

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

**September 30, 2006**

**MAYOR**

The Honorable Lawrence T. Oden

**CITY COUNCIL**

Mr. Thomas C. Clark, Jr., President

Mr. Philip C. Jackson, Jr.

Mr. William S. Pritchard, III

Ms. Virginia C. Smith

Ms. Alice M. Williams

**CITY MANAGER**

Mr. Sam S. Gaston

**DEPARTMENT SUPERVISORS**

Building Inspections.....	Mr. Jerry Weems
Finance.....	Mr. Steven Boone
Fire Department.....	Mr. Robert W. (Zeke) Ezekiel
Police Department.....	Mr. Johnny Stanley
Street and Sanitation.....	Mr. Eddy Tate
Parks and Recreation.....	Mr. Lyman Tidwell

City of Mountain Brook, Alabama

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## Independent Auditors' Report



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

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 the City of Mountain Brook, Alabama (the City) as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 6, the City's actuarial accrued liability of its pension plan exceeds the actuarial value of assets in the plan.

The Management's Discussion and Analysis beginning on page 6.0 and budgetary comparison information on page 44, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on them.

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Florida Institute of  
Certified Public Accountants

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In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining and individual major and nonmajor fund financial statements are presented for purposes of additional analysis and are not required part of the basic financial statements. The combining and individual major and nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Birmingham, Alabama  
May 4, 2007

## CITY OF MOUNTAIN BROOK

### MANAGEMENT'S DISCUSSION AND ANALYSIS

In 2003, the City of Mountain Brook (City) adopted the new reporting model required by the Governmental Accounting Standards Board (GASB). The management of the City has prepared this narrative overview and analysis of the City's 2006 financial activities 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, 2006, by \$77 million (Total Net Assets). Of this amount, \$24 million (Unrestricted Net Assets) is available to be used by the City to fund future municipal services and to meet its obligations to employees and creditors. Of the remaining amount, \$53 million represents the net book value of the City's capital assets including infrastructure, and \$123,000 is restricted for the benefit of the library.
- The Total Net Assets increased by \$5.6 million in 2006 which includes the net cost of providing core City services of \$18 million plus \$23.6 million in General Revenues.
- As of September 30, 2006, the City reported \$29 million in unreserved fund balances, an increase of \$3.4 million from 2005. Of the \$29 million unreserved fund balance, \$5.4 million (18%) is reported in the General Fund, \$8.3 million (28%) in the Debt Service Fund, \$14.6 million (50%) in the Capital Projects Fund, and \$1 million (4%) in the Special Revenue Funds.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements consist of the 1) government-wide financial statements, 2) fund financial statements, 3) notes to financial statements, and 4) certain required supplementary financial information. In addition, the City has included other supplementary information intended to further enhance the users' understanding of the City's financial position and results of operations.

##### ***Government-wide Financial Statements***

The government-wide financial statements are intended to provide an indication of the City's finances in a manner similar to the private sector. Accordingly, the government-wide statements, comprised of the Statement of Net Assets and Statement of Activities, have been prepared using the accrual basis of accounting.

The Statement of Net Assets depicts all of the primary government's assets and liabilities with the difference between the two reported as Net Assets. Over time, changes in net assets may serve as a useful indicator of whether the City's financial position is improving or deteriorating.

The Statement of Activities illustrates how the City's net assets changed during fiscal 2006. Revenues and expenses reported in the Statement of Activities are recorded when the

CITY OF MOUNTAIN BROOK

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 twofold - namely 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 cost of various governmental services.

***Fund Financial Statements***

The fund financial statements have been prepared under the modified accrual basis of accounting and their presentation is largely consistent with historical presentations.

A fund is a grouping of related accounts designed to facilitate control over resources that have been segregated for a specific activity or objective. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the City's funds are governmental type funds (as opposed to business-type funds) whose primary resources are provided by taxes.

***Governmental Funds***

Governmental funds essentially measure and report the same activities and transactions as the governmental activities in the government-wide financial statements. However, unlike the accrual basis government-wide statements, the governmental funds focus on current, spendable resources and balances of such spendable resources available at the end of the year.

The City maintains twelve (12) governmental funds. The City considers the General Fund, Debt Service, Capital Projects (which is comprised of four "sub-funds") funds all 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 have been aggregated and reported in a single column. Additional information about these aggregated non-major funds and the major funds is provided in the other supplementary information.

***Infrastructure Capital Assets***

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

## CITY OF MOUNTAIN BROOK

## MANAGEMENT'S DISCUSSION AND ANALYSIS

	<u>Useful Life</u>	<u>Cost</u>	<u>Depreciation</u>	<u>Accumulated Depreciation</u>
Land	N/A	\$ 15,865,595	N/A	N/A
Streets and alleys	20	13,994,363	\$ 434,474	\$ 8,665,089
Storm sewers	20	2,200,748	80,457	597,267
Sidewalks	15	7,874,609	520,229	3,881,751
Park facilities	20	5,544,639	187,995	2,535,857
Street lights and signs	15	883,142	38,462	461,582
Library reference materials	5	3,004,180	256,006	2,330,711
<b>Totals</b>		<u>\$ 49,367,276</u>	<u>\$ 1,517,623</u>	<u>\$ 18,472,257</u>

**Government-wide Financial Analysis**

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

	<u>2006</u>	<u>2005</u>
Current assets	\$ 33,390,227	\$ 29,468,538
Long-term note receivable	436,737	466,616
Capital and other long-term assets	<u>53,050,986</u>	<u>51,318,205</u>
<b>Total assets</b>	<u>86,877,950</u>	<u>81,253,359</u>
Current and other liabilities	4,022,981	3,781,917
Long-term liabilities	<u>5,442,375</u>	<u>5,636,821</u>
<b>Total liabilities</b>	<u>9,465,356</u>	<u>9,418,738</u>
Net assets:		
Invested in capital assets, net of related debt	52,854,986	49,514,205
Restricted	122,726	110,490
Unrestricted	<u>24,434,882</u>	<u>22,209,926</u>
<b>Total net assets</b>	<u>\$ 77,412,594</u>	<u>\$ 71,834,621</u>

## CITY OF MOUNTAIN BROOK

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	<u>2006</u>	<u>2005</u>
<b>Revenues</b>		
Program revenues:		
Fees, fines and charges for services	\$ 6,265,586	\$ 5,755,722
Operating grants and contributions	1,316,638	2,900,240
Capital grants and contributions	1,376,164	2,887,964
General revenues:		
Ad valorem taxes	13,107,678	12,203,709
Sales and use taxes	7,327,009	6,825,190
Other taxes	196,284	192,656
Occupational license fees	248,283	939,127
Utility taxes	1,088,234	992,143
Franchise fees	420,343	380,897
Investment earnings	1,241,747	555,740
Gains (loss) on sale of capital assets	(72,338)	103,413
Miscellaneous revenue	8,801	36,201
Transfers from component unit	45,383	45,089
<b>Total revenues</b>	<b><u>32,569,812</u></b>	<b><u>33,818,091</u></b>
<b>Expenses</b>		
General government	4,758,414	4,976,111
Public safety	11,828,244	11,226,303
Street and sanitation	6,663,563	7,923,783
Recreational	1,373,360	1,357,356
Library	2,368,258	2,237,414
<b>Total expenses</b>	<b><u>26,991,839</u></b>	<b><u>27,720,967</u></b>
<b>Increase in net assets from operating activities</b>	<b>5,577,973</b>	<b>6,097,124</b>
Net assets, beginning of year	<u>71,834,621</u>	<u>65,737,497</u>
<b>Net assets, end of year</b>	<b><u>\$ 77,412,594</u></b>	<b><u>\$ 71,834,621</u></b>

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

The City's primary source of revenue is real estate ad valorem taxes which comprise 40% of total General Fund revenues in 2006. Real estate ad valorem taxes increased by \$881,400 (8%) during 2006 due principally to the county-wide property revaluation conducted by the Jefferson County Commission.

## CITY OF MOUNTAIN BROOK

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The second largest source of revenue for the City is sales and use tax which totals 24% of the total General Fund revenues in 2006. Sales and use tax increased by \$499,000 (8 %) during 2006 which was consistent with the 7% increases realized in 2005 and 2004.

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

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
Real estate ad valorem tax	\$ 11,976,292	\$ 11,094,902	\$ 881,390
Sales and use tax	7,033,452	6,534,289	499,163
Business licenses	1,729,727	1,756,226	(26,499)
Personal property ad valorem tax	1,131,386	1,108,807	22,579
Garbage service fees	1,604,281	1,573,788	30,493
Occupational tax	248,283	939,127	(690,844)
Utility taxes	1,088,234	992,143	96,091
All other General Fund revenues	<u>4,983,984</u>	<u>5,881,799</u>	<u>(897,815)</u>
Total	<u>\$ 29,795,639</u>	<u>\$ 29,881,081</u>	<u>\$ (85,442)</u>

**Expenditures**

Salaries and benefits increased \$735,000 (5%) in 2006 to \$15.6 million. Labor-related costs made up 53% of the City's total budget in 2006.

Following is comparative summary of the major expenditure categories (all funds combined) of the City as reported in the Governmental Funds financial statements:

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
Salaries and benefits	\$ 15,599,601	\$ 14,722,195	\$ 877,406
Garbage contract fees	2,335,587	2,266,575	69,012
Capital outlay	5,735,875	7,031,568	(1,295,693)
Intergovernmental services	756,610	841,199	(84,589)
City School Board subsidy	850,000	850,000	0
Birmingham Zoo, Inc. subsidy	100,000	100,000	0
Debt service	1,677,703	368,967	1,308,736
All other	<u>4,686,008</u>	<u>6,496,089</u>	<u>(1,810,081)</u>
Total	<u>\$ 31,741,384</u>	<u>\$ 32,676,593</u>	<u>\$ (935,209)</u>

## CITY OF MOUNTAIN BROOK

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

- Actual General Fund revenue exceeded the final budgeted revenue by \$1.3 million (5%). The favorable budget variance was comprised largely of the following categories:

	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Real estate ad valorem taxes	\$ 11,764,500	\$ 11,976,292	\$ 211,792
Sales and use tax	7,125,314	7,033,452	(91,862)
Utility taxes	992,000	1,088,234	96,234
Road and bridge tax	400,000	497,326	97,326
State bank excise tax	25,000	351,868	326,868
Construction permits	550,000	893,161	343,161
Fines and forfeitures	554,500	623,579	69,079
Fees for road repairs	50,000	161,127	111,127
Grants	13,106	73,278	60,172
Investment earnings	135,500	235,866	100,366
All other	<u>6,827,655</u>	<u>6,861,456</u>	<u>33,801</u>
Total	<u>\$ 28,437,575</u>	<u>\$ 29,795,639</u>	<u>\$ 1,358,064</u>

- Total General Fund expenditures were \$532,000 (2%) less than the final budget. The budget variance was comprised largely of the following categories:

	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Salaries and benefits	\$ 15,822,644	\$ 15,599,601	\$ 223,043
Legal fees	500,000	293,770	206,230
Intergovernmental services – Note 8	844,337	756,610	87,727
All other	<u>7,216,638</u>	<u>7,202,119</u>	<u>14,519</u>
Total	<u>\$ 24,383,619</u>	<u>\$ 23,852,100</u>	<u>\$ 531,519</u>

- Several infrastructure projects budgeted in 2006 were carried-over to fiscal 2007 (Capital Projects Fund) contributing to the favorable Capital Project fund's favorable expenditure variance of \$2.1 million.
- In 2004, the City purchased six parcels of land and accepted a donation of a seventh adjacent parcel of land all valued at \$1.8 million. The land purchased was financed from the proceeds of a \$1.55 million general obligation warrant. In 2006, four of the parcels were sold to the Mountain Brook Board of Education in consideration of \$1.04 million. The City Council authorized the early redemption of the outstanding principal balance of general obligation warrants (Note 5). The warrants were paid from the Debt Service Fund from the net proceeds from the sale of the land which was transferred from the Capital Projects Fund to the Debt Service Fund.

CITY OF MOUNTAIN BROOK

MANAGEMENT'S DISCUSSION AND ANALYSIS

- The operating transfers out exceeded the amount budgeted by \$1.7 million. The excess surplus over that originally anticipated/budgeted was transferred to the following funds resulting in most of the budget variance:

Capital Projects	\$1,000,000
Debt Service (pension reserve)	500,000

- The excess of General Fund revenues and other financing sources over expenditures was \$245,485 more than budgeted.
- The final General Fund budgeted surplus of \$537,000 was not amended during 2006.

**Other Matters of Interest**

**Pension Plan**

As more fully described in Note 6, the City participates in a multi-employer, defined benefit pension plan which is administered by the Employees' Retirement System of Alabama (RSA). The most recent actuarial valuation data available and included in the accompanying report is as of and for the year ended September 30, 2004.

As of September 30, 2005, the RSA reported an unfunded actuarial accrued liability of \$11.5 million. However, the actuarial valuation of the plan assets (\$31.9 million) used to determine the unfunded actuarial accrued liability does not include actual investment gains and losses but rather employs the 5-year smoothed market approach. Accordingly, the actuarial valuation of the assets exceeds the actual value by \$1.3 million due to the exclusion of unamortized net market losses (realized and unrealized) over the preceding five years.

Due to growing concerns about the \$11.5 million unfunded pension obligation, the City Council has authorized the accumulation of cash reserves in the Debt Service Fund which may ultimately be necessary to pay toward the unfunded pension obligation. As of September 30, 2006, the City has accumulated \$8.3 million in the Debt Service Fund for such purpose.

**Cash and Temporary Investments**

As of September 30, 2006, the City reported cash and temporary investments of \$31.6 million which consists of unrestricted and donor-restricted cash and temporary investments of \$31.5 million and \$123,000, respectively. Following is a summary of the carrying value of the cash and investments by fund:

	<u>Unrestricted</u>	<u>Restricted</u>
General Fund	\$ 6,775,450	\$ 122,726
Debt Service Fund	8,339,814	0
Capital Projects Fund	15,274,880	0
Other Governmental Funds	1,066,632	0
Discretely presented component unit	0	2,572,289
Total	<u>\$ 31,456,776</u>	<u>\$ 2,695,015</u>

## CITY OF MOUNTAIN BROOK

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Council has expressed its goal to maintain a cash reserve in the General Fund equivalent to six months of operating expenses. The \$6.8 million dollar General Fund cash and investment balance as of September 30, 2006, represents approximately 3.4 months of General Fund expenditures.

**Capital Assets and Related Replacement Reserves**

Regarding capital assets, the City Council has adopted the policy of funding its depreciation expense in order to accumulate monies for the eventual replacement of property, plant and equipment. As of September 30, 2006, the City had accumulated approximately \$15 million in the Capital Projects Fund for such purpose. Accumulated depreciation (considered by management to be the benchmark with respect to measuring the funding status of the property, plant and equipment replacement reserve) totaled \$28.9 million as of year end. Following is a summary of the capital expenditures, depreciation expense and transfers to the Capital Projects for the years ended September 30:

	<u>2006</u>	<u>2005</u>
Capital expenditures	\$ 5,831,184	\$ 7,031,0568
Depreciation expense	\$ 2,929,932	\$ 2,694,853
Transfers to the Capital Projects Fund:		
Funded depreciation policy	\$ 1,554,282	\$ 1,409,661
Other transfers to fund current year acquisitions	2,773,695	1,290,652
Total	\$ 4,327,977	\$ 2,700,313

The City maintains approximately 200 miles of paved roadways and alleys. The state shared gasoline tax revenues and the City's allocation of Alabama Trust Fund Earnings 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 roadways:

	<u>2006</u>	<u>2005</u>
<b>Revenues</b>		
State shared gasoline tax revenues	\$ 418,298	\$ 418,721
Alabama Trust Fund Earnings	122,982	112,178
Transfers from the City's General Fund	150,000	150,000
Investment earnings	26,651	8,921
<b>Total Revenues</b>	717,931	689,820
Street paving expenditures (included in capital Expenditures reported in the preceding section)	637,098	666,061
<b>Excess (Deficiency) of Revenues over     Expenditures</b>	80,833	23,759
Fund balances, beginning of year	340,658	316,899
<b>Fund Balances, end of year</b>	\$ 421,491	\$ 340,658

CITY OF MOUNTAIN BROOK

MANAGEMENT'S DISCUSSION AND ANALYSIS

***Occupational License Fee Elimination***

During 2005, the City adopted an ordinance (No. 1688) which effectively eliminates the one-half of one percent (1/2%) occupational license fee effective January 1, 2006. The City realized \$248,243 and \$939,127 from the occupational license fees in 2006 and 2005, respectively.

***Residential Garbage Service Fee Rate Reduction***

The City recently adopted an ordinance (No. 1732) which lowered the residential garbage service fees by more than 70% effective January 1, 2007. The City realized \$1,604,281 and \$1,573,788 (approximately 5% of General Fund revenues) from the garbage service fees in 2006 and 2005, respectively. The City estimates that garbage service fees will be approximately \$450,000 in fiscal 2007.

***City School Board Subsidy***

Jefferson County recently enacted county-wide one percent (1%) sales tax earmarked for schools which created a one-time windfall for the Mountain Brook School System of \$40 million which will enable the City Council to discontinue its annual \$850,000 subsidy to the School Board starting in 2007.

***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 City Clerk at P. O. Box 130009, Mountain Brook, Alabama 35213-0009. Inquiries about The Emmet O'Neal Library Board and/or The Mountain Brook Library Foundation 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 Assets**  
**September 30, 2006 with Comparative Data**

	Governmental Activities		Component Unit
	2006	2005	Library Foundation 2006
<b>ASSETS</b>			
Cash and temporary investments	\$ 31,456,776	\$ 27,429,594	\$ 0
Receivables	1,689,696	1,729,743	0
Note receivable (\$32,316 current)	469,053	495,326	0
Due from related organization	44,581	141,083	0
Inventory and prepaid expenses	44,132	28,918	0
Cash and temporary investments - restricted	122,726	110,490	2,572,289
Capital assets, net of accumulated depreciation	29,004,102	28,445,503	0
Land	17,882,630	18,935,885	0
Construction in progress	6,164,254	3,936,817	0
<b>TOTAL ASSETS</b>	<b>86,877,950</b>	<b>81,253,359</b>	<b>2,572,289</b>
<b>LIABILITIES</b>			
Accounts payable	1,656,779	1,457,459	0
Accrued salaries and wages	777,473	753,987	0
Accrued interest payable	2,144	17,373	0
Due to related organization	103,463	57,050	0
Other current liabilities	978,908	848,216	0
Non-current liabilities			
Due within one year:			
Compensated absences	193,714	188,832	0
Long-term debt	98,000	143,000	0
Other liabilities	212,500	316,000	0
Due in more than one year:			
Compensated absences	1,903,414	1,742,510	0
Long-term debt	98,000	1,661,000	0
Other liabilities	3,440,961	2,233,311	0
<b>Total Liabilities</b>	<b>9,465,356</b>	<b>9,418,738</b>	<b>0</b>
<b>Pension obligation (see note 6)</b>			
<b>NET ASSETS</b>			
Invested in capital assets (net of related debt)	5,968,254	49,514,205	0
Restricted	122,726	110,490	2,572,289
Unrestricted	71,321,614	22,209,926	0
<b>TOTAL NET ASSETS</b>	<b>\$ 77,412,594</b>	<b>\$ 71,834,621</b>	<b>\$ 2,572,289</b>

See accompanying notes to basic financial statements.

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City of Mountain Brook, Alabama  
 Government-Wide Statement of Activities  
 For the Year Ended September 30, 2006 with Comparative Data

Program Activities	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 4,758,414	\$ 2,099,253	\$ 1,175,360	\$ 0
Public safety	11,828,244	2,176,318	43,000	129,818
Street and sanitation	6,663,563	1,781,442	58,425	669,913
Recreational	1,373,360	122,424	25,000	538,957
Library	2,368,258	86,149	14,853	37,476
<b>Total</b>	<b>\$ 26,991,839</b>	<b>\$ 6,265,586</b>	<b>\$ 1,316,638</b>	<b>\$ 1,376,164</b>
Component unit:				
Library Foundation	\$ 5,042	\$ 4,084	\$ 194,177	\$ 0

**General revenues:**

Taxes:

Ad Valorem (real and personal property)

Sales and use

Other taxes

Occupational license fees

Utility taxes

Franchise Fees

Investment earnings

Gain (loss) on sale of capital asset

Miscellaneous revenues

Transfers

Total general revenues and transfers

Change in net assets

Net assets at beginning of year

**Net assets at end of year**

	2006 Total Net (Expense) Revenue and Changes in Net	2005 Total Net (Expense) Revenue and Changes in Net	2006 Component Unit (Library Foundation)
\$	(1,483,801) \$	(1,963,080) \$	0
	(9,479,108)	(9,278,239)	0
	(4,153,783)	(3,433,356)	0
	(686,979)	618,145	0
	<u>(2,229,780)</u>	<u>(2,120,511)</u>	<u>0</u>
	<u>(18,033,451)</u>	<u>(16,177,041)</u>	
			<u>193,219</u>
	13,107,678	12,203,709	0
	7,327,009	6,825,190	0
	196,284	192,656	0
	248,283	939,127	0
	1,088,234	992,143	0
	420,343	380,897	0
	1,241,747	555,740	179,836
	(72,338)	103,413	0
	8,801	36,201	0
	45,383	45,089	(45,383)
	<u>23,611,424</u>	<u>22,274,165</u>	<u>134,453</u>
	5,577,973	6,097,124	327,672
	71,834,621	65,737,497	2,244,617
\$	<u><u>77,412,594</u></u> \$	<u><u>71,834,621</u></u> \$	<u><u>2,572,289</u></u>

**City of Mountain Brook, Alabama  
Balance Sheet  
Governmental Funds  
September 30, 2006**

	<b>General</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Cash and temporary investments	\$ 6,775,450	\$ 8,339,814	\$ 15,274,880	\$ 1,066,632	\$ 31,456,776
Cash and temporary investments - restricted	122,726	0	0	0	122,726
Receivables	1,655,130	0	31,163	47,984	1,734,277
Inventory and prepaid expenses	44,132	0	0	0	44,132
<b>TOTAL ASSETS</b>	<b>\$ 8,597,438</b>	<b>\$ 8,339,814</b>	<b>\$ 15,306,043</b>	<b>\$ 1,114,616</b>	<b>\$ 33,357,911</b>
<b>LIABILITIES</b>					
Accounts payable	\$ 1,029,281	\$ 0	\$ 549,784	\$ 77,714	\$ 1,656,779
Accrued salaries and wages	777,473	0	0	0	777,473
Other liabilities	1,069,871	0	112,500	0	1,182,371
Accrued compensated absences	193,714	0	0	0	193,714
<b>TOTAL LIABILITIES</b>	<b>3,070,339</b>	<b>0</b>	<b>662,284</b>	<b>77,714</b>	<b>3,810,337</b>
<b>Pension obligation (see note 6)</b>					
<b>FUND EQUITY</b>					
Fund balance:					
Reserve for inventory and prepaid expense	44,132	0	0	0	44,132
Reserved	122,726	0	0	0	122,726
Unreserved	5,360,241	8,339,814	14,643,759	1,036,902	29,380,716
<b>TOTAL FUND EQUITY</b>	<b>5,527,099</b>	<b>8,339,814</b>	<b>14,643,759</b>	<b>1,036,902</b>	<b>29,547,574</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 8,597,438</b>	<b>\$ 8,339,814</b>	<b>\$ 15,306,043</b>	<b>\$ 1,114,616</b>	<b>\$ 33,357,911</b>

See accompanying notes to basic financial statements.

**City of Mountain Brook, Alabama**  
**Reconciliation of the Governmental Funds Balance Sheet to the**  
**Statement of Net Assets**  
**September 30, 2006**

Fund balance - total governmental funds	\$		29,547,574
Amounts reported for governmental activities in the statement of net assets are different because:			
Note receivable charged to capital outlay in the fund financial statements less principal recoveries.			
			469,053
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	\$	81,965,066	
Less accumulated depreciation		<u>(28,914,080)</u>	53,050,986
Long-term liabilities are not due and payable in the current period and therefore, they are not reported in the governmental funds balance sheet.			
Governmental bonds payable		(198,000)	
Compensated absences		(1,903,414)	
Accrued interest payable		(2,144)	
Accrued zoo consortium payable		(16,667)	
Accrued development agreement obligations		<u>(3,536,794)</u>	<u>(5,655,019)</u>
<b>Net assets of governmental activities</b>	<b>\$</b>		<b><u><u>77,412,594</u></u></b>

See accompanying notes to basic financial statements.

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**City of Mountain Brook, Alabama**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended September 30, 2006**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<b>Revenues:</b>			
Taxes	\$ 23,291,779	\$ 0	\$ 0
Licenses and permits	3,104,197	0	0
Intergovernmental	50,517	0	0
Charges for services	2,090,666	0	0
Fines and forfeitures	623,579	0	0
Grants	73,278	0	258,451
Other operating revenues	561,623	313,731	1,720,351
<b>Total revenues</b>	<u>29,795,639</u>	<u>313,731</u>	<u>1,978,802</u>
<b>Expenditures:</b>			
<b>Current (operating):</b>			
General government	4,648,377	0	288,468
Public safety	10,767,527	0	1,434,635
Street and sanitation	5,344,269	0	2,557,639
Recreational	1,017,915	0	99,625
Library	2,074,012	0	40,293
<b>Debt service:</b>			
Principal	0	1,608,000	0
Interest	0	69,703	0
<b>Total expenditures</b>	<u>23,852,100</u>	<u>1,677,703</u>	<u>4,420,660</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>5,943,539</u>	<u>(1,363,972)</u>	<u>(2,441,858)</u>
<b>Other financing sources (uses):</b>			
Operating transfers in	37,710	2,177,866	4,327,977
Operating transfers (out)	(5,316,624)	0	(1,465,000)
Operating transfers in - component unit	45,383	0	0
Donations	72,477	0	1,495,118
<b>Total other financing sources (uses)</b>	<u>(5,161,054)</u>	<u>2,177,866</u>	<u>4,358,095</u>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	782,485	813,894	1,916,237
<b>Fund balances, beginning of year</b>	<u>4,744,614</u>	<u>7,525,920</u>	<u>12,727,522</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 5,527,099</u>	<u>\$ 8,339,814</u>	<u>\$ 14,643,759</u>

See accompanying notes to basic financial statements.

<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 418,298	\$ 23,710,077
0	3,104,197
43,000	93,517
194,888	2,285,554
146,196	769,775
0	331,729
173,186	2,768,891
<u>975,568</u>	<u>33,063,740</u>
210,297	5,147,142
406,556	12,608,718
637,098	8,539,006
536,970	1,654,510
0	2,114,305
0	1,608,000
0	69,703
<u>1,790,921</u>	<u>31,741,384</u>
<u>(815,353)</u>	<u>1,322,356</u>
402,791	6,946,344
(164,720)	(6,946,344)
0	45,383
577,956	2,145,551
<u>816,027</u>	<u>2,190,934</u>
674	3,513,290
<u>1,036,228</u>	<u>26,034,284</u>
<u>\$ 1,036,902</u>	<u>\$ 29,547,574</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, 2006**

Net change in fund balances - total governmental funds	\$	3,513,290
Amounts reported for governmental activities in the statement of activities are different because:		
Construction loan principal receipts charged to other operating revenues in the governmental funds and as a reduction in the note receivable in the statement of activities		(26,273)
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	\$ 5,831,184	
Less current year depreciation	<u>(2,929,932)</u>	2,901,252
The net effect of transactions involving the sale of capital assets is to decrease net assets.		(1,168,471)
Donation of infrastructure reported as an other financing source in the governmental funds, but reported as a long-term liability in the statement of net assets.		(1,490,118)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		1,608,000
Repayment of development fee obligation in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		285,968
Some expenses reported in the government-wide statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in long-term compensated absences	(160,904)	
Change in accrued interest payable	15,229	
Change in accrued zoo consortium payable	<u>100,000</u>	<u>(45,675)</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>5,577,973</u></b>

See accompanying notes to basic financial statements.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

**1. Summary of significant accounting policies**

The City of Mountain Brook, Alabama (the City) was incorporated on March 24, 1942. The City operates under a 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 elected at-large. Beginning in October 2004, the initial term of office for persons holding odd numbered council seats is two years and all other terms of office four years. Upon the expiration of the initial two-year terms of office, each person elected to such seats shall hold office for four years so that all elected officials shall serve four-year terms of office with the terms staggered. 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 (the City) complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

**B. Related organizations**

The City is also responsible for appointing the Board of Trustees of the Mountain Brook Board of Education (the Board). However, the City has no control nor influence in the presentation or adoption of the Board's annual operating budget; the City is not responsible for any budget deficits incurred by the Board; and the Board has the authority to issue debt securities which are neither secured by the City's revenues or obligations of the City. Accordingly, the financial statements of the Board are not presented in the accompanying financial statements because the City is not considered to be financially accountable for the Board.

During 2006, the City reported the following revenues from the Board:

	<b>General Fund</b>	<b>Special Revenue</b>
Occupational taxes	\$ 32,110	\$ 0
DARE Program subsidy	0	43,000
Athletic fields shared maintenance	50,517	0
Athletic fields capital and shared maintenance	0	0
Sewer service fees	7,200	0
<b>Total</b>	<b>\$ 89,827</b>	<b>\$ 43,000</b>

City of Mountain Brook, Alabama

Notes to Financial Statements

1. Summary of significant accounting policies (continued)

B. Related organizations (continued)

At September 30, 2006, the City reported receivables from the Board in the amounts as follows (see note 3):

	<u>General Fund</u>	<u>Special Revenue</u>
Receivables	\$ <u>48,705</u>	\$ <u>0</u>

The City receives 36.7 mills of the 99.0 mill property tax (Note 1.R) from Jefferson County. From the 36.7 mills, the City transfers 10.6 mills to the Board. For financial reporting purposes, the City includes the net property tax of 26.1 mills in its General Fund revenues. At September 30, 2006, the City owed the Board \$103,463 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 (Note 5). The athletic fields are maintained by the City's Parks and Recreation Department. The debt service payments attributable to the Series 1998-A warrants and the routine maintenance are shared by the City (1/3), the Board (1/3), two unaffiliated local athletic groups - Mountain Brook Athletics, Inc. (1/6), and Mountain Brook Soccer Club, Inc. (1/6).

In 2005, the City entered into a long-term lease agreement with the Mountain Brook Sports Park Foundation (MBSPF), a non-profit organization. Under the terms of the agreement, MBSPF was granted the right to use City land to be used primarily for community soccer fields. MBSPF paid for the construction of such fields from private donations and a \$500,000 loan from the City. As of September 30, 2006, the construction costs totaled \$1,952,936 which \$424,821 was incurred during fiscal 2006. The outstanding loan balance of \$469,053 has been presented as a note receivable in the statement of net assets and the donation equal to the total expended for the construction costs incurred during 2006 has been presented in the statement of activities.

## City of Mountain Brook, Alabama

## Notes to Financial Statements

## 1. Summary of significant accounting policies (continued)

B. Related organizations (continued)

During 2006, the City reported the following transactions in conjunction with the above joint ventures which are included in the Other Governmental Funds in the accompanying financial statements:

*Revenues*

The Board	\$	0
Mountain Brook Athletics, Inc.		0
Mountain Brook Soccer Club, Inc.		0
Investment income		2,515
<b>Total revenues</b>		<u>2,515</u>

*Expenditures*

Recreational (operating and maintenance)	129,488
Capital outlay (\$1,952,936 cumulative)	424,821
<b>Total expenditures</b>	<u>554,309</u>

*Other financing sources (uses), net*

Transfers to City General Fund	(37,710)
Transfers to City Capital Projects Fund	0
Transfers to Debt Service Fund	0
Donations, including note payments of \$44,000	468,821
<b>Net other financing sources (uses)</b>	<u>431,111</u>

Excess of revenues and other financing sources over expenditures and other uses	(120,683)
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<b>Fund balance at beginning of the year</b>	<u>139,617</u>
<b>Fund balance at end of the year</b>	<u>\$ 18,934</u>

Also in 1998, the City agreed to serve as the fiscal agent for the Board's improvements to its sports facilities located at the high school. The improvements totaling approximately \$1.5 million were financed through the issuance of Series 1998-B general obligation warrants (Note 5). The Series 1998-B warrants are being paid by the City primarily from donations solicited and collected by the Mountain Brook Sports Corporation (MBSC), an unaffiliated not-for-profit organization. In conjunction therewith, the City was issued two irrevocable stand-by letters of credit totaling \$679,000.

City of Mountain Brook, Alabama

Notes to Financial Statements

1. Summary of significant accounting policies (continued)

B. Related organizations (continued)

The City and School Board fulfilled their respective financial commitments in 2005. The outstanding general obligation warrant balance in the amount of \$196,000 (Note 5) is to be repaid by the City from funds donated by the MBSC which it raises from private donations.

*Revenues*

Investment income	\$ 2,021
<b>Total revenues</b>	<u>2,021</u>

*Expenditures*

Capital outlay (\$1,598,227 to date)	0
<b>Total expenditures</b>	<u>0</u>

*Other financing sources (uses), net*

Transfers to Debt Service Fund	(108,985)
Donations (Mountain Brook Sports Corporation)	108,985
<b>Net other financing sources</b>	<u>0</u>

Excess of revenues and other financing sources over expenditures and other uses	2,021
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<b>Fund balance at beginning of the year</b>	<u>48,807</u>
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<b>Fund balance at end of the year</b>	<u>\$ 50,828</u>
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Another related organization is the Mountain Brook Library Foundation. The Foundation is a non-profit organization formed for the benefit of the Emmet O'Neal Library, a department of the City. Several of the Foundation's Board members are also members of The Emmet O'Neal Library Board. The Library Foundation has received contributions from citizens which were utilized to construct, furnish, and equip the City's new Library facilities. These facilities were contributed to the City of Mountain Brook during 2001, and are included in the accompanying financial statements.

The financial position and results of operations of the Foundation are reported as a component unit of the City in the accompanying fund financial statements and consolidated with the City in the accompanying government-wide financial statements. A copy of the Foundation's audited financial statements can be obtained at the Library.

C. Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds and component units that are fiduciary in nature (at year end the City had no fiduciary type activity or component units).

Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

City of Mountain Brook, Alabama

Notes to Financial Statements

1. Summary of significant accounting policies (continued)

C. Government-Wide Financial Statements (continued)

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 or fiduciary 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:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined.

The funds of the financial reporting entity are described below:

Governmental funds

**1. 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.

**2. Special Revenue Funds**

Special Revenue Funds are operating funds for which the use of revenues is restricted or designated by outside sources. These funds account for activities carried out by the City under certain intergovernmental contracts and grants.

Special Revenue Funds are also used to account for any program funds that the City elects to segregate to track revenue and expenditures.

City of Mountain Brook, Alabama

Notes to Financial Statements

1. Summary of significant accounting policies (continued)

D. Fund Financial Statements (continued)

Governmental funds (continued)

3. Debt Service Funds

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs as well as any other non-current obligations. In addition, the City is accumulating resources in the Debt Service Funds for future payment of its unfunded pension obligation (see note 6).

4. Capital Project 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 nonmajor funds

The General Fund, Debt Service Fund, and Capital Projects Fund are classified as major funds and are described above.

The Special Revenue Fund is classified as nonmajor and is described above.

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

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

City of Mountain Brook, Alabama

Notes to Financial Statements

1. **Summary of significant accounting policies (continued)**

E. Measurement focus and basis of accounting (continued)

Basis of accounting (continued)

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

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or 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.

F. Encumbrances

In the Fund Financial Statements, the City does not utilize encumbrance accounting techniques which means that fund balances are not reserved upon the issuance of purchase orders. Expenditures are recorded upon the impairment of an asset.

G. Worker's compensation

The City provides workers' compensation coverage to its employees as required by law. The City has elected to self-insure with respect to its workers' compensation claims risk and has contracted with a third-party administrator to provide claims management services. In order to limit its exposure to claims risk, the City has purchased excess loss insurance coverage. The excess loss insurance pays the remainder of statutory obligations over the first \$350,000 for specific claims and up to \$2,000,000 after the first \$972,131 in the aggregate during the two year policy term. Workers' compensation cost charged by the City during 2006 was approximately \$299,000. The accompanying financial statements include an estimated accrual of reported but unpaid workers' compensation claims as of September 30, 2006 in the amount of \$324,435.

H. 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 \$122,726 represent temporary and permanently restricted funds donated to the Emmet O'Neal Library, a department of the City.

City of Mountain Brook, Alabama

Notes to Financial Statements

1. Summary of significant accounting policies (continued)

I. 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, occupation taxes, ad valorem 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. Nonexchange 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 only if paid within 60 days since they would be considered both measurable and available.

J. Equity classifications

Government-wide Statements

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

1. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

**1. Summary of significant accounting policies (continued)**

**K. Long-term debt**

The accounting treatment of long-term 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 notes 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.

**L. Compensated absences**

Full-time City employees earn sick leave at the rate of one day per month of service and can accumulate up to sixty days of sick leave. Vacation leave is earned at graduated rates based on length of service (one day per month of service initially, one and one-half days per month of service after twelve years, and two days per month of service after twenty-five years). Employees are allowed to accumulate up to forty days of vacation leave.

A full-time employee may retire after twenty-five years of 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 current portion of the accrued vacation and sick pay at September 30, 2006 reported in the fund financial statements and the government-wide statements totaled \$193,714. The remaining long-term portion of the accrued vacation and sick pay at September 30, 2006 is reported only in the government-wide statements and totaled \$1,903,414. In prior years, the General Fund has liquidated the annual current portion of this compensated absence liability.

City of Mountain Brook, Alabama

Notes to Financial Statements

1. Summary of significant accounting policies (continued)

M. 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 \$400,000. The City has adopted the informal policy of liquidating the liability for longevity pay in November of each year. The liability for longevity pay as of September 30, 2006 reported in the Government-Wide and Fund financial statements totaled \$395,544.

N. 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.

O. Pension expense

All full-time employees participate in the City's defined benefit pension plan. The City funds pension expense as actuarially determined and required by the plan (Note 6).

P. Interfund transactions

During the course of normal operations, the City incurs numerous transactions between funds to provide services, construct 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. During the current year, the General Fund transferred out \$558,881 to the Debt Service Fund to provide resources for the payment of current and future obligations of the City, \$4,354,952 to the Capital Projects Fund to provide resources for the payment of current year asset acquisitions as well as the future replacement of capital assets and \$402,791 to other Governmental funds to provide funding for operations. The other Governmental funds transferred \$108,985 to the Debt Service Fund to provide resources for the payment of general obligation warrant issues of the City, \$18,025 to the Capital Projects Fund to provide resources for the future replacement of capital assets, and \$37,710 to the General Fund from the recovery of a long-term loan (Note 1.B.). The Capital Projects Fund transferred \$1,510,000 to the Debt Service Fund for the early repayment of the Series 2004 General Obligation Warrants (Note 5).

Remaining fund balances in any discontinued funds and non-recurring, non-routine transfers are accounted for as residual equity transfers.

City of Mountain Brook, Alabama

Notes to Financial Statements

1. Summary of significant accounting policies (continued)

P. Interfund transactions (continued)

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. The purpose of the interfund receivable balance, if any, to non-major governmental funds from the General fund is for 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 interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

R. Property taxes

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

For years beginning October 1, 1996, assessed values are calculated by multiplying the market value by the following percentages:

Residential owner occupant	10%
All other	20%

Property reevaluations have been conducted by the Jefferson County Commission, the most recent of which was conducted during 2006. The 2006 revaluation (to be realized in fiscal 2007) reflects an increase in property values of approximately 8% and is estimated to generate an estimated \$984,000 annually.

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>

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

**1. Summary of significant accounting policies (continued)**

**R. Major revenue sources and taxpayers**

The City's primary sources of revenue include ad valorem taxes, sales and use taxes, occupational taxes, and business licenses. Collectively, these taxes and licenses totaled approximately \$22.4 million or 75% of the total General Fund revenues during the year ended September 30, 2006. Of the City's taxpayers, Rich's Department Store, Alabama Power Company, Western Supermarket, Publix grocery store, Energen Corporation (gas company) and the Piggly Wiggly grocery store, collectively, provided approximately \$3.9 million or 13% of the City's total General Fund revenues during the year ended September 30, 2006.

**S. 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)
	Debt Service
	Capital Outlay

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

**T. Inventory**

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

**U. 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 effects on the statements previously reported.

**V. 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.

City of Mountain Brook, Alabama

Notes to Financial Statements

1. Summary of significant accounting policies (continued)

V. Fixed Assets (continued)

Government-wide statements

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

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

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

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

Fund financial statements

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

W. 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.

## City of Mountain Brook, Alabama

## Notes to Financial Statements

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

At September 30, 2006, the City had the following cash and investments and maturities:

	Investment Maturities in Years			
	Fair Value	Less Than 1	1 - 2	3 - 5
Cash on-hand	\$ 2,680	\$ 2,680	\$ 0	\$ 0
Bank deposits	9,722,544	9,722,544	0	0
Investments:				
Cash and money market accounts	55,517	55,517	0	0
Certificates of deposit	11,544,839	3,127,008	4,585,127	3,832,704
Federal National Mortgage Association	9,709,630	3,013,308	4,032,969	2,663,353
Federal Home Loan Bank	499,220	499,220	0	0
576 shares VMC common stock (donated)	45,072	0	0	45,072
<b>Total portfolio</b>	<b>\$ 31,579,502</b>	<b>\$ 16,420,277</b>	<b>\$ 8,618,096</b>	<b>\$ 6,541,129</b>

At September 30, 2006, the discretely presented component unit had the following cash and investments and maturities:

	Investment Maturities in Years			
	Fair Value	Less Than 1	1 - 2	3 - 5
Bank deposits	\$ 301,857	\$ 301,857	\$ 0	\$ 0
Mutual funds	2,270,432	2,270,432	0	0
<b>Total portfolio</b>	<b>\$ 2,572,289</b>	<b>\$ 2,572,289</b>	<b>\$ 0</b>	<b>\$ 0</b>

**Interest Rate Risk.** As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy restricts General Fund investments to those with maturities of two years or less and Capital Project and Debt Service Fund investments to those with maturities of five years or less. Investment maturities (excluding the discretely presented component unit) as of September 30, 2006, were as follows:

Maturity	Portion of Portfolio
Less than one year	52.00%
1 - 2 years	27.29%
3 - 5 years	20.71%
	<u>100.00%</u>

## City of Mountain Brook, Alabama

## Notes to Financial Statements

## 2. Deposits and investments, interest rate risk, credit risk, and custodial risk (continued)

**Credit Risk.** Act No. 2000-748 of the Code of Alabama requires that all public deposits held in banks be secured by collateral pledged to the Security for Alabama Funds Enhancement (SAFE) collateral pool established in the Office of the State Treasurer. The City's policy is to deposit funds only in financial institutions that are qualified public depositories of the State of Alabama SAFE program. All of the City's bank deposits are either insured by Federal Depository Insurance (FDIC) or collateralized in accordance with Act 2000-748. The City had no uninsured bank deposits at September 30, 2006. The discretely presented component unit had deposits of \$201,857 in excess of the FDIC limit at September 30, 2006.

The City's investment policy allows for up to 100% of the portfolio to be invested in direct obligations of the U.S. government or federal agencies thereof in accordance with Sec. 11-81-19 and 11-81-21 of the Code of Alabama. At September 30, 2006, the City had invested \$11.5 million in certificates of deposit and \$9.7 million in federal agency debt securities. Of the City's \$11.5 million investment in certificates of deposit, the City had not invested more than \$100,000 with any financial institution located outside of the State of Alabama. Accordingly, the City had no uninsured certificates of deposit at September 30, 2006. All of the callable Federal National Mortgage Association and callable Federal Home Loan Bank notes were rated "Aaa" by Moody's Investor Services, Inc., and "AAA" by Standard & Poor's Ratings Group, a Division of McGraw-Hill Companies. Following is a summary of the City's top holdings in its cash and investment portfolio:

Description/Creditor	Fair Value	Portion of Portfolio
Federal Nation Mortgage Association (callable)	\$ 9,709,630	30.75%
Federal Home Loan Bank (callable)	499,220	1.58%
Various financial institutions - certificates of deposit	11,544,839	36.56%
	<u>\$ 21,753,689</u>	<u>68.89%</u>

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

Description	CUSIP	Fair Value	Portion of Portfolio
Chase Growth Fund (27,077.049 shares)	CHASX	\$ 524,212	23.09%
Dodge & Cox International Stock (6,691.70 shares)	DODFX	269,340	11.86%
Longleaf Partner Family Value Tr #133 (15,830.318 shares)	LLPFX	553,112	24.36%
PIMCO All Asset Fund Institutional Class (26,713.187 shares)	PAAIX	340,326	14.99%
PIMCO Low Duration Fund Institutional Class (23,829.464 shares)	PTLDX	237,103	10.44%
Vanguard Convert Securities (24,270.439 shares)	VCVSX	346,339	15.26%
		<u>\$ 2,270,432</u>	<u>100.00%</u>

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

## City of Mountain Brook, Alabama

## Notes to Financial Statements

## 3. Receivables

Receivables at September 30, 2006, consisted of the following:

	General Fund	Capital Projects	Special Revenue	Total
Taxes	\$ 1,550,240	\$ 0	\$ 37,263	\$ 1,587,503
Emergency Communication				
District (E-911) surcharge	0	0	10,721	10,721
Board of Education (Note 1.B.)	48,705	0	0	48,705
Grants	0	19,117	0	19,117
Other	56,185	12,046	0	68,231
<b>Totals</b>	<b>\$ 1,655,130</b>	<b>\$ 31,163</b>	<b>\$ 47,984</b>	<b>\$ 1,734,277</b>

The City loaned the Mountain Brook Sports Park Foundation (MBSPF), a nonprofit organization established to raise funds for the exclusive benefit of Mountain Brook Soccer Club, \$500,000 for their construction of athletic playing fields (Note 1.B.). The loan is to be repaid in monthly installments of \$4,000 including interest at 4% beginning in August 2005 plus the net cash flows of Mountain Brook Soccer Club which are to be remitted to MBSPF beginning in April 2007 with the unpaid balance due July 1, 2010. The outstanding balance reported in the statement of net assets at September 30, 2006 totaled \$469,053 of which \$32,316 is scheduled to be repaid within the next fiscal year. The City collected \$17,727 in interest during 2006.

## 4. Capital assets

Following is a summary of the changes in the City's capital assets for the year ended September 30, 2006:

	Balance at September 30, 2005	Additions	Disposals/ Retirements/ Completed	Balance at September 30, 2006
<b>Capital assets, not being depreciated:</b>				
Land	\$ 18,935,885	\$ 0	\$ (1,053,255)	\$ 17,882,630
Construction in progress	3,936,817	2,416,582	(189,145)	6,164,254
<b>Total capital assets, not being depreciated</b>	<b>22,872,702</b>	<b>2,416,582</b>	<b>(1,242,400)</b>	<b>24,046,884</b>
<b>Capital assets, being depreciated:</b>				
Land improvements	2,854,128	0	0	2,854,128
Buildings and improvements	7,921,008	122,638	0	8,043,646
Machinery and equipment	12,156,485	1,739,398	(377,155)	13,518,728
Infrastructure	31,855,279	1,552,566	93,835	33,501,680
<b>Total capital assets, being depreciated</b>	<b>54,786,900</b>	<b>3,414,602</b>	<b>(283,320)</b>	<b>57,918,182</b>
<b>Less accumulated depreciated for:</b>				
Land improvements	197,009	15,667	0	212,676
Buildings and improvements	2,308,943	300,247	0	2,609,190
Machinery and equipment	6,880,811	1,096,395	(357,249)	7,619,957
Infrastructure	16,954,634	1,517,623	0	18,472,257
<b>Total accumulated depreciation</b>	<b>26,341,397</b>	<b>2,929,932</b>	<b>(357,249)</b>	<b>28,914,080</b>
<b>Total capital assets, being depreciated, net</b>	<b>28,445,503</b>	<b>484,670</b>	<b>73,929</b>	<b>29,004,102</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 51,318,205</b>	<b>\$ 2,901,252</b>	<b>\$ (1,168,471)</b>	<b>\$ 53,050,986</b>

City of Mountain Brook, Alabama

Notes to Financial Statements

4. Capital assets (continued)

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

Governmental activities:	
General government	\$ 119,601
Public safety	550,838
Street and sanitation	1,293,009
Recreational	355,227
Library	<u>611,257</u>
<b>Total depreciation expense</b>	<b>\$ <u>2,929,932</u></b>

5. Long-term debt

Long-term debt outstanding as of September 30, 2006, consisted of the following:

	<u>Balance</u>
\$490,000 General Obligation Warrants, Series 2003 dated October 29, 2003 maturing annually on July 15 through the year 2008 plus interest payable on January 15 and July 15 at a rate of 3.75% (Note 9)	\$ <u>196,000</u>
<b>Total</b>	<b>\$ <u>196,000</u></b>

The total interest paid by the City during 2006 relative to general obligation warrants was \$69,703. The current debt of the City supports the recreational function and, as such, all interest expense has been charged to this function in the Government-Wide Statement of Activities. The total amount of interest charged to expense of the recreational function for the year ended September 30, 2006 was \$54,474.

Following is a summary of long-term debt principal transactions for the year ended September 30, 2006:

General obligation warrant balances at October 1, 2005	\$ 1,804,000
Principal payments:	
\$1,550,000 General Obligation Warrants, Series 2004	(1,510,000)
\$490,000 General Obligation Warrants, Series 2003	<u>(98,000)</u>
General obligation warrant balances at September 30, 2006	<b>\$ <u>196,000</u></b>

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

**5. Long-term debt (continued)**

The Series 2004 warrants were issued to finance the cost of acquiring land on which a community center is planned which, if constructed, is to be paid from donations solicited by a private, non-profit group. The City has agreed to hold the land during the fund-raising campaign. If, after five years, the private group has not raised sufficient funds to construct the community center, the City may sell the land. The City has agreed to provide the private group the first right-of-refusal to re-purchase the land from the City elect to sell it.

The Series 2003 warrants were issued to finance new construction and renovations of the sports facilities located at the high school which is owned by the Board (Note 1.B.). The City agreed to serve as the fiscal agent with respect to the project.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 98,000	\$ 7,350	\$ 105,350
2008	<u>98,000</u>	<u>3,675</u>	<u>101,675</u>
<b>Totals</b>	<u>\$ 196,000</u>	<u>\$ 11,025</u>	<u>\$ 207,025</u>

**6. Pension plan**

**A. Plan description**

The City contributes to the Employees' Retirement System of Alabama, an agent multiple-employer public employee retirement system, that acts as a common investment and administrative agent for various state agencies, departments, and municipalities.

Substantially all employees are members of the Employees' Retirement System of Alabama (RSA). Membership is mandatory for covered or eligible employees of the City. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, and (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method, retirees are allowed 2.0125% of their average final salary (highest three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death is provided to plan members with more than one year of creditable service or \$5,000 for those with less than one year of service.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

**6. Pension plan (continued)**

**A. Plan description (continued)**

The Employees' Retirement System was established as of October 1, 1945, under the provisions of Act 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for State employees, State police, and on an elective basis to all cities, counties, towns, and quasi-public organizations. The responsibility for general administration and operation of the Employees' Retirement System is vested in the Board of Control. Benefit provisions are established by the *Code of Alabama 1975*, Sections 36-27-1 through 36-27-103, as amended, Sections 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through Sections 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Commission authority to accept or reject various Cost-Of-Living-Adjustments (COLAs) granted to retirees.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

**B. Funding**

The RSA requires that covered employees contribute to the pension plan at the rate of 5% of compensation (6% for sworn police officers and firefighters). In addition, the RSA requires that the City remit monthly matching contributions to the pension plan. The City's matching contributions are actuarially determined annually and stated as a percentage of covered compensation. The City's actuarially determined matching contribution for the year ended September 30, 2006 was 10.90% of covered compensation. The City's matching contribution for the fiscal year ending September 30, 2007 has been actuarially determined to be 11.51% of covered compensation.

For the year ended September 30, 2006, the City's total compensation was approximately \$11.8 million and the City's total covered compensation used to determine the City's pension contribution was approximately \$11.5 million. The City's policy is to fund the required contribution as actuarially determined by the RSA and stated as a percentage of eligible compensation; however, during 2001, the City elected to contribute \$2 million more than the actuarially determined required amount.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

**7. Post employment benefits (continued)**

**Plan Description (continued).** Employees with thirty (30) years of City service (any age) or fifteen (15) years of service (if age 60 or older) may retire anytime without a special resolution being adopted by the City Council (Resolution No. 02-072).

**Fund Policy.** Currently, there are no requirements for LGHIP participating agencies to contribute to their post employment benefit plans. Until 2006, the City recognized the cost of providing these benefits (the City's portion of the premiums) as an expense when the benefit premiums were due and thus financed the cost of the post employment benefits on a pay-as-you-go basis.

In 2006, the City prospectively implemented Government Accounting Standards Board Statement Number 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other than Pensions* (GASB 45), and began to record its portion of premiums as an expense during the period of active service by the employee (normal cost). In 2006, the City's portion of health care and dental insurance premiums for both active and retired employees totaled \$929,441 and \$214,802, respectively. In 2006, the City also began the process of establishing a trust whose assets will be dedicated to providing post employment benefits to retired employees and their beneficiaries and which will be legally protected from creditors. It is the intent of the City, once the trust is established, to contribute its portion of post employment benefits to the trust on a monthly basis.

**Required Contribution Rates.** Employees do not contribute to their post employment benefit costs until they become retirees and begin receiving those benefits. Following is the monthly premium cost sharing for retirees and the City for 2006 as determined by the City Council of the City of Mountain Brook:

	<u>City</u>	<u>Retiree</u>	<u>Total</u>
<b>Blue Cross and Blue Shield:</b>			
Family	\$675	\$356	\$1,031
Single	\$449	\$110	\$559
<b>United Healthcare:</b>			
Family	\$752	\$398	\$1,150
Single	\$502	\$122	\$624

City of Mountain Brook, Alabama

Notes to Financial Statements

7. Post employment benefits (continued)

**Required Contribution Rates (continued).** The City's annual medical and dental post employment benefit cost (expense) is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of GASB 45. The City's annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize the unfunded actuarial liability over a period of thirty (30) years. The total annual required contribution for 2006 was \$198,994.

**Annual Post Employment Benefit Costs and Net Post employment Benefits Liability.** The table below shows the City's annual post employment benefits for 2006 and changes in the Unfunded Post employment Benefits Liability (Asset):

Normal cost	\$ 40,017
30-year actuarial accrued liability amortization of medical and dental insurance	158,977
Annual required contribution	<u>198,994</u>
Interest on unfunded post employment benefits liability	0
Adjustments to the annual required contribution	0
Annual post employment benefits expense	<u>198,994</u>
Contributions made	0
Current year retiree premium	<u>214,802</u>
Increase in unfunded post employment benefits liability (asset)	(15,808)
Unfunded post employment benefits liability at October 1, 2005	<u>0</u>
Unfunded post employment benefits liability (asset) at September 30, 2006	<u>\$ (15,808)</u>

The following table shows the City's annual post employment benefits (PEB) cost, percentage of that cost contributed, and the net unfunded post employment benefits (PEB) liability (asset):

Fiscal Year Ended	Annual PEB Cost	Percentage of Annual Cost Contributed	Net PEB Liability (Asset)
September 30, 2006	\$ 198,994	108%	\$ (15,808)

City of Mountain Brook, Alabama

Notes to Financial Statements

7. Post employment benefits (continued)

**Funded Status and Funding Progress.** In 2006, the City made no contributions to its post employment benefits plan trust since such a trust had not been established. The plan was not funded at all, has no assets, and hence has a funded ratio of zero. As of September 30, 2006, the first and most recent actuarial valuation, the actuarial accrued liability was \$1,972,724, which is defined as that portion, as determined by a particular actuarial cost method (the City uses the Unit Credit Cost Method), of the actuarial present value of post employment plan benefits and expenses which is not provided by normal cost (i.e., the cost of the actuarial present value of post employment benefits for active employees from their hire date through September 30, 2006, and for retired employees from their hire date through their date of retirement). Since the plan was not funded in 2006, the entire actuarial accrued liability of \$1,972,724 was unfunded. The annual payroll of active employees covered by the plan, called the covered payroll, was \$11,485,000 for 2006. The ratio of the unfunded actuarial accrued liability to the covered payroll was 17.2% (Salaries are not used to determine medical post employment benefits).

In addition to the pension benefits described in Note 6, the City has periodically elected to provide post employment health insurance coverage to those employees electing early retirement, provided that certain requirements have been met relating to age and length of service. The City's cost related to these post employment benefits are financed from current operations. Such coverage is effective for a maximum of 13 years or until the retiree attains Medicare eligibility. Except for the fiscal year ended September 30, 1994, this plan has been offered in some form each year since its initial offering in 1989. However, there is no assurance that the program will be offered to employees in the future.

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

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

City of Mountain Brook, Alabama

Notes to Financial Statements

7. Post employment benefits (continued)

**Actuarial Methods and Assumptions (continued).** The amount of the current employer portion of the health care premiums for retiree coverage has been used as the basis for calculating the actuarial present value of benefits to be paid. It has been assumed that enrollees will retain the same coverage levels after retirement as before.

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

**Actuarial Value of Plan Assets.** Since this is the first actuarial valuation, there are not any assets. It is anticipated that in future valuations a smoothed market value consistent with Actuarial Standards Board ASOP 6, as provided in paragraph number 125 of GASB Statement 45.

**Annual Turnover Rate.** The following annual age related turnover scale was used:

<u>Age</u>	<u>Annual Percent Turnover</u>
15 - 25	15.0%
26 - 55	10.0%
55 +	7.5%

**Post employment Benefit Plan Eligibility Requirements.** It is assumed that entitlement to benefits will commence three years after earliest eligibility for retirement. Eligibility for retirement has been assumed to be the earlier of : (1), attainment of age 60 with at least fifteen (15) years of service, and (2), completion of thirty (30) years of service at any age. Entitlement to benefits ceases upon the earlier of thirteen years after retirement and the date the retiree becomes eligible for Medicare benefits (whether by age or disability).

City of Mountain Brook, Alabama

Notes to Financial Statements

7. Post employment benefits (continued)

**Health Care Cost Trend Rate.** In the absence of readily available cost trend data from the Office of Group Benefits, the expected rate of increase in health care insurance premiums is based on projections of the Office of the Actuary at the Centers for Medicare and Medicaid Services as published in *National Health Care Expenditures Projections: 2003 to 2013*, Table 3: National Health Expenditures Aggregate and Per Capita Amounts, Percent Distribution and Average Annual Percent Change by Source of Funds: Selected Calendar Years 1990-2013, released in January 2004, by the Health Care Financial Administration. "State and Local" rates for 2006 through 2013 from this report were used, with rates beyond 2013 graduated down to an ultimate annual rate of 5.0% for 2016 and later, as set forth below:

2006	8.0%
2007	8.0%
2008	8.0%
2009	8.0%
2010	7.9%
2011	7.8%
2012	7.7%
2013	7.6%
2014	6.7%
2015	6.0%
2016 and later	5.0%

**Mortality Rate.** The 1994 Group Annuity Reserving (94GAR) table, projected to 2002, based on a fixed blend of 50% of the unloaded male mortality rate and 50% of the unloaded female mortality rates, was used. This is the mortality table which the Internal Revenue Service requires to be used in determining the value of accrued benefits in defined benefit pension plans.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

**8. Commitments and contingencies**

The City is charged by the Jefferson County Commission for shared services. The assessments for shared services charged to the City during 2006 were as follows:

	<u>Amount</u>
Property tax commissions	\$ 177,720
Jefferson County Department of Health	130,482
Maintenance of maps and appraisals	146,971
Personnel Board of Jefferson County	225,059
Birmingham-Jefferson County Transit Authority	66,900
Birmingham Regional Planning Commission	9,478

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

The City has arranged for an independent contractor, Waste Management Company, Inc., to provide for the collection and disposal of refuse and recyclable materials. The base rates for this service for the year ended September 30, 2006, were \$25.99 per month for single and multiple family residential units and \$32.28 per month for commercial units. The annual cost incurred under this agreement for the year ended September 30, 2006, was approximately \$2,336,000. Total garbage service fee revenues collected by the City from its residents and commercial customers during the year were approximately \$1,604,000. The contract was renewed in October 2004 for a three year term expiring on September 30, 2007 (Note 11). The City has yet to complete its contract renewal. In March 2007, the City Council adopted an ordinance substantially reducing the residential garbage fees. Garbage service fee collections are projected to be approximately \$450,000 in fiscal 2007.

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

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

**8. Commitments and contingencies (continued)**

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 1999 for a period of 9-1/2 years. The City's share of the consortium commitment is \$100,000 annually through 2007 and \$16,667 on or before February 1, 2008.

The City has entered into an agreement with a real estate developer constructing a commercial (grocery store) development in the City. In general, the development agreement provides that the City will reimburse the developer for certain costs incurred for the construction of public infrastructure such as roadway improvements and drainage systems. The reimbursement is limited in amount regardless of the actual costs incurred by the developer and payable solely from a portion (50%) of the sales tax receipts realized by the City from the commercial development. The Government-wide Statement of Net Assets includes capitalized infrastructure totaling \$501,686. The City fulfilled its financial commitment under the terms of the development agreement during 2006. During 2006, the City paid the developer a total of \$285,968 which is reported as a general government expenditure in the fund financial statements and a reduction in the long-term liabilities in the Government-wide Statement of Net Assets.

In 2005, the City entered into another development agreement with a real estate developer constructing a mixed use development in the City. The development agreement provides that the City will reimburse the developer for certain costs incurred for the construction of public infrastructure including a roadway relocation and improvements, construction of an acceleration lane, sidewalks, curbing, and drainage systems. The reimbursement is limited to \$5 million regardless of the actual costs incurred by the developer (which have been estimated to be \$8 million) and payable solely from a portion (50%) of the sales tax receipts realized by the City from the commercial development. Any portion of the \$5 million development agreement obligation not repaid after fifteen (15) years shall be cancelled. The fund financial statements include capital expenditures and a donation in the amount of \$1,490,118 for the year ended September 30, 2006.

The cumulative infrastructure costs incurred as of September 30, 2006 was \$3,636,794 which have been capitalized (construction in progress) and a corresponding other liability (of which \$112,500 is reported as a current liability) is reported the accompanying Government-wide Statement of Net Assets.

## City of Mountain Brook, Alabama

### Notes to Financial Statements

#### 8. Commitments and contingencies (continued)

The City has entered into another development agreement with a real estate developer constructing a small shopping center whose principal tenant is a grocery store. Under the terms of the development agreement, the City agreed to pay the developer the sum of \$687,500 for the purpose of promoting economic development within the City as provided by Amendment No. 772 adopted by the Alabama Legislature. In addition, the City agreed to abate the City's portion of property taxes for a period of fifteen (15) years provided the annual retail sales equal or exceed \$5 million. The City's \$687,500 commitment will be paid from 50% of the sales tax generated by the stores in the development. The development opened in October 2006. Accordingly, no payments were made by the City during fiscal 2006 nor were any property taxes abated.

Construction in progress (Note 4) at September 30, 2006 includes the following projects:

Development agreement infrastructure projects	\$ 3,649,294
Athletic fields (Note 1.B.)	1,952,936
Drainage projects	193,978
Street reconstruction	39,053
Building additions	138,114
New sidewalk construction (Phase 5)	2,298
Fire training facility	188,581
	\$ 6,164,254

The street reconstruction project is being performed by a third-party under a \$453,000 contract. The fire training facility is being constructed by a third-party under a \$228,000 contract. The new sidewalk construction project is being administered by the Alabama Department of Transportation. Construction of the sidewalks was started in the fall of 2006. The total cost of the new sidewalks is estimated to be \$1.05 million of which the City's share is \$210,000 and the remainder to be paid from Congestion Mitigation and Air Quality Improvements Program (CMAQ) federal funds. The drainage projects are estimated to cost \$7 million and will be financed from the proceeds of a federal award which requires a 25% matching contribution from the City. The City is also planning renovations to its City Hall complex and Public Works facility which are estimated to cost \$5 million and \$1 million, respectively. There are no contracts or commitments for drainage, City Hall expansion, or Public Works facility projects.

#### 9. Constitutional debt limit

Section 225, as amended, of the Constitution of the State of Alabama limits for municipalities with populations of 6,000 or more to 20 percent of the assessed value of taxable property. Excluded from this limitation are bonds issued for the construction of schools, waterworks, sewers, and assessed improvements.

City of Mountain Brook, Alabama

Notes to Financial Statements

9. **Constitutional debt limit (continued)**

Following are the constitution debt limit and legal debt margin:

Assessed value of taxable real and personal property as provided by the Jefferson County Tax Assessor	<u>\$ 524,805,038</u>
Constitutional debt limit, 20 percent of assessed	\$ 104,961,008
Outstanding long-term debt as of September 30,	<u>196,000</u>
Legal Debt Margin	<u>\$ 104,765,008</u>

10. **Litigation**

Several other 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 affect on the City's financial statements.

11. **Subsequent event**

On March 12, 2007, the City Council adopted Ordinance No. 1732 which substantially reduced the residential garbage service fees effective January 1, 2006. In 2006, the City realized \$1,604,000 from the garbage service fees. The City estimates that the garbage service fees will total \$450,000 in 2007.

**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Mountain Brook, Alabama**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual - General Fund**  
**Year Ended September 30, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues:</b>				
Taxes	\$ 22,628,664	\$ 22,628,664	\$ 23,291,779	\$ 663,115
Licenses and permits	2,742,300	2,742,300	3,104,197	361,897
Intergovernmental	36,210	36,210	50,517	14,307
Charges for services	2,081,795	2,081,795	2,090,666	8,871
Fines and forfeitures	554,500	554,500	623,579	69,079
Grants	13,106	13,106	73,278	60,172
Other operating revenues	381,000	381,000	561,623	180,623
<b>Total revenues</b>	<u>28,437,575</u>	<u>28,437,575</u>	<u>29,795,639</u>	<u>1,358,064</u>
<b>Expenditures:</b>				
General government	5,050,503	5,050,503	4,648,377	402,126
Public safety	10,882,351	10,882,351	10,767,527	114,824
Street and sanitation	5,371,165	5,371,165	5,344,269	26,896
Recreational	1,010,837	1,010,837	1,017,915	(7,078)
Library	2,068,763	2,068,763	2,074,012	(5,249)
<b>Total expenditures</b>	<u>24,383,619</u>	<u>24,383,619</u>	<u>23,852,100</u>	<u>531,519</u>
<b>Excess of revenues over expenditures</b>	<u>4,053,956</u>	<u>4,053,956</u>	<u>5,943,539</u>	<u>1,889,583</u>
<b>Other financing sources (uses):</b>				
Operating transfers in	3,065,519	3,065,519	37,710	(3,027,809)
Operating transfers (out)	(6,668,675)	(6,668,675)	(5,316,624)	1,352,051
Operating transfers in - component unit	17,000	17,000	45,383	28,383
Donations	69,200	69,200	72,477	3,277
<b>Total other financing (uses)</b>	<u>(3,516,956)</u>	<u>(3,516,956)</u>	<u>(5,161,054)</u>	<u>(1,644,098)</u>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	537,000	537,000	782,485	245,485
<b>Fund balances, beginning of year</b>	<u>4,744,614</u>	<u>4,744,614</u>	<u>4,744,614</u>	<u>0</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 5,281,614</u>	<u>\$ 5,281,614</u>	<u>\$ 5,527,099</u>	<u>\$ 245,485</u>

See accompanying notes to basic financial statements.

**City of Mountain Brook, Alabama**

**Notes to Required Supplementary Information**

**1. Summary of significant accounting policies**

**A. Budgets and budgetary accounting**

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

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

Budget information presented in the financial statements is based on the budget as amended by the City Council on September 26, 2005.

**SUPPLEMENTARY INFORMATION**

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City of Mountain Brook, Alabama

Combining Balance Sheet  
Other Governmental Funds  
September 30, 2006

	<u>State Shared Gasoline Tax Funds</u>			
	<u>Seven Cent</u>	<u>Four Cent</u>	<u>Five Cent</u>	<u>Two Cent</u>
<b>ASSETS</b>				
Cash and temporary investments	\$ 134,283	\$ 216,682	\$ 76,310	\$ 19,849
Receivables	<u>19,951</u>	<u>11,612</u>	<u>5,700</u>	<u>0</u>
<b>TOTAL ASSETS</b>	<u>\$ 154,234</u>	<u>\$ 228,294</u>	<u>\$ 82,010</u>	<u>\$ 19,849</u>
<b>LIABILITIES</b>				
Accounts payable	\$ <u>24,542</u>	\$ <u>0</u>	\$ <u>37,154</u>	\$ <u>1,200</u>
<b>Total liabilities</b>	<u>24,542</u>	<u>0</u>	<u>37,154</u>	<u>1,200</u>
<b>FUND EQUITY</b>				
Fund balance:				
Unreserved	<u>129,692</u>	<u>228,294</u>	<u>44,856</u>	<u>18,649</u>
<b>Total fund equity</b>	<u>129,692</u>	<u>228,294</u>	<u>44,856</u>	<u>18,649</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$ 154,234</u>	<u>\$ 228,294</u>	<u>\$ 82,010</u>	<u>\$ 19,849</u>

See notes to financial statements.

<u>Emergency Com- munication District</u>	<u>Drug Asset</u>	<u>D.A.R.E. Program</u>	<u>Com- munity Fund</u>	<u>Correc- tions Fund</u>	<u>Totals</u>
\$ 453,125	\$ 1,391	\$ 48,291	\$ 109,381	\$ 7,320	\$ 1,066,632
<u>10,721</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>47,984</u>
<u>\$ 463,846</u>	<u>\$ 1,391</u>	<u>\$ 48,291</u>	<u>\$ 109,381</u>	<u>\$ 7,320</u>	<u>\$ 1,114,616</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 7,498</u>	<u>\$ 7,320</u>	<u>\$ 77,714</u>
<u>0</u>	<u>0</u>	<u>0</u>	<u>7,498</u>	<u>7,320</u>	<u>77,714</u>
<u>463,846</u>	<u>1,391</u>	<u>48,291</u>	<u>101,883</u>	<u>0</u>	<u>1,036,902</u>
<u>463,846</u>	<u>1,391</u>	<u>48,291</u>	<u>101,883</u>	<u>0</u>	<u>1,036,902</u>
<u>\$ 463,846</u>	<u>\$ 1,391</u>	<u>\$ 48,291</u>	<u>\$ 109,381</u>	<u>\$ 7,320</u>	<u>\$ 1,114,616</u>

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**City of Mountain Brook, Alabama**

**Combining Statement of Revenues, Expenditures and Changes  
in Fund Balances - Other Governmental Funds  
For the Year Ended September 30, 2006**

	<u>State Shared Gasoline Tax Funds</u>			
	<u>Seven Cent</u>	<u>Four Cent</u>	<u>Five Cent</u>	<u>Two Cent</u>
<b>Revenues:</b>				
Taxes	\$ 220,103	\$ 131,537	\$ 64,648	\$ 2,010
Intergovernmental	0	0	0	0
Charges for services	0	0	0	0
Fines and forfeitures	0	0	0	0
Other operating revenues:				
Investment earnings	135,471	10,645	2,740	777
<b>Total revenues</b>	<u>355,574</u>	<u>142,182</u>	<u>67,388</u>	<u>2,787</u>
<b>Expenditures:</b>				
General government	0	0	0	0
Public safety	0	0	0	0
Street and sanitation	463,498	112,000	60,400	1,200
Recreational	0	0	0	0
<b>Total expenditures</b>	<u>463,498</u>	<u>112,000</u>	<u>60,400</u>	<u>1,200</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(107,924)</u>	<u>30,182</u>	<u>6,988</u>	<u>1,587</u>
<b>Other financing sources (uses):</b>				
Operating transfers in	150,000	0	0	0
Operating transfers out	0	0	0	0
Donations	0	0	0	0
<b>Total other financing sources (uses)</b>	<u>150,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	42,076	30,182	6,988	1,587
<b>Fund balances, beginning of year</b>	<u>87,616</u>	<u>198,112</u>	<u>37,868</u>	<u>17,062</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 129,692</u>	<u>\$ 228,294</u>	<u>\$ 44,856</u>	<u>\$ 18,649</u>

See notes to financial statements.

Emergency Com- munication District	Drug Asset	D.A.R.E. Program	Com- munity Fund	Correc- tions Fund	Totals
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 418,298
0	0	43,000	0	0	43,000
194,888	0	0	0	0	194,888
0	127	0	0	146,069	146,196
<u>17,703</u>	<u>0</u>	<u>0</u>	<u>5,850</u>	<u>0</u>	<u>173,186</u>
<u>212,591</u>	<u>127</u>	<u>43,000</u>	<u>5,850</u>	<u>146,069</u>	<u>975,568</u>
0	0	0	0	210,297	210,297
169,309	6,036	129,763	0	101,448	406,556
0	0	0	0	0	637,098
0	0	0	536,970	0	536,970
<u>169,309</u>	<u>6,036</u>	<u>129,763</u>	<u>536,970</u>	<u>311,745</u>	<u>1,790,921</u>
<u>43,282</u>	<u>(5,909)</u>	<u>(86,763)</u>	<u>(531,120)</u>	<u>(165,676)</u>	<u>(815,353)</u>
0	0	87,115	0	165,676	402,791
0	0	0	(164,720)	0	(164,720)
0	0	0	577,956	0	577,956
<u>0</u>	<u>0</u>	<u>87,115</u>	<u>413,236</u>	<u>165,676</u>	<u>816,027</u>
43,282	(5,909)	352	(117,884)	0	674
<u>420,564</u>	<u>7,300</u>	<u>47,939</u>	<u>219,767</u>	<u>0</u>	<u>1,036,228</u>
<u>\$ 463,846</u>	<u>\$ 1,391</u>	<u>\$ 48,291</u>	<u>\$ 101,883</u>	<u>\$ 0</u>	<u>\$ 1,036,902</u>

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**City of Mountain Brook, Alabama**

**Combining Balance Sheet - Capital Projects Funds  
September 30, 2006**

	<u>City Capital Projects</u>	<u>Village Improvements (One Cent Sales Tax)</u>	<u>Sewer Projects</u>
<b>ASSETS</b>			
Cash and temporary investments	\$ 12,877,881	\$ 2,298,290	\$ 98,709
Receivables	<u>31,163</u>	<u>0</u>	<u>0</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 12,909,044</u></b>	<b><u>\$ 2,298,290</u></b>	<b><u>\$ 98,709</u></b>
<b>LIABILITIES</b>			
Accounts payable	\$ 308,582	\$ 241,202	\$ 0
Other liabilities	<u>0</u>	<u>112,500</u>	<u>0</u>
<b>Total liabilities</b>	<b><u>308,582</u></b>	<b><u>353,702</u></b>	<b><u>0</u></b>
<b>FUND EQUITY</b>			
Fund balance	<u>12,600,462</u>	<u>1,944,588</u>	<u>98,709</u>
<b>Total fund equity</b>	<b><u>12,600,462</u></b>	<b><u>1,944,588</u></b>	<b><u>98,709</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$ 12,909,044</u></b>	<b><u>\$ 2,298,290</u></b>	<b><u>\$ 98,709</u></b>

See notes to financial statements.

<u>Village Trail System (ISTEA)</u>	<u>Totals</u>
\$ 0	\$ 15,274,880
<u>0</u>	<u>31,163</u>
\$ <u>0</u>	\$ <u>15,306,043</u>

\$ 0	\$ 549,784
<u>0</u>	<u>112,500</u>
<u>0</u>	<u>662,284</u>
<u>0</u>	<u>14,643,759</u>
<u>0</u>	<u>14,643,759</u>
\$ <u>0</u>	\$ <u>15,306,043</u>

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**City of Mountain Brook, Alabama**

**Combining Statement of Revenues, Expenditures, and Changes  
Changes in Fund Balances - Capital Projects Funds  
For the Year Ended September 30, 2006**

	<b>City Capital Projects</b>	<b>Village Improvements (One Cent) Sales Tax</b>	<b>Sewer Projects</b>
<b>Revenues:</b>			
Revenues - grants	\$ 129,818	\$ 111,544	\$ 0
Investment earnings	530,128	90,115	3,975
Miscellaneous	56,383	1,039,750	0
<b>Total revenues</b>	<b>716,329</b>	<b>1,241,409</b>	<b>3,975</b>
<b>Expenditures:</b>			
General government	288,468	0	0
Public safety	1,434,635	0	0
Street and sanitation	217,930	2,234,615	0
Recreational	99,625	0	0
Library	40,293	0	0
<b>Total expenditures</b>	<b>2,080,951</b>	<b>2,234,615</b>	<b>0</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(1,364,622)</b>	<b>(993,206)</b>	<b>3,975</b>
<b>Other financing sources (uses):</b>			
Operating transfers in	3,378,972	861,000	0
Operating transfers (out)	0	(1,465,000)	0
Donations	0	1,495,118	0
<b>Total other financing sources (uses)</b>	<b>3,378,972</b>	<b>891,118</b>	<b>0</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	<b>2,014,350</b>	<b>(102,088)</b>	<b>3,975</b>
<b>Fund balances, beginning of year</b>	<b>10,586,112</b>	<b>2,046,676</b>	<b>94,734</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 12,600,462</b>	<b>\$ 1,944,588</b>	<b>\$ 98,709</b>

See notes to financial statements.

<u>Village Trail System (ISTEA)</u>	<u>Totals</u>
\$ 17,089	\$ 258,451
0	624,218
0	1,096,133
<u>17,089</u>	<u>1,978,802</u>
0	288,468
0	1,434,635
105,094	2,557,639
0	99,625
0	40,293
<u>105,094</u>	<u>4,420,660</u>
<u>(88,005)</u>	<u>(2,441,858)</u>
88,005	4,327,977
0	(1,465,000)
0	1,495,118
<u>88,005</u>	<u>4,358,095</u>
0	1,916,237
<u>0</u>	<u>12,727,522</u>
<u>\$ 0</u>	<u>\$ 14,643,759</u>

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**City of Mountain Brook, Alabama**

**Schedule of General Fund Revenues by Source  
For the Years Ended September 30, 1997 to 2006**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
<b>Taxes</b>				
Real property	\$ 6,155,288	\$ 6,171,581	\$ 6,316,472	\$ 8,003,594
Sales and use	5,283,280	5,514,754	5,603,635	5,671,220
Occupational	1,590,230	1,649,459	1,769,634	1,184,120
Utility	782,496	786,231	822,806	813,776
Personal property (automobiles)	561,643	651,542	735,010	845,199
Road and bridge	245,851	250,543	260,666	327,986
Other	534,258	660,409	624,280	548,064
<b>Total taxes</b>	<u>15,153,046</u>	<u>15,684,519</u>	<u>16,132,503</u>	<u>17,393,959</u>
<b>Licenses and permits</b>				
Business	1,459,497	1,727,688	1,694,072	1,598,265
Construction permits	353,329	397,665	348,737	469,291
Cable TV franchise fees	91,055	192,935	178,655	185,652
Waterworks Board	90,157	92,039	105,794	119,827
Other	48,440	49,784	51,138	48,622
<b>Total licenses and permits</b>	<u>2,042,478</u>	<u>2,460,111</u>	<u>2,378,396</u>	<u>2,421,657</u>
<b>Intergovernmental</b>	<u>33,803</u>	<u>115,895</u>	<u>30,383</u>	<u>71,288</u>
<b>Charges for services</b>				
Garbage fees	1,273,898	1,323,450	1,305,134	1,329,942
Other	366,782	377,131	377,442	582,955
<b>Total charges for services</b>	<u>1,640,680</u>	<u>1,700,581</u>	<u>1,682,576</u>	<u>1,912,897</u>
<b>Fines and forfeitures - court</b>	<u>292,448</u>	<u>306,312</u>	<u>294,946</u>	<u>256,604</u>
<b>Grants</b>	<u>13,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Other operating revenue</b>				
Investment earnings	271,571	354,697	284,592	405,151
Other	49,943	241,407	141,117	243,628
<b>Total other operating revenue</b>	<u>321,514</u>	<u>596,104</u>	<u>425,709</u>	<u>648,779</u>
<b>TOTAL REVENUES</b>	<u>\$ 19,496,969</u>	<u>\$ 20,863,522</u>	<u>\$ 20,944,513</u>	<u>\$ 22,705,184</u>

See notes to financial statements.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$	8,100,952	\$ 8,177,532	\$ 8,422,094	\$ 10,244,362	\$ 11,094,902	\$ 11,976,292
	5,564,912	5,506,591	5,701,970	6,086,944	6,534,289	7,033,452
	938,199	945,302	905,432	929,454	939,127	248,283
	885,880	1,007,657	941,086	953,228	992,143	1,088,234
	940,088	967,329	1,054,267	1,076,449	1,108,807	1,131,386
	334,790	340,021	351,477	425,985	460,216	497,326
	700,188	931,057	974,690	1,072,439	1,053,130	1,316,806
	<u>17,465,009</u>	<u>17,875,489</u>	<u>18,351,016</u>	<u>20,788,861</u>	<u>22,182,614</u>	<u>23,291,779</u>
	1,565,134	1,632,925	1,567,743	1,647,641	1,756,226	1,729,727
	478,476	380,206	413,416	667,971	519,277	893,161
	192,000	218,235	223,181	245,986	257,695	282,379
	118,368	96,938	124,717	115,220	123,202	137,964
	48,608	47,100	51,380	55,717	55,535	60,966
	<u>2,402,586</u>	<u>2,375,404</u>	<u>2,380,437</u>	<u>2,732,535</u>	<u>2,711,935</u>	<u>3,104,197</u>
	<u>70,132</u>	<u>36,297</u>	<u>37,248</u>	<u>40,430</u>	<u>41,736</u>	<u>50,517</u>
	1,414,817	1,459,625	1,443,383	1,526,500	1,573,788	1,604,281
	997,159	711,632	508,902	481,656	486,567	486,385
	<u>2,411,976</u>	<u>2,171,257</u>	<u>1,952,285</u>	<u>2,008,156</u>	<u>2,060,355</u>	<u>2,090,666</u>
	<u>287,425</u>	<u>298,824</u>	<u>364,031</u>	<u>496,457</u>	<u>587,397</u>	<u>623,579</u>
	<u>12,500</u>	<u>5,738</u>	<u>32,748</u>	<u>172,338</u>	<u>1,907,290</u>	<u>73,278</u>
	428,710	268,893	235,998	126,245	141,783	235,866
	283,182	238,153	245,403	241,746	247,971	325,757
	<u>711,892</u>	<u>507,046</u>	<u>481,401</u>	<u>367,991</u>	<u>389,754</u>	<u>561,623</u>
\$	<u>23,361,520</u>	\$ <u>23,270,055</u>	\$ <u>23,599,166</u>	\$ <u>26,606,768</u>	\$ <u>29,881,081</u>	\$ <u>29,795,639</u>

## City of Mountain Brook, Alabama

**Comparative Balance Sheet - General Fund**  
**September 30, 2006**  
 (With Comparative Totals for September 30, 2005)

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Cash and temporary investments	\$ 6,898,176	\$ 6,079,211
Receivables	1,614,047	1,668,176
Due from related organizations	41,083	41,083
Inventory and prepaid expenses	<u>44,132</u>	<u>28,918</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>8,597,438</u></b>	<b>\$ <u>7,817,388</u></b>
<b>LIABILITIES</b>		
Accounts payable	\$ 1,029,281	\$ 1,224,689
Accrued salaries and wages	777,473	753,987
Due to related organizations	57,050	57,050
Other liabilities	1,012,821	848,216
Accrued compensated absences	<u>193,714</u>	<u>188,832</u>
<b>TOTAL LIABILITIES</b>	<b><u>3,070,339</u></b>	<b><u>3,072,774</u></b>
<b>FUND EQUITY</b>		
Fund balance:		
Reserve for inventory and prepaid expense	44,132	28,918
Reserved	122,726	110,490
Unreserved	<u>5,360,241</u>	<u>4,605,206</u>
<b>TOTAL FUND EQUITY</b>	<b><u>5,527,099</u></b>	<b><u>4,744,614</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ <u>8,597,438</u></b>	<b>\$ <u>7,817,388</u></b>

See notes to financial statements.

## City of Mountain Brook, Alabama

**Comparative Balance Sheet - Debt Service Fund**  
**September 30, 2006**  
**(With Comparative Totals for September 30, 2005)**

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Cash and temporary investments	\$ 8,339,814	\$ 7,525,920
Receivables	<u>0</u>	<u>0</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 8,339,814</u></b>	<b><u>\$ 7,525,920</u></b>
<b>LIABILITIES</b>		
Accounts payable	\$ <u>0</u>	\$ <u>0</u>
<b>TOTAL LIABILITIES</b>	<u>0</u>	<u>0</u>
<b>FUND EQUITY</b>		
Fund balance:		
Unreserved	<u>8,339,814</u>	<u>7,525,920</u>
<b>TOTAL FUND EQUITY</b>	<u>8,339,814</u>	<u>7,525,920</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$ 8,339,814</u></b>	<b><u>\$ 7,525,920</u></b>

See notes to financial statements.

## City of Mountain Brook, Alabama

**Comparative Statement of Revenues, Expenditures and  
Changes in Fund Balances - General Fund  
For the year ended September 30, 2006  
(With Comparative Totals for September 30, 2005)**

	<u>2006</u>	<u>2005</u>
<b>Revenues:</b>		
Taxes	\$ 23,291,779	\$ 22,182,614
Licenses and permits	3,104,197	2,711,935
Intergovernmental	50,517	41,736
Charges for services	2,090,666	2,060,355
Fines and forfeitures	623,579	587,397
Grants	73,278	1,907,290
Other operating revenues	561,623	389,754
<b>Total revenues</b>	<u>29,795,639</u>	<u>29,881,081</u>
<b>Expenditures:</b>		
<b>Current (operating):</b>		
General government	4,648,377	4,811,900
Public safety	10,767,527	10,318,891
Street and sanitation	5,344,269	7,040,736
Recreational	1,017,915	962,451
Library	2,074,012	1,976,721
<b>Total expenditures</b>	<u>23,852,100</u>	<u>25,110,699</u>
<b>Excess of revenues over expenditures</b>	<u>5,943,539</u>	<u>4,770,382</u>
<b>Other financing sources (uses):</b>		
Operating transfers in	37,710	0
Operating transfers out	(5,316,624)	(4,178,506)
Operating transfers in - component unit	45,383	45,089
Donations	72,477	56,901
<b>Total other financing (uses)</b>	<u>(5,161,054)</u>	<u>(4,076,516)</u>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	782,485	693,866
<b>Fund balances, beginning of year</b>	<u>4,744,614</u>	<u>4,050,748</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 5,527,099</u>	<u>\$ 4,744,614</u>

See notes to financial statements.

## City of Mountain Brook, Alabama

**Comparative Statement of Revenues, Expenditures and  
Changes in Fund Balances - Capital Projects Fund  
For the Year Ended September 30, 2006  
(With Comparative Totals for September 30, 2005)**

	<u>2006</u>	<u>2005</u>
<b>Revenues:</b>		
Grants	\$ 258,451	\$ 512,444
Other operating revenues	1,720,351	553,033
<b>Total revenues</b>	<u>1,978,802</u>	<u>1,065,477</u>
<b>Expenditures:</b>		
General government	288,468	188,256
Public safety	1,434,635	879,124
Street and sanitation	2,557,639	3,153,793
Recreational	99,625	49,368
Library	40,293	0
<b>Total expenditures</b>	<u>4,420,660</u>	<u>4,270,541</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(2,441,858)</u>	<u>(3,205,064)</u>
<b>Other financing sources (uses):</b>		
Operating transfers in	4,327,977	2,700,313
Proceeds from (payments of) long-term obligation	(1,465,000)	2,046,676
Donations	1,495,118	24,000
<b>Total other financing sources</b>	<u>4,358,095</u>	<u>4,770,989</u>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	1,916,237	1,565,925
<b>Fund balances, beginning of year</b>	<u>12,727,522</u>	<u>11,161,597</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 14,643,759</u>	<u>\$ 12,727,522</u>

See notes to financial statements.