

CITY OF MOUNTAIN BROOK, ALABAMA

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2018**

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

SEPTEMBER 30, 2018

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

Table of Contents

	<u>Page</u>
Independent Auditors' Report	5
Management's Discussion and Analysis	7
Basic Financial Statements	
Government-wide Statement of Net Position	17
Government-wide Statement of Activities	18
Fund Financial Statements:	
Balance Sheet — Governmental Funds	19
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	20
Statement of Revenues, Expenditures, and Changes in Fund Balances — Governmental Funds	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Government-wide Statement of Activities	22
Statement of Fiduciary Net Position – OPEB Trust Fund	23
Statement of Changes in Fiduciary Net Position – OPEB Trust Fund	24
Notes to Financial Statements	25
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	55
Notes to Required Supplementary Information	56
Schedule of Changes in the Net Pension Liability and Related Ratios	57
Schedule of Employer Contributions	58
Other Post-Employment Benefits (OPEB)	
Schedule of Changes in Net OPEB Liability and Related Ratios	60
Schedule of Employer Contributions	61
Schedule of Investment Returns	62
Supplementary Information	
Combining Balance Sheet – Other Governmental Funds	65
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Other Governmental Funds	66
Combining Balance Sheet – Capital Projects Funds	67
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Capital Projects Funds	68
Schedule of General Fund Revenues by Source	69
Comparative Balance Sheet – General Fund	70

City of Mountain Brook, Alabama

Table of Contents

	<u>Page</u>
Comparative Statement of Revenues, Expenditures and Changes in Fund Balances – General Fund	71
Comparative Balance Sheet – Capital Projects Funds	72
Comparative Statement of Revenues, Expenditures and Changes in Fund Balances – Capital Projects Funds	73
Comparative Balance Sheet – Debt Service Fund	74
Comparative Statement of Revenues, Expenditures and Changes in Fund Balance – Debt Service Fund	75
Single Audit Reports	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	79
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by Uniform Guidance	81
Schedule of Expenditures of Federal Awards	83
Notes to Schedule of Expenditures of Federal Awards	84
Schedule of Findings and Questioned Costs	85



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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, 2018, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. The financial statements of the Mountain Brook Library Foundation, which represents the City's discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

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, 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, 2018, 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.

Emphasis of Matter*Adoption of New Accounting Pronouncement*

As described in Note 12 to the financial statements, the City adopted Government Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, which resulted in a cumulative effect of change in accounting principle of (\$5,406,739) to the September 30, 2017 net position for governmental activities. Our opinions are not modified with respect to this matter.

Other Matters*Required 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.

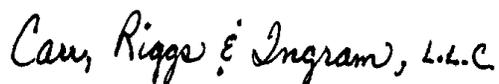
Other Information

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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

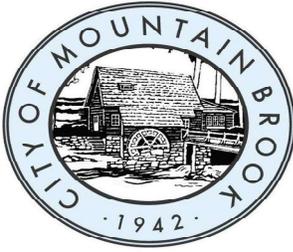
The accompanying supplementary information as listed in the table of contents and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements.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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2019, 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 8, 2019



CITY OF MOUNTAIN BROOK, ALABAMA

MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis of the City's financial activities as of and for the year ended September 30, 2018, 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, 2018, by \$84.5 million (Total Net Position). Of this amount, \$81.2 million represents the net book value of the City's capital assets including infrastructure and \$888,000 is restricted (\$230,000 for the Emergency Communication District and \$658,000 for road improvements from the State Shared Gasoline Tax special revenue funds). The remaining \$2.4 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 \$563,000 in 2018 which includes the net cost of providing core City Services of \$30.3 million plus \$30.9 million in General Revenues.
- As of September 30, 2018, the City reported \$32.1 million in fund balances, a decrease of \$1,191,000 from 2017. Of the \$32.1 million fund balances, \$16 million (50%) is reported in the General Fund, \$13.6 million (42%) in the Capital Projects Fund and \$2.5 million (8%) 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, 2019 is 1.6% above the actual realized for the year ended September 30, 2018.

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 2019 are estimated to increase 3.6% above the actual incurred for the year ended September 30, 2018.

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:

	Useful Life	Cost	Depreciation	Accumulated Depreciation
Land	N/A	\$ 16,525,671	N/A	N/A
Streets and alleys	20	21,192,888	\$ 485,058	\$ 14,825,674
Storm sewers	20	14,181,401	685,944	6,773,075
Sidewalks	15	16,499,106	720,443	10,098,457
Park facilities	20	9,145,490	287,714	6,203,019
Street lights and signs	15	1,591,681	64,297	1,187,107
Library reference materials	5	5,450,938	331,266	4,574,793
Totals		<u>\$ 84,587,175</u>	<u>\$ 2,574,722</u>	<u>\$ 43,662,125</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

	2018	2017 Restated (Note 12)
	<u>2018</u>	<u>(Note 12)</u>
Current assets	\$ 34,994,228	\$ 36,214,167
Capital assets	81,197,015	79,266,843
Deferred outflows of resources	8,508,212	7,740,992
Total assets and deferred outflows of resources	<u>124,699,455</u>	<u>123,222,002</u>
Current and other liabilities	2,873,640	2,902,172
Long-term liabilities	3,136,531	3,020,516
Net pension liability (Note 5)	27,989,580	30,677,678
Net OPEB liability (Note 6)	2,938,159	2,574,975
Deferred inflows of resources	3,271,421	119,553
Total liabilities and deferred inflows of resources	<u>40,209,331</u>	<u>39,294,894</u>
Net position:		
Net investment in capital assets	81,197,015	79,266,843
Restricted	887,717	855,994
Unrestricted	<u>2,405,392</u>	<u>3,804,271</u>
Total net position	<u>\$ 84,490,124</u>	<u>\$ 83,927,108</u>

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

	2018	2017 As Originally Reported
	<u>2018</u>	<u>Reported</u>
Revenues		
Program revenues		
Fees, fines and charges for services	\$ 7,136,261	\$ 6,923,039
Operating grants and contributions	1,095,238	1,227,831
Capital grants and contributions	1,635,237	2,522,156
General revenues		
Ad valorem taxes (real and personal property)	16,857,432	16,538,120
Sales and use taxes	11,256,511	11,141,231
Other taxes	469,161	379,861
Utility taxes	1,266,010	1,253,385
Franchise fees	615,833	666,962
Investment earnings	133,409	109,904
Gain (loss) on disposals of capital assets	162,973	70,584
Miscellaneous revenues	23,719	19,489
Transfers from component unit	<u>75,626</u>	<u>78,039</u>
Total revenues	<u>40,727,410</u>	<u>40,930,601</u>

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

Expenses

General government	7,479,826	6,614,843
Public safety	18,332,913	16,711,225
Street and sanitation	9,514,466	9,434,666
Recreational	1,710,629	2,227,414
Library	<u>3,126,560</u>	<u>4,435,190</u>
Total expenses	<u>40,164,394</u>	<u>39,423,338</u>
Increase in net position	563,016	1,507,263
Net position, beginning of year as originally reported	89,333,847	87,826,584
Prior period adjustments (Note 12)	<u>(5,406,739)</u>	<u>0</u>
Net position, beginning of year as restated	<u>83,927,108</u>	<u>87,826,584</u>
Net position, end of year	<u>\$ 84,490,124</u>	<u>\$ 89,333,847</u>

Analysis of the City's Operations

Revenues

The City's primary source of revenue is real estate ad valorem taxes which comprised 41% of total General Fund revenues in 2018. Real estate ad valorem taxes increased \$415,000 (2.7%) during 2018 largely due to revaluations.

The second largest source of revenue for the City is sales and use tax which totaled 28% of total General Fund revenues in 2018. Sales and use tax revenue increased by \$47,000 (0.4%) during 2018.

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

	<u>2018</u>	<u>2017</u>	<u>Increase (Decrease)</u>
Real estate ad valorem tax	\$ 15,570,510	\$ 15,155,623	\$ 414,887
Sales and use tax	10,703,490	10,656,090	47,400
Business licenses	2,991,535	3,046,371	(54,836)
Personal property ad valorem tax	1,286,922	1,382,497	(95,575)
Construction permits	1,160,304	1,076,879	83,425
Utility taxes	1,266,010	1,253,385	12,625
Fine and forfeitures	514,978	586,293	(71,315)
Investment earnings	183,834	109,327	74,507
All other General Fund revenues	<u>4,638,846</u>	<u>4,447,582</u>	<u>191,264</u>
Totals	<u>\$ 38,316,429</u>	<u>\$ 37,714,047</u>	<u>\$ 602,382</u>

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

Expenditures

Salaries and benefits increased \$306,000 (1%) in 2018 to \$22.5 million. Labor-related costs made up (60%) of the City's total General Fund expenditures (including intrafund transfers) in 2018. 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>2018</u>	<u>2017</u>	<u>Increase (Decrease)</u>
Salaries and benefits	\$ 21,936,793	\$ 21,641,131	\$ 295,662
Excess pension contribution	610,000	600,000	10,000
Garbage contract fees	2,870,506	2,811,311	59,195
Capital outlay	7,382,669	6,956,375	426,294
Intergovernmental services	997,561	874,597	122,964
Utilities and communication	913,475	823,101	90,374
Development agreement payments	1,315,764	1,044,169	271,595
Property and casualty insurance	259,394	211,545	47,849
Legal and accounting	440,559	320,780	119,779
Fuel and lubricants	282,336	238,480	43,856
Birmingham Zoo, Inc. subsidy	20,000	20,000	0
All other	<u>4,894,555</u>	<u>5,225,862</u>	<u>(331,307)</u>
Totals	<u>\$ 41,923,612</u>	<u>\$ 40,767,351</u>	<u>\$ 1,156,261</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 \$103,000 (0.3%). 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	\$ 15,797,000	\$ 15,570,510	\$ (226,490)
Sales and use tax	10,868,920	10,703,490	(165,430)
Other taxes	1,863,100	2,069,420	206,320
Utility taxes	1,253,400	1,266,010	12,610
Road and bridge tax	599,000	646,115	47,115
Construction permits	818,000	1,160,304	342,304
Fines and forfeitures	541,600	514,978	(26,622)
Charges for services	778,903	658,684	(120,219)
Fees for road repairs	49,000	92,678	43,678
Grants	13,101	29,486	16,385
Investment earnings	99,950	183,834	83,884
All other	<u>5,531,310</u>	<u>5,420,920</u>	<u>(110,390)</u>
Totals	<u>\$ 38,213,284</u>	<u>\$ 38,316,429</u>	<u>\$ 103,145</u>

- Total General Fund expenditures were \$749,000 (2.2%) 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	\$ 23,069,218	\$ 22,546,793	\$ 522,425
Garbage contract fees	2,844,000	2,870,506	(26,506)
Intergovernmental services	953,500	997,561	(44,061)
Utilities and communication	927,908	913,475	14,433
Development agreement payments	1,440,750	1,315,764	124,986
Appropriations to the Board of Education	4,800	646,226	(641,426)
Fuel and lubricants	322,700	282,336	40,364
Legal and accounting	268,200	440,559	(172,359)
Property and casualty insurance	262,550	259,394	3,156
Employee development and travel	369,600	317,314	52,286
Street striping	145,000	34,498	110,502
Street cut repairs	100,000	88,618	11,382
Park and recreation special projects	0	9,170	(9,170)
All other	<u>3,625,210</u>	<u>2,862,310</u>	<u>762,900</u>
Totals	<u>\$ 34,333,436</u>	<u>\$ 33,584,524</u>	<u>\$ 748,912</u>

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

- Total operating transfers out exceeded the amount budgeted by \$647,000. 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 \$583,000 was \$233,000 more than budgeted.

Other Matters of Interest

Pension Plan

As more fully described in Note 5 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, 2017.

As of September 30, 2017, the RSA reported the actuarial value of plan assets to be \$55.5 million and the actuarial accrued liability to be \$85.4 million resulting in an unfunded actuarial accrued liability of \$29.9 million. The actuarial value of assets was \$1.7 million more than the market value of assets as of September 30, 2017.

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 for 2018 and 2019 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, 2018, the City had accumulated \$1.6 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 6 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, 2018, the net cost of retiree medical benefits and related trust expenses paid by the City totaled \$348,392. The City deposited an additional \$300,000 into the trust. As of September 30, 2018, the City reported an actuarial accrued liability of \$5.8 million and actuarial value of trust assets of \$2.9 million for an unfunded actuarial accrued liability of \$2.9 million.

Cash and Temporary Investments

As of September 30, 2018, the City reported cash and temporary investments of \$32.4 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 \$32.2 million and \$240,000, respectively. Following is a summary of the carrying value of the cash and investments by fund as of September 30, 2018.

	<u>Unrestricted</u>	<u>Restricted</u>
General Fund	\$ 15,969,944	\$ 240,198
Capital Projects Fund	13,627,486	0
Other Governmental Funds (Debt Service)	1,583,259	0
Other Governmental Funds (Special Revenue)	981,869	0
Section 115 irrevocable, retiree medical trust	0	2,886,328
Discretely presented component unit	<u>0</u>	<u>4,626,064</u>
Totals	<u>\$ 32,162,558</u>	<u>\$ 7,752,590</u>

The \$16 million General Fund cash and investment balance as of September 30, 2018, 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, 2018, the City had accumulated approximately \$13.6 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 \$73.7 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

	2018	2017
Capital expenditures	<u>\$ 7,382,669</u>	<u>\$ 6,956,375</u>
Depreciation expense	<u>\$ 5,447,702</u>	<u>\$ 5,127,016</u>
Transfers to the Capital Projects Fund:		
Funded depreciation policy	\$ 2,413,200	\$ 2,225,400
Other transfers to fund current and future capital acquisitions	<u>1,602,960</u>	<u>1,883,016</u>
Totals	<u>\$ 4,016,160</u>	<u>\$ 4,108,416</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:

	2018	2017
Revenues		
State shared gasoline tax revenues	\$ 406,099	\$ 405,610
Alabama Trust Fund Earnings	175,337	175,051
Transfers from the City's General Fund	150,000	200,000
Investment earnings	<u>1,571</u>	<u>1,690</u>
Total Revenues	733,007	782,351
Street paving expenditures	<u>424,427</u>	<u>807,929</u>
Excess of Revenues Over Expenditures	308,580	(25,578)
Fund balance, beginning of the year	<u>349,306</u>	<u>374,884</u>
Fund Balance, end of year	<u>\$ 657,886</u>	<u>\$ 349,306</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, 2018

	Governmental Activities	Component Unit Library Foundation
ASSETS		
CURRENT ASSETS		
Cash and temporary investments	\$ 32,162,558	\$ 0
Receivables	2,318,579	0
Due from related organization	0	0
Inventory and prepaid expenses	272,893	0
Cash and temporary investments - restricted	<u>240,198</u>	<u>4,626,064</u>
TOTAL CURRENT ASSETS	<u>34,994,228</u>	<u>4,626,064</u>
NONCURRENT ASSETS		
Capital assets, net of accumulated depreciation	60,239,226	98,756
Land	19,914,153	552,611
Construction in progress	<u>1,043,636</u>	<u>0</u>
TOTAL NONCURRENT ASSETS	<u>81,197,015</u>	<u>651,367</u>
DEFERRED OUTFLOWS OF RESOURCES		
Differences between expected and actual:		
OPEB trust investment earnings and experience	1,561,605	0
Pension plan investment earnings and experience	1,338,276	0
Change in pension plan assumptions	3,237,082	0
Employer pension contributions subsequent to the measurement date	<u>2,371,249</u>	<u>0</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>8,508,212</u>	<u>0</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>124,699,455</u>	<u>5,277,431</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	1,129,192	0
Accrued salaries and wages	994,798	0
Due to related organization	61,134	0
Other current liabilities	<u>688,516</u>	<u>0</u>
TOTAL CURRENT LIABILITIES	<u>2,873,640</u>	<u>0</u>
NONCURRENT LIABILITIES		
Compensated absences	<u>3,136,531</u>	<u>0</u>
TOTAL NONCURRENT LIABILITIES	<u>3,136,531</u>	<u>0</u>
NET PENSION LIABILITY (NOTE 5)	27,989,580	
NET OPEB LIABILITY (NOTE 6)	<u>2,938,159</u>	<u>0</u>
NET PENSION AND OPEB LIABILITIES	<u>30,927,739</u>	<u>0</u>
DEFERRED INFLOWS OF RESOURCES		
Change in OPEB assumptions	768,143	0
Differences between projected and actual earnings on pension plan investments and experience	<u>2,503,278</u>	<u>0</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>3,271,421</u>	<u>0</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>40,209,331</u>	<u>0</u>
NET POSITION		
Net investment in capital assets	81,197,015	651,367
Restricted	887,717	4,626,064
Unrestricted	<u>2,405,392</u>	<u>0</u>
TOTAL NET POSITION	<u>\$ 84,490,124</u>	<u>\$ 5,277,431</u>

See accompanying notes to basic financial statements.

City of Mountain Brook, Alabama
Government-wide Statement of Activities
For the Year Ended September 30, 2018

Program Activities	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 7,479,826	\$ 3,978,952	\$ 1,010,288	\$ 0
Public safety	18,332,913	2,690,666	0	17,089
Street and sanitation	9,514,466	143,061	16,438	1,543,618
Recreational	1,710,629	260,398	55,364	47,934
Library	3,126,560	63,184	13,148	26,596
Total	\$ 40,164,394	\$ 7,136,261	\$ 1,095,238	\$ 1,635,237
Component unit:				
Library Foundation	\$ 132,599	\$ 0	\$ 164,290	\$ 0

General revenues:

Taxes:

- Ad valorem (real and personal property)
- Sales and use
- Other taxes

Utility taxes

Franchise fees

Investment earnings (losses)

Gain on sale/disposal of capital assets

Miscellaneous revenues

Transfers

Total general revenues and transfers

Change in net position

Net assets at beginning of year, as originally reported

Prior period adjustments (Note 12)

Net position at beginning of year, as restated

Net position at end of year

See accompanying notes to basic financial statements.

Total Net (Expense) Revenue and Changes in Net Position	Component Unit (Library Foundation)
\$ (2,490,586)	\$ 0
(15,625,158)	0
(7,811,349)	0
(1,346,933)	0
<u>(3,023,632)</u>	<u>0</u>

\$ (30,297,658)

\$ 31,691

16,857,432	0
11,256,511	0
469,161	0
1,266,010	0
615,833	0
133,409	219,041
162,973	0
23,719	0
<u>75,626</u>	<u>(75,626)</u>
<u>30,860,674</u>	<u>143,415</u>
<u>563,016</u>	<u>175,106</u>
89,333,847	5,102,325
<u>(5,406,739)</u>	<u>0</u>
<u>83,927,108</u>	<u>5,102,325</u>
<u>\$ 84,490,124</u>	<u>\$ 5,277,431</u>

City of Mountain Brook, Alabama
Balance Sheet
Governmental Funds
September 30, 2018

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and temporary investments	\$ 15,969,944	\$ 13,627,486	\$ 2,565,128	\$ 32,162,558
Cash and temporary investments - restricted	240,198	0	0	240,198
Receivables	2,064,090	159,639	94,850	2,318,579
Inventory and prepaid expenses	<u>238,731</u>	<u>34,162</u>	<u>0</u>	<u>272,893</u>
TOTAL ASSETS	<u>\$ 18,512,963</u>	<u>\$ 13,821,287</u>	<u>\$ 2,659,978</u>	<u>\$ 34,994,228</u>
LIABILITIES				
Accounts payable	\$ 724,307	\$ 215,883	\$ 189,002	\$ 1,129,192
Accrued salaries and wages	994,798	0	0	994,798
Due to related organizations	61,134	0	0	61,134
Other liabilities	<u>688,516</u>	<u>0</u>	<u>0</u>	<u>688,516</u>
TOTAL LIABILITIES	<u>2,468,755</u>	<u>215,883</u>	<u>189,002</u>	<u>2,873,640</u>
PENSION OBLIGATION (NOTE 5)				
OPEB OBLIGATION (NOTE 6)				
FUND BALANCES				
Nonspendable	238,731	34,162	0	272,893
Restricted	0	0	887,717	887,717
Committed	51,930	13,571,242	0	13,623,172
Assigned	188,792	0	1,583,259	1,772,051
Unassigned	<u>15,564,755</u>	<u>0</u>	<u>0</u>	<u>15,564,755</u>
TOTAL FUND BALANCES	<u>16,044,208</u>	<u>13,605,404</u>	<u>2,470,976</u>	<u>32,120,588</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 18,512,963</u>	<u>\$ 13,821,287</u>	<u>\$ 2,659,978</u>	<u>\$ 34,994,228</u>

See accompanying notes to basic financial statements

City of Mountain Brook, Alabama
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
September 30, 2018

Fund balance - total governmental funds \$ 32,120,588

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	\$ 154,904,054	
Less accumulated depreciation	<u>(73,707,039)</u>	81,197,015

Deferred outflows of resources:

Differences between expected and actual earnings on OPEB trust investments and experience	1,561,605	
Differences between expected and actual earnings on pension plan investments and experience	1,338,276	
Change in pension plan assumptions	3,237,082	
Employer pension contributions subsequent to the measurement date	<u>2,371,249</u>	8,508,212

Net pension liability is not due and payable in the current period and therefore, not reported in the governmental funds balance sheet (30,927,739)

Deferred inflows of resources:

Change in OPEB assumptions	(768,143)	
Net difference between projected and actual earnings on pension plan investments	<u>(2,503,278)</u>	(3,271,421)

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>(3,136,531)</u>
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Net position of governmental activities \$ 84,490,124

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, 2018

	General	Capital Projects
Revenues:		
Taxes	\$ 31,542,467	\$ 0
Licenses and permits	4,833,799	0
Intergovernmental	189,926	0
Charges for services	658,684	0
Fines and forfeitures	514,978	0
Grants	29,486	946,436
Other operating revenues	547,089	112,915
Total revenues	38,316,429	1,059,351
Expenditures:		
Current (operating):		
General government	7,505,247	128,829
Public safety	15,065,849	1,337,681
Street and sanitation	6,463,645	4,606,228
Recreational	1,310,401	329,005
Library	3,239,382	752,484
Total expenditures	33,584,524	7,154,227
Excess (deficiency) of revenues over expenditures	4,731,905	(6,094,876)
Other financing sources (uses):		
Operating transfers in	0	4,016,160
Operating transfers (out)	(4,259,151)	0
Operating transfers in - component unit	75,626	0
Donations	34,126	32,836
Total other financing sources (uses)	(4,149,399)	4,048,996
Excess of revenues and other financing sources over expenditures and other financing uses	582,506	(2,045,880)
Fund balances, beginning of year	15,461,702	15,651,284
FUND BALANCES, END OF YEAR	\$ 16,044,208	\$ 13,605,404

See accompanying notes to basic financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 406,099	\$ 31,948,566
0	4,833,799
0	189,926
454,777	1,113,461
173,196	688,174
0	975,922
<u>179,765</u>	<u>839,769</u>
<u>1,213,837</u>	<u>40,589,617</u>
292,873	7,926,949
467,561	16,871,091
424,427	11,494,300
0	1,639,406
<u>0</u>	<u>3,991,866</u>
<u>1,184,861</u>	<u>41,923,612</u>
<u>28,976</u>	<u>(1,333,995)</u>
548,945	4,565,105
(305,954)	(4,565,105)
0	75,626
<u>0</u>	<u>66,962</u>
<u>242,991</u>	<u>142,588</u>
271,967	(1,191,407)
<u>2,199,009</u>	<u>33,311,995</u>
<u>\$ 2,470,976</u>	<u>\$ 32,120,588</u>

City of Mountain Brook, Alabama
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balance of Governmental Funds to the Government-wide Statement of Activities
September 30, 2018

Net change in fund balances - total governmental funds		\$ (1,191,407)
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	\$ 7,382,669	
Less current year depreciation	<u>(5,447,702)</u>	1,934,967
Net book value of assets disposed during the year.		(4,795)
The effect of the net increase (decrease) in deferred outflows of resources		
Differences between expected and actual earnings on OPEB trust investment earnings and experience	1,561,605	
Differences between expected and actual earnings on pension plan investments and experience	(141,403)	
Change in assumptions	(691,056)	
Employer contributions subsequent to the measurement date	<u>38,074</u>	767,220
Change in long-term compensated absences		(116,015)
The effect of the net (increase) decrease in the pension liability		2,688,098
The effect of the net (increase) decrease in the OPEB liability		(363,184)
The effect of the net (increase) decrease in the deferred inflows of resources		
Change in OPEB assumptions	768,143	
Differences between projected and actual earnings on pension plan investments and experience	<u>2,383,725</u>	<u>(3,151,868)</u>
Change in net position of governmental activities		<u>\$ 563,016</u>

See accompanying notes to basic financial statements.

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

	<u>2018</u>	<u>2017</u>
ASSETS		
Certificates of deposit, at fair value	<u>\$ 2,886,328</u>	<u>\$ 2,598,720</u>
TOTAL ASSETS	<u>2,886,328</u>	<u>2,598,720</u>
LIABILITIES		
Accounts payable and accrued liabilities	<u>0</u>	<u>0</u>
TOTAL LIABILITIES	<u>0</u>	<u>0</u>
NET POSITION RESTRICTED FOR OTHER POST-EMPLOYMENT BENEFITS	<u>\$ 2,886,328</u>	<u>\$ 2,598,720</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

	2018	2017
ADDITIONS		
Contributions		
Employer	\$ 648,392	\$ 632,140
Plan members	127,956	117,374
Investment earnings	(12,392)	(2,507)
TOTAL ADDITIONS	763,956	747,007
DEDUCTIONS		
Benefits	471,348	444,514
Administrative expense	5,000	5,000
TOTAL DEDUCTIONS	476,348	449,514
NET INCREASE IN NET POSITION	287,608	297,493
Net position restricted for other post-employment benefits, beginning of year	2,598,720	2,301,227
NET POSITION RESTRICTED FOR OTHER POST-EMPLOYMENT BENEFITS, END OF YEAR	\$ 2,886,328	\$ 2,598,720

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 25, 2020. 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, 2018 and 2017, the City reported revenue from the Board in the amount of \$189,926 and \$185,943, 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, 2018 and 2017 were \$0 and \$75,000, 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, 2018 and 2017, the City owed the Board \$61,134 and \$66,762, 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, 2018, the City had satisfied the two field improvement contracts. Also as of September 30, 2018, the City recorded revenue of \$103,116 from the reimbursement agreements of which \$93,744 was collected and \$9,372 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 5).

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:

Fund Balances	General	Capital Projects	Other Governmental Funds	Total
<u>Nonspendable:</u>				
Prepaid expenses	\$ 178,679	\$ 34,162	\$ 0	\$ 212,841
Inventory	60,052	0	0	60,052
Total Nonspendable	<u>238,731</u>	<u>34,162</u>	<u>0</u>	<u>272,893</u>
<u>Restricted:</u>				
Emergency Communication District (E911)	0	0	229,831	229,831
State Shared Gasoline Taxes:				
5 Cent	0	0	165,752	165,752
7 Cent	0	0	285,797	285,797
4 Cent	0	0	193,209	193,209
2 Cent	0	0	13,128	13,128
Total Restricted	<u>0</u>	<u>0</u>	<u>887,717</u>	<u>887,717</u>

City of Mountain Brook, Alabama

Notes to Financial Statements

Committed:

Capital Projects	0	13,571,242	0	13,571,242
Library Endowment	<u>51,930</u>	<u>0</u>	<u>0</u>	<u>51,930</u>
Total Committed	<u>51,930</u>	<u>13,571,242</u>	<u>0</u>	<u>13,623,172</u>

Assigned:

Debt Service Fund	0	0	1,583,259	1,583,259
Asset Forfeitures	13,388	0	0	13,388
Library Book Fund	164,434	0	0	164,434
Community Fund	<u>10,970</u>	<u>0</u>	<u>0</u>	<u>10,970</u>
Total Assigned	<u>188,792</u>	<u>0</u>	<u>1,583,259</u>	<u>1,772,051</u>

Unassigned

All other unassigned	12,886,324	0	0	12,886,324
Emergency Reserve (stabilization) Fund	<u>2,678,431</u>	<u>0</u>	<u>0</u>	<u>2,678,431</u>
Total Unassigned	<u>15,564,755</u>	<u>0</u>	<u>0</u>	<u>15,564,755</u>

Total Fund Balances	<u>\$ 16,044,208</u>	<u>\$ 13,605,404</u>	<u>\$ 2,470,976</u>	<u>\$ 32,120,588</u>
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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.

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.

City of Mountain Brook, Alabama

Notes to Financial Statements

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:	<u>Liability Limits</u>	
	Specific	Aggregate
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 of September 30, 2018 and 2017 in the amount of \$392,000 and \$417,000, respectively. Workers' compensation cost charged by the City during 2018 and 2017 was approximately \$325,000 and \$464,000, 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 \$240,198 and \$286,590 as of September 30, 2018 and 2017, respectively, represent temporary and permanently restricted funds donated to the Emmet O'Neal Library, a department of the City.

J. Receivables

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

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

K. Equity classifications

Government-wide Statements

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

1. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

City of Mountain Brook, Alabama

Notes to Financial Statements

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 \$3,136,531 as of September 30, 2018 and \$3,020,516 as of September 30, 2017. The City paid \$0 and \$23,089 after September 30, 2018 and 2017, respectively, representing all vested compensated absences to employees who retired or otherwise ended their employment with the City prior to year end. Such amounts have been reported as current liabilities in the Government-Wide Statement of Activities.

N. Longevity pay plan

The City has a longevity pay plan which covers all full-time employees that have completed a minimum of six years of service as of September 30. Longevity pay for a qualifying employee is the product of the percentage factor (which is based on the number of years of completed services) and their annual rate of pay. The percentage factor is 1.5% after six years and increases 0.5% per year to a maximum rate of 8.5% which is attained after twenty years of service. The plan also limits the City's maximum annual longevity pay to a total of \$440,000 in 2018 and 2017. 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, 2018 and September 30, 2017 reported in the Government-Wide and Fund financial statements totaled \$431,599 and \$426,835, 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.

City of Mountain Brook, Alabama

Notes to Financial Statements

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 5).

Q. Other post-employment benefits (OPEB) plan

The fiduciary net position of the City of Mountain Brook Section 115 Trust Agreement (the OPEB Plan) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflow of resources and deferred inflow of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from the OPEB Plan's fiduciary net position. Benefit payments are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. (Note 6).

R. 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, 2018:

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>
Operating transfers in (out):			
Capital transfers for the payment of current year asset acquisitions and the future replacement of capital assets	\$ (3,710,206)	\$ 4,016,160	\$ (305,954)
Corrections fund transfer to fund operations	(159,806)	0	159,806
Debt service transfer for the accumulation of funds for the future repayment of City obligations	(239,139)	0	239,139
Gasoline tax fund transfer to supplement the annual street resurfacing program	<u>(150,000)</u>	<u>0</u>	<u>150,000</u>
Operating transfers, net	<u>\$ (4,259,151)</u>	<u>\$ 4,016,160</u>	<u>\$ 242,991</u>

City of Mountain Brook, Alabama

Notes to Financial Statements

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>
Operating transfers in (out):			
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	<u>(200,000)</u>	<u>0</u>	<u>200,000</u>
Operating transfers, net	<u>\$ (4,649,123)</u>	<u>\$ 4,108,416</u>	<u>\$ 540,707</u>

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.

S. 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%

City of Mountain Brook, Alabama

Notes to Financial Statements

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

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

T. 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 \$30.5 million (80%) and \$30.1 million (80%) of the total General Fund revenues during the years ended September 30, 2018 and 2017, 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 \$6.47 million (17%) and \$6.44 million (17%) of the City's total General Fund revenues during the years ended September 30, 2018 and 2017, respectively.

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

V. Inventory

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

W. 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.

X. Fixed Assets

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

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

City of Mountain Brook, Alabama

Notes to Financial Statements

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.

Y. 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.

Z. 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, 2018:

- The City's certificates of deposit totaling \$20.8 million and U. S. government securities totaling 3.5 million are valued using current market prices (Level 2 inputs)
- The City's common stock of \$64,051 is valued using quoted market prices obtained from the New York Stock Exchange (Level 1 input)
- Mutual funds and U. S. Treasury Notes held by the component unit in the amount of \$4,325,181 are valued using quoted market prices (Level 1 inputs)
- Municipal bonds totaling \$286,109 and corporate bonds totaling \$14,774 held by the component unit in are valued using quoted market prices (Level 2 inputs)
- The OPEB Trust's cash deposits and certificates of deposit held in a brokerage account totaling \$2,886,328 are valued using current market prices (Level 2 inputs)

City of Mountain Brook, Alabama

Notes to Financial Statements

At September 30, 2018, the City had the following cash and investments and maturities:

	Investment Maturity in Years			
	Fair Value	Less Than 1	From 1 Up To 3	From 3 Up To 5
Cash on-hand	\$ 2,760	\$ 2,760	\$ 0	\$ 0
Bank deposits	8,227,921	8,227,921	0	0
Investments:				
Cash and money market accounts (negative position due to unsettled redemption)	(227,976)	(227,976)	0	0
Certificates of deposit	20,837,695	6,103,880	7,812,578	6,921,237
U. S. Treasury bonds/notes	3,498,305	49,688	1,429,354	2,019,263
576 shares VMC common stock (donated)	64,051	0	0	64,051
Total portfolio	\$ 32,402,756	\$ 14,156,273	\$ 9,241,932	\$ 9,004,551

At September 30, 2018, the discretely presented component unit had the following cash and investments and maturities:

	Investment Maturity in Years			
	Fair Value	Less Than 1	1 - 2	3+
Bank deposits	\$ 141,552	\$ 141,552	\$ 0	\$ 0
Deposits held in brokerage accounts	31,455	31,455	0	0
U. S. Treasury Notes	364,735	64,977	64,690	235,068
Corporate bonds	381,574	0	163,488	218,086
Municipal bonds	286,109	0	0	286,109
Mutual funds	3,420,639	3,420,639	0	0
Total portfolio	\$ 4,626,064	\$ 3,658,623	\$ 228,178	\$ 739,263

At September 30, 2018, the OPEB Trust had the following cash and investments and maturities:

	Investment Maturity in Years			
	Fair Value	Less Than 1	From 1 Up To 3	From 3 Up To 5
Deposits held in brokerage accounts	\$ 20,304	\$ 20,304	\$ 0	\$ 0
Certificates of deposit	2,866,024	0	1,518,156	1,347,868
Totals	\$ 2,886,328	\$ 20,304	\$ 1,518,156	\$ 1,347,868

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, 2018, were as follows:

City of Mountain Brook, Alabama

Notes to Financial Statements

<u>Maturity</u>	<u>Portion of Respective Portfolio</u>		
	<u>City</u>	<u>Component Unit</u>	<u>OPEB Trust</u>
Less than one year	43.69%	79.09%	0.70%
1 - 2 years	28.52%	4.93%	52.60%
3 - 5 years	27.79%	15.98%	46.70%
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Credit Risk. Act No. 2000-748 of the Code of Alabama requires that all public deposits held in banks be secured by collateral pledged to the Security for Alabama Funds Enhancement (SAFE) collateral pool established in the Office of the State Treasurer. The City's policy is to deposit funds only in financial institutions that are qualified public depositories of the State of Alabama SAFE program or other federally insured financial institutions. All of the City's bank deposits are either insured by Federal Depository Insurance 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, 2018, the City had invested \$20.8 million in certificates of deposit and \$3.5 million in U. S. Treasury obligations. All of the City's \$20.8 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:

<u>Description/Creditor</u>	<u>Fair Value</u>	<u>Portion of Portfolio</u>
Iberia Bank (cash deposit accounts)	\$ 7,055,319	21.77%
Regions Bank (cash deposit accounts)	1,172,602	3.62%
Morgan Stanley (cash, deposits, money market funds) (including unsettled investment transactions of \$248,459)	(227,976)	-0.70%
All other (cash on-hand and common stock)	66,811	0.21%
U. S. Treasury obligations	3,498,305	10.80%
Various financial institutions - certificates of deposit	20,837,695	75.10%
	<u>\$ 32,402,756</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 no uninsured bank deposits at September 30, 2018 or September 30, 2017. The following are the holdings in the discretely presented component unit's cash and investment portfolio:

<u>Description</u>	<u>CUSIP</u>	<u>Fair Value</u>	<u>Portion of Portfolio</u>
Bank demand deposit accounts		\$ 141,552	3.06%
Deposits held in brokerage accounts		31,455	0.68%
U. S. Treasury Notes	Various	364,735	7.88%
Corporate bonds:			
Bristol-Meyer Squib (1.6%), due 2/27/2019	110122BA5	19,905	0.43%
AT&T, Inc. (2.3%), due 3/11/2019	00206RCC4	9,985	0.22%
American Express (2.125%), due 3/18/2019	0258M0DK2	19,932	0.43%
Citigroup, Inc. (2.5%), due 7/29/2019	172967HU8	9,970	0.22%
Novartis Cap Corp (1.8%), due 2/14/2020	66986HAL2	14,774	0.32%
Walt Disney Co (1.95%), due 3/4/2020	25468PDP8	14,802	0.32%

City of Mountain Brook, Alabama

Notes to Financial Statements

Toyota Motor Credit (1.95%), due 4/17/2020	89236TDU6	14,789	0.32%
Morgan Stanley (2.8%), due 6/16/2020	61761JB32	9,921	0.21%
CVS Health Corp. (2.8%), due 7/20/2020	126650CJ7	9,893	0.21%
Bank of America (2.625%), due 10/19/2020	06051GFT1	9,877	0.21%
Wells Fargo Bank (2.5%), due 3/4/2021	949746RS2	19,580	0.42%
Bank of New York Mellon (3.55%), due 9/23/2021	06406HBY4	10,060	0.22%
General Electric (4.65%), due 10/17/2021	36962G5J9	20,726	0.45%
J P Morgan Chase (4.5%), due 1/24/2022	46625HJD3	20,616	0.45%
Merck & Co., Inc. (2.35%), due 2/10/2022	58933YAQ8	19,459	0.42%
Medtronic, Inc. (3.15%), due 3/15/2022	585055BR6	14,905	0.32%
Goldman Sachs Group (3%), due 4/26/2022	38141GWC4	9,789	0.21%
Deere & Co. (2.6%), due 6/8/2022	244199BE4	19,507	0.42%
Comcast Corporation (3.125%), due 7/15/2022	20030NBD2	14,809	0.32%
Oracle Corporation (2.5%), due 10/15/2022	68389XAP0	19,403	0.42%
Statoil ASA (2.45%), due 1/17/2023	85771PAG7	19,257	0.42%
Anheuser-Busch, Inc. (3.3%), due 2/1/2023	035242AL0	14,811	0.32%
Apple, Inc. (2.85%), due 2/23/2023	037833BU3	19,629	0.42%
Eversource Energy (2.8%), due 5/1/2023	664397AK2	14,481	0.31%
Verizon Communications (5.15%), due 9/15/2023	92343VBR4	10,694	0.23%
Municipal Bonds:			
SoCal Public Power Electric Utility (2.178%)	84247PHU8	29,868	0.65%
Texas State WTR UTIL (2.412%)	882723EG0	9,978	0.22%
University of Pittsburg (1.829%)	914805EQ5	24,817	0.54%
Minneapolis-St. Paul Metropolitan Airports Commission (2.755%)	603827VA1	14,944	0.32%
Cobb County, Georgia (2.2%)	190806EF2	34,424	0.74%
South Dakota Conservancy District (1.786%)	837545KZ4	39,236	0.85%
Port of Morrow OR Power Utility (2.42%)	73474TAF7	24,683	0.53%
New York NY City Transitional Taxable Future Tax (2.35%)	64971QTX1	39,181	0.85%
Honolulu Hawaii Water Utility (2.619%)	438689JU6	34,470	0.75%
City of Richmond VA GO UTX (2.599%)	76541VKG1	34,508	0.75%
Mutual Funds:			
American Funds EuroPacific Growth Fund (4,422.002 shares)	FEUPX	234,852	5.08%
BlackRock Global Alloc. Fund, Inc. Institutional (6,106.856 shares)	MALOX	120,366	2.60%
Catalyst Hedged Futures Strategy Fund Class I (10,401.276 shares)	HFXIX	83,002	1.79%
Diamond Hill Long Short Fund Class I (4,529.84 shares)	DHLSX	124,118	2.68%
Dodge & Cox International Stock (4,886.736 shares)	DODFX	211,889	4.58%
FPA Crescent (3,412.637 shares)	FPACX	121,729	2.63%
Goldman Sachs Satellite Strategies Portfolio (25,961.528 shares)	GXSIX	206,135	4.46%
PIMCO All Asset Fund Institutional Class (9,740.87 shares)	PAAIX	113,676	2.46%
Schwab Fundamental US Large Co. Index (29,894.586 shares)	SFLNX	555,740	12.01%
Schwab Fundamental US Small Co. Index (14,234.389 shares)	SFSNX	230,312	4.98%
Vanguard 500 Index Fund Admiral Class (1,865.883 shares)	VFIAX	502,090	10.85%
Wells Fargo Absolute Return Fund (10,559.836 shares)	WABIX	118,693	2.57%
Vanguard Ultra Short Bond Fund (34,486.638 shares)	VUSFX	686,629	14.84%
Vanguard Convert Securities Bond Fund (7,940.688 shares)	VCV SX	111,408	2.41%
		\$ 4,626,064	100.00%

City of Mountain Brook, Alabama

Notes to Financial Statements

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, 2018, the OPEB Trust had invested \$2.9 million in certificates of deposit. The OPEB Trust held no certificates of deposit (including accrued interest) that exceeded the \$250,000 FDIC limit.

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:

	2018				2017 Total
	General Fund	Capital Projects	Other Governmental Funds	Total	
Taxes	\$ 1,986,976	\$ 0	\$ 0	\$ 1,986,976	\$ 2,065,776
E-911 surcharge	0	0	58,043	58,043	29,283
Board of Education (Note 1.B.)	0	0	0	0	75,000
Grants	0	74,787	0	74,787	279,652
Other	77,114	84,852	36,807	198,773	65,634
Totals	\$ 2,064,090	\$ 159,639	\$ 94,850	\$ 2,318,579	\$ 2,515,345

4. Capital assets

Following is a summary of the changes in the City's capital assets for the year ended September 30, 2018:

	Balance at September 30, 2017	Additions	Disposals/ Retirements/ Completed	Balance at September 30, 2018
Capital assets, not being depreciated:				
Land	\$ 19,914,153	\$ 0	\$ 0	\$ 19,914,153
Construction in progress	1,323,056	5,059,706	(5,339,126)	1,043,636
Total capital assets, not being depreciated	21,237,209	5,059,706	(5,339,126)	20,957,789
Capital assets, being depreciated:				
Land improvements	3,123,579	0	0	3,123,579
Buildings and improvements	35,424,049	23,535	877,416	36,325,000
Machinery and equipment	25,438,534	1,884,601	(886,955)	26,436,180
Infrastructure	63,311,717	414,827	4,334,962	68,061,506
Total capital assets, being depreciated	127,297,879	2,322,963	4,325,423	133,946,265

City of Mountain Brook, Alabama

Notes to Financial Statements

**Less accumulated
depreciated for:**

Land improvements	497,251	31,707	0	528,958
Buildings and improvements	8,228,606	1,175,752	0	9,404,358
Machinery and equipment	19,328,237	1,665,521	(882,160)	20,111,598
Infrastructure	<u>41,214,151</u>	<u>2,574,722</u>	<u>(126,748)</u>	<u>43,662,125</u>
Total accumulated depreciation	<u>69,268,245</u>	<u>5,447,702</u>	<u>(1,008,908)</u>	<u>73,707,039</u>
Total capital assets, being depreciated, net	<u>58,029,634</u>	<u>(3,124,739)</u>	<u>5,334,331</u>	<u>60,239,226</u>
Governmental activities capital assets, net	<u>\$ 79,266,843</u>	<u>\$ 1,934,967</u>	<u>\$ (4,795)</u>	<u>\$ 81,197,015</u>

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

	<u>2018</u>	<u>2017</u>
Governmental activities:		
General government	\$ 372,307	\$ 373,099
Public safety	1,624,558	1,463,643
Street and sanitation	2,291,902	2,178,598
Recreational	618,740	616,871
Library	<u>540,195</u>	<u>494,804</u>
Total depreciation expense	<u>\$ 5,447,702</u>	<u>\$ 5,127,015</u>

5. 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.

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.

City of Mountain Brook, Alabama

Notes to Financial Statements

- 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.

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 877 local participating employers. These participating employers include 297 cities, 65 counties, and 514 other public entities. The ERS membership includes 86,109 participants. As of September 30, 2017, membership consisted of:

Retirees and beneficiaries currently receiving benefits	23,853
Terminated employees entitled to but not yet receiving benefits	1,401
Terminated employees not entitled to a benefit	7,154
Active members	55,941
Post-DROP participants who are still in active service	<u>168</u>
Total	<u>88,517</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.

City of Mountain Brook, Alabama

Notes to Financial Statements

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.

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, 2018, 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, 2018, 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:

Unit (Collectively, "The City of Mountain Brook")	Tier 1	Tier 2
2460 City of Mountain Brook	13.30%	13.00%
4791 Mountain Brook Library Board	2.61%	2.09%
4792 Mountain Brook Park and Recreation Board	2.62%	0.61%

The weighted average contribution rate (including pre-retirement death benefits of 0.02% and administrative expenses of 0.35%) to fund the normal and accrued liability costs was 11.62%.

The required contribution rates above are based upon the actuarial valuation dated September 30, 2015, 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 \$3,558,609 (\$1,740,438 employer actuarially determined amount, excess employer contributions of \$610,000, and \$1,208,171 employee excluding pre-retirement death benefits of 0.02% and administrative expenses of 0.35%) for the year ended September 30, 2018.

B. Net pension liability

The City's net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016 rolled forward to September 30, 2017 using standard roll-forward techniques as shown below:

	Unit			
	City 2460 MTB	Library 4791 MBL	Park Board 4792 MBP	Combined
Total pension liability as of September 30, 2016 (a)	\$ 75,048,011	\$ 5,237,243	\$ 2,133,628	\$ 82,418,882
Interest	5,641,438	398,133	161,644	6,201,215
Difference between expected and actual experience	566,316	(785,555)	39,412	(179,827)
Transfers among employers	206,586	(33,091)	(2,002)	171,493
Entry age normal cost for the period				
October 1, 2016 through September 30, 2017 (b)	1,216,853	110,855	59,802	1,387,510
Actual benefit payments and refunds for the period				
October 1, 2016 through September 30, 2017 (c)	<u>(4,510,526)</u>	<u>(200,082)</u>	<u>(95,797)</u>	<u>(4,806,405)</u>
Total pension liability as of September 30, 2017				
[(a) x (1.0775)] + (b) - [(c) x (1.03875)]	<u>\$ 78,168,678</u>	<u>\$ 4,727,503</u>	<u>\$ 2,296,687</u>	<u>\$ 85,192,868</u>

City of Mountain Brook, Alabama

Notes to Financial Statements

Actuarial assumptions.

The total pension liability as of September 30, 2017, was determined based on the annual actuarial funding valuation report prepared as of September 30, 2016. The key actuarial assumptions are summarized below:

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

*Net of pension plan investment expense

Mortality rates for ERS were based on the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females ages 78 and older. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

The actuarial assumptions used in the September 30, 2016 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:

	Target Allocation	Long-Term Expected Rate of Return*
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%
Total	<u>100.00%</u>	

*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

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances at September 30, 2016	\$ 82,418,882	\$ 51,741,204	\$ 30,677,678
Changes for the year:			
Service cost	1,387,510	0	1,387,510
Interest	6,201,215	0	6,201,215
Changes of assumptions	0	0	0
Differences between expected and actual experience	(179,827)	0	(179,827)
Contributions—employer	0	2,330,683	(2,330,683)
Contributions—employee	0	1,221,711	(1,221,711)
Net investment income	0	6,544,602	(6,544,602)
Benefit payments, including refunds of employee contributions	(4,806,405)	(4,806,405)	0
Administrative expense	0	0	0
Transfers among employers	171,493	171,493	0
Net changes	<u>2,773,986</u>	<u>5,462,084</u>	<u>(2,688,098)</u>
Balances at September 30, 2017	<u>\$ 85,192,868</u>	<u>\$ 57,203,288</u>	<u>\$ 27,989,580</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>\$ 37,614,033</u>	<u>\$ 27,989,580</u>	<u>\$ 19,830,488</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, 2017. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2017. The auditor's report dated August 31, 2018, 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.

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

For the year ended September 30, 2018, the City recognized pension expense of \$2,858,769. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,338,276	\$ 785,147
Changes of assumptions	3,237,082	0
Net difference between projected and actual earnings on pension plan investments	0	1,718,131
Employer contributions subsequent to the measurement date	<u>2,371,249</u>	<u>0</u>
Total	<u>\$ 6,946,607</u>	<u>\$ 2,503,278</u>

City of Mountain Brook, Alabama

Notes to Financial Statements

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:	Deferred Outflows/ Inflows Resources
2019	\$ 459,748
2020	815,063
2021	153,354
2022	286,677
2023	438,629
Thereafter	(81,391)

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, 2018 (and accrued pension contributions in the amount of \$126,154 applicable to accrued [pensionable] salaries and wages as of September 30, 2018).

F. Membership as of the Measurement Date September 30, 2017

	City 2460 MTB	Library 4791 MBL	Park Board 4792 MBP	Combined
Retired members or their beneficiaries currently receiving benefits	108	9	4	121
Vested inactive members	1	1	0	2
Non-vested inactive members	2	1	0	3
Active members	<u>197</u>	<u>26</u>	<u>17</u>	<u>240</u>
 Total	 <u>308</u>	 <u>37</u>	 <u>21</u>	 <u>366</u>

6. Post-employment benefits

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

Article VII of the Trust stipulates that the City Council had the authority to establish the Trust and Article V, Sec. 5.4 assigns authority to 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.

Plan Membership. At September 30, 2018, the Plan's membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	28
Active plan members	<u>222</u>
Total	<u>250</u>

Benefits Provided. The City 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 sworn police officers and firefighters) or later and completion of 10 years of service.

City of Mountain Brook, Alabama

Notes to Financial Statements

Contributions. The City Council of the City of Mountain Brook has the authority to establish and amend the contribution requirements of plan members. 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.

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, 2018:

<u>Asset Class</u>	<u>Target 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, 2018, the annual money-weighted rate of return (loss) on investments, net of investment expense, was (0.46%). The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability

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

	2018
Total OPEB liability	\$ 5,824,487
Plan fiduciary net position	<u>2,886,328</u>
Net OPEB liability	<u>\$ 2,938,159</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>49.56%</u>

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of October 1, 2017, using the following actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary increases	3.0% including inflation
Discount rate	3.5% annually (Beginning of Year to Determine ADC*)
	3.5% annually (As of End of Year Measurement Date)
Healthcare cost trend rate	5.5% annually

* Actuarially Determined Contribution

The RP-2000 Table without projection with 50%/50% unisex blend has been used. Projected future mortality improvement has not been used since it is our opinion that this table contains a substantial conservative margin for the population involved in this valuation.

The actuarial assumptions used in the October 1, 2017, valuation were based on the results of ongoing evaluations of the assumptions from October 1, 2006 to September 30, 2018 in addition to the Office of Group Benefits (OGB) assumptions.

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, 2018, are summarized in the following table:

City of Mountain Brook, Alabama

Notes to Financial Statements

Asset Class	Long-Term Expected Real Rate of Return
Domestic Equity	6.0%
Corporate Bonds	5.0%
Certificates of Deposit	1.0%
Cash	0.0%

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 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, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.5%) or one percentage point higher (4.5%) than the current discount rate:

	1% Decrease (2.5%)	Current Rate (3.5%)	1% Increase (4.5%)
City's net OPEB liability	<u>\$ 3,565,962</u>	<u>\$ 2,938,159</u>	<u>\$ 2,392,451</u>

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following represents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (4.5%) or one percentage point higher (6.5%) than the current healthcare trend rates:

	1% Decrease (4.5%)	Current Rate (5.5%)	1% Increase (6.5%)
City's net OPEB liability	<u>\$ 2,365,985</u>	<u>\$ 2,938,159</u>	<u>\$ 3,595,136</u>

7. 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 2018 and 2017 were as follows:

	2018	2017
Property tax commissions	\$ 220,451	\$ 221,789
Maintenance of maps and appraisals	238,057	221,487
Jefferson County Health Department	124,045	122,188
Birmingham-Jefferson County Transit Authority	121,451	123,066
Personnel Board of Jefferson County	281,206	186,067
Birmingham Regional Planning Commission	12,350	0

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, 2018, were \$31.89 per month for single and multiple family residential units and \$39.12 per month for commercial units. The annual cost incurred under this agreement for the years ended September 30, 2018 and 2017, was approximately \$2,871,000 and \$2,811,000, respectively. Total garbage service fee revenues collected by the City from its commercial customers during the years ended September 30, 2018 and 2017 were \$29,948 and \$30,977, 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 2017, the City Council authorized the extension of the 12-month agreement in consideration of \$20,000.

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 \$2,568,118 and revenue sharing development incentive expense of \$1,033,144 for the year ended September 30, 2018. The outstanding development incentive commitment balance was \$8,148,365 as of September 30, 2018 (\$500,000 of the \$4 million infrastructure incentive and \$7,648,365 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 \$277,620 for the year ended September 30, 2018. The outstanding development incentive commitment balance was \$3,375,734 as of September 30, 2018.

In 2016, the City renewed two, 5-year leases of real property used for public parking. Both leases expire on September 30, 2021. The leases are payable in monthly installments. Lease payments remitted for the year ended September 30, 2018 totaled \$63,803. Annual lease payments for the fiscal years ending September 30, 2019, 2020 and 2021 will be \$63,848, \$64,109, and \$64,262, respectively.

City of Mountain Brook, Alabama

Notes to Financial Statements

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

	<u>2018</u>	<u>2017</u>
Streets and bridge	\$ 598,111	\$ 1,000,667
Public building improvements	0	127,053
Sidewalks and pedestrian bridge	<u>445,525</u>	<u>195,336</u>
Total	<u>\$ 1,043,636</u>	<u>\$ 1,323,056</u>

The City has entered into various contracts with the Alabama Department of Transportation (ALDOT) and engineering firms with respect to the Village Walkway System (sidewalks) and U. S. Highway 280 intersection improvements construction projects. The projects are being administered by ALDOT and federal awards have been granted that generally provide up to 80% of allowable construction and related costs. Following is a summary of the sidewalk and intersection improvement contracts underway as of September 30, 2018:

<u>Project Description</u>	<u>Contract Commitment and Anticipated Overruns</u>	<u>Expended in Fiscal 2018 ⁽¹⁾</u>	<u>Federal Awards Reported in 2018</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)	\$ 515,000	\$ 343,490	\$ 274,792	\$ 274,000	\$ 33,000
Jemson Trail/Shades Creek Parkway Phase 5B - STPBH-CN13(907)	907,000	122,879	98,303	0	Pending Close-out
Mountain Brook Village Walkway System Phase 9, Brookwood and Crosshill Roads and Oakdale Drive CMAQ-NR13(908)	1,763,584	<u>677,499</u>	<u>541,998</u>	<u>0</u>	Pending Close-out
Totals		<u>\$ 1,143,868</u>	<u>\$ 915,093</u>	<u>\$ 274,000</u>	

⁽¹⁾ The amounts expended in fiscal 2018 include project-related expenditures not eligible for federal reimbursement.

8. 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>2018</u>	<u>2017</u>
Assessed value of taxable real and personal property as provided by the Jefferson County Tax Assessor	<u>\$626,621,340</u>	<u>\$604,325,020</u>
Constitutional debt limit, 20 percent of assessed value	\$125,324,268	\$120,865,004
Outstanding long-term debt as of September 30	<u>0</u>	<u>0</u>
Legal Debt Margin	<u>\$125,324,268</u>	<u>\$120,865,004</u>

City of Mountain Brook, Alabama

Notes to Financial Statements

9. 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:

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%	\$ 59,944	2018	Not applicable
Grocer annexation/development	Ad valorem	100%	12,699	2020	Not applicable
Public parking	Ad valorem	100%	<u>2,241</u>	2021	Not applicable
Offset against related ad valorem tax revenue			74,884		
Redevelopment of commercial and multi-family parcels					
Revenue sharing				2035 ⁽²⁾	\$ 10,000,000
	Ad valorem	100% ⁽¹⁾	482,818		
	Lodging and Sales Tax ⁽¹⁾	90%	550,326		
Redevelopment of parcels for commercial use	Sales Tax				
		75% 2016–2020, 50% thereafter	<u>277,620</u>	2034 ⁽²⁾	\$ 4,000,000
General government expense			<u>1,310,764</u>		
Total incentive			<u>\$ 1,385,648</u>		

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

⁽²⁾ 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 earlier based on the performance of the retailer and collections realized.

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:

- Certain asset retirement obligations
- Fiduciary activities
- Leases

City of Mountain Brook, Alabama

Notes to Financial Statements

- Certain disclosures related to debt, including direct borrowings and direct placements
- Accounting for interest cost incurred before the end of a construction period
- Majority equity interests

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

12. Change in accounting principle and restatement

The City implemented Governmental Accounting Standards Board (GASB) Statement 75, Actuarial Valuation of Other Post-employment Benefits (OPEB), in the fiscal year ended September 30, 2018. The implementation of the statements required the City to record beginning net OPEB liability and the effect on net position of OPEB activity during the measurement period (fiscal year ended September 30, 2018). As a result, beginning net position for the year ended September 30, 2017, decreased as follows:

Net OPEB asset written-off	\$ (2,831,764)
Net OPEB liability recorded	<u>(2,574,975)</u>
Decrease in the beginning net position for the year ended September 30, 2017	\$ <u>(5,406,739)</u>

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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, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Taxes	\$ 31,778,020	\$ 31,798,020	\$ 31,542,467	\$ (255,553)
Licenses and permits	4,598,000	4,598,000	4,833,799	235,799
Intergovernmental	112,410	112,410	189,926	77,516
Charges for services	772,503	778,903	658,684	(120,219)
Fines and forfeitures	541,600	541,600	514,978	(26,622)
Grants	13,101	13,101	29,486	16,385
Other operating revenues	<u>371,250</u>	<u>371,250</u>	<u>547,089</u>	<u>175,839</u>
Total revenues	<u>38,186,884</u>	<u>38,213,284</u>	<u>38,316,429</u>	<u>103,145</u>
Expenditures:				
Current (operating):				
General government	6,745,461	7,360,461	7,505,247	(144,786)
Public safety	15,588,484	15,594,884	15,065,849	529,035
Street and sanitation	6,785,223	6,785,223	6,463,645	321,578
Recreational	1,322,070	1,322,070	1,310,401	11,669
Library	<u>3,270,798</u>	<u>3,270,798</u>	<u>3,239,382</u>	<u>31,416</u>
Total expenditures	<u>33,712,036</u>	<u>34,333,436</u>	<u>33,584,524</u>	<u>748,912</u>
Excess of revenues over expenditures	<u>4,474,848</u>	<u>3,879,848</u>	<u>4,731,905</u>	<u>852,057</u>
Other financing sources (uses):				
Operating transfers (out)	(4,206,964)	(3,611,964)	(4,259,151)	(647,187)
Operating transfers in - component unit	30,000	30,000	75,626	45,626
Donations	<u>51,700</u>	<u>51,700</u>	<u>34,126</u>	<u>(17,574)</u>
Total other financing sources (uses)	<u>(4,125,264)</u>	<u>(3,530,264)</u>	<u>(4,149,399)</u>	<u>(619,135)</u>
Excess of revenues and other financing sources over expenditures and other financing uses	349,584	349,584	582,506	232,922
Fund balances, beginning of year	<u>15,461,702</u>	<u>15,461,702</u>	<u>15,461,702</u>	<u>0</u>
FUND BALANCES, END OF YEAR	<u>\$ 15,811,286</u>	<u>\$ 15,811,286</u>	<u>\$ 16,044,208</u>	<u>\$ 232,922</u>

City of Mountain Brook, Alabama

Notes to Required Supplementary Information

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 25, 2017 (Ordinance No. 1998) and subsequently revised by way of administrative adjustments that did not change the budgeted surplus.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability				
Service costs	\$ 1,387,510	\$ 1,336,195	\$ 1,300,723	\$ 1,271,006
Interest	6,201,215	5,796,789	5,523,394	5,313,180
Change in assumptions	0	4,619,194	0	0
Differences between expected and actual experience	(179,827)	429,303	809,623	0
Benefit payments, including refunds of employee contributions	(4,806,405)	(4,365,372)	(4,067,215)	(3,845,824)
Transfers among employers	171,493	(39,780)	0	0
Net change in total pension liability	2,773,986	7,776,329	3,566,525	2,738,362
Total pension liability, beginning	<u>82,418,882</u>	<u>74,642,553</u>	<u>71,076,028</u>	<u>68,337,666</u>
Total pension liability, ending (a)	<u>\$ 85,192,868</u>	<u>\$ 82,418,882</u>	<u>\$ 74,642,553</u>	<u>\$ 71,076,028</u>
Plan fiduciary net position				
Contributions - employer ⁽²⁾	\$ 2,330,683	\$ 1,619,070	\$ 1,578,733	\$ 1,527,445
Contributions - employee	1,221,711	1,178,166	1,163,946	1,140,706
Net investment income	6,544,602	4,856,657	576,080	5,337,652
Benefit payments, including refunds of employee contributions	(4,806,405)	(4,365,372)	(4,067,215)	(3,845,824)
Transfers among employers	171,493	(39,780)	41,498	(125,527)
Net change in plan fiduciary net	5,462,084	3,248,741	(706,958)	4,034,452
Plan net position, beginning	<u>51,741,204</u>	<u>48,492,463</u>	<u>49,199,421</u>	<u>45,164,969</u>
Plan net position, ending (b)	<u>\$ 57,203,288</u>	<u>\$ 51,741,204</u>	<u>\$ 48,492,463</u>	<u>\$ 49,199,421</u>
Net pension liability (asset), ending	\$ 27,989,580	\$ 30,677,678	\$ 26,150,090	\$ 21,876,607
Plan fiduciary net position as a percentage of the total pension liability	67.15%	62.78%	64.97%	69.22%
Covered-employee payroll ⁽¹⁾	\$ 15,189,454	\$ 14,888,056	\$ 14,580,566	\$ 14,200,725
Net pension liability (asset) as a percentage of the covered-employee payroll	184.27%	206.06%	179.35%	154.05%

⁽¹⁾ Covered payroll during the measurement period is the total payroll on which contributions to the pension plan are based. For fiscal year 2017, the measurement period is October 1, 2016 – September 30, 2017.

⁽²⁾ Employer contributed more than the actuarially determined required contribution in the amount of \$ 600,000 \$ 0 \$ 0 \$ 0

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 1,740,438	\$ 1,733,175	\$ 1,617,545	\$ 1,578,733
Contributions in relation to the actuarially determined contribution	<u>2,371,249</u>	<u>2,333,175</u>	<u>1,617,545</u>	<u>1,578,733</u>
Contributions deficiency (excess)	<u>\$ (630,811)</u>	<u>\$ (600,000)</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered-employee payroll	<u>\$ 15,514,540</u>	<u>\$ 15,189,454</u>	<u>\$ 14,888,056</u>	<u>\$ 14,580,566</u>
Contributions as a percentage of covered-employee payroll	<u>15.28%</u>	<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, 2015, 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	28.6 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

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

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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, 2018

Total OPEB Liability	
Service cost	\$ 73,276
Interest	175,070
Changes of benefit terms	0
Differences between expected and actual experience	1,556,656
Changes of assumptions	(810,818)
Benefit payments	<u>(343,392)</u>
Net change in total OPEB liability	650,792
Total OPEB liability, beginning of year	<u>5,173,695</u>
Total OPEB liability, end of year (a)	<u>\$ 5,824,487</u>
Plan Fiduciary Net Position	
Contributions - employer	\$ 520,436
Contributions - member	127,956
Net investment income (loss)	(12,392)
Benefit payments	(343,392)
Administrative expense	<u>(5,000)</u>
Net change in plan fiduciary net position	287,608
Plan fiduciary net position, beginning of year	<u>2,598,720</u>
Plan fiduciary net position, end of year (b)	<u>\$ 2,886,328</u>
Net OPEB liability, end of year (a) - (b)	<u>\$ 2,938,159</u>
Plan fiduciary net position as a percentage of the total OPEB liability	49.56%
Covered-employee payroll	\$ 14,838,432
Net OPEB liability as a percentage of covered-employee payroll	19.80%

Notes to Schedule:

Benefit Changes. There were no changes of benefit terms for the year ended September 30, 2018.

Changes of Assumptions. There were no changes of assumptions for the year ended September 30, 2018.

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, 2018**

Actuarially determined contribution	\$ 213,281
Contributions in relation to the actuarially determined contribution:	
Employer contributions to trust	300,000
Employer-paid retiree premiums	343,392
Employer-paid expenses	<u>5,000</u>
	<u>648,392</u>
Contribution deficiency (excess)	<u>\$ (435,111)</u>
Covered annual payroll	\$ 14,838,432
Contributions as a percentage of covered employee payroll	4.37%

Notes to Schedule:

Valuation date	10/1/2017 Actuarilly 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	5.5% annually
Salary increases	3.0% annually
Discount rate	3.5% annually (Beginning of Year to Determine the Actuarially Determined Contributions (ADC)) 3.5% annually (As of End of Year Measurement Date)
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	RP-2000 without projections, 50% unisex blend
Turnover	Age specific table with an average of 7.5% when applied to the active census

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
Ten (10) Years Ended September 30, 2009 through 2018

	2018	2017	2016	2015
Annual money-weighted rate of return, net of investment expense	-0.46%	-0.10%	5.15%	1.75%
Interest income (accrual basis) (A)	\$ 56,837	\$ 47,463	\$ 42,790	\$ 22,583
Beginning market value	\$ 2,598,720	\$ 2,301,227	\$ 1,900,232	\$ 1,571,336
Investment	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000
Date of deposit	6/18/2018	6/13/2017	7/22/2016	6/29/2015
Ending marking value	\$ 2,886,328	\$ 2,598,720	\$ 2,301,227	\$ 1,900,232
Weighted average market value (B)	\$ 2,680,668	\$ 2,390,067	\$ 1,976,925	\$ 1,655,137
Yield (A)/(B)	2.12%	1.99%	2.16%	1.36%

2014	2013	2012	2011	2010	2009
0.75%	1.69%	1.78%	2.51%	3.02%	0.00%
\$ 18,161	\$ 16,425	\$ 11,762	\$ 10,550	\$ 6,704	\$ 316
\$ 1,261,499	\$ 925,335	\$ 613,573	\$ 403,024	\$ 196,320	\$ 0
\$ 300,000	\$ 320,000	\$ 300,000	\$ 200,000	\$ 200,000	\$ 196,000
8/4/2014	8/27/2013	8/3/2012	8/29/2011	8/13/2010	9/12/2009
\$ 1,571,336	\$ 1,261,499	\$ 925,335	\$ 613,573	\$ 403,024	\$ 196,320
\$ 1,309,884	\$ 956,649	\$ 662,978	\$ 421,483	\$ 223,503	\$ 9,682
1.39%	1.72%	1.77%	2.50%	3.00%	3.26%
					Annualized

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SUPPLEMENTARY INFORMATION

City of Mountain Brook, Alabama

**Combining Balance Sheet
Other Governmental Funds
September 30, 2018**

	State Shared Gasoline Tax Funds			
	Seven Cent	Four Cent	Five Cent	Two Cent
ASSETS				
Cash and temporary investments	\$ 441,054	\$ 181,753	\$ 160,118	\$ 13,128
Receivables	19,717	11,456	5,634	0
TOTAL ASSETS	\$ 460,771	\$ 193,209	\$ 165,752	\$ 13,128
LIABILITIES				
Accounts payable	\$ 174,974	\$ 0	\$ 0	\$ 0
TOTAL LIABILITIES	174,974	0	0	0
FUND BALANCES				
Restricted	285,797	193,209	165,752	13,128
Assigned	0	0	0	0
TOTAL FUND BALANCES	285,797	193,209	165,752	13,128
TOTAL LIABILITIES AND FUND BALANCES	\$ 460,771	\$ 193,209	\$ 165,752	\$ 13,128

<u>Emergency Communication District</u>	<u>Corrections Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
\$ 174,721	\$ 11,095	\$ 1,583,259	\$ 2,565,128
<u>58,043</u>	<u>0</u>	<u>0</u>	<u>94,850</u>
<u>\$ 232,764</u>	<u>\$ 11,095</u>	<u>\$ 1,583,259</u>	<u>\$ 2,659,978</u>
\$ 2,933	\$ 11,095	\$ 0	\$ 189,002
<u>2,933</u>	<u>11,095</u>	<u>0</u>	<u>189,002</u>
229,831	0	0	887,717
<u>0</u>	<u>0</u>	<u>1,583,259</u>	<u>1,583,259</u>
<u>229,831</u>	<u>0</u>	<u>1,583,259</u>	<u>2,470,976</u>
<u>\$ 232,764</u>	<u>\$ 11,095</u>	<u>\$ 1,583,259</u>	<u>\$ 2,659,978</u>

City of Mountain Brook, Alabama

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances – Other Governmental Funds
Year Ended September 30, 2018**

	State Shared Gasoline Tax Funds			
	Seven Cent	Four Cent	Five Cent	Two Cent
Revenues:				
Taxes	\$ 208,005	\$ 129,938	\$ 63,283	\$ 4,873
Charges for services	0	0	0	0
Fines and forfeitures	0	0	0	0
Other operating revenues:				
Investment earnings	176,131	431	319	27
Total revenues	384,136	130,369	63,602	4,900
Expenditures:				
General government	0	0	0	0
Public safety	0	0	0	0
Street and sanitation	366,343	57,408	338	338
Debt service:				
Principal	0	0	0	0
Interest	0	0	0	0
Total expenditures	366,343	57,408	338	338
Excess (deficiency) of revenues over expenditures	17,793	72,961	63,264	4,562
Other financing sources (uses):				
Operating transfers in	150,000	0	0	0
Operating transfers (out)	0	0	0	0
Total other financing sources (uses)	150,000	0	0	0
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	167,793	72,961	63,264	4,562
Fund balances, beginning of year	118,004	120,248	102,488	8,566
FUND BALANCES, END OF YEAR	\$ 285,797	\$ 193,209	\$ 165,752	\$ 13,128

<u>Emergency Communication District</u>	<u>Corrections Fund</u>	<u>Debt Service Fund</u>	<u>Totals Fund</u>
\$ 0	\$ 0	\$ 0	\$ 406,099
385,127	69,650	0	454,777
1,921	171,275	0	173,196
<u>1,021</u>	<u>731</u>	<u>1,105</u>	<u>179,765</u>
<u>388,069</u>	<u>241,656</u>	<u>1,105</u>	<u>1,213,837</u>
0	292,873	0	292,873
358,972	108,589	0	467,561
0	0	0	424,427
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>358,972</u>	<u>401,462</u>	<u>0</u>	<u>1,184,861</u>
<u>29,097</u>	<u>(159,806)</u>	<u>1,105</u>	<u>28,976</u>
0	159,806	239,139	548,945
<u>(305,954)</u>	<u>0</u>	<u>0</u>	<u>(305,954)</u>
<u>(305,954)</u>	<u>159,806</u>	<u>239,139</u>	<u>242,991</u>
(276,857)	0	240,244	271,967
<u>506,688</u>	<u>0</u>	<u>1,343,015</u>	<u>2,199,009</u>
<u>\$ 229,831</u>	<u>\$ 0</u>	<u>\$ 1,583,259</u>	<u>\$ 2,470,976</u>

City of Mountain Brook, Alabama

**Combining Balance Sheet – Capital Projects Funds
September 30, 2018**

	<u>City Capital Projects</u>	<u>Infrastructure Improvement Projects</u>	<u>Village Trail System Projects</u>	<u>Totals</u>
ASSETS				
Cash and temporary investments	\$ 10,446,485	\$ 2,360,705	\$ 820,296	\$ 13,627,486
Receivables	84,852	0	74,787	159,639
Inventory and prepaid expenses	<u>0</u>	<u>0</u>	<u>34,162</u>	<u>34,162</u>
TOTAL ASSETS	<u>\$ 10,531,337</u>	<u>\$ 2,360,705</u>	<u>\$ 929,245</u>	<u>\$ 13,821,287</u>
LIABILITIES				
Accounts payable	<u>\$ 33,057</u>	<u>\$ 136,789</u>	<u>\$ 46,037</u>	<u>\$ 215,883</u>
TOTAL LIABILITIES	<u>33,057</u>	<u>136,789</u>	<u>46,037</u>	<u>215,883</u>
FUND BALANCES				
Nonspendable	0	0	34,162	34,162
Committed	<u>10,498,280</u>	<u>2,223,916</u>	<u>849,046</u>	<u>13,571,242</u>
TOTAL FUND BALANCES	<u>10,498,280</u>	<u>2,223,916</u>	<u>883,208</u>	<u>13,605,404</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 10,531,337</u>	 <u>\$ 2,360,705</u>	 <u>\$ 929,245</u>	 <u>\$ 13,821,287</u>

City of Mountain Brook, Alabama

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances – Capital Projects Funds
Year Ended September 30, 2018**

	<u>City Capital Projects</u>	<u>Infrastructure Improvement Projects</u>	<u>Village Trail System Projects</u>	<u>Totals</u>
Revenues:				
Grants	\$ 3,089	\$ 0	\$ 943,347	\$ 946,436
Other operating revenues:				
Investment earnings (losses)	(77,102)	18,323	3,926	(54,853)
Miscellaneous	<u>167,768</u>	<u>0</u>	<u>0</u>	<u>167,768</u>
Total revenues	<u>93,755</u>	<u>18,323</u>	<u>947,273</u>	<u>1,059,351</u>
Expenditures:				
General government	128,829	0	0	128,829
Public safety	1,337,681	0	0	1,337,681
Street and sanitation	297,315	3,134,196	1,174,717	4,606,228
Recreational	157,924	171,081	0	329,005
Library	<u>752,484</u>	<u>0</u>	<u>0</u>	<u>752,484</u>
Total expenditures	<u>2,674,233</u>	<u>3,305,277</u>	<u>1,174,717</u>	<u>7,154,227</u>
Excess (deficiency) of revenues over expenditures	<u>(2,580,478)</u>	<u>(3,286,954)</u>	<u>(227,444)</u>	<u>(6,094,876)</u>
Other financing sources (uses):				
Operating transfers in	2,874,498	941,662	200,000	4,016,160
Operating transfers (out)	0	0	0	0
Donations	<u>14,000</u>	<u>18,836</u>	<u>0</u>	<u>32,836</u>
Total other financing sources (uses)	<u>2,888,498</u>	<u>960,498</u>	<u>200,000</u>	<u>4,048,996</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>308,020</u>	<u>(2,326,456)</u>	<u>(27,444)</u>	<u>(2,045,880)</u>
Fund balances, beginning of year	<u>10,190,260</u>	<u>4,550,372</u>	<u>910,652</u>	<u>15,651,284</u>
FUND BALANCES, END OF YEAR	<u>\$ 10,498,280</u>	<u>\$ 2,223,916</u>	<u>\$ 883,208</u>	<u>\$ 13,605,404</u>

City of Mountain Brook, Alabama

**Schedule of General Fund Revenues by Source
For the Years Ended September 30, 2008 through 2018**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Taxes				
Real property	\$ 14,592,638	\$ 14,322,580	\$ 13,890,843	\$ 13,873,635
Sales and use	7,666,594	7,854,903	8,476,522	9,112,494
Utility	1,413,759	1,450,440	1,460,206	1,365,487
Personal property (automobiles)	1,022,666	1,047,869	1,079,079	1,152,424
Road and bridge	596,000	590,899	572,584	575,000
Other	<u>1,075,676</u>	<u>1,016,068</u>	<u>903,688</u>	<u>1,030,680</u>
Total taxes	26,367,333	26,282,759	26,382,922	27,109,720
Licenses and permits				
Business	1,998,980	2,130,822	2,165,612	2,223,912
Construction permits	634,059	624,309	753,444	800,820
Cable TV franchise fees	328,641	347,757	352,964	391,701
Waterworks Board	157,794	159,242	207,939	216,090
Other	<u>57,966</u>	<u>64,720</u>	<u>60,310</u>	<u>61,928</u>
Total licenses and permits	3,177,440	3,326,850	3,540,269	3,694,451
Intergovernmental	84,723	82,826	84,874	85,613
Charges for services				
Garbage fees	39,094	34,062	32,436	39,235
Other	<u>486,785</u>	<u>591,636</u>	<u>619,716</u>	<u>714,561</u>
Total charges for services	525,879	625,698	652,152	753,796
Fines and forfeitures - court	443,400	514,542	529,522	446,682
Grants	50,799	19,708	282,423	12,062
Other operating revenue				
Investment earnings	271,788	207,214	131,706	199,151
Other	<u>371,526</u>	<u>254,173</u>	<u>300,657</u>	<u>278,880</u>
Total other operating revenue	643,314	461,387	432,363	478,031
TOTAL REVENUES	<u>\$ 31,292,888</u>	<u>\$ 31,313,770</u>	<u>\$ 31,904,525</u>	<u>\$ 32,580,355</u>

2013	2014	2015	2016	2017	2018
\$ 13,512,485	\$ 13,867,794	\$ 13,994,315	\$ 14,443,548	\$ 15,155,623	\$ 15,570,510
9,578,337	9,808,223	10,158,557	10,285,530	10,656,090	10,703,490
1,284,421	1,288,163	1,325,088	1,283,444	1,253,385	1,266,010
1,208,485	1,217,199	1,306,732	1,392,583	1,382,497	1,286,922
565,066	550,686	596,475	604,774	627,182	646,115
<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>	<u>2,069,420</u>
27,187,309	27,859,243	28,619,489	29,515,930	30,885,219	31,542,467
2,492,623	2,531,307	2,679,512	2,815,615	3,046,371	2,991,535
1,100,204	1,347,583	1,143,394	1,119,259	1,076,879	1,160,304
424,912	389,500	423,068	432,600	412,824	396,782
216,839	192,875	215,518	208,099	254,138	219,051
62,115	65,154	63,674	65,373	65,909	66,127
<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>	<u>4,833,799</u>
84,547	85,443	92,199	92,199	185,943	189,926
35,589	34,086	33,890	29,175	30,977	29,948
<u>693,408</u>	<u>730,347</u>	<u>695,790</u>	<u>688,534</u>	<u>678,795</u>	<u>628,736</u>
728,997	764,433	729,680	717,709	709,772	658,684
559,465	577,844	643,492	575,406	586,293	514,978
15,755	100,187	53,653	18,438	111,680	29,486
138,162	69,522	150,668	170,543	109,327	183,834
<u>439,492</u>	<u>311,374</u>	<u>296,044</u>	<u>316,717</u>	<u>269,692</u>	<u>363,255</u>
<u>577,654</u>	<u>380,896</u>	<u>446,712</u>	<u>487,260</u>	<u>379,019</u>	<u>547,089</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>\$ 38,316,429</u>

City of Mountain Brook, Alabama

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

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and temporary investments	\$ 15,969,944	\$ 15,287,087
Cash and temporary investments - restricted	240,198	286,590
Receivables	2,064,090	2,094,180
Due from related organizations	0	75,000
Inventory and prepaid expenses	<u>238,731</u>	<u>459,272</u>
TOTAL ASSETS	<u>\$ 18,512,963</u>	<u>\$ 18,202,129</u>
 LIABILITIES		
Accounts payable	\$ 724,307	\$ 1,102,487
Accrued salaries and wages	994,798	956,838
Due to related organizations	61,134	66,762
Other liabilities	<u>688,516</u>	<u>614,340</u>
TOTAL LIABILITIES	<u>2,468,755</u>	<u>2,740,427</u>
 PENSION OBLIGATION (NOTE 5)		
OPEB OBLIGATION (NOTE 6)		
 FUND BALANCES		
Nonspendable	238,731	459,272
Restricted	0	0
Committed	51,930	54,251
Assigned	188,792	268,206
Unassigned	<u>15,564,755</u>	<u>14,679,973</u>
FUND BALANCES	<u>16,044,208</u>	<u>15,461,702</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 18,512,963</u>	<u>\$ 18,202,129</u>

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

	<u>2018</u>	<u>2017</u>
Revenues:		
Taxes	\$ 31,542,467	\$ 30,885,219
Licenses and permits	4,833,799	4,856,121
Intergovernmental	189,926	185,943
Charges for services	658,684	709,772
Fines and forfeitures	514,978	586,293
Grants	29,486	111,680
Other operating revenues	<u>547,089</u>	<u>379,019</u>
Total revenues	<u>38,316,429</u>	<u>37,714,047</u>
Expenditures:		
Current (operating):		
General government	7,505,247	6,729,244
Public safety	15,065,849	14,985,533
Street and sanitation	6,463,645	6,442,783
Recreational	1,310,401	1,216,830
Library	<u>3,239,382</u>	<u>3,194,462</u>
Total expenditures	<u>33,584,524</u>	<u>32,568,852</u>
Excess of revenues over expenditures	<u>4,731,905</u>	<u>5,145,195</u>
Other financing sources (uses):		
Operating transfers (out)	(4,259,151)	(4,649,123)
Operating transfers in - component unit	75,626	78,039
Donations	<u>34,126</u>	<u>80,185</u>
Total other financing sources (uses)	<u>(4,149,399)</u>	<u>(4,490,899)</u>
Excess of revenues and other financing sources over expenditures and other financing uses	582,506	654,296
Fund balances, beginning of year	<u>15,461,702</u>	<u>14,807,406</u>
FUND BALANCES, END OF YEAR	<u>\$ 16,044,208</u>	<u>\$ 15,461,702</u>

City of Mountain Brook, Alabama

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

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and temporary investments	\$ 13,627,486	\$ 15,333,613
Receivables	159,639	279,652
Inventory and prepaid expenses	<u>34,162</u>	<u>186,758</u>
 TOTAL ASSETS	 <u>\$ 13,821,287</u>	 <u>\$ 15,800,023</u>
 LIABILITIES		
Accounts payable	<u>\$ 215,883</u>	<u>\$ 148,739</u>
 TOTAL LIABILITIES	 <u>215,883</u>	 <u>148,739</u>
 PENSION OBLIGATION (NOTE 5)		
OPEB OBLIGATION (NOTE 6)		
 FUND BALANCES		
Nonspendable	34,162	186,758
Restricted	0	0
Committed	<u>13,571,242</u>	<u>15,464,526</u>
 FUND BALANCES	 <u>13,605,404</u>	 <u>15,651,284</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 13,821,287</u>	 <u>\$ 15,800,023</u>

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

	2018	2017
Revenues:		
Grants	\$ 946,436	\$ 1,717,922
Other operating revenues	112,915	75,235
Total revenues	1,059,351	1,793,157
Expenditures:		
Current (operating):		
General government	128,829	40,751
Public safety	1,337,681	1,939,167
Street and sanitation	4,606,228	4,186,147
Recreational	329,005	381,230
Library	752,484	128,031
Total expenditures	7,154,227	6,675,326
Excess (deficiency) of revenues over expenditures	(6,094,876)	(4,882,169)
Other financing sources (uses):		
Operating transfers in	4,016,160	4,108,416
Operating transfers (out)	0	0
Operating transfers in - component unit	0	0
Donations	32,836	106,985
Total other financing sources (uses)	4,048,996	4,215,401
Excess of revenues and other financing sources over expenditures and other financing uses	(2,045,880)	(666,768)
Fund balances, beginning of year	15,651,284	16,318,052
FUND BALANCES, END OF YEAR	\$ 13,605,404	\$ 15,651,284

City of Mountain Brook, Alabama

Comparative Balance Sheet – Debt Service Fund
September 30

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and temporary investments	\$ 1,583,259	\$ 1,343,015
TOTAL ASSETS	<u>\$ 1,583,259</u>	<u>\$ 1,343,015</u>
LIABILITIES	<u>\$ 0</u>	<u>\$ 0</u>
FUND BALANCES		
Assigned	<u>1,583,259</u>	<u>1,343,015</u>
FUND BALANCES	<u>1,583,259</u>	<u>1,343,015</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,583,259</u>	<u>\$ 1,343,015</u>

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

	2018	2017
Revenues:		
Other operating revenues	\$ 1,105	\$ (2,174)
Total revenues	1,105	(2,174)
Expenditures:		
Current (operating):		
Debt service:		
Principal	0	0
Interest	0	0
Total expenditures	0	0
Excess (deficiency) of revenues over expenditures	1,105	(2,174)
Other financing sources (uses):		
Operating transfers in	239,139	157,992
Total other financing sources (uses)	239,139	157,992
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	240,244	155,818
Fund balances, beginning of year	1,343,015	1,187,197
FUND BALANCES, END OF YEAR	\$ 1,583,259	\$ 1,343,015

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REPORT ON COMPLIANCE AND INTERNAL CONTROL

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

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

We have audited, 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, 2018, 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 8, 2019. The financial statements of the Mountain Brook Library foundation (the Foundation), which represents the City's discretely presented component unit, were not audited in accordance with *Governmental Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness: 2018-001

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency: 2018-002.

Compliance and Other Matters

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

Response to Findings

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

Purpose of this Report

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

Carly Riggs & Ingram, L.L.C.

Birmingham, Alabama

March 8, 2019



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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, 2018. 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 opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

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 a 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.

Carly Riggs & Ingram, L.L.C.

Birmingham, Alabama
March 8, 2019

CITY OF MOUNTAIN BROOK, ALABAMA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Description	Federal CFDA Number	Pass Through Entity Identifying Number	Total Grant Award	Revenue Recognized	Expenditures	Funds Provided to Subrecipients
<u>U.S. Department of Transportation</u>						
<u>Highway Planning and Construction Cluster</u>						
Passed through Alabama Department of Transportation						
Jemison Trail/Shades Creek Greenway						
Connector	20.205	STPBH-CN13(907)	\$ 725,600	\$ 98,303	\$ 98,303	\$ 0
Intersection Improvements Cahaba Road/US-280/ Culver Road/Lane Park Road-Mountain Brook						
Preliminary engineering	20.205	CMAQ-3715(266)	412,000	274,792	274,792	0
Mountain Brook Village Walkway System Phase 9 Brookwood Road, Crosshill Road, and Oakdale Drive						
	20.205	CMAQ-NR13(908)	<u>1,763,584</u>	<u>541,998</u>	<u>541,998</u>	<u>0</u>
Total U.S. Department of Transportation Highway Planning and Construction Cluster			2,901,184	915,093	915,093	0
<u>U.S. Department of Transportation</u>						
<u>State and Community Highway Safety Cluster</u>						
Passed through the City of Opelika	20.600	18-SP-PT-001	14,829	14,829	14,829	0
<u>U. S. Department of Justice, Bureau of Justice Assistance,</u>						
<u>Office of Justice Programs</u>						
Bulletproof Vest Partnership Grant P	16.607	2018BUBX16084083	4,560	3,089	3,089	0
<u>U. S. Department of Homeland Security</u>						
<u>Disaster Grants - Public Assistance (Presidentially Declared Disasters)</u>						
Passed through the City of Jacksonville, AL						
March 19, 2018 EF-3 tornado	97.036		<u>1,609</u>	<u>1,609</u>	<u>1,609</u>	<u>0</u>
TOTAL FEDERAL AWARDS			\$ 2,922,182	\$ 934,620	\$ 934,620	\$ 0

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.

4. Federally funed insurance and federally funded loans

The City has no federally funded insurance and no federally funded loans or loan guarantees for the fiscal year ended September 30, 2018.

5. Non-cash awards

During the year ended September 30, 2018, the City did not receive any non-cash federal assistance.

CITY OF MOUNTAIN BROOK, ALABAMA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

<u> </u> yes	<u> X </u> no
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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
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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 material weakness and significant deficiency 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, 2018**

2018-001 Material Weakness: Material Audit Adjustment

Criteria: Liabilities for accounts payables should be recorded in the period in which goods are received or services are rendered in order to reflect a proper cutoff and to ensure that the financial statements are complete with respect to accounts payable. Management is responsible for developing controls for financial reporting, which would avoid material audit adjustments.

Condition: During the course of our audit, CRI identified an invoice that was improperly excluded from Other Governmental Fund accounts payable and expenses for the year ended September 30, 2018.

Cause: The City's internal controls include a process for reviewing invoices for proper period; however, one invoice was posted to the incorrect period in error.

Effect: The Other Governmental Fund expenditures and payables were understated by \$174,974 prior to adjustment.

Recommendation:

Although this adjustment appears to be an isolated instance, we recommend that the City's finance personnel continue to emphasize proper identification of all unmatched purchase orders, receiving reports, construction progress billings and invoices to determine the proper period in which a payable should be recorded in all funds.

Management's response:

The City agrees with this finding. While it is unclear of the cause of the significant delay from the completion of the work until entry of the invoice into the accounts payable system, the mispost and oversight thereof at the time of invoice approval rests with Finance Department personnel. All employees and their respective supervisors responsible for processing invoices in the various departments as well as Finance Department personnel will be cautioned to maintain vigilance in the handling, entering and proper posting, review and approval of invoices.

CITY OF MOUNTAIN BROOK, ALABAMA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

2018-002 Significant Deficiency: 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.