(1)</sup> Covered payroll during the measurement period is the total payroll on which contributions to the pension plan are based. For fiscal year 2016, the measurement period is October 1, 2016 — September 30, 2016.

**City of Mountain Brook, Alabama**  
**Required Supplementary Information**  
**Schedule of Employer Contributions**  
**Year Ended September 30**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 1,733,175	\$ 1,617,545	\$ 1,578,733
Contributions in relation to the actuarially determined contribution	<u>2,333,175</u>	<u>1,617,545</u>	<u>1,578,733</u>
Contributions deficiency (excess)	<u>\$ (600,000)</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered-employee payroll	<u>\$ 15,189,454</u>	<u>\$ 14,888,056</u>	<u>\$ 14,580,566</u>
Contributions as a percentage of covered-employee payroll	<u>15.36%</u>	<u>10.86%</u>	<u>10.83%</u>

**Notes to Schedule**

**Valuation date.** Actuarially determined contribution rates are calculated as of September 30, 2014, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumption used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	29 years
Asset valuation method	Five year smoothed market
Investment rate of return (discount rate)	8.00%
Salary increases**	3.75—7.25%
** Includes inflation at	3.00%
Cost-of-living adjustments	None

**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 an ordinance.
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 12, 2016 (Ordinance No. 1958) and subsequently revised upon the adoption Ordinance No. 1988 on July 24, 2017.

**City of Mountain Brook, Alabama  
Other Post-Employment Benefits  
Funding Progress and Trend Information  
Year Ended September 30, 2017**

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

A. The following table shows the City of Mountain Brook's annual post employment benefits (PEB) cost, percentage of the cost contributed, and the net unfunded post employment benefits (PEB) liability for last eight 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	2017	\$ 287,743	224.25%	\$(2,831,764)
Medical/Dental	2016	307,132	199.08%	(2,474,233)
Medical/Dental	2015	281,295	229.77%	(2,169,932)
Medical/Dental	2014	291,800	226.10%	(1,804,899)
Medical/Dental	2013	269,327	249.11%	(1,436,943)
Medical/Dental	2012	286,884	228.26%	(1,035,347)
Medical/Dental	2011	262,390	214.95%	(667,403)
Medical/Dental	2010	287,773	182.03%	(365,777)

B. **Funded Status and Funding Progress.** In each of the fiscal years ending September 30, 2017 and 2016, the City of Mountain Brook contributed \$300,000 into its post-employment benefits plan in excess of the retiree premium costs. Including accrued interest and unrealized gains/losses, the plan had assets of \$2,598,720 and \$2,301,227 as of September 30, 2017 and 2016, respectively. Based on the October 1, 2015 (most recent) actuarial valuation, the Actuarial Accrued Liability (AAL) at the end of the year September 30, 2017 was \$5,173,695 which is defined as that portion, as determined by a particular actuarial cost method (the City of Mountain Brook uses the Projected Unit Credit Cost Method), of the actuarial present value of post employment plan benefits and expenses which is not provided by normal cost.

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

<u>Actuarial Valuation Date September 30</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>Ratio of UAAL to Covered Payroll (b-a)/c</u>
2017	\$ 2,598,720	\$ 5,173,695	\$ 2,574,975	50.23%	\$15,189,454	16.95%
2016	2,301,227	4,392,295	2,091,068	52.39%	14,888,056	14.05%
2015	1,900,232	3,865,805	1,965,573	49.15%	14,580,566	13.48%
2014	1,571,336	3,992,253	2,420,917	39.36%	14,200,725	17.05%
2013	1,260,448	3,560,421	2,299,973	35.40%	13,750,308	16.73%
2012	925,335	3,155,271	2,229,936	29.33%	12,995,796	17.16%
2011	613,573	3,249,729	2,636,156	18.88%	13,591,314	19.40%
2010	403,024	3,473,472	3,070,448	11.60%	13,329,530	23.03%
2009	196,320	2,859,543	2,663,223	6.87%	13,285,976	20.05%

**City of Mountain Brook, Alabama**  
**Other Post-Employment Benefits (OPEB)**  
**Schedule of Changes in Net OPEB Liability and Related Ratios for the**  
**Year Ended September 30, 2017**

<b>Total OPEB Liability</b>	
Service cost	\$ 86,975
Interest	178,928
Changes of benefit terms	0
Differences between expected and actual experience	(204,448)
Changes of assumptions	0
Benefit payments	<u>0</u>
<b>Net change in total OPEB liability</b>	<b>61,455</b>
<b>Total OPEB liability, beginning of year</b>	<b><u>5,112,240</u></b>
<b>Total OPEB liability, end of year (a)</b>	<b><u>\$ 5,173,695</u></b>
<b>Plan Fiduciary Net Position</b>	
Contributions - employer	\$ 632,140
Contributions - member	117,374
Net investment income	(2,507)
Benefit payments	(444,514)
Administrative expense	<u>(5,000)</u>
<b>Net change in plan fiduciary net position</b>	<b>297,493</b>
<b>Plan fiduciary net position, beginning of year</b>	<b><u>2,301,227</u></b>
<b>Plan fiduciary net position, end of year (b)</b>	<b><u>\$ 2,598,720</u></b>
<b>Net OPEB liability, end of year (a) - (b)</b>	<b><u>\$ 2,574,975</u></b>
Plan fiduciary net position as a percentage of the total OPEB liability	50.23%
Covered-employee payroll	\$ 15,189,454
Net OPEB liability as a percentage of covered-employee payroll	16.95%

**Notes to Schedule:**

*Benefit Changes.* There were no changes of benefit terms for the year ended September 30, 2017.

*Changes of Assumptions.* There were no changes of assumptions for the year ended September 30, 2017.

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

**City of Mountain Brook, Alabama  
Other Post-Employment Benefits (OPEB)  
Schedule of Employer Contributions  
Year Ended September 30, 2017**

Actuarially determined contribution	\$	239,814
Contributions in relation to the actuarially determined contribution:		
Employer contributions to trust	300,000	
Employer-paid retiree premiums	327,140	
Employer-paid expenses	<u>5,000</u>	<u>632,140</u>
Contribution deficiency (excess)	\$	<u>(392,326)</u>
Covered annual payroll	\$	15,189,454
Contributions as a percentage of covered employee payroll		4.16%

**Notes to Schedule:**

Valuation date	10/1/2016
	Actuarially determined contributions are calculated as of the last day of the fiscal year in which contributions are reported
Actuarial cost method	Individual Entry Age Normal
Amortization method	Level dollar, open
Amortization period	30 years
Asset valuation method	Market value
Inflation	2.5% annually
Health care trend	Graded from 8% down to 4% over ten years
Salary increases	3.0% annually
Investment return	3.5% annually
Retirement age	Three (3) years after the earliest of 1) 30 years of service or 2) attainment of age 60 and 15 years of service with the City. Eligibility for benefits ceases upon the earlier of 13 years after retirement and/or Medicare eligibility. Employees hired on or after January 1, 2013, are not eligible to retire before age 62 for civilians and 57 for sworn police officers and firefighters.
Mortality	94 GAR projected to 2002, 50% unisex blend
Turnover	Age specific table with an average of 10%

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

**City of Mountain Brook, Alabama  
Other Post-Employment Benefits (OPEB)  
Schedule of Investment Returns  
Year Ended September 30, 2017**

	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	-1.99%

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

**SUPPLEMENTARY INFORMATION**

**City of Mountain Brook, Alabama**

**Combining Balance Sheet  
Other Governmental Funds  
September 30, 2017**

	<b>State Shared Gasoline Tax Funds</b>			
	<b>Seven Cent</b>	<b>Four Cent</b>	<b>Five Cent</b>	<b>Two Cent</b>
<b>ASSETS</b>				
Cash and temporary investments	\$ 98,034	\$ 108,694	\$ 96,782	\$ 8,566
Receivables	<u>19,970</u>	<u>11,554</u>	<u>5,706</u>	<u>0</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 118,004</u></b>	<b><u>\$ 120,248</u></b>	<b><u>\$ 102,488</u></b>	<b><u>\$ 8,566</u></b>
<b>LIABILITIES</b>				
Accounts payable	\$ 0	\$ 0	\$ 0	\$ 0
<b>Total liabilities</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>FUND EQUITY</b>				
Fund balance	<u>118,004</u>	<u>120,248</u>	<u>102,488</u>	<u>8,566</u>
<b>Total fund equity</b>	<b><u>118,004</u></b>	<b><u>120,248</u></b>	<b><u>102,488</u></b>	<b><u>8,566</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$ 118,004</u></b>	<b><u>\$ 120,248</u></b>	<b><u>\$ 102,488</u></b>	<b><u>\$ 8,566</u></b>

<u>Emergency Communication District</u>	<u>Corrections Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
\$ 480,687	\$ 9,724	\$ 1,343,015	\$ 2,145,502
<u>29,283</u>	<u>0</u>	<u>0</u>	<u>66,513</u>
<u>\$ 509,970</u>	<u>\$ 9,724</u>	<u>\$ 1,343,015</u>	<u>\$ 2,212,015</u>
\$ 3,282	\$ 9,724	\$ 0	\$ 13,006
<u>3,282</u>	<u>9,724</u>	<u>0</u>	<u>13,006</u>
506,688	0	1,343,015	2,199,009
<u>506,688</u>	<u>0</u>	<u>1,343,015</u>	<u>2,199,009</u>
<u>\$ 509,970</u>	<u>\$ 9,724</u>	<u>\$ 1,343,015</u>	<u>\$ 2,212,015</u>

City of Mountain Brook, Alabama

Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances – Other Governmental Funds  
Year Ended September 30, 2017

	State Shared Gasoline Tax Funds			
	Seven Cent	Four Cent	Five Cent	Two Cent
<b>Revenues:</b>				
Taxes	\$ 207,874	\$ 129,659	\$ 63,245	\$ 4,832
Charges for services	0	0	0	0
Fines and forfeitures	0	0	0	0
Other operating revenues:				
Investment earnings	<u>176,189</u>	<u>373</u>	<u>163</u>	<u>16</u>
<b>Total revenues</b>	<u>384,063</u>	<u>130,032</u>	<u>63,408</u>	<u>4,848</u>
<b>Expenditures:</b>				
General government	0	0	0	0
Public safety	0	0	0	0
Street and sanitation	699,033	108,220	338	338
Debt service:				
Principal	0	0	0	0
Interest	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total expenditures</b>	<u>699,033</u>	<u>108,220</u>	<u>338</u>	<u>338</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(314,970)</u>	<u>21,812</u>	<u>63,070</u>	<u>4,510</u>
<b>Other financing sources (uses):</b>				
Operating transfers in	200,000	0	0	0
Operating transfers (out)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total other financing sources (uses)</b>	<u>200,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	<u>(114,970)</u>	<u>21,812</u>	<u>63,070</u>	<u>4,510</u>
<b>Fund balances, beginning of year</b>	<u>232,974</u>	<u>98,436</u>	<u>39,418</u>	<u>4,056</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 118,004</u>	<u>\$ 120,248</u>	<u>\$ 102,488</u>	<u>\$ 8,566</u>

<u>Emergency Communication District</u>	<u>Corrections Fund</u>	<u>Debt Service Fund</u>	<u>Totals Fund</u>
\$ 0	\$ 0	\$ 0	\$ 405,610
400,441	0	0	400,441
1,977	179,182	0	181,159
<u>1,161</u>	<u>3,635</u>	<u>(2,174)</u>	<u>179,363</u>
<u>403,579</u>	<u>182,817</u>	<u>(2,174)</u>	<u>1,166,573</u>
0	260,419	0	260,419
349,712	105,113	0	454,825
0	0	0	807,929
0	0	0	0
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>349,712</u>	<u>365,532</u>	<u>0</u>	<u>1,523,173</u>
<u>53,867</u>	<u>(182,715)</u>	<u>(2,174)</u>	<u>(356,600)</u>
0	182,715	157,992	540,707
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>0</u>	<u>182,715</u>	<u>157,992</u>	<u>540,707</u>
53,867	0	155,818	184,107
<u>452,821</u>	<u>0</u>	<u>1,187,197</u>	<u>2,014,902</u>
<u>\$ 506,688</u>	<u>\$ 0</u>	<u>\$ 1,343,015</u>	<u>\$ 2,199,009</u>

**City of Mountain Brook, Alabama**

**Combining Balance Sheet – Capital Projects Funds  
September 30, 2017**

	<u>City Capital Projects</u>	<u>Infrastructure Improvement Projects</u>	<u>Village Trail System Projects</u>	<u>Totals</u>
<b>ASSETS</b>				
Cash and temporary investments	\$ 10,227,424	\$ 4,589,532	\$ 516,657	\$ 15,333,613
Receivables	0	0	279,652	279,652
Inventory and prepaid expenses	<u>0</u>	<u>0</u>	<u>186,758</u>	<u>186,758</u>
<b>TOTAL ASSETS</b>	<u>\$ 10,227,424</u>	<u>\$ 4,589,532</u>	<u>\$ 983,067</u>	<u>\$ 15,800,023</u>
<b>LIABILITIES</b>				
Accounts payable	<u>\$ 37,164</u>	<u>\$ 39,160</u>	<u>\$ 72,415</u>	<u>\$ 148,739</u>
<b>TOTAL LIABILITIES</b>	<u>37,164</u>	<u>39,160</u>	<u>72,415</u>	<u>148,739</u>
<b>FUND BALANCE</b>				
Fund balance	<u>10,190,260</u>	<u>4,550,372</u>	<u>910,652</u>	<u>15,651,284</u>
<b>TOTAL FUND BALANCE</b>	<u>10,190,260</u>	<u>4,550,372</u>	<u>910,652</u>	<u>15,651,284</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 10,227,424</u>	<u>\$ 4,589,532</u>	<u>\$ 983,067</u>	<u>\$ 15,800,023</u>

**City of Mountain Brook, Alabama**

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances – Capital Projects Funds  
Year Ended September 30, 2017**

	<u>City Capital Projects</u>	<u>Infrastructure Improvement Projects</u>	<u>Village Trail System Projects</u>	<u>Totals</u>
<b>Revenues:</b>				
Grants	\$ 0	\$ 0	\$ 1,717,922	\$ 1,717,922
Other operating revenues:				
Investment earnings (losses)	(23,695)	19,347	613	(3,735)
Miscellaneous	<u>78,970</u>	<u>0</u>	<u>0</u>	<u>78,970</u>
<b>Total revenues</b>	<u>55,275</u>	<u>19,347</u>	<u>1,718,535</u>	<u>1,793,157</u>
<b>Expenditures:</b>				
General government	31,308	9,443	0	40,751
Public safety	1,939,167	0	0	1,939,167
Street and sanitation	525,950	1,430,276	2,229,921	4,186,147
Recreational	134,549	246,681	0	381,230
Library	<u>128,031</u>	<u>0</u>	<u>0</u>	<u>128,031</u>
<b>Total expenditures</b>	<u>2,759,005</u>	<u>1,686,400</u>	<u>2,229,921</u>	<u>6,675,326</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(2,703,730)</u>	<u>(1,667,053)</u>	<u>(511,386)</u>	<u>(4,882,169)</u>
<b>Other financing sources (uses):</b>				
Operating transfers in	2,462,481	1,061,326	584,609	4,108,416
Operating transfers (out)	0	0	0	0
Donations	<u>0</u>	<u>106,985</u>	<u>0</u>	<u>106,985</u>
<b>Total other financing sources (uses)</b>	<u>2,462,481</u>	<u>1,168,311</u>	<u>584,609</u>	<u>4,215,401</u>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	<u>(241,249)</u>	<u>(498,742)</u>	<u>73,223</u>	<u>(666,768)</u>
<b>Fund balances, beginning of year</b>	<u>10,431,509</u>	<u>5,049,114</u>	<u>837,429</u>	<u>16,318,052</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 10,190,260</u>	<u>\$ 4,550,372</u>	<u>\$ 910,652</u>	<u>\$ 15,651,284</u>

**City of Mountain Brook, Alabama**

**Schedule of General Fund Revenues by Source  
For the Years Ended September 30, 2008 through 2017**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Taxes</b>				
Real property	\$ 13,919,181	\$ 14,592,638	\$ 14,322,580	\$ 13,890,843
Sales and use	8,412,007	7,666,594	7,854,903	8,476,522
Utility	1,336,420	1,413,759	1,450,440	1,460,206
Personal property (automobiles)	1,130,239	1,022,666	1,047,869	1,079,079
Road and bridge	572,272	596,000	590,899	572,584
Other	<u>985,588</u>	<u>1,075,676</u>	<u>1,016,068</u>	<u>903,688</u>
<b>Total taxes</b>	<b>26,355,707</b>	<b>26,367,333</b>	<b>26,282,759</b>	<b>26,382,922</b>
<b>Licenses and permits</b>				
Business	1,994,039	1,998,980	2,130,822	2,165,612
Construction permits	1,036,354	634,059	624,309	753,444
Cable TV franchise fees	323,082	328,641	347,757	352,964
Waterworks Board	167,341	157,794	159,242	207,939
Other	<u>63,382</u>	<u>57,966</u>	<u>64,720</u>	<u>60,310</u>
<b>Total licenses and permits</b>	<b>3,584,198</b>	<b>3,177,440</b>	<b>3,326,850</b>	<b>3,540,269</b>
<b>Intergovernmental</b>	<b>149,710</b>	<b>84,723</b>	<b>82,826</b>	<b>84,874</b>
<b>Charges for services</b>				
Garbage fees	71,252	39,094	34,062	32,436
Other	<u>498,576</u>	<u>486,785</u>	<u>591,636</u>	<u>619,716</u>
<b>Total charges for services</b>	<b>569,828</b>	<b>525,879</b>	<b>625,698</b>	<b>652,152</b>
<b>Fines and forfeitures - court</b>	<b>470,020</b>	<b>443,400</b>	<b>514,542</b>	<b>529,522</b>
<b>Grants</b>	<b>37,355</b>	<b>50,799</b>	<b>19,708</b>	<b>282,423</b>
<b>Other operating revenue</b>				
Investment earnings	428,304	271,788	207,214	131,706
Other	<u>230,717</u>	<u>371,526</u>	<u>254,173</u>	<u>300,657</u>
<b>Total other operating revenue</b>	<b>659,021</b>	<b>643,314</b>	<b>461,387</b>	<b>432,363</b>
<b>TOTAL REVENUES</b>	<b><u>\$ 31,825,839</u></b>	<b><u>\$ 31,292,888</u></b>	<b><u>\$ 31,313,770</u></b>	<b><u>\$ 31,904,525</u></b>

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
\$ 13,873,635	\$ 13,512,485	\$ 13,867,794	\$ 13,994,315	\$ 14,443,548	\$ 15,155,623
9,112,494	9,578,337	9,808,223	10,158,557	10,285,530	10,656,090
1,365,487	1,284,421	1,288,163	1,325,088	1,283,444	1,253,385
1,152,424	1,208,485	1,217,199	1,306,732	1,392,583	1,382,497
575,000	565,066	550,686	596,475	604,774	627,182
<u>1,030,680</u>	<u>1,038,515</u>	<u>1,127,178</u>	<u>1,238,322</u>	<u>1,506,051</u>	<u>1,810,442</u>
27,109,720	27,187,309	27,859,243	28,619,489	29,515,930	30,885,219
2,223,912	2,492,623	2,531,307	2,679,512	2,815,615	3,046,371
800,820	1,100,204	1,347,583	1,143,394	1,119,259	1,076,879
391,701	424,912	389,500	423,068	432,600	412,824
216,090	216,839	192,875	215,518	208,099	254,138
61,928	62,115	65,154	63,674	65,373	65,909
<u>3,694,451</u>	<u>4,296,693</u>	<u>4,526,419</u>	<u>4,525,166</u>	<u>4,640,946</u>	<u>4,856,121</u>
85,613	84,547	85,443	92,199	92,199	185,943
39,235	35,589	34,086	33,890	29,175	30,977
<u>714,561</u>	<u>693,408</u>	<u>730,347</u>	<u>695,790</u>	<u>688,534</u>	<u>678,795</u>
753,796	728,997	764,433	729,680	717,709	709,772
446,682	559,465	577,844	643,492	575,406	586,293
12,062	15,755	100,187	53,653	18,438	111,680
199,151	138,162	69,522	150,668	170,543	109,327
<u>278,880</u>	<u>439,492</u>	<u>311,374</u>	<u>296,044</u>	<u>316,717</u>	<u>269,692</u>
<u>478,031</u>	<u>577,654</u>	<u>380,896</u>	<u>446,712</u>	<u>487,260</u>	<u>379,019</u>
<u>\$ 32,580,355</u>	<u>\$ 33,450,420</u>	<u>\$ 34,294,465</u>	<u>\$ 35,110,391</u>	<u>\$ 36,047,888</u>	<u>\$ 37,714,047</u>

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
\$ 13,873,635	\$ 13,512,485	\$ 13,867,794	\$ 13,994,315	\$ 14,443,548	\$ 15,155,623
9,112,494	9,578,337	9,808,223	10,158,557	10,285,530	10,656,090
1,365,487	1,284,421	1,288,163	1,325,088	1,283,444	1,253,385
1,152,424	1,208,485	1,217,199	1,306,732	1,392,583	1,382,497
575,000	565,066	550,686	596,475	604,774	627,182
<u>1,030,680</u>	<u>1,038,515</u>	<u>1,127,178</u>	<u>1,238,322</u>	<u>1,506,051</u>	<u>1,810,442</u>
27,109,720	27,187,309	27,859,243	28,619,489	29,515,930	30,885,219
2,223,912	2,492,623	2,531,307	2,679,512	2,815,615	3,046,371
800,820	1,100,204	1,347,583	1,143,394	1,119,259	1,076,879
391,701	424,912	389,500	423,068	432,600	412,824
216,090	216,839	192,875	215,518	208,099	254,138
61,928	62,115	65,154	63,674	65,373	65,909
<u>3,694,451</u>	<u>4,296,693</u>	<u>4,526,419</u>	<u>4,525,166</u>	<u>4,640,946</u>	<u>4,856,121</u>
85,613	84,547	85,443	92,199	92,199	185,943
39,235	35,589	34,086	33,890	29,175	30,977
<u>714,561</u>	<u>693,408</u>	<u>730,347</u>	<u>695,790</u>	<u>688,534</u>	<u>678,795</u>
753,796	728,997	764,433	729,680	717,709	709,772
446,682	559,465	577,844	643,492	575,406	586,293
12,062	15,755	100,187	53,653	18,438	111,680
199,151	138,162	69,522	150,668	170,543	109,327
<u>278,880</u>	<u>439,492</u>	<u>311,374</u>	<u>296,044</u>	<u>316,717</u>	<u>269,692</u>
<u>478,031</u>	<u>577,654</u>	<u>380,896</u>	<u>446,712</u>	<u>487,260</u>	<u>379,019</u>
<u>\$ 32,580,355</u>	<u>\$ 33,450,420</u>	<u>\$ 34,294,465</u>	<u>\$ 35,110,391</u>	<u>\$ 36,047,888</u>	<u>\$ 37,714,047</u>

**City of Mountain Brook, Alabama**

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

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and temporary investments	\$ 15,287,087	\$ 14,860,733
Cash and temporary investments - restricted	286,590	282,650
Receivables	2,094,180	2,081,779
Due from related organizations	75,000	0
Inventory and prepaid expenses	<u>459,272</u>	<u>170,286</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 18,202,129</u></b>	<b><u>\$ 17,395,448</u></b>
<b>LIABILITIES</b>		
Accounts payable	\$ 1,102,487	\$ 951,274
Accrued salaries and wages	956,838	911,031
Due to related organizations	66,762	65,775
Other liabilities	<u>614,340</u>	<u>659,962</u>
<b>TOTAL LIABILITIES</b>	<b><u>2,740,427</u></b>	<b><u>2,588,042</u></b>
<b>Pension obligation (see Note 6)</b>		
<b>FUND BALANCES</b>		
Nonspendable	459,272	170,286
Restricted	0	0
Committed	54,251	54,240
Assigned	268,206	235,300
Unassigned	<u>14,679,973</u>	<u>14,347,580</u>
<b>FUND BALANCES</b>	<b><u>15,461,702</u></b>	<b><u>14,807,406</u></b>
 <b>TOTAL LIABILITIES AND FUND BALANCES</b>	 <b><u>\$ 18,202,129</u></b>	 <b><u>\$ 17,395,448</u></b>

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

	<u>2017</u>	<u>2016</u>
<b>Revenues:</b>		
Taxes	\$ 30,885,219	\$ 29,515,930
Licenses and permits	4,856,121	4,640,946
Intergovernmental	185,943	92,199
Charges for services	709,772	717,709
Fines and forfeitures	586,293	575,406
Grants	111,680	18,438
Other operating revenues	<u>379,019</u>	<u>487,260</u>
<b>Total revenues</b>	<u>37,714,047</u>	<u>36,047,888</u>
<b>Expenditures:</b>		
<b>Current (operating):</b>		
General government	6,729,244	4,918,514
Public safety	14,985,533	14,423,591
Street and sanitation	6,442,783	6,365,162
Recreational	1,216,830	1,233,181
Library	<u>3,194,462</u>	<u>3,115,050</u>
<b>Total expenditures</b>	<u>32,568,852</u>	<u>30,055,498</u>
<b>Excess of revenues over expenditures</b>	<u>5,145,195</u>	<u>5,992,390</u>
<b>Other financing sources (uses):</b>		
Operating transfers (out)	(4,649,123)	(5,453,709)
Operating transfers in - component unit	78,039	86,050
Donations	<u>80,185</u>	<u>87,945</u>
<b>Total other financing sources (uses)</b>	<u>(4,490,899)</u>	<u>(5,279,714)</u>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	654,296	712,676
<b>Fund balances, beginning of year</b>	<u>14,807,406</u>	<u>14,094,730</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 15,461,702</u>	<u>\$ 14,807,406</u>

**City of Mountain Brook, Alabama**

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

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and temporary investments	\$ 15,333,613	\$ 15,364,660
Receivables	279,652	16,876
Inventory and prepaid expenses	<u>186,758</u>	<u>1,020,804</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 15,800,023</u></b>	<b><u>\$ 16,402,340</u></b>
<b>LIABILITIES</b>		
Accounts payable	<u>\$ 148,739</u>	<u>\$ 84,288</u>
<b>TOTAL LIABILITIES</b>	<b><u>148,739</u></b>	<b><u>84,288</u></b>
<b>Pension obligation (see Note 6)</b>		
<b>FUND BALANCES</b>		
Nonspendable	186,758	1,020,804
Restricted	0	0
Committed	<u>15,464,526</u>	<u>15,297,248</u>
<b>FUND BALANCES</b>	<b><u>15,651,284</u></b>	<b><u>16,318,052</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 15,800,023</u></b>	<b><u>\$ 16,402,340</u></b>

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

	<u>2017</u>	<u>2016</u>
<b>Revenues:</b>		
Grants	\$ 1,717,922	\$ 180,745
Other operating revenues	<u>75,235</u>	<u>373,504</u>
<b>Total revenues</b>	<u>1,793,157</u>	<u>554,249</u>
<b>Expenditures:</b>		
<b>Current (operating):</b>		
General government	40,751	1,330,426
Public safety	1,939,167	542,577
Street and sanitation	4,186,147	1,120,403
Recreational	381,230	217,280
Library	<u>128,031</u>	<u>291,187</u>
<b>Total expenditures</b>	<u>6,675,326</u>	<u>3,501,873</u>
<b>Excess (deficiency) of revenues</b>		
<b>over expenditures</b>	<u>(4,882,169)</u>	<u>(2,947,624)</u>
<b>Other financing sources (uses):</b>		
Operating transfers in	4,108,416	4,493,829
Operating transfers (out)	0	(291,641)
Operating transfers in - component unit	0	0
Donations	<u>106,985</u>	<u>0</u>
<b>Total other financing sources (uses)</b>	<u>4,215,401</u>	<u>4,202,188</u>
<b>Excess of revenues and other financing sources</b>		
<b>over expenditures and other financing uses</b>	<u>(666,768)</u>	<u>1,254,564</u>
<b>Fund balances, beginning of year</b>	<u>16,318,052</u>	<u>15,063,488</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 15,651,284</u>	<u>\$ 16,318,052</u>

**City of Mountain Brook, Alabama**

**Comparative Balance Sheet – Debt Service Fund  
September 30**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and temporary investments	\$ 1,343,015	\$ 1,187,197
<b>TOTAL ASSETS</b>	<u>\$ 1,343,015</u>	<u>\$ 1,187,197</u>
<b>LIABILITIES</b>	<u>\$ 0</u>	<u>\$ 0</u>
<b>FUND BALANCES</b>		
Assigned	<u>1,343,015</u>	<u>1,187,197</u>
<b>FUND BALANCES</b>	<u>1,343,015</u>	<u>1,187,197</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 1,343,015</u>	<u>\$ 1,187,197</u>

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

	<u>2017</u>	<u>2016</u>
<b>Revenues:</b>		
Other operating revenues	\$ (2,174)	\$ 21,495
<b>Total revenues</b>	<u>(2,174)</u>	<u>21,495</u>
<b>Expenditures:</b>		
<b>Current (operating):</b>		
Debt service:		
Principal	0	3,675,000
Interest	<u>0</u>	<u>71,641</u>
<b>Total expenditures</b>	<u>0</u>	<u>3,746,641</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(2,174)</u>	<u>(3,725,146)</u>
<b>Other financing sources (uses):</b>		
Operating transfers in	<u>157,992</u>	<u>891,641</u>
<b>Total other financing sources (uses)</b>	<u>157,992</u>	<u>891,641</u>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	155,818	(2,833,505)
<b>Fund balances, beginning of year</b>	<u>1,187,197</u>	<u>4,020,702</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 1,343,015</u>	<u>\$ 1,187,197</u>

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**REPORT ON COMPLIANCE AND INTERNAL CONTROL**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Mountain Brook, Alabama (the City), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 12, 2018. Our report includes a reference to the auditors who audited the financial statements of the Mountain Brook Library Foundation (the Foundation), as described in our report on the City's financial statements. The financial statements of the Foundation were not audited in accordance with *Governmental Auditing Standards*.

**Internal Control over Financial Reporting**

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

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 questioned costs that we consider to be significant deficiencies: 2017-001.

**Compliance and Other Matters**

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

**Response to Findings**

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

**Purpose of this Report**

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

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

Birmingham, Alabama  
March 12, 2018



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**Independent Auditors' Report on Compliance for Each Major Program  
and on Internal Control Over Compliance Required by the Uniform Guidance**

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

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

We have audited the City of Mountain Brook, Alabama's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2017. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our unmodified opinion on compliance for major federal programs. However, our audit does not provide a legal determination of the City's compliance.

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

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

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

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City's internal control over compliance.

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

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

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

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

Birmingham, Alabama  
March 12, 2018

CITY OF MOUNTAIN BROOK, ALABAMA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Description	Federal CFDA Number	Pass Through Entity Identifying Number	Total Grant Award	Revenue Recognized	Expenditures	Funds Provided to Subrecipients
<b>U.S. Department of Transportation</b>						
<b>Highway Planning and Construction Cluster</b>						
Passed through Alabama Department of Transportation						
Jemison Trail/Shades Creek Greenway						
Connector	20.205	STPBH-CN13(907)	\$ 724,357	\$ 686,822	\$ 686,822	\$ 0
Intersection Improvements Cahaba Road/US-280/ Culver Road/Lane Park Road-Mountain Brook						
	20.205	CMAQ-3715(266)	412,000	110,644	110,644	0
Safe Routes to Schools Mountain Brook Elementary and Crestline Elementary Schools						
	20.205	SRTS-SR09(903), (904)	583,213	0	0	0
Mountain Brook Village Walkway System Phase 9 Brookwood Road, Crosshill Road, and Oakdale Drive						
	20.205	CMAQ-NR13(908)	1,763,440	906,626	906,626	0
Passed through the Regional Planning Commission of Greater Birmingham						
Advanced Planning, Programming and Logical Engineering (APPLE) transportation project feasibility studies						
	20.205	Phase 1	47,993	47,993	47,993	0
	20.205	Phase 2	47,987	47,987	47,987	0
<b>Total U.S. Department of Transportation Highway Planning and Construction Cluster</b>			<u>3,578,990</u>	<u>1,800,072</u>	<u>1,800,072</u>	<u>0</u>
<b>TOTAL FEDERAL AWARDS</b>			<u>\$ 3,578,990</u>	<u>\$ 1,800,072</u>	<u>\$ 1,800,072</u>	<u>\$ 0</u>

## City of Mountain Brook, Alabama

### Notes to Schedule of Expenditures and Federal Awards

**1. General**

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

**2. Basis of accounting**

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

**3. Indirect cost**

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

**CITY OF MOUNTAIN BROOK, ALABAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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

**Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

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

**Federal Awards**

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with 2CFR section 200.516(a)

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

Identification of major programs:

**CFDA Numbers**  
20.205

**Name of Federal Program or Cluster**  
Highway Planning and Construction Cluster

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

Auditee qualified as low-risk auditee            yes   X   no

**Section II - Financial Statement Findings**

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

**CITY OF MOUNTAIN BROOK, ALABAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**2017-001 Segregation of Duties**

**Criteria:** Management is responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Condition:** The City's employees perform numerous functions that result in a lack of segregation of duties. This is a repeat finding.

**Cause:** Due to the limited number of people working in the finance department, certain critical duties are combined and assigned to available employees.

**Effect:** Lack of segregation of duties may result in the misstatement of financial information.

**Recommendation:**

To the extent possible, duties should be segregated to serve as a check and balance on employees' integrity and to maintain the best control system possible. We suggest that the segregation of duties be reviewed and adjusted where possible to strengthen the system of internal control.

**Management's response:**

The City agrees with this finding. The duties will be separated as much as possible and alternative controls will be used to compensate for lack of separation.

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

There were no matters to be reported.