

CITY OF MOUNTAIN BROOK, ALABAMA

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2008**

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

September 30, 2008

MAYOR

The Honorable Lawrence T. Oden

CITY COUNCIL

Ms. Virginia C. Smith, President

Mr. Thomas C. (Tom) Clark, Jr.

Mr. William S. (Billy) Pritchard, III

Mr. John R. (Bob) Moody

Mr. Jesse S. Vogtle, Jr.

CITY MANAGER

Mr. Sam S. Gaston

DEPARTMENT SUPERVISORS

Building Inspections.....	Mr. Jerry Weems
Finance.....	Mr. Steven Boone
Fire Department.....	Mr. Robert W. (Zeke) Ezekiel
Police Department.....	Mr. 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, 2008, 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, 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2009, 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.

Carri Riggs & Ingram, L.L.C.

Birmingham, Alabama
March 11, 2009

CITY OF MOUNTAIN BROOK MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis of the City's financial activities as of and for the year ended September 30, 2008, prepared by the management of the City, is presented to facilitate the users' understanding of the annual report and draw attention to items of interest.

FINANCIAL HIGHLIGHTS

- Assets of the City exceeded its liabilities at September 30, 2008, by \$84 million (Total Net Assets). Of this amount, \$30 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 net of outstanding long-term debt, and \$730,000 is restricted for the benefit of the library (\$98,000) and road improvements (\$632,000 for the State Shared Gasoline Tax special revenue funds).
- The Total Net Assets increased by \$5.6 million in 2008 which includes the net cost of providing core City services of \$21.7 million plus \$27.3 million in General Revenues.
- As of September 30, 2008, the City reported \$37.2 million in unreserved fund balances, an increase of \$8.8 million from 2007. Of the \$37.2 million unreserved fund balance, \$7.4 million (20%) is reported in the General Fund, \$26.7 million (72%) in the Capital Projects Fund, and \$3 million (8%) in the Other Governmental Funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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 the year. Revenues and expenses reported in the Statement of Activities are recorded when the underlying event that gave rise to the change occurred as opposed to the timing of the related cash flow. The focus of the Statement of Activities is on the gross and net cost of the various governmental activities which are funded by the City's general tax and other revenues. The purpose of this statement is to simplify the analysis of the costs of various governmental services.

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

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 and Capital Projects Fund (which is comprised of four "sub-funds") to be major funds and their respective balance sheets and statements of revenues, expenditures, and changes in fund balance are separately reported. Information from the remaining funds (Debt Service and Special Revenue) have been aggregated and reported in a single column title Other Governmental Funds. Additional information about these aggregated non-major funds and the major funds is provided in the other supplementary information.

Infrastructure Capital Assets

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

	Useful Life	Cost	Depreciation	Accumulated Depreciation
Land	N/A	\$16,569,331	N/A	N/A
Streets and alleys	20	16,873,420	\$543,053	\$9,677,706
Storm sewers	20	5,802,014	269,564	1,009,741
Sidewalks	15	9,276,923	610,388	5,019,476
Park facilities	20	7,806,612	334,432	3,120,401
Street lights and signs	15	1,149,171	58,812	564,051
Library reference materials	5	<u>3,656,438</u>	<u>253,908</u>	<u>2,854,132</u>
Totals		<u>\$61,133,909</u>	<u>\$1,703,154</u>	<u>\$22,245,507</u>

CITY OF MOUNTAIN BROOK
MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-wide Financial Analysis

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

	2008	2007
Current assets	\$40,689,497	\$31,640,507
Other assets	373,277	405,640
Capital assets	<u>57,525,236</u>	<u>56,241,864</u>
Total assets	98,588,010	88,288,011
Current and other liabilities	4,224,435	3,859,391
Long-term liabilities	<u>10,841,144</u>	<u>6,474,822</u>
Total liabilities	15,065,579	10,334,213
Net assets:		
Invested in capital assets, net of related debt	52,525,236	56,143,864
Restricted	729,555	669,064
Unrestricted	<u>30,267,639</u>	<u>21,140,871</u>
Total net assets	<u>\$83,522,430</u>	<u>\$77,953,799</u>

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

	2008	2007
Revenues		
Program revenues		
Fees, fines and charges for services	\$5,096,685	\$5,090,095
Operating grants and contributions	1,040,710	1,234,617
Capital grants and contributions	1,157,942	2,136,291
General revenues		
Ad valorem taxes	15,049,420	14,321,820
Sales and use taxes	8,696,938	8,171,426
Other taxes	164,516	187,907
Occupational license fees	0	1,475
Utility taxes	1,336,420	1,266,253
Franchise fees	490,423	462,165
Investment earnings	1,438,808	1,849,934
Gain (loss) on sale of capital assets	21,780	11,334
Miscellaneous revenue	14,889	17,418
Transfers from component unit	<u>45,843</u>	<u>69,582</u>
Total revenues	34,554,374	34,820,317

CITY OF MOUNTAIN BROOK
MANAGEMENT'S DISCUSSION AND ANALYSIS

	2008	2007
Expenses		
General government	4,479,745	10,863,058
Public safety	12,645,077	12,312,596
Street and sanitation	7,526,598	6,903,709
Recreational	1,714,772	1,672,452
Library	<u>2,588,507</u>	<u>2,527,297</u>
Total expenses	<u>28,954,699</u>	<u>34,279,112</u>
Increase in net assets from operating	5,599,675	
Net assets, beginning of year	<u>77,953,799</u>	<u>77,412,594</u>
Net assets, end of year	<u>\$83,553,474</u>	<u>\$77,953,799</u>

Analysis of the City's Operations

Revenues

The City's primary source of revenue is real estate ad valorem taxes which comprised 44% of total General Fund revenues in 2008. Real estate ad valorem taxes increased by \$737,000 (5.6%) during 2008 due principally to the annual county-wide property revaluation conducted by the Jefferson County Commission.

The second largest source of revenue for the City is sales and use tax which totaled 26% of the total General Fund revenues in 2008. Sales and use tax increased by \$583,000 (7.4%) during 2008 due in part from a new retail development that opened in 2007 but which added new retail tenants during 2008 combined with city-wide sales growth from established businesses.

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

	2008	2007	Increase (Decrease)
Real estate ad valorem tax	\$13,919,181	\$13,181,868	\$737,313
Sales and use tax	8,412,007	7,829,375	582,632
Business licenses	1,994,039	1,872,058	121,981
Personal property ad valorem tax	1,130,239	1,139,952	(9,713)
Garbage service fees	71,252	462,747	(391,495)
Utility taxes	1,336,420	1,266,253	70,167
Investment earnings	428,304	653,609	(225,305)
All other General Fund revenues	<u>4,534,397</u>	<u>4,563,381</u>	<u>(28,984)</u>
Totals	<u>\$31,825,839</u>	<u>\$30,969,243</u>	<u>\$856,596</u>

CITY OF MOUNTAIN BROOK
MANAGEMENT'S DISCUSSION AND ANALYSIS

Expenditures

Salaries and benefits increased \$636,000 (5%) in 2008 to \$16.6 million. Labor-related costs made up 54% of the City's total budget in 2008

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

	2008	2007	Increase (Decrease)
Salaries and benefits	\$16,550,679	\$15,914,614	\$636,065
Pension payment to reduce the City's unfunded actuarial accrued liability	300,000	7,000,000	(6,700,000)
Garbage contract fees	2,469,500	2,411,979	57,521
Capital outlay	5,008,150	6,514,827	(1,506,677)
Intergovernmental services	710,454	827,001	(116,547)
Utilities and communication	702,050	651,750	50,300
Development agreement payments	516,246	352,881	163,365
Property and casualty insurance	333,455	272,285	61,170
Legal and accounting	369,050	279,399	89,651
Fuel and lubricants	366,012	234,933	131,079
Debt service	198,810	105,301	93,509
Birmingham Zoo, Inc.	91,667	100,000	(8,333)
All other	<u>3,052,619</u>	<u>2,804,684</u>	<u>247,935</u>
Totals	<u>\$30,668,692</u>	<u>\$37,469,654</u>	<u>(\$6,800,962)</u>

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

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

- Actual General Fund revenue exceeded the final budgeted revenue by \$722,000 (2%). The favorable (unfavorable) budget variance was comprised largely of the following:

	Budget	Actual	Difference
Real estate ad valorem taxes	\$13,643,600	\$13,919,181	\$275,581
Sales and use tax	8,152,700	8,412,007	259,307
Utility taxes	1,198,100	1,336,420	138,320
Road and bridge tax	496,300	572,272	75,972
State bank excise tax	50,000	17,758	(32,242)
Construction permits	745,300	1,036,354	291,054
Fines and forfeitures	628,500	470,020	(158,480)
Fees for road repairs	150,000	67,091	(82,909)
Grants	43,622	37,355	(6,267)

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

	Budget	Actual	Difference
Investment earnings	607,200	428,304	(178,896)
All other	<u>5,388,221</u>	<u>5,529,077</u>	<u>140,856</u>
Totals	<u>\$31,103,543</u>	<u>\$31,825,839</u>	<u>\$722,296</u>

Total General Fund expenditures were \$895,000 (3%) less than the final budget. The General Fund budget variance was comprised largely of the following categories:

	Budget	Actual	Difference
Salaries and benefits	\$16,601,894	\$16,131,089	\$470,805
Pension payment to reduce the unfunded actuarial accrued liability	300,000	300,000	0
Garbage contract fees	2,475,000	2,469,500	5,500
Intergovernmental services	892,540	710,454	182,086
Utilities and communication	552,134	625,225	(73,091)
Development agreement payments	630,000	516,246	113,754
Fuel and lubricants	237,980	366,012	(128,032)
Public parking improvements	180,000	0	180,000
Street striping	135,500	186,770	(51,270)
Street cut repairs	125,000	87,459	37,541
All other	<u>4,091,564</u>	<u>3,933,985</u>	<u>157,579</u>
Totals	<u>\$26,221,612</u>	<u>\$25,326,740</u>	<u>\$894,872</u>

- The operating transfers out exceeded the amount budgeted by approximately \$1.5 million. The excess surplus over that originally anticipated/budgeted in the General Fund was transferred to the Capital Projects Fund accounting for most of the \$1.5 million unfavorable budget variance.
- The excess of General Fund revenues and other financing sources over expenditures in the amount of \$934,270 was \$120,061 more than budgeted.
- The final General Fund budgeted surplus of \$814,209 is the same as originally budgeted.

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, 2007.

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

As of September 30, 2007, the RSA reported an unfunded actuarial accrued liability of \$7 million. However, the actuarial valuation of the plan assets (\$43.5 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 is less than the actual value by \$2.5 million due to the exclusion of unamortized net market gains (realized and unrealized) over the preceding five years.

Due to the City Council's concern about the unfunded actuarial accrued liability, the City Council has authorized the accumulation of cash reserves in the Debt Service Fund which may ultimately be necessary to pay toward this obligation. As of September 30, 2008, the City had accumulated \$1.7 million in the Debt Service Fund for such purpose. During 2007, the City withdrew from the Debt Service Fund \$7 million which was paid into the pension trust fund in order to reduce the unfunded actuarial accrued liability. This special \$7 million payment was in addition to the actuarially determined annual required contribution for 2007. In 2008, the City paid \$300,000 more than the actuarially determined annual required contribution from its General Fund.

Cash and Temporary Investments

As of September 30, 2008, the City reported cash and temporary investments of \$38.5 million which consisted of unrestricted and donor-restricted cash and temporary investments of \$38.4 million and \$98,000, respectively. Following is a summary of the carrying value of the cash and investments by fund as of September 30, 2008:

	Unrestricted	Restricted
General Fund	\$8,065,283	\$97,512
Capital Projects Fund	27,430,405	0
Other Governmental Funds (Debt Service)	1,689,447	0
Other Governmental Funds (Special Revenue)	1,213,918	0
Discretely presented component unit	<u>0</u>	<u>2,679,994</u>
Totals	<u>\$38,399,053</u>	<u>\$2,777,506</u>

The Council has expressed its goal to maintain a cash reserve in the General Fund equivalent to six months of operating expenses. The \$8.1 million dollar General Fund cash and investment balance as of September 30, 2008, represents approximately 3.8 months of General Fund expenditures.

Capital Assets and Related Replacement Reserves

Regarding capital assets, the City Council has adopted a policy of funding its depreciation expense in order to accumulate monies for the eventual replacement of property, plant and equipment. As of September 30, 2008, the City had accumulated approximately \$27 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 \$35.5 million as of year end. Following is a summary of the capital expenditures, depreciation expense and transfers to the Capital Projects Fund for the years ended September 30:

CITY OF MOUNTAIN BROOK
MANAGEMENT'S DISCUSSION AND ANALYSIS

	2008	2007
Capital expenditures	<u>\$5,008,150</u>	<u>\$6,514,827</u>
Depreciation expense	<u>\$3,675,378</u>	<u>\$3,323,549</u>
Transfers to the Capital Projects Fund:		
Funded depreciation policy	\$1,953,312	\$1,589,627
Other transfers to fund current and future capital acquisitions	<u>3,182,923</u>	<u>4,726,848</u>
Totals	<u>\$5,136,235</u>	<u>\$6,316,475</u>

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

	2008	2007
Revenues		
State shared gasoline tax revenues	\$412,671	\$412,834
Alabama Trust Fund Earnings	148,143	141,610
Transfers from the City's General Fund	150,000	150,000
Investment earnings	<u>20,317</u>	<u>35,923</u>
Total Revenues	731,131	740,367
Street paving expenditures (included in capital expenditures reported in the preceding section)	<u>659,851</u>	<u>601,095</u>
Excess (Deficiency) of Revenues Over Expenditures	71,280	139,272
Fund balances, beginning of the year	<u>560,763</u>	<u>421,491</u>
Fund Balances, end of year	<u>\$632,043</u>	<u>\$560,763</u>

Residential Garbage Service Fee Elimination

In 2007, the City adopted an ordinance (No. 1732) lowering the residential garbage service fees by more than 70% effective January 1, 2007. In 2008, the City adopted another ordinance (No. 1769) eliminating the residential garbage service fees. The City realized \$71,252 and \$463,608 from garbage service fees in 2008 and 2007, respectively. The City estimates that it will continue to collect \$37,000 annually in 2009 and after from its commercial garbage accounts.

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

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 (the discretely presented component unity) 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, 2008 with Comparative Data

	Governmental Activities		Component Unit
	2008	2007	Library Foundation 2008
ASSETS			
Cash and temporary investments	\$ 38,399,053	\$ 29,023,740	\$ 0
Receivables	1,918,401	2,345,902	0
Notes receivable (\$35,002 current)	408,279	444,319	0
Due from related organization	189,514	73,017	0
Inventory and prepaid expenses	50,015	50,868	0
Cash and temporary investments - restricted	97,512	108,301	2,679,994
Capital assets, net of accumulated depreciation	37,051,822	37,091,049	0
Land	18,586,368	18,542,709	0
Construction in progress	1,918,089	608,106	0
TOTAL ASSETS	98,619,053	88,288,011	2,679,994
LIABILITIES			
Accounts payable	1,714,314	1,352,936	0
Accrued salaries and wages	908,438	813,430	0
Accrued interest payable	97,313	1,072	0
Due to related organization	101,123	104,895	0
Other current liabilities	749,247	944,390	0
Noncurrent liabilities			
Due within one year:			
Compensated absences	0	0	0
Long-term debt	170,000	98,000	0
Other liabilities	484,000	544,667	0
Due in more than one year:			
Compensated absences	2,267,327	2,266,594	0
Long-term debt	4,830,000	0	0
Other liabilities	3,743,817	4,208,228	0
Total Liabilities	15,065,579	10,334,212	0
Pension obligation (see Note 6)			
NET ASSETS			
Invested in capital assets (net of related debt)	52,556,279	56,143,864	0
Restricted	729,555	669,064	2,679,994
Unrestricted	30,267,640	21,140,871	0
TOTAL NET ASSETS	\$ 83,553,474	\$ 77,953,799	\$ 2,679,994

See accompanying notes to basic financial statements.

City of Mountain Brook, Alabama
Government-Wide Statement of Activities
For the Year Ended September 30, 2008 with Comparative Data

Program Activities	Program Revenues				2008 Total Net (Expense) Revenue and Changes in Net Assets	2007 Total Net (Expense) Revenue and Changes in Net Assets	2008 Component Unit (Library Foundation)	2007 Component Unit (Library Foundation)
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions				
Governmental activities:					\$	\$	\$	\$
General government	\$ 4,479,745	\$ 2,381,060	\$ 931,338	\$ 25	(1,167,322)	(7,476,817)	0	0
Public safety	12,645,077	2,272,435	0	0	(10,372,642)	(10,134,424)	0	0
Street and sanitation	7,526,598	143,863	19,994	1,024,979	(6,337,962)	(4,429,944)	0	0
Recreational	1,714,772	232,926	67,517	104,901	(1,309,428)	(1,372,281)	0	0
Library	2,588,507	66,601	21,861	28,037	(2,472,008)	(2,404,643)	0	0
Total	\$ 28,954,699	\$ 5,096,885	\$ 1,040,710	\$ 1,157,942	(21,659,362)	(25,818,109)	140,714	180,250
Component unit: Library Foundation	\$ 3,900	\$ 0	\$ 144,614	\$ 0				

General revenues:	2008	2007
Taxes:		
Ad Valorem (real and personal property)	15,049,420	14,321,820
Sales and use	8,686,938	8,171,426
Other taxes	164,516	187,907
Occupational license fees	0	1,475
Utility taxes	1,336,420	1,266,253
Franchise Fees	490,423	462,165
Investment earnings (loss)	1,438,808	1,849,934
Gain on sale of capital asset	21,780	11,334
Miscellaneous revenues	14,889	17,418
Transfers	45,843	69,582
Total general revenues and transfers	27,259,037	26,359,314
Change in net assets	5,999,675	541,205
Net assets at beginning of year	77,953,799	77,412,594
Net assets at end of year	83,953,474	77,953,799

City of Mountain Brook, Alabama
Balance Sheet
Governmental Funds
September 30, 2008

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and temporary investments	\$ 8,065,283	\$ 27,430,405	\$ 2,903,365	\$ 38,399,053
Cash and temporary investments - restricted	97,512	0	0	97,512
Receivables	1,973,824	0	134,091	2,107,915
Inventory and prepaid expenses	50,015	0	0	50,015
TOTAL ASSETS	<u>\$ 10,186,634</u>	<u>\$ 27,430,405</u>	<u>\$ 3,037,456</u>	<u>\$ 40,654,495</u>
LIABILITIES				
Accounts payable	\$ 1,011,165	\$ 685,644	\$ 17,505	\$ 1,714,314
Accrued salaries and wages	908,438	0	0	908,438
Other liabilities	850,370	0	0	850,370
Accrued compensated absences	0	0	0	0
TOTAL LIABILITIES	<u>2,769,973</u>	<u>685,644</u>	<u>17,505</u>	<u>3,473,122</u>
Pension obligation (see Note 6)				
FUND EQUITY				
Fund balance:				
Reserve for inventory and prepaid expense	50,015	0	0	50,015
Reserved	97,512	0	0	97,512
Unreserved	7,269,134	26,744,761	3,019,951	37,033,846
TOTAL FUND EQUITY	<u>7,416,661</u>	<u>26,744,761</u>	<u>3,019,951</u>	<u>37,181,373</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 10,186,634</u>	<u>\$ 27,430,405</u>	<u>\$ 3,037,456</u>	<u>\$ 40,654,495</u>

City of Mountain Brook, Alabama
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
September 30, 2008

Fund balance - total governmental funds	\$		37,181,373
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.			
			408,279
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	\$	93,069,574	
Less accumulated depreciation		<u>(35,513,295)</u>	57,556,279
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		(5,000,000)	
Compensated absences		(2,267,327)	
Accrued interest payable		(97,313)	
Accrued development agreement obligations		<u>(4,227,817)</u>	<u>(11,592,457)</u>
Net assets of governmental activities	\$		<u>83,553,474</u>

City of Mountain Brook, Alabama
Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended September 30, 2008

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds	Component Unit
Revenues:					
Taxes	\$ 26,355,707	\$ 0	\$ 412,671	\$ 26,768,378	\$ 0
Licenses and permits	3,584,198	0	0	3,584,198	0
Intergovernmental	149,710	0	42,722	192,432	0
Charges for services	569,828	0	277,799	847,627	0
Fines and forfeitures	470,020	0	185,372	655,392	0
Grants	37,355	256,323	0	293,678	0
Other operating revenues	659,021	922,124	247,334	1,828,479	(462,995)
Total revenues	31,825,839	1,178,447	1,165,898	34,170,184	(462,995)
Expenditures:					
Current (operating):					
General government	4,237,064	116,540	236,186	4,589,810	0
Public safety	11,610,872	1,165,749	359,728	13,136,349	0
Street and sanitation	5,761,496	2,462,455	659,851	8,883,802	0
Recreational	1,361,043	45,315	128,361	1,534,719	0
Library	2,370,086	0	0	2,370,086	3,900
Debt service:					
Principal	0	0	98,000	98,000	0
Interest	0	0	100,810	100,810	0
Total expenditures	25,340,581	3,790,059	1,582,936	30,713,576	3,900
Excess (deficiency) of revenues over expenditures	6,485,258	(2,611,612)	(417,038)	3,456,608	(466,895)
Other financing sources (uses):					
Proceeds from the issuance of debt	0	5,009,366	0	5,009,366	0
Operating transfers in	13,278	5,136,235	533,343	5,682,856	0
Operating transfers (out)	(5,667,441)	(787)	(14,628)	(5,682,856)	0
Operating transfers in - component unit	45,843	0	0	45,843	(45,843)
Donations	57,332	107,843	118,204	283,379	144,614
Total other financing sources (uses)	(5,550,988)	10,252,657	636,919	5,338,588	98,771
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	934,270	7,641,045	219,881	8,795,196	(368,124)
Fund balances, beginning of year	6,482,391	19,103,716	2,800,070	28,386,177	3,048,118
FUND BALANCES, END OF YEAR	\$ 7,416,661	\$ 26,744,761	\$ 3,019,951	\$ 37,181,373	\$ 2,679,994

See accompanying notes to basic financial statements.

City of Mountain Brook, Alabama
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balance of Governmental Funds to the Government-Wide Statement of Activities
September 30, 2008

Net change in fund balances - total governmental funds	\$	8,795,196
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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.</p>		(36,040)
<p>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.</p>		
Expenditures for capital assets	\$ 4,989,793	
Less current year depreciation	<u>(3,675,378)</u>	1,314,415
<p>Proceeds from the issuance of general obligation warrants reported as another financing source in the governmental funds, and as a long-term debt in the statement of net assets.</p>		(5,000,000)
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		98,000
<p>Negotiated reduction of the Cahaba Village development agreement obligation (Ordinance 1792).</p>		100,000
<p>Repayment of development fee obligation in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		408,411
<p>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.</p>		
Change in long-term compensated absences	(733)	
Change in accrued interest payable	(96,241)	
Change in accrued zoo consortium payable	<u>16,666</u>	<u>(80,308)</u>
Change in net assets of governmental activities	\$	<u><u>5,599,674</u></u>

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 2008, the City reported the following revenues from the Board:

	General Fund	Special Revenue
Athletic fields shared maintenance	\$ <u>146,792</u>	\$ <u>42,722</u>

City of Mountain Brook, Alabama

Notes to Financial Statements

1. Summary of significant accounting policies (continued)

B. Related organizations (continued)

At September 30, 2008, 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>146,792</u>	\$ <u>42,722</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, 2008, the City owed the Board \$101,123 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, 2008, the construction costs totaled \$1,952,936. The construction costs were capitalized in prior years in the Statement of Net Assets and with a corresponding donation reported in the Fund Financial Statements. The outstanding loan balance of \$408,279 has been presented as a note receivable in the statement of net assets.

City of Mountain Brook, Alabama

Notes to Financial Statements

1. Summary of significant accounting policies (continued)

B. Related organizations (continued)

During 2008, 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	\$ 42,722
Mountain Brook Athletics, Inc.	21,361
Mountain Brook Soccer Club, Inc.	21,361
Investment income	0
Total revenues	<u>85,444</u>

Expenditures

Recreational (operating and maintenance)	128,361
Capital outlay (\$1,952,936 cumulative)	0
Total expenditures	<u>128,361</u>

Other financing sources (uses), net

Transfers to City General Fund	(13,278)
Transfers to City Capital Projects Fund	(1,350)
Transfers to Debt Service Fund	0
Donations, including note payments of \$56,000	56,000
Net other financing sources	<u>41,372</u>

Excess (deficiency) of revenues and other financing sources over expenditures and other uses	(1,545)
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Fund balance at beginning of the year	<u>966</u>
--	------------

Fund balance at end of the year	<u>\$ (579)</u>
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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 general obligation warrants were repaid with funds donated to the City by MBSC during 2008 (Note 5).

Revenues

Investment income	\$ 779
Total revenues	<u>779</u>

Expenditures

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

Other financing sources (uses), net

Transfers to Debt Service Fund	(101,620)
Donations (Mountain Brook Sports Corporation)	62,179
Net other financing sources	<u>(39,441)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	(38,662)

Fund balance at beginning of the year	<u>38,662</u>
Fund balance at end of the year	<u>\$ 0</u>

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 \$1,153,161 in the aggregate during the two year policy term. Workers' compensation cost charged by the City during 2008 was approximately \$262,000. The accompanying financial statements include an estimated accrual of reported but unpaid workers' compensation claims as of September 30, 2008 in the amount of \$283,500.

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 \$97,512 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 Government-wide Statement of Net Assets includes a non-current liability for compensated absences in the amount of \$2,267,327. The City paid (before year end) all vested compensated absences to employees who retired or otherwise ended their employment with the City prior to September 30, 2008.

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 \$420,000. 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, 2008 reported in the Government-Wide and Fund financial statements totaled \$409,143.

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 \$5,134,886 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, \$435,242 to other Governmental funds to provide funding for operations, and \$97,313 to the Debt Service (Other Governmental) Fund for the payment of general obligation warrants. The other Governmental funds transferred \$1,350 to the Capital Projects Fund to provide resources for the future replacement of capital assets and \$13,278 to the General Fund from the net recovery of a long-term loan (Note 1.B.). The Capital Projects Fund transferred \$787 to the Debt Service (Other Governmental) Fund for the payment of general obligation warrants.

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 2008. The 2008 revaluation (to be realized in fiscal 2009) reflects an increase in property values of approximately 8% and is estimated to generate an estimated \$1,085,000 annually.

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

Entity	Mills	Amount Per \$100 of Assessed Value
State of Alabama	6.5	\$ 0.65
Jefferson County Commission	13.5	1.35
County-wide school tax	8.2	0.82
Mountain Brook Board of Education	44.7	4.47
City of Mountain Brook General Fund	26.1	2.61
	<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, and business licenses. Collectively, these taxes and licenses totaled approximately \$25.7 million or 81% of the total General Fund revenues during the year ended September 30, 2008. Of the City's taxpayers, Macy's Department Store, Alabama Power Company, Western Supermarket, Publix grocery store, Whole Foods, Energen Corporation (gas company) and the Piggly Wiggly grocery store, collectively, provided approximately \$5.3 million or 17% of the City's total General Fund revenues during the year ended September 30, 2008.

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, 2008, 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	14,454,415	14,454,415	0	0
Investments:				
Cash and money market accounts	354,681	354,681	0	0
Certificates of deposit	10,685,968	2,478,611	3,476,237	4,731,120
Federal National Mortgage Association	7,450,918	802,868	0	6,648,050
Federal Home Loan Bank	4,302,435	1,771,102	0	2,531,333
Federal Farm Credit Bank	400,428	400,428	0	0
Freddie Mac Bank	802,128	802,128	0	0
576 shares VMC common stock (donated)	42,912	0	0	42,912
Total portfolio	\$ 38,496,565	\$ 21,066,913	\$ 3,476,237	\$ 13,953,415

At September 30, 2008, 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	\$ 26,065	\$ 26,065	\$ 0	\$ 0
Certificate of deposit	151,477	151,477	0	0
Mutual funds	2,502,452	2,502,452	0	0
Total portfolio	\$ 2,679,994	\$ 2,679,994	\$ 0	\$ 0

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy restricts General Fund investments to those with maturities of two years or less and Capital Project and Debt Service Fund investments to those with maturities of five years or less. Investment maturities (excluding the discretely presented component unit) as of September 30, 2008, were as follows:

Maturity	Portion of Portfolio
Less than one year	54.72%
1 - 2 years	9.03%
3 - 5 years	36.25%
	<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, 2008. The discretely presented component unit had bank deposits in excess of insurance limits at September 30, 2008 in the amount of \$250,365.

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, 2008, the City had invested \$10.7 million in certificates of deposit and \$12.9 million in federal agency debt securities. Of the City's \$10.7 million investment in certificates of deposit, the City had not invested more than \$250,000 with any financial institution located outside of the State of Alabama. Accordingly, the City had no uninsured certificates of deposit at September 30, 2008. 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)	\$ 7,450,918	19.35%
Federal Home Loan Bank (callable)	4,302,435	11.18%
Federal Farm Credit Bank	400,428	1.04%
Freddie Mac Bank	802,128	2.08%
Various financial institutions - certificates of deposit	10,685,968	27.76%
	<u>\$ 23,641,877</u>	<u>61.41%</u>

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

Description	CUSIP	Fair Value	Portion of Portfolio
Bank demand deposit accounts		\$ 26,065	0.97%
Certificate of deposit		151,477	5.65%
Goldman Sachs FS Money Market Fund		350,366	13.07%
Chase Growth Fund (30,727.436 shares)	CHASX	529,740	19.77%
Dodge & Cox International Stock (7,283.806 shares)	DODFX	241,677	9.02%
Longleaf Partner Family Value Tr #133 (17,903.431 shares)	LLPFX	449,377	16.77%
PIMCO All Asset Fund Institutional Class (30,627.739 shares)	PAAIX	347,625	12.97%
PIMCO Low Duration Fund Institutional Class (26,354.755 shares)	PTLDX	250,897	9.36%
Vanguard Convert Securities (29,711.639 shares)	VCVSX	332,770	12.42%
		<u>\$ 2,679,994</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, 2008, consisted of the following:

	General Fund	Special Revenue	Total
Taxes	\$ 1,764,168	\$ 37,153	\$ 1,801,321
Emergency Communication District (E-911) surcharge	0	11,494	11,494
Board of Education (Note 1.B.)	146,792	42,722	189,514
Grants	0	0	0
Other	62,864	42,722	105,586
Totals	\$ 1,973,824	\$ 134,091	\$ 2,107,915

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, 2008 totaled \$408,279 of which \$35,002 is scheduled to be repaid within the next fiscal year. The City collected \$15,266 in interest during 2008.

4. Capital assets

Following is a summary of the changes in the City's capital assets for the year ended September 30, 2008:

	Balance at September 30, 2007	Additions	Disposals/ Retirements/ Completed	Balance at September 30, 2008
Capital assets, not being depreciated:				
Land	\$ 18,542,709	\$ 43,659	\$ 0	\$ 18,586,368
Construction in progress	608,106	1,356,242	(46,259)	1,918,089
Total capital assets, not being depreciated	19,150,815	1,399,901	(46,259)	20,504,457
Capital assets, being depreciated:				
Land improvements	2,896,693	0	0	2,896,693
Buildings and improvements	8,574,070	38,803	1,873	8,614,746
Machinery and equipment	14,854,962	1,873,235	(270,140)	16,458,057
Infrastructure	42,873,381	1,696,211	26,029	44,595,621
Total capital assets, being depreciated	69,199,106	3,608,249	(242,238)	72,565,117
Less accumulated depreciated for:				
Land improvements	231,290	18,881	0	250,171
Buildings and improvements	2,908,738	323,894	0	3,232,632
Machinery and equipment	8,792,681	1,262,444	(270,140)	9,784,985
Infrastructure	20,175,348	2,070,159	0	22,245,507
Total accumulated depreciation	32,108,057	3,675,378	(270,140)	35,513,295
Total capital assets, being depreciated, net	37,091,049	(67,129)	27,902	37,051,822
Governmental activities capital assets, net	\$ 56,241,864	\$ 1,332,772	\$ (18,357)	\$ 57,556,279

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	\$ 153,849
Public safety	673,444
Street and sanitation	1,744,074
Recreational	473,617
Library	<u>630,394</u>
Total depreciation expense	\$ <u>3,675,378</u>

5. Long-term debt

Long-term debt outstanding as of September 30, 2008, consisted of the following:

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

The total interest paid by the City during 2008 relative to general obligation warrants was \$100,810. The current debt of the City supports the general government function and, as such, all interest expense has been charged to this function in the Government-Wide Statement of Activities. The total amount of interest charged to expense of the general government function for the year ended September 30, 2008 was \$197,051.

Following is a summary of long-term debt principal transactions for the year ended September 30, 2008:

General obligation warrant balances at October 1, 2007	\$ 98,000
Proceeds from the issuance of the \$5,000,000 General Obligation Warrants, Series October 1, 2007	5,000,000
Principal payments:	
\$490,000 General Obligation Warrants, Series 2003	<u>(98,000)</u>
General obligation warrant balances at September 30, 2008	\$ <u>5,000,000</u>

City of Mountain Brook, Alabama

Notes to Financial Statements

5. Long-term debt (continued)

The Series 2007 warrants were issued to partially finance construction and infrastructure capital improvement projects estimated (at the time of issuing the warrants) to cost \$11 million (Note 8).

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:

Fiscal Year	Principal	Interest	Total
2009	\$ 170,000	\$ 191,331	\$ 361,331
2010	175,000	184,647	359,647
2011	180,000	177,769	357,769
2012	190,000	170,600	360,600
2013	195,000	163,141	358,141
Thereafter	<u>4,090,000</u>	<u>1,318,906</u>	<u>5,408,906</u>
Totals	<u>\$ 5,000,000</u>	<u>\$ 2,206,394</u>	<u>\$ 7,206,394</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, 2008 was 7.98% of covered compensation. The City's matching contribution for the fiscal year ending September 30, 2009 has been actuarially determined to be 9.06% of covered compensation.

For the year ended September 30, 2008, the City's total compensation was approximately \$12.9 million and the City's total covered compensation used to determine the City's pension contribution was approximately \$12.5 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 2008, 2007 and 2001, the City elected to contribute \$300,000, \$7 million and \$2 million, respectively, more than the actuarially determined required amount.

City of Mountain Brook, Alabama

Notes to Financial Statements

6. Pension plan (continued)

B. Funding (continued)

Following are the approximate pension contributions for each fiscal year since January 1, 1995:

Year Ended September 30	Employer Contribution	Employer	Employee	Combined
1995*	5.48%	\$ 254,000	\$ 232,000	\$ 486,000
1996	5.48%	368,000	336,000	704,000
1997	6.70%	515,000	390,000	905,000
1998	8.25%	624,000	390,000	1,014,000
1999	9.45%	729,000	394,000	1,123,000
2000	9.45%	828,000	447,000	1,275,000
2001	9.45%	2,853,000	509,000	3,362,000
2002	9.45%	898,000	537,000	1,435,000
2003	8.31%	818,000	556,000	1,374,000
2004	9.83%	996,000	583,000	1,579,000
2005	10.90%	1,168,000	613,000	1,781,000
2006	10.90%	1,209,000	640,000	1,849,000
2007	11.51%	7,303,000	665,000	7,968,000
2008	7.98%	1,308,000	697,000	2,005,000

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

C. Trend information

Following is the trend information from the most recent actuarial valuation dated September 30, 2007:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Negative)
1999	\$ 730,197	100%	\$ 0
2000	827,411	100%	0
2001	858,468	290%	(2,000,000)
2002	881,673	117%	(2,150,178)
2003	812,825	103%	(2,172,874)
2004	972,887	102%	(2,195,810)
2005	1,156,963	100%	(2,196,231)
2006	1,210,300	100%	(2,196,651)
2007	8,295,402	100%	(2,219,944)

D. Funding progress

Following is the schedule of funding progress obtained from most recent actuarial valuation prepared as of September 30, 2007:

Actuarial Valuation Date Sept. 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Ratio of UAAL to Covered Payroll (b-a)/c)
1996	\$ 11,432,073	\$ 15,123,539	\$ 3,691,466	75.6%	\$ 7,197,023	51.3%
1997	14,482,615	18,815,172	4,332,557	77.0%	7,745,713	55.9%
1998	16,250,881	20,474,800	4,223,919	79.4%	7,901,352	53.5%
1999	18,366,682	21,750,075	3,383,393	84.4%	7,965,312	42.5%
2000	20,708,080	25,584,241	4,876,161	80.9%	8,980,574	54.3%
2001	24,842,909	29,636,890	4,793,981	83.8%	9,282,996	51.6%
2002	26,589,001	33,716,032	7,127,031	78.9%	9,935,345	71.7%
2003	28,153,151	36,592,800	8,439,649	76.9%	9,994,458	84.4%
2004	29,873,086	37,849,401	7,976,315	78.9%	10,343,086	77.1%
2005	31,850,510	43,304,015	11,453,505	73.6%	11,079,436	103.4%
2006	40,804,372	47,811,288	7,006,916	85.3%	11,575,036	60.5%
2007	43,522,954	50,487,356	6,964,402	86.2%	12,117,551	57.5%

City of Mountain Brook, Alabama

Notes to Financial Statements

6. Pension plan (continued)

E. Additional information

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

Valuation date	September 30, 2007
Actuarial cost method	Entry age
Amortization method	Level percent open
Remaining amortization period	20 years
Asset valuation method	5 - year smoothed market
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	4.61 - 7.75%
Includes inflation at	4.50%
Cost-of-living adjustments	None
Number of active members	221
Number of retired members and beneficiaries	58
Annual retirement allowances	\$ 2,197,371

7. Post employment benefits

Plan Description. The City of Mountain Brook participates in the Local Government Health Insurance Plan (LGHIP) administered by the State Employees' Insurance Board (SEIB). Legislative Act 93-303 established the LGHIP to provide group health insurance coverage for employees (and retirees if so elected by each participating agency) of local government units and other organizations in Alabama. The LGHIP is a self-insured, group health insurance program funded from the premiums of the participating local government units and their subscribers. The SEIB issues a publicly available financial report of the LGHIP that includes financial statements and required supplementary information. That report may be obtained by writing to State Employees' Insurance Board, Post Office Box 304900, Montgomery, Alabama 35130-4900.

Generally on an annual basis, the City Council considers extending post employment medical insurance benefits to qualifying employees. Employees of the City who participate in the LGHIP become eligible for post employment medical and dental insurance benefits if they reach normal retirement age and meet certain minimum years of service with the City of Mountain Brook. An employee qualifies once they have worked thirty (30) years with the City (any age). Periodically, the City allows other employees to qualify provided they have worked a minimum of 20 years with the City, any age, or a minimum of ten (10) years with the City for those who are age 60 and over. In all cases, coverage is limited to the lesser of thirteen (13) years or until the retiree becomes eligible for Medicare coverage. Currently the City provides post employment benefits to thirty-three (33) retired employees. This post employment benefits plan, an agent multi-employer defined benefit plan, provides employees with a preferred provider organization (PPO) plan administered by Blue Cross and Blue Shield of Alabama.

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 2008, the City's portion of health care and dental insurance premiums for both active and retired employees totaled \$1,058,240 and \$253,773, 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 2008 as determined by the City Council of the City of Mountain Brook:

	<u>City</u>	<u>Retiree</u>	<u>Total</u>
Blue Cross and Blue Shield:			
Family	\$754	\$399	\$1,153
Single	502	124	626

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 2008 was \$239,683 based on the latest actuarial valuation performed in 2006. Under the provisions of GASB 45, the City is required to perform actuarial valuations related to the Plan once every two years.

Annual Post Employment Benefit Costs and Net Post employment Benefits Liability. The table below shows the City's annual post employment benefits for 2008 and changes in the Unfunded Post employment Benefits Liability (Asset):

Normal cost	\$ 74,315
30-year actuarial accrued liability amortization of medical and dental insurance	165,368
Annual required contribution	<u>239,683</u>
Interest on unfunded post employment benefits liability	0
Adjustments to the annual required contribution	0
Annual post employment benefits expense	<u>239,683</u>
Contributions made	0
Current year retiree premium	<u>283,392</u>
Increase in unfunded post employment benefits liability (asset)	(43,709)
Unfunded post employment benefits liability at October 1, 2005	<u>(43,849)</u>
Unfunded post employment benefits liability (asset) at September 30, 2008	<u>\$ (87,558)</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)
September 30, 2007	198,994	114%	(43,849)
September 30, 2008	239,683	108%	(87,558)

City of Mountain Brook, Alabama

Notes to Financial Statements

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

Funded Status and Funding Progress. In 2008, 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, 2008, the most recent actuarial valuation, the actuarial accrued liability was \$2,859,543, 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, 2008, and for retired employees from their hire date through their date of retirement). Since the plan was not funded in 2008, the entire actuarial accrued liability of \$2,859,543 was unfunded. The annual payroll of active employees covered by the plan, called the covered payroll, was \$12,484,000 for 2008. The ratio of the unfunded actuarial accrued liability to the covered payroll was 22.9%.

(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:

Age	Annual Percent Turnover
15 - 25	15.0%
26 - 40	12.0%
41 +	10.0%

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 2008 through 2011 from this report were used, with rates beyond 2012 graduated down to an ultimate annual rate of 5.0% for 2016 and later, as set forth below:

2008	8.0%
2009	8.0%
2010	8.0%
2011	8.0%
2012	7.9%
2013	7.8%
2014	7.7%
2015	7.6%
2016	6.7%
2017	6.0%
2018 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 2008 were as follows:

	<u>Amount</u>
Property tax commissions	\$ 196,633
Jefferson County Department of Health	130,482
Maintenance of maps and appraisals	209,788
Personnel Board of Jefferson County	83,187
Birmingham-Jefferson County Transit Authority	78,724
Birmingham Regional Planning Commission	11,641

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, 2008, were \$27.48 per month for single and multiple family residential units and \$34.14 per month for commercial units. The annual cost incurred under this agreement for the year ended September 30, 2008, was approximately \$2,469,500. Total garbage service fee revenues collected by the City from its commercial customers during the year were approximately \$71,250.

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 fulfilled its financial commitment under the purchase agreement in 2008.

In 2005, the City entered into a development agreement with a real estate developer constructing a mixed use development in the City. The development agreement provides that the City will reimburse the developer for certain costs incurred for the construction of public infrastructure including a roadway relocation and improvements, construction of an acceleration lane, sidewalks, curbing, and drainage systems. The reimbursement is limited to \$4.9 million regardless of the actual costs incurred by the developer (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 \$4.9 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 \$31,043 for the year ended September 30, 2008.

The cumulative infrastructure costs incurred as of September 30, 2008 was \$5,332,981 which have been capitalized. As of September 30, 2008, the City's obligation under the terms of the development agreement totaled \$4,227,817 of which \$484,000 is reported as a current liability in the Government-Wide Statement of Net Assets. During 2008, the City paid \$408,411 under the terms of the development agreement.

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. During 2008, the City paid \$107,835 under the terms of the agreement.

Construction in progress (Note 4) at September 30, 2008 includes the following projects:

Drainage projects	\$ 793,132
Public buildings	1,097,419
Sidewalks	25,182
Other	<u>2,356</u>
	<u>\$ 1,918,089</u>

The drainage projects include a flood hazard mitigation project estimated to cost \$7 million of which the City has secured a FEMA grant which requires a 25% local (City) matching contribution. This project is in the design phase and no construction contracts have been executed. The public buildings include the razing and reconstruction of the Public Works facility and the construction of a new city hall and public safety building. The City has executed construction contracts for the Public Works building totaling \$1.8 million. The City has incurred \$975,800 towards the Public Works building and the project is expected to be completed in the spring of 2009. The city hall and public safety building is estimated to cost up to \$12 million. There are no contracts or commitments for the city hall and public safety building, sidewalks, and other 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>\$ 540,441,409</u>
Constitutional debt limit, 20 percent of assessed	\$ 108,088,282
Outstanding long-term debt as of September 30, 2006	<u>5,000,000</u>
Legal Debt Margin	<u>\$ 103,088,282</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.

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, 2008

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Taxes	\$ 25,699,710	\$ 25,699,710	\$ 26,355,707	\$ 655,997
Licenses and permits	3,188,000	3,188,000	3,584,198	396,198
Intergovernmental	49,538	49,538	149,710	100,172
Charges for services	573,223	573,223	569,828	(3,395)
Fines and forfeitures	628,500	628,500	470,020	(158,480)
Grants	43,622	43,622	37,355	(6,267)
Other operating revenues	920,950	920,950	659,021	(261,929)
Total revenues	31,103,543	31,103,543	31,825,839	722,296
Expenditures:				
General government	4,815,614	4,815,614	4,237,084	578,530
Public safety	11,868,640	11,868,640	11,610,872	257,768
Street and sanitation	5,755,672	5,755,672	5,761,496	(5,824)
Recreational	1,337,622	1,337,622	1,361,043	(23,421)
Library	2,444,064	2,444,064	2,370,086	73,978
Total expenditures	26,221,612	26,221,612	25,340,581	881,031
Excess of revenues over expenditures	4,881,931	4,881,931	6,485,258	1,603,327
Other financing sources (uses):				
Operating transfers in	22,525	22,525	13,278	(9,247)
Operating transfers (out)	(4,188,022)	(4,188,022)	(5,667,441)	(1,479,419)
Operating transfers in - component unit	30,000	30,000	45,843	15,843
Donations	67,775	67,775	57,332	(10,443)
Total other financing (uses)	(4,067,722)	(4,067,722)	(5,550,988)	(1,483,266)
Excess of revenues and other financing sources over expenditures and other financing uses	814,209	814,209	934,270	120,061
Fund balances, beginning of year	6,482,391	6,482,391	6,482,391	0
FUND BALANCES, END OF YEAR	\$ 7,296,600	\$ 7,296,600	\$ 7,416,661	\$ 120,061

City of Mountain Brook, Alabama

Notes to Required Supplementary Information

1. Summary of significant accounting policies

A. Budgets and budgetary accounting

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

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

Budget information presented in the financial statements is based on the budget as adopted by the City Council on September 24, 2007 (Resolution 07-141).

SUPPLEMENTARY INFORMATION

City of Mountain Brook, Alabama

Combining Balance Sheet
Other Governmental Funds
September 30, 2008

	State Shared Gasoline Tax Funds			Emergency Com- munication District	School Resource Officer Program	Drug Asset	Correc- tions Fund	Com- munity Fund	Debt Service Fund	Totals
	Seven Cent	Four Cent	Two Cent							
ASSETS										
Cash and temporary investments	\$ 143,632	\$ 331,602	\$ 15,982	\$ 631,855	\$ 4,178	\$ 41,048	\$ 10,895	\$ (68,948)	\$ 1,689,447	\$ 2,903,365
Receivables	19,906	11,559	0	11,494	0	0	0	85,444	0	134,091
TOTAL ASSETS	\$ 163,538	\$ 343,161	\$ 15,982	\$ 643,349	\$ 4,178	\$ 41,048	\$ 10,895	\$ 16,496	\$ 1,689,447	\$ 3,037,456
LIABILITIES										
Accounts payable	\$ 0	\$ 0	\$ 0	\$ 5,379	\$ 0	\$ 0	\$ 10,895	\$ 1,231	\$ 0	\$ 17,505
Total liabilities	0	0	0	5,379	0	0	10,895	1,231	0	17,505
FUND EQUITY										
Fund balance:										
Unreserved	163,538	343,161	15,982	637,970	4,178	41,048	0	15,265	1,689,447	3,019,951
Total fund equity	163,538	343,161	15,982	637,970	4,178	41,048	0	15,265	1,689,447	3,019,951
TOTAL LIABILITIES AND FUND EQUITY	\$ 163,538	\$ 343,161	\$ 15,982	\$ 643,349	\$ 4,178	\$ 41,048	\$ 10,895	\$ 16,496	\$ 1,689,447	\$ 3,037,456

City of Mountain Brook, Alabama

Combining Statement of Revenues, Expenditures and Changes
in Fund Balances - Other Governmental Funds
For the Year Ended September 30, 2008

	State Shared Gasoline Tax Funds					Emergency Comm- munication District	Drug Asset	School Resource Officer Program	Com- munity Fund	Correc- tions Fund	Debt Service Fund	Totals
	Seven Cent	Four Cent	Five Cent	Two Cent								
Revenues:												
Taxes	\$ 216,666	\$ 124,511	\$ 69,827	\$ 1,647	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 412,671
Intergovernmental	0	0	0	0	0	0	0	42,722	0	0	0	42,722
Charges for services	0	0	0	0	0	235,077	0	42,722	0	0	0	277,799
Fines and forfeitures	0	0	0	0	0	2,717	43,058	0	139,597	0	0	185,372
Other operating revenues:												
Investment earnings	155,387	10,469	2,087	517	0	15,679	0	1,252	0	0	61,943	247,334
Total revenues	<u>372,073</u>	<u>134,980</u>	<u>71,914</u>	<u>2,164</u>	<u>0</u>	<u>253,473</u>	<u>43,058</u>	<u>86,696</u>	<u>139,597</u>	<u>61,943</u>	<u>61,943</u>	<u>1,165,898</u>
Expenditures:												
General government	0	0	0	0	0	0	0	5,815	228,833	1,538	0	236,186
Public safety	0	0	0	0	0	158,098	5,960	92,465	103,205	0	0	359,728
Street and sanitation	500,000	139,174	16,677	4,000	0	0	0	0	0	0	0	659,851
Recreational	0	0	0	0	0	0	0	128,361	0	0	0	128,361
Debt service	0	0	0	0	0	0	0	0	0	198,810	0	198,810
Total expenditures	<u>500,000</u>	<u>139,174</u>	<u>16,677</u>	<u>4,000</u>	<u>0</u>	<u>158,098</u>	<u>5,960</u>	<u>92,465</u>	<u>332,038</u>	<u>200,348</u>	<u>198,810</u>	<u>1,582,936</u>
Excess (deficiency) of revenues over expenditures	<u>(127,927)</u>	<u>(4,194)</u>	<u>55,237</u>	<u>(1,836)</u>	<u>0</u>	<u>95,375</u>	<u>37,098</u>	<u>(92,465)</u>	<u>(47,480)</u>	<u>(138,405)</u>	<u>(138,405)</u>	<u>(417,038)</u>
Other financing sources (uses):												
Operating transfers in	150,000	0	0	0	0	0	0	92,801	192,441	98,101	0	533,343
Operating transfers out	0	0	0	0	0	0	0	(116,248)	0	101,620	0	(14,628)
Donations	0	0	0	0	0	0	0	118,204	0	0	0	118,204
Total other financing sources (uses)	<u>150,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>92,801</u>	<u>192,441</u>	<u>199,721</u>	<u>199,721</u>	<u>636,919</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>22,073</u>	<u>(4,194)</u>	<u>55,237</u>	<u>(1,836)</u>	<u>0</u>	<u>95,375</u>	<u>37,098</u>	<u>336</u>	<u>(45,524)</u>	<u>61,316</u>	<u>61,316</u>	<u>219,881</u>
Fund balances, beginning of year	<u>141,465</u>	<u>347,355</u>	<u>54,125</u>	<u>17,818</u>	<u>0</u>	<u>542,595</u>	<u>3,950</u>	<u>3,842</u>	<u>60,789</u>	<u>1,628,131</u>	<u>1,628,131</u>	<u>2,800,070</u>
FUND BALANCES, END OF YEAR	<u>\$ 163,538</u>	<u>\$ 343,161</u>	<u>\$ 109,362</u>	<u>\$ 15,982</u>	<u>\$ 0</u>	<u>\$ 637,970</u>	<u>\$ 41,048</u>	<u>\$ 4,178</u>	<u>\$ 15,265</u>	<u>\$ 1,689,447</u>	<u>\$ 1,689,447</u>	<u>\$ 3,019,951</u>

City of Mountain Brook, Alabama

Combining Balance Sheet - Capital Projects Funds
September 30, 2008

	City Capital Projects	Village Improvement Projects	Sewer Projects	Village Trail System (ISTEA)	Totals
ASSETS					
Cash and temporary investments	\$ 20,342,577	\$ 7,087,828	\$ 0	\$ 0	\$ 27,430,405
Receivables	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL ASSETS	<u>\$ 20,342,577</u>	<u>\$ 7,087,828</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 27,430,405</u>
LIABILITIES					
Accounts payable	\$ 626,155	\$ 59,489	\$ 0	\$ 0	\$ 685,644
Other liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total liabilities	<u>626,155</u>	<u>59,489</u>	<u>0</u>	<u>0</u>	<u>685,644</u>
FUND EQUITY					
Fund balance	<u>19,716,422</u>	<u>7,028,339</u>	<u>0</u>	<u>0</u>	<u>26,744,761</u>
Total fund equity	<u>19,716,422</u>	<u>7,028,339</u>	<u>0</u>	<u>0</u>	<u>26,744,761</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 20,342,577</u>	<u>\$ 7,087,828</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 27,430,405</u>

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, 2008

	City Capital Projects	Village Improvement Projects	Sewer Projects	Village Trail System (ISTEA)	Totals
Revenues:					
Revenues - grants	\$ 0	\$ 259,705	0	\$ (3,382)	\$ 256,323
Investment earnings	656,975	222,510	2,914	0	882,399
Miscellaneous	39,725	0	0	0	39,725
Total revenues	<u>696,700</u>	<u>482,215</u>	<u>2,914</u>	<u>(3,382)</u>	<u>1,178,447</u>
Expenditures:					
General government	52,604	63,936	0	0	116,540
Public safety	1,165,749	0	0	0	1,165,749
Street and sanitation	1,438,168	910,098	0	114,189	2,462,455
Recreational	45,315	0	0	0	45,315
Library	0	0	0	0	0
Total expenditures	<u>2,701,836</u>	<u>974,034</u>	<u>0</u>	<u>114,189</u>	<u>3,790,059</u>
Excess (deficiency) of revenues over expenditures	<u>(2,005,136)</u>	<u>(491,819)</u>	<u>2,914</u>	<u>(117,571)</u>	<u>(2,611,612)</u>
Other financing sources (uses):					
Proceeds from the issuance of debt	0	5,009,366	0	0	5,009,366
Operating transfers in	4,518,664	607,082	(107,082)	117,571	5,136,235
Operating transfers (out)	0	(787)	0	0	(787)
Donations	0	107,843	0	0	107,843
Total other financing sources (uses)	<u>4,518,664</u>	<u>5,723,504</u>	<u>(107,082)</u>	<u>117,571</u>	<u>10,252,657</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>2,513,528</u>	<u>5,231,685</u>	<u>(104,168)</u>	<u>0</u>	<u>7,641,045</u>
Fund balances, beginning of year	<u>17,202,894</u>	<u>1,796,654</u>	<u>104,168</u>	<u>0</u>	<u>19,103,716</u>
FUND BALANCES, END OF YEAR	<u>\$ 19,716,422</u>	<u>\$ 7,028,339</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 26,744,761</u>

City of Mountain Brook, Alabama

Schedule of General Fund Revenues by Source
For the Years Ended September 30, 1999 to 2008

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Taxes										
Real property	\$ 6,316,472	\$ 8,003,594	\$ 8,100,952	\$ 8,177,532	\$ 8,422,084	\$ 10,244,362	\$ 11,094,902	\$ 11,976,292	\$ 13,161,868	\$ 13,919,181
Sales and use	5,603,635	5,671,220	5,564,912	5,506,591	5,701,970	6,086,944	6,534,289	7,033,452	7,829,375	8,412,007
Occupational	1,769,634	1,184,120	938,199	945,302	905,432	929,454	939,127	248,263	1,475	0
Utility	822,806	813,776	885,880	1,007,657	941,086	953,228	992,143	1,088,234	1,266,253	1,336,420
Personal property (automobiles)	735,010	845,199	940,088	967,329	1,054,267	1,076,449	1,108,807	1,131,386	1,139,952	1,130,239
Road and bridge	260,666	327,986	334,790	340,021	351,477	425,985	460,216	497,326	543,682	572,272
Other	624,280	548,064	700,188	931,057	974,690	1,072,439	1,053,130	1,316,806	1,275,315	985,588
Total taxes	16,132,503	17,393,959	17,465,009	17,875,489	18,351,016	20,788,861	22,182,614	23,291,779	25,237,920	26,355,707
Licenses and permits										
Business	1,694,072	1,598,265	1,565,134	1,632,925	1,567,743	1,647,641	1,756,226	1,729,727	1,872,058	1,994,039
Construction permits	348,737	469,291	478,476	380,206	413,416	667,971	519,277	893,161	851,266	1,036,354
Cable TV franchise fees	178,655	185,652	192,000	218,235	223,161	245,886	257,695	282,379	300,204	323,082
Waterworks Board	105,794	119,827	118,368	95,938	124,717	115,220	123,202	137,954	161,961	167,341
Other	51,138	48,622	48,608	47,100	51,380	55,717	55,535	60,966	60,985	63,382
Total licenses and permits	2,378,396	2,421,657	2,402,586	2,375,404	2,380,437	2,732,535	2,711,935	3,104,197	3,246,474	3,584,198
Intergovernmental	30,383	71,288	70,132	36,297	37,248	40,430	41,736	50,517	40,544	149,710
Charges for services										
Garbage fees	1,305,134	1,329,942	1,414,817	1,459,625	1,443,383	1,526,500	1,573,788	1,604,281	462,747	71,252
Other	377,442	582,955	997,159	711,632	508,902	481,656	486,567	486,365	517,251	498,576
Total charges for services	1,682,576	1,912,897	2,411,976	2,171,257	1,952,285	2,008,156	2,060,355	2,090,646	979,998	569,828
Fines and forfeitures - court	294,946	256,604	287,425	298,824	364,031	496,457	587,397	623,579	597,961	470,020
Grants	0	0	12,500	5,738	32,748	172,338	1,907,290	73,278	51,434	37,355
Other operating revenue										
Investment earnings	284,592	405,151	428,710	268,893	235,998	126,245	141,783	235,866	653,609	428,304
Other	141,117	243,628	283,182	238,153	245,403	241,746	247,971	325,757	161,303	230,717
Total other operating revenue	425,709	648,779	711,892	507,046	481,401	367,991	389,754	561,623	814,912	659,021
TOTAL REVENUES	\$ 20,944,513	\$ 22,705,184	\$ 23,361,520	\$ 23,270,055	\$ 23,599,166	\$ 26,606,768	\$ 29,981,081	\$ 29,795,639	\$ 30,989,243	\$ 31,825,839

City of Mountain Brook, Alabama

Comparative Balance Sheet - General Fund
September 30, 2008
(With Comparative Totals for September 30, 2007)

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and temporary investments	\$ 8,162,795	\$ 7,514,084
Receivables	1,933,280	1,689,250
Due from related organizations	40,544	40,544
Inventory and prepaid expenses	<u>50,015</u>	<u>50,868</u>
TOTAL ASSETS	\$ <u>10,186,634</u>	\$ <u>9,294,746</u>
LIABILITIES		
Accounts payable	\$ 1,011,165	\$ 949,640
Accrued salaries and wages	908,438	813,430
Due to related organizations	104,895	104,895
Other liabilities	745,475	944,390
Accrued compensated absences	<u>0</u>	<u>0</u>
TOTAL LIABILITIES	<u>2,769,973</u>	<u>2,812,355</u>
FUND EQUITY		
Fund balance:		
Reserve for inventory and prepaid expense	50,015	50,868
Reserved	97,512	108,301
Unreserved	<u>7,269,134</u>	<u>6,323,222</u>
TOTAL FUND EQUITY	<u>7,416,661</u>	<u>6,482,391</u>
 TOTAL LIABILITIES AND FUND EQUITY	 \$ <u>10,186,634</u>	 \$ <u>9,294,746</u>

City of Mountain Brook, Alabama

Comparative Balance Sheet - Debt Service Fund
September 30, 2008
(With Comparative Totals for September 30, 2007)

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and temporary investments	\$ 1,689,447	\$ 1,628,131
Receivables	<u>0</u>	<u>0</u>
TOTAL ASSETS	<u>\$ 1,689,447</u>	<u>\$ 1,628,131</u>
LIABILITIES		
Accounts payable	\$ <u>0</u>	\$ <u>0</u>
TOTAL LIABILITIES	<u>0</u>	<u>0</u>
FUND EQUITY		
Fund balance:		
Unreserved	<u>1,689,447</u>	<u>1,628,131</u>
TOTAL FUND EQUITY	<u>1,689,447</u>	<u>1,628,131</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,689,447</u>	<u>\$ 1,628,131</u>

City of Mountain Brook, Alabama

**Comparative Statement of Revenues, Expenditures and
Changes in Fund Balances - General Fund
For the year ended September 30, 2008
(With Comparative Totals for September 30, 2007)**

	<u>2008</u>	<u>2007</u>
Revenues:		
Taxes	\$ 26,355,707	\$ 25,237,920
Licenses and permits	3,584,198	3,246,474
Intergovernmental	149,710	40,544
Charges for services	569,828	979,998
Fines and forfeitures	470,020	597,961
Grants	37,355	51,434
Other operating revenues	659,021	814,912
Total revenues	<u>31,825,839</u>	<u>30,969,243</u>
Expenditures:		
Current (operating):		
General government	4,237,084	10,723,057
Public safety	11,610,872	10,972,546
Street and sanitation	5,761,496	5,378,476
Recreational	1,361,043	1,119,184
Library	2,370,086	2,248,826
Total expenditures	<u>25,340,581</u>	<u>30,442,089</u>
Excess of revenues over expenditures	<u>6,485,258</u>	<u>527,154</u>
Other financing sources (uses):		
Operating transfers in	13,278	7,006,000
Operating transfers out	(5,667,441)	(6,715,489)
Operating transfers in - component unit	45,843	69,582
Donations	57,332	68,045
Total other financing (uses)	<u>(5,550,988)</u>	<u>428,138</u>
Excess of revenues and other financing sources over expenditures and other financing uses	934,270	955,292
Fund balances, beginning of year	<u>6,482,391</u>	<u>5,527,099</u>
FUND BALANCES, END OF YEAR	<u>\$ 7,416,661</u>	<u>\$ 6,482,391</u>

City of Mountain Brook, Alabama

**Comparative Statement of Revenues, Expenditures and
Changes in Fund Balances - Capital Projects Fund
For the Year Ended September 30, 2008
(With Comparative Totals for September 30, 2007)**

	<u>2008</u>	<u>2007</u>
Revenues:		
Grants	\$ 256,323	\$ 1,081,611
Other operating revenues	922,124	837,177
Total revenues	<u>1,178,447</u>	<u>1,918,788</u>
 Expenditures:		
General government	116,540	122,486
Public safety	1,165,749	1,130,735
Street and sanitation	2,462,455	4,194,284
Recreational	45,315	56,440
Library	0	36,505
Total expenditures	<u>3,790,059</u>	<u>5,540,450</u>
 Excess (deficiency) of revenues over expenditures	<u>(2,611,612)</u>	<u>(3,621,662)</u>
 Other financing sources (uses):		
Proceeds from the issuance of debt	5,009,366	0
Operating transfers in	5,136,235	6,316,475
Operating transfers (out)	(787)	0
Donations	107,843	1,765,144
Total other financing sources	<u>10,252,657</u>	<u>8,081,619</u>
 Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	7,641,045	4,459,957
 Fund balances, beginning of year	<u>19,103,716</u>	<u>14,643,759</u>
 FUND BALANCES, END OF YEAR	<u>\$ 26,744,761</u>	<u>\$ 19,103,716</u>



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

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

We have audited the financial statements of the governmental activities, 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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 11, 2009. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to initiate, record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the management, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

Birmingham, Alabama
March 11, 2009

City of Mountain Brook
Schedule of Findings and Responses
For the Year Ended September 30, 2008

2008-1. Finding:

Segregation of Duties

Due to the limited number of people working in the accounting department, many critical duties are combined and assigned to the available employees. To the extent possible, duties should be segregated to serve as a check and balance on employees' integrity and to maintain the best control system possible. We suggest that the segregation of duties be reviewed and adjusted where possible to strengthen the system of internal control.

Response of responsible officials and planned corrective actions:

The City agrees with this finding. The duties will be separated as much as possible and alternative controls will be used to compensate for lack of separation. The City also uses part-time employees to mitigate this condition.