

**CITY OF MOUNTAIN BROOK, ALABAMA**

**BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2007**

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

**September 30, 2007**

**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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City of Mountain Brook, Alabama

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CARR, RIGGS & INGRAM, LLC

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Mountain Brook, Alabama (the City), as of and for the year ended September 30, 2007, 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 opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the 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 opinions.

The financial statements of The Mountain Brook Library Foundation (the Foundation) have not been audited, and we were not engaged to audit the Foundation's financial statements as part of our audit of the City's basic financial statements. The Foundation's activities are included in the City's basic financial statements as the only discretely presented component unit.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had the Foundation's financial statements been audited, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, 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.

American Institute of  
Certified Public Accountants

Alabama Society of  
Certified Public Accountants

Florida Institute of  
Certified Public Accountants

Georgia Society of  
Certified Public Accountants

Mississippi Society of  
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In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2008 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis beginning on page 7.0 and budgetary comparison information on page 45, 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 it.

Our audit was conducted for the purpose of forming opinions 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 a 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. The combining and individual major and nonmajor fund financial statements have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

Birmingham, Alabama  
February 23, 2008

## 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, 2007, 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, 2007, by \$78 million (Total Net Assets). Of this amount, \$21 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, \$56 million represents the net book value of the City's capital assets including infrastructure, and \$108,000 is restricted for the benefit of the library.
- The Total Net Assets increased by \$541,000 in 2007 which includes the net cost of providing core City services of \$25.8 million plus \$26.3 million in General Revenues.
- As of September 30, 2007, the City reported \$28.2 million in unreserved fund balances, a decrease of \$1.1 million from 2006. Of the \$28.2 million unreserved fund balance, \$6.3 million (22%) is reported in the General Fund, \$1.6 million (6%) in the Debt Service Fund, \$19.1 million (68%) in the Capital Projects Fund, and \$1.2 million (4%) in the Special Revenue Funds.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

The Statement of Activities illustrates how the City's net assets changed during fiscal 2007. 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 cost 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 the Capital Projects (which is comprised of four "sub-funds") 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. Additional information about these aggregated non-major funds and the major funds are provided in the other supplementary information.

#### ***Infrastructure Capital Assets***

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

## City of Mountain Brook

## Management's Discussion and Analysis

	<u>Useful Life</u>	<u>Cost</u>	<u>Depreciation</u>	<u>Accumulated Depreciation</u>
Land	N/A	\$ 16,525,671	N/A	N/A
Streets and alleys	20	16,213,569	\$ 469,626	\$ 9,134,652
Storm sewers	20	5,492,453	142,910	740,177
Sidewalks	15	9,105,316	527,337	4,409,088
Park facilities	20	7,618,860	250,110	2,785,968
Street lights and signs	15	1,115,298	43,657	505,239
Library reference materials	5	3,327,885	269,514	2,600,224
<b>Totals</b>		<b>\$ 59,399,052</b>	<b>\$ 1,703,154</b>	<b>\$ 20,175,348</b>

**Government-wide Financial Analysis**

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

	<u>2007</u>	<u>2006</u>
Current assets	\$ 31,640,507	\$ 33,390,227
Other assets	405,640	436,737
Capital assets	56,241,864	53,050,986
<b>Total assets</b>	<b>88,288,011</b>	<b>86,877,950</b>
Current and other liabilities	3,859,390	4,022,981
Long-term liabilities	6,474,822	5,442,375
<b>Total liabilities</b>	<b>10,334,212</b>	<b>9,465,356</b>
Net assets:		
Invested in capital assets, net of related debt	56,143,864	52,854,986
Restricted	108,301	122,726
Unrestricted	21,701,634	24,434,882
<b>Total net assets</b>	<b>\$ 77,953,799</b>	<b>\$ 77,412,594</b>

## City of Mountain Brook

## Management's Discussion and Analysis

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

	<u>2007</u>	<u>2006</u>
<b>Revenues</b>		
Program revenues:		
Fees, fines and charges for services	\$ 5,090,095	\$ 6,265,586
Operating grants and contributions	1,234,617	1,316,638
Capital grants and contributions	2,136,291	1,376,164
General revenues:		
Ad valorem taxes	14,321,820	13,107,678
Sales and use taxes	8,171,426	7,327,009
Other taxes	187,907	196,284
Occupational license fees	1,475	248,283
Utility taxes	1,266,253	1,088,234
Franchise fees	462,165	420,343
Investment earnings	1,849,934	1,241,747
Gains (loss) on sale of capital assets	11,334	(72,338)
Miscellaneous revenue	17,418	8,801
Transfers from component unit	69,582	45,383
<b>Total revenues</b>	<b><u>34,820,317</u></b>	<b><u>32,569,812</u></b>
<b>Expenses</b>		
General government	10,863,058	4,758,414
Public safety	12,312,596	11,828,244
Street and sanitation	6,903,709	6,663,563
Recreational	1,672,452	1,373,360
Library	2,527,297	2,368,258
<b>Total expenses</b>	<b><u>34,279,112</u></b>	<b><u>26,991,839</u></b>
<b>Increase in net assets from operating activities</b>	<b>541,205</b>	<b>5,577,973</b>
Net assets, beginning of year	<u>77,412,594</u>	<u>71,834,621</u>
<b>Net assets, end of year</b>	<b><u>\$ 77,953,799</u></b>	<b><u>\$ 77,412,594</u></b>

## City of Mountain Brook

## Management's Discussion and Analysis

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

The City's primary source of revenue is real estate ad valorem taxes which comprise 43% of total General Fund revenues in 2007. Real estate ad valorem taxes increased by \$1.2 million (10%) during 2007 due principally to the 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 totals 25% of the total General Fund revenues in 2007. Sales and use tax increased by \$796,000 (11%) during 2007 due in part from new retail developments that opened during the year.

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

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>
Real estate ad valorem tax	\$ 13,181,868	\$ 11,976,292	\$ 1,205,576
Sales and use tax	7,829,375	7,033,452	795,923
Business licenses	1,872,058	1,729,727	142,331
Personal property ad valorem tax	1,139,952	1,131,386	8,566
Garbage service fees	462,747	1,604,281	(1,141,534)
Occupational tax (eliminated January 1, 2006)	1,475	248,283	(246,808)
Utility taxes	1,266,253	1,088,234	178,019
All other General Fund revenues	<u>5,215,515</u>	<u>4,983,984</u>	<u>231,531</u>
Total	<u>\$ 30,969,243</u>	<u>\$ 29,795,639</u>	<u>\$ 1,173,604</u>

City of Mountain Brook

Management's Discussion and Analysis

**Expenditures**

Salaries and benefits increased \$450,000 (3%) in 2007 to \$16 million. Labor-related costs made up 54% of the City's total budget in 2007.

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

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>
Salaries and benefits	\$ 16,049,927	\$ 15,599,601	\$ 450,326
Pension payment to reduce the City's unfunded actuarial accrued liability	7,000,000	0	7,000,000
Garbage contract fees	2,411,979	2,335,587	76,392
Capital outlay	6,514,827	5,735,875	778,952
Intergovernmental services	748,278	756,610	(8,332)
City School Board subsidy	0	850,000	(850,000)
Birmingham Zoo, Inc. subsidy	100,000	100,000	0
Debt service	183,016	1,677,703	(1,494,687)
All other	4,461,627	4,686,008	(224,381)
<b>Total</b>	<b>\$ 37,469,654</b>	<b>\$ 31,741,384</b>	<b>\$ 5,728,270</b>

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

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

- Actual General Fund revenue exceeded the final budgeted revenue by \$1.4 million (5%). The favorable (unfavorable) budget variance was comprised largely of the following categories:

	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Real estate ad valorem taxes	\$ 13,175,000	\$ 13,181,838	\$ 6,838
Sales and use tax	7,702,900	7,829,375	126,475
Utility taxes	1,266,000	1,266,253	253
Road and bridge tax	460,000	543,682	83,682
State bank excise tax	50,000	236,332	186,332
Construction permits	62,000	851,266	789,266
Fines and forfeitures	621,000	597,961	(23,039)
Fees for road repairs	50,000	23,590	(26,410)
Grants	46,045	51,434	5,389
Investment earnings	370,500	653,609	283,109
All other	5,760,025	5,733,903	(26,122)
<b>Total</b>	<b>\$ 29,563,470</b>	<b>\$ 30,969,243</b>	<b>\$ 1,405,773</b>

## City of Mountain Brook

## Management's Discussion and Analysis

- Total General Fund expenditures were \$1 million (3%) less than the final budget. The budget variance was comprised largely of the following categories:

	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Salaries and benefits	\$ 16,572,492	\$ 16,049,927	\$ 522,565
Pension payment to reduce the City's unfunded actuarial accrued liability	7,000,000	7,000,000	0
Garbage contract fees	2,340,000	2,411,979	(71,979)
Intergovernmental services - Note 8	881,968	827,002	54,966
Utilities	522,050	577,194	(55,144)
Legal fees	275,000	252,668	22,332
Fuel	222,680	213,648	9,032
Street striping	135,000	22,325	112,675
Street cut repairs	125,000	36,105	88,895
All other	<u>3,407,634</u>	<u>3,051,241</u>	<u>356,393</u>
Total	<u>\$ 31,481,824</u>	<u>\$ 30,442,089</u>	<u>\$ 1,039,735</u>

- Several infrastructure projects budgeted in 2007 were carried-over to fiscal 2008 (Capital Projects Fund) contributing to the Capital Project fund's favorable expenditure variance of \$2.7 million.
- The operating transfers out exceeded the amount budgeted by \$2 million. The excess surplus over that originally anticipated/budgeted was transferred to the following funds resulting in most of the budget variance:

Capital Projects	\$ 2,250,000
Debt Service	(250,000)

- The excess of General Fund revenues and other financing sources over expenditures in the amount of \$955,292 was \$183,077 more than budgeted.
- The final General Fund budgeted surplus of \$772,215 is \$87,215 more than 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, 2006.

## City of Mountain Brook

### Management's Discussion and Analysis

As of September 30, 2006, the RSA reported an unfunded actuarial accrued liability of \$7 million. However, the actuarial valuation of the plan assets (\$40.8 million) used to determine the unfunded actuarial accrued liability does not include actual investment gains and losses but rather employs the 5-year smoothed market approach. Accordingly, the actuarial valuation of the assets exceeds the actual value by \$759,000 due to the exclusion of unamortized net market losses (realized and unrealized) over the preceding five years.

Due to growing concerns 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, 2007, the City has accumulated \$1.6 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 payment was in addition to the actuarially determined annual required contribution.

#### ***Cash and Temporary Investments***

As of September 30, 2007, the City reported cash and temporary investments of \$29.1 million which consists of unrestricted and donor-restricted cash and temporary investments of \$29 million and \$108,000, respectively. Following is a summary of the carrying value of the cash and investments by fund:

	<u>Unrestricted</u>	<u>Restricted</u>
General Fund	\$ 7,405,783	\$ 108,301
Debt Service Fund	1,628,131	0
Capital Projects Fund	18,847,769	0
Other Governmental Funds	1,142,057	0
Discretely presented component unit	0	3,048,118
Total	<u>\$ 29,023,740</u>	<u>\$ 3,156,419</u>

The Council has expressed its goal to maintain a cash reserve in the General Fund equivalent to six months of operating expenses. The \$7.4 million dollar General Fund cash and investment balance as of September 30, 2007, represents approximately 2.9 months of General Fund expenditures.

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

Regarding capital assets, the City Council has adopted the policy of funding its depreciation expense in order to accumulate monies for the eventual replacement of property, plant and equipment. As of September 30, 2007, the City had accumulated approximately \$19 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 \$32.1 million as of year end. Following is a summary of the capital expenditures, depreciation expense and transfers to the Capital Projects for the years ended September 30:

## City of Mountain Brook

## Management's Discussion and Analysis

	<u>2007</u>	<u>2006</u>
Capital expenditures	\$ 6,514,827	\$ 5,831,184
Depreciation expense	\$ 3,323,949	\$ 2,929,932
Transfers to the Capital Projects Fund:		
Funded depreciation policy	\$ 1,589,627	\$ 1,554,282
Other transfers to fund current and future capital acquisitions	4,726,848	2,773,695
Total	<u>\$ 6,316,475</u>	<u>\$ 4,327,977</u>

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

	<u>2007</u>	<u>2006</u>
<b>Revenues</b>		
State shared gasoline tax revenues	\$ 412,834	\$ 418,298
Alabama Trust Fund Earnings	141,610	122,982
Transfers from the City's General Fund	150,000	150,000
Investment earnings	35,923	26,651
<b>Total Revenues</b>	<u>740,367</u>	<u>717,931</u>
Street paving expenditures (included in capital expenditures reported in the preceding section)	<u>601,095</u>	<u>637,098</u>
<b>Excess of Revenues over Expenditures</b>	139,272	80,833
Fund balances, beginning of year	<u>421,491</u>	<u>340,658</u>
<b>Fund Balances, end of year</b>	<u>\$ 560,763</u>	<u>\$ 421,491</u>

**Residential Garbage Service Fee Rate Reduction**

The City adopted an ordinance (No. 1732) lowering the residential garbage service fees by more than 70% effective January 1, 2007. The City realized \$462,747 and \$1,604,281 from the garbage service fees in 2007 and 2006, respectively. The City Council hopes to eliminate the residential garbage fee in 2008.

**City School Board Subsidy**

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

**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 352 13-0009. Inquiries about The Emmet O'Neal Library Board and/or The Mountain Brook Library Foundation may be directed to the Library Director at 50 Oak Street, Mountain Brook, Alabama 35213.

**City of Mountain Brook, Alabama**  
**Government-Wide Statement of Net Assets**  
**September 30, 2007 with Comparative Data**

	<b>Governmental Activities</b>		<b>Component Unit</b>
	<b>2007</b>	<b>2006</b>	<b>Library Foundation</b> <b>(Unaudited)</b> <b>2007</b>
<b>ASSETS</b>			
Cash and temporary investments	\$ 29,023,740	\$ 31,456,776	\$ 0
Receivables	2,345,902	1,689,696	0
Note receivable (\$38,679 current)	444,319	469,053	0
Due from related organization	73,017	44,581	0
Inventory and prepaid expenses	50,868	44,132	0
Cash and temporary investments - restricted	108,301	122,726	3,048,118
Capital assets, net of accumulated depreciation	37,091,049	29,004,102	0
Land	18,542,709	17,882,630	0
Construction in progress	608,106	6,164,254	0
<b>TOTAL ASSETS</b>	<b>88,288,011</b>	<b>86,877,950</b>	<b>3,048,118</b>
<b>LIABILITIES</b>			
Accounts payable	1,352,936	1,656,779	0
Accrued salaries and wages	813,430	777,473	0
Accrued interest payable	1,072	2,144	0
Due to related organization	104,895	103,463	0
Other current liabilities	944,390	978,908	0
Non-current liabilities			
Due within one year:			
Compensated absences	200,942	193,714	0
Long-term debt	98,000	98,000	0
Other liabilities	544,667	212,500	0
Due in more than one year:			
Compensated absences	2,065,652	1,903,414	0
Long-term debt	0	98,000	0
Other liabilities	4,208,228	3,440,961	0
<b>TOTAL LIABILITIES</b>	<b>10,334,212</b>	<b>9,465,356</b>	<b>0</b>
<b>Pension obligation (see note 6)</b>			
<b>NET ASSETS</b>			
Invested in capital assets (net of related debt)	56,143,864	52,854,986	0
Restricted	669,064	544,217	3,048,118
Unrestricted	21,140,871	24,013,391	0
<b>TOTAL NET ASSETS</b>	<b>\$ 77,953,799</b>	<b>\$ 77,412,594</b>	<b>\$ 3,048,118</b>

See accompanying notes to basic financial statements.

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**City of Mountain Brook, Alabama**  
**Government-Wide Statement of Activities**  
For the Year Ended September 30, 2007 with Comparative Data

Program Activities	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 10,863,058	\$ 2,228,384	\$ 1,113,810	\$ 44,047
Public safety	12,312,596	2,178,172	0	0
Street and sanitation	6,903,709	500,676	35,097	1,937,992
Recreational	1,672,452	112,691	64,373	123,107
Library	2,527,297	70,172	21,337	31,145
<b>Total</b>	<b>\$ 34,279,112</b>	<b>\$ 5,090,095</b>	<b>\$ 1,234,617</b>	<b>\$ 2,136,291</b>
Component unit:				
Library Foundation	\$ 3,117	\$ 0	\$ 183,367	\$ 0

**General revenues:**

Taxes:	
Ad Valorem (real and personal property)	
Sales and use	
Other taxes	
Occupational license fees	
Utility taxes	
Franchise fees	
Investment earnings	
Gain (loss) on sale of capital asset	
Miscellaneous revenues	
Transfers	
	Total general revenues and transfers
	Change in net assets
Net assets at beginning of year	
<b>Net assets at end of year</b>	

2007 Total Net (Expense) Revenue and Changes in Net	2006 Total Net (Expense) Revenue and Changes in Net	2007 Component Unit (Library Foundation) (Unaudited)	2006 Component Unit (Library Foundation)
\$ (7,476,817)	\$ (1,483,801)	\$ 0	\$ 0
(10,134,424)	(9,479,108)	0	0
(4,429,944)	(4,153,783)	0	0
(1,372,281)	(686,979)	0	0
(2,404,643)	(2,229,780)	0	0
<u>(25,818,109)</u>	<u>(18,033,451)</u>		
		<u>180,250</u>	<u>193,219</u>
14,321,820	13,107,678	0	0
8,171,426	7,327,009	0	0
187,907	196,284	0	0
1,475	248,283	0	0
1,266,253	1,088,234	0	0
462,165	420,343	0	0
1,849,934	1,241,747	365,161	179,836
11,334	(72,338)	0	0
17,418	8,801	0	0
69,582	45,383	(69,582)	(45,383)
<u>26,359,314</u>	<u>23,611,424</u>	<u>295,579</u>	<u>134,453</u>
541,205	5,577,973	475,829	327,672
77,412,594	71,834,621	2,572,289	2,244,617
<u>\$ 77,953,799</u>	<u>\$ 77,412,594</u>	<u>\$ 3,048,118</u>	<u>\$ 2,572,289</u>

City of Mountain Brook, Alabama  
Balance Sheet  
Governmental Funds  
September 30, 2007

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and temporary investments	\$ 7,405,783	\$ 18,847,769	\$ 2,770,188	\$ 29,023,740
Cash and temporary investments - restricted	108,301	0	0	108,301
Receivables	1,729,794	575,742	113,383	2,418,919
Inventory and prepaid expenses	50,868	0	0	50,868
<b>TOTAL ASSETS</b>	<b>\$ 9,294,746</b>	<b>\$ 19,423,511</b>	<b>\$ 2,883,571</b>	<b>\$ 31,601,828</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 949,640	\$ 319,795	\$ 83,501	\$ 1,352,936
Accrued salaries and wages	813,430	0	0	813,430
Other liabilities	1,049,285	0	0	1,049,285
<b>TOTAL LIABILITIES</b>	<b>2,812,355</b>	<b>319,795</b>	<b>83,501</b>	<b>3,215,651</b>
<b>Pension obligation (see note 6)</b>				
<b>FUND EQUITY</b>				
Fund balance:				
Reserve for inventory and prepaid expense	50,868	0	0	50,868
Reserved	108,301	0	0	108,301
Unreserved	6,323,222	19,103,716	2,800,070	28,227,008
<b>TOTAL FUND EQUITY</b>	<b>6,482,391</b>	<b>19,103,716</b>	<b>2,800,070</b>	<b>28,386,177</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 9,294,746</b>	<b>\$ 19,423,511</b>	<b>\$ 2,883,571</b>	<b>\$ 31,601,828</b>

See accompanying notes to basic financial statements.

**City of Mountain Brook, Alabama**  
**Reconciliation of the Governmental Funds Balance Sheet to the**  
**Statement of Net Assets**  
**September 30, 2007**

<b>Fund balance - total governmental funds</b>	<b>\$</b>	<b>28,386,177</b>
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
Note receivable charged to capital outlay in the fund financial statements less principal recoveries.		444,319
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.</p>		
Governmental capital assets	\$ 88,349,921	
Less accumulated depreciation	<u>(32,108,057)</u>	56,241,864
<p>Long-term liabilities are not due and payable in the current period and therefore, they are not reported in the governmental funds balance sheet.</p>		
Governmental bonds payable	(98,000)	
Compensated absences	(2,266,594)	
Accrued interest payable	(1,072)	
Accrued zoo consortium payable	(16,667)	
Accrued development agreement obligations	<u>(4,736,228)</u>	<u>(7,118,561)</u>
<b>Net assets of governmental activities</b>	<b>\$</b>	<b><u>77,953,799</u></b>

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**City of Mountain Brook, Alabama**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended September 30, 2007**

	<b>General</b>	<b>Capital Projects</b>
<b>Revenues:</b>		
Taxes	\$ 25,237,920	\$ 0
Licenses and permits	3,246,474	0
Intergovernmental	40,544	0
Charges for services	979,998	0
Fines and forfeitures	597,961	0
Grants	51,434	1,081,611
Other operating revenues	814,912	837,177
<b>Total revenues</b>	<b>30,969,243</b>	<b>1,918,788</b>
<b>Expenditures:</b>		
<b>Current (operating):</b>		
General government	10,723,057	122,486
Public safety	10,972,546	1,130,735
Street and sanitation	5,378,476	4,194,284
Recreational	1,119,184	56,440
Library	2,248,826	36,505
<b>Debt service:</b>		
Principal	0	0
Interest	0	0
<b>Total expenditures</b>	<b>30,442,089</b>	<b>5,540,450</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>527,154</b>	<b>(3,621,662)</b>
<b>Other financing sources (uses):</b>		
Operating transfers in	7,006,000	6,316,475
Operating transfers (out)	(6,715,489)	0
Operating transfers in - component unit	69,582	0
Donations	68,045	1,765,144
<b>Total other financing sources (uses)</b>	<b>428,138</b>	<b>8,081,619</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	<b>955,292</b>	<b>4,459,957</b>
<b>Fund balances, beginning of year</b>	<b>5,527,099</b>	<b>14,643,759</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 6,482,391</b>	<b>\$ 19,103,716</b>

See accompanying notes to basic financial statements.

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 412,834	\$ 25,650,754
0	3,246,474
32,473	73,017
245,625	1,225,623
155,004	752,965
0	1,133,045
496,826	2,148,915
<u>1,342,762</u>	<u>34,230,793</u>
225,474	11,071,017
387,269	12,490,550
601,095	10,173,855
167,976	1,343,600
0	2,285,331
98,000	98,000
7,301	7,301
<u>1,487,115</u>	<u>37,469,654</u>
<u>(144,353)</u>	<u>(3,238,861)</u>
510,190	13,832,665
(7,117,176)	(13,832,665)
0	69,582
174,693	2,007,882
<u>(6,432,293)</u>	<u>2,077,464</u>
(6,576,646)	(1,161,397)
<u>9,376,716</u>	<u>29,547,574</u>
<u>\$ 2,800,070</u>	<u>\$ 28,386,177</u>

**City of Mountain Brook, Alabama**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund**  
**Balance of Governmental Funds to the Government-Wide Statement of Activities**  
**September 30, 2007**

<b>Net change in fund balances - total governmental funds</b>	\$	(1,161,397)
<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>		(24,734)
<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	\$ 6,514,827	
Less current year depreciation	<u>(3,323,949)</u>	3,190,878
<p>Donation of infrastructure reported as an other financing source in the governmental funds, but reported as a long-term liability in the statement of net assets.</p>		(1,463,206)
<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>Repayment of development fee obligation in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		263,772
<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	(363,180)	
Change in accrued interest payable	1,072	
Change in accrued zoo consortium payable	<u>0</u>	<u>(362,108)</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>541,205</u></b>

**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 2007, the City reported the following revenues from the Board:

	<b>General Fund</b>	<b>Special Revenue</b>
Athletic fields shared maintenance	\$ 40,544	\$ 32,473
Sewer service fees	7,200	0
<b>Total</b>	<b>\$ 47,744</b>	<b>\$ 32,473</b>

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

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

**B. Related organizations (continued)**

At September 30, 2007, 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>40,544</u>	\$ <u>32,473</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, 2007, the City owed the Board \$104,895 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, 2007, 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 \$444,319 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 2007, 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	\$	32,473
Mountain Brook Athletics, Inc.		16,236
Mountain Brook Soccer Club, Inc.		16,236
Investment income		0
<b>Total revenues</b>		<u>64,945</u>

*Expenditures*

Recreational (operating and maintenance)	111,038
Capital outlay (\$1,952,936 cumulative)	0
<b>Total expenditures</b>	<u>111,038</u>

*Other financing sources (uses), net*

Transfers to City General Fund	(6,000)
Transfers to City Capital Projects Fund	(5,875)
Transfers to Debt Service Fund	0
Donations, including note payments of \$40,000	40,000
<b>Net other financing sources</b>	<u>28,125</u>

Excess (deficiency) of revenues and other financing sources over expenditures and other uses	(17,968)
--	----------

<b>Fund balance at beginning of the year</b>	<u>18,934</u>
--	---------------

<b>Fund balance at end of the year</b>	<u>\$ 966</u>
--	---------------

Also in 1998, the City agreed to serve as the fiscal agent for the Board's improvements to its sports facilities located at the high school. The improvements totaling approximately \$1.5 million were financed through the issuance of Series 1998-B general obligation warrants (These warrants were refinanced by the Series 2003 general obligation warrants - see Note 5.). The Series 1998-B warrants are being paid by the City primarily from donations solicited and collected by the Mountain Brook Sports Corporation (MBSC), an unaffiliated not-for-profit organization. In conjunction therewith, the City was issued two irrevocable stand-by letters of credit totaling \$679,000.

## City of Mountain Brook, Alabama

## Notes to Financial Statements

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

B. Related organizations (continued)

The City and School Board fulfilled their respective financial commitments in 2005. The outstanding general obligation warrant balance in the amount of \$98,000 (Note 5) is to be repaid by the City from funds donated by the MBSC which it raises from private donations.

*Revenues*

Investment income	\$ 2,499
<b>Total revenues</b>	<u>2,499</u>

*Expenditures*

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

*Other financing sources (uses), net*

Transfers to Debt Service Fund	(105,301)
Donations (Mountain Brook Sports Corporation)	90,636
Net other financing sources (uses)	<u>(14,665)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	(12,166)

<b>Fund balance at beginning of the year</b>	<u>50,828</u>
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<b>Fund balance at end of the year</b>	<u>\$ 38,662</u>
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Another related organization is the Mountain Brook Library Foundation. The Foundation is a non-profit organization formed for the benefit of the Emmet O'Neal Library, a department of the City. Several of the Foundation's Board members are also members of The Emmet O'Neal Library Board. The Library Foundation has received contributions from citizens which were utilized to construct, furnish, and equip the City's new Library facilities. These facilities were contributed to the City of Mountain Brook during 2001, and are included in the accompanying financial statements.

The financial position and results of operations of the Foundation are reported as a component unit of the City in the accompanying fund financial statements and consolidated with the City in the accompanying government-wide financial statements. The Foundation's financial information 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 (at year end, the City had no fiduciary funds).

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 and Capital Projects Fund are classified as major funds and are described above.

The Special Revenue Fund and Debt Service Fund are classified as nonmajor and are 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

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 2007 was approximately \$277,000. The accompanying financial statements include an estimated accrual of reported but unpaid workers' compensation claims as of September 30, 2007 in the amount of \$345,242.

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 \$108,301 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, 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 generally 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 current liability for compensated absences in the amount of \$200,942 and a non-current liability for compensated absences in the amount of \$2,065,652. 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, 2007. The City changed its method of reporting the current portion of compensated absences in the Fund Financial Statements in 2007 which resulted in a reduction of current liabilities and operating expenses in the Fund Financial Statements in the amount of \$193,714.

City of Mountain Brook, Alabama

Notes to Financial Statements

1. Summary of significant accounting policies (continued)

M. Longevity pay plan

The City has a longevity pay plan which covers all full-time employees that have completed a minimum of six years of service as of September 30. Longevity pay for a qualifying employee is the product of the percentage factor (which is based on the number of years of completed services) and their annual rate of pay. The percentage factor is 1.5% after six years and increases 0.5% per year to a maximum rate of 8.5% which is attained after twenty years of service. The plan also limits the City's maximum annual longevity pay to a total of \$400,000. The City has adopted the informal policy of liquidating the liability for longevity pay in November of each year. The liability for longevity pay as of September 30, 2007 reported in the Government-Wide and Fund financial statements totaled \$393,931.

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 \$6,310,600 to the Capital Projects Fund to provide resources for the payment of current year asset acquisitions as well as the future replacement of capital assets and \$404,889 to other Governmental funds (Special Revenue Fund) to provide funding for operations. The Special Revenue Fund transferred \$105,301 to the Debt Service Fund to provide resources for the payment of general obligation warrant issues of the City, \$5,875 to the Capital Projects Fund to provide resources for the future replacement of capital assets, and \$6,000 to the General Fund from the net recovery of a long-term loan (Note 1.B.). The Debt Service Fund transferred \$7 million to the General Fund which was paid to the Retirement Systems of Alabama to reduce the City's unfunded pension obligation (see Note 6).

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.

Q 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 2007. The 2007 revaluation (to be realized in fiscal 2008) reflects an increase in property values of approximately 4% and is estimated to generate an estimated \$530,000 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 \$24 million or 78% of the total General Fund revenues during the year ended September 30, 2007. Of the City's taxpayers, Rich'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 \$4.9 million or 16% of the City's total General Fund revenues during the year ended September 30, 2007.

##### 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

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, 2007, the City had the following cash and investments and maturities:

	<b>Investment Maturities in Years</b>			
	<b>Fair Value</b>	<b>Less Than 1</b>	<b>1 - 2</b>	<b>3 - 5</b>
Cash on-hand	\$ 2,680	\$ 2,680	\$ 0	\$ 0
Bank deposits	8,822,899	8,822,899	0	0
Investments:				
Cash and money market accounts	145,265	145,265	0	0
Certificates of deposit	9,237,938	3,345,668	1,741,469	4,150,801
Federal National Mortgage Association	10,067,998	0	6,077,514	3,990,484
Federal Home Loan Bank	803,911	299,691	504,220	0
576 shares VMC common stock (donated)	51,350	0	0	51,350
<b>Total portfolio</b>	<b>\$ 29,132,041</b>	<b>\$ 12,616,203</b>	<b>\$ 8,323,203</b>	<b>\$ 8,192,635</b>

At September 30, 2007, the discretely presented component unit had the following cash and investments and maturities:

	<b>Investment Maturities in Years</b>			
	<b>Fair Value</b>	<b>Less Than 1</b>	<b>1 - 2</b>	<b>3 - 5</b>
Bank deposits	\$ 418,873	\$ 418,873	\$ 0	\$ 0
Mutual funds	2,629,245	2,629,245	0	0
<b>Total portfolio</b>	<b>\$ 3,048,118</b>	<b>\$ 3,048,118</b>	<b>\$ 0</b>	<b>\$ 0</b>

**Interest Rate Risk.** As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy restricts General Fund investments to those with maturities of two years or less and Capital Project and Debt Service Fund investments to those with maturities of five years or less. Investment maturities (excluding the discretely presented component unit) as of September 30, 2007, were as follows:

<b>Maturity</b>	<b>Portion of Portfolio</b>
Less than one year	43.31%
1 - 2 years	28.57%
3 - 5 years	28.12%
	<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, 2007. The discretely presented component unit had deposits of \$224,130 in excess of the FDIC limit at September 30, 2007.

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, 2007, the City had invested \$9.2 million in certificates of deposit and \$10.9 million in federal agency debt securities. Of the City's \$9.2 million investment in certificates of deposit, the City had not invested more than \$100,000 with any financial institution located outside of the State of Alabama. Accordingly, the City had no uninsured certificates of deposit at September 30, 2007. 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:

<u>Description/Creditor</u>	<u>Fair Value</u>	<u>Portion of Portfolio</u>
Federal Nation Mortgage Association (callable)	\$ 10,067,998	30.75%
Federal Home Loan Bank (callable)	803,911	1.58%
Various financial institutions - certificates of deposit	9,237,938	36.56%
	<u>\$ 20,109,847</u>	<u>68.89%</u>

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

<u>Description</u>	<u>CUSIP</u>	<u>Fair Value</u>	<u>Portion of Portfolio</u>
Bank demand deposit account		\$ 284,734	9.34%
Goldman Sax Money Market Fund		134,139	4.40%
Chase Growth Fund (28,051.142 shares)	CHASX	622,735	20.43%
Dodge & Cox International Stock (6,872.723 shares)	DODFX	337,382	11.07%
Longleaf Partner Family Value Tr #133 (17,106.409 shares)	LLPFX	649,188	21.30%
PIMCO All Asset Fund Institutional Class (28,478.729 shares)	PAAIX	371,647	12.19%
PIMCO Low Duration Fund Institutional Class (25,022.92 shares)	PTLDX	251,230	8.24%
Vanguard Convert Securities (27,011.062 shares)	VCVSX	397,063	13.03%
		<u>\$ 3,048,118</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, 2007, consisted of the following:

	General Fund	Capital Projects	Special Revenue	Total
Taxes	\$ 1,634,934	\$ 0	\$ 37,484	\$ 1,672,418
Emergency Communication				
District (E-911) surcharge	0	0	10,954	10,954
Board of Education (Note 1.B.)	40,544	0	32,473	73,017
Grants	2,308	575,742	0	578,050
Other	52,008	0	32,472	84,480
<b>Totals</b>	<b>\$ 1,729,794</b>	<b>\$ 575,742</b>	<b>\$ 113,383</b>	<b>\$ 2,418,919</b>

The City loaned the Mountain Brook Sports Park Foundation (MBSPF), a nonprofit organization established to raise funds for the exclusive benefit of Mountain Brook Soccer Club, \$500,000 for their construction of athletic playing fields (Note 1.B.). The loan is to be repaid in monthly installments of \$4,000 including interest at 4% beginning in August 2005 plus the net cash flows of Mountain Brook Soccer Club which are to be remitted to MBSPF beginning in April 2007 with the unpaid balance due July 1, 2010. The outstanding balance reported in the statement of net assets at September 30, 2007 totaled \$444,319 of which \$38,679 is scheduled to be repaid within the next fiscal year. The City collected \$15,266 in interest during 2007.

## 4. Capital assets

Following is a summary of the changes in the City's capital assets for the year ended September 30, 2007:

	Balance at September 30, 2006	Additions	Disposals/ Retirements/ Completed	Balance at September 30, 2007
<b>Capital assets, not being depreciated:</b>				
Land	\$ 17,882,630	\$ 0	\$ 660,079	\$ 18,542,709
Construction in progress	6,164,254	1,924,488	(7,480,636)	608,106
<b>Total capital assets, not being depreciated</b>	<b>24,046,884</b>	<b>1,924,488</b>	<b>(6,820,557)</b>	<b>19,150,815</b>
<b>Capital assets, being depreciated:</b>				
Land improvements	2,854,128	42,565	0	2,896,693
Buildings and improvements	8,043,646	343,716	186,708	8,574,070
Machinery and equipment	13,518,728	1,466,206	(129,972)	14,854,962
Infrastructure	33,501,680	2,737,852	6,633,849	42,873,381
<b>Total capital assets, being depreciated</b>	<b>57,918,182</b>	<b>4,590,339</b>	<b>6,690,585</b>	<b>69,199,106</b>
<b>Less accumulated depreciated for:</b>				
Land improvements	212,676	18,614	0	231,290
Buildings and improvements	2,609,190	299,548	0	2,908,738
Machinery and equipment	7,620,020	1,302,633	(129,972)	8,792,681
Infrastructure	18,472,194	1,703,154	0	20,175,348
<b>Total accumulated depreciation</b>	<b>28,914,080</b>	<b>3,323,949</b>	<b>(129,972)</b>	<b>32,108,057</b>
<b>Total capital assets, being depreciated, net</b>	<b>29,004,102</b>	<b>1,266,390</b>	<b>6,820,557</b>	<b>37,091,049</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 53,050,986</b>	<b>\$ 3,190,878</b>	<b>\$ 0</b>	<b>\$ 56,241,864</b>

City of Mountain Brook, Alabama

Notes to Financial Statements

4. Capital assets (continued)

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

Governmental activities:	
General government	\$ 145,420
Public safety	712,092
Street and sanitation	1,433,651
Recreational	404,759
Library	<u>628,027</u>
<b>Total depreciation expense</b>	<b>\$ <u>3,323,949</u></b>

5. Long-term debt

Long-term debt outstanding as of September 30, 2007, consisted of the following:

	<u><b>Balance</b></u>
\$490,000 General Obligation Warrants, Series 2003 dated October 29, 2003 maturing annually on July 15 through the year 2008 plus interest payable on January 15 and July 15 at a rate of 3.75% (Note 9)	\$ <u>98,000</u>
<b>Total</b>	<b>\$ <u>98,000</u></b>

The total interest paid by the City during 2007 relative to general obligation warrants was \$7,301. The current debt of the City supports the recreational function and, as such, all interest expense has been charged to this function in the Government-Wide Statement of Activities. The total amount of interest charged to expense of the recreational function for the year ended September 30, 2007 was \$6,229.

Following is a summary of long-term debt principal transactions for the year ended September 30, 2007:

General obligation warrant balances at October 1, 2006	\$ 196,000
Principal payments:	
\$490,000 General Obligation Warrants, Series 2003	<u>(98,000)</u>
General obligation warrant balances at September 30, 2007	<b>\$ <u>98,000</u></b>

City of Mountain Brook, Alabama

Notes to Financial Statements

5. Long-term debt (continued)

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

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 98,000	\$ 3,675	\$ 101,675
<b>Totals</b>	<u>\$ 98,000</u>	<u>\$ 3,675</u>	<u>\$ 101,675</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, 2007 was 11.51% of covered compensation. The City's matching contribution for the fiscal year ending September 30, 2008 has been actuarially determined to be 7.98% of covered compensation.

For the year ended September 30, 2007, the City's total compensation was approximately \$12.3 million and the City's total covered compensation used to determine the City's pension contribution was approximately \$11.9 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 2007 and 2001, the City elected to contribute \$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%	8,320,000	665,000	8,985,000

\* 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, 2006:

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)

## D. Funding progress

Following is the schedule of funding progress obtained from most recent actuarial valuation prepared as of September 30, 2006:

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%

## 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, 2006
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	\$ 1,992,469

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 choice of participating in one of two medical insurance plans, each with varying benefits: preferred provider organization (PPO), exclusive provider organization Blue Cross and Blue Shield or United Healthcare are the two options.

## 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).

**Funding 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 (GASB) 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 2007, the City's portion of health care and dental insurance premiums for both active and retired employees totaled \$976,342 and \$227,035, respectively. It is the City's intent to establish 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 and to contribute the City's 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 2007 as determined by the City Council of the City of Mountain Brook:

	<u>City</u>	<u>Retiree</u>	<u>Total</u>
<b>Blue Cross and Blue Shield:</b>			
Family	\$ 720	\$ 380	\$ 1,100
Single	479	118	597
<b>United Healthcare:</b>			
Family	\$ 801	\$ 515	\$ 1,316
Single	535	180	715

## 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 2007 was \$198,994, 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 and changes in the Unfunded Post employment Benefits Liability (Asset):

	<b>September 30, 2007</b>
Normal cost	\$ 40,017
30-year actuarial accrued liability amortization of medical and dental insurance	158,977
Annual required contribution	198,994
Interest on unfunded post employment benefits liability	0
Adjustments to the annual required contribution	0
Annual post employment benefits expense	198,994
Contributions made	0
Current year retiree premium	227,035
Increase in unfunded post employment benefits liability (asset)	(28,041)
Unfunded post employment benefits liability (asset) at beginning of year	(15,808)
Unfunded post employment benefits liability (asset) at end of year	\$ (43,849)

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) for the years ended September 30, 2006 and 2007:

<b>Fiscal Year Ended</b>	<b>Annual PEB Cost</b>	<b>Percentage of Annual Cost Contributed</b>	<b>Net Unfunded PEB Liability (Asset)</b>
September 30, 2006	\$ 198,994	108%	\$ (15,808)
September 30, 2007	198,994	114%	(43,849)

## City of Mountain Brook, Alabama

### Notes to Financial Statements

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

**Funded Status and Funding Progress.** In 2007, the City made no contributions to its post employment benefits plan trust since such a trust had not been established. The plan was not funded at all, has no assets, and hence has a funded ratio of zero. As of September 30, 2006, the first and most recent actuarial valuation, the actuarial accrued liability was \$1,972,724, which is defined as that portion, as determined by a particular actuarial cost method (the City uses the Unit Credit Cost Method), of the actuarial present value of post employment plan benefits and expenses which is not provided by normal cost (i.e., the cost of the actuarial present value of post employment benefits for active employees from their hire date through September 30, 2006, and for retired employees from their hire date through their date of retirement). Since the plan was not funded in 2007 or 2006, the entire actuarial accrued liability of \$1,972,724 was unfunded. The annual payroll of active employees covered by the plan, called the covered payroll, was \$11,546,000 for 2007. The ratio of the unfunded actuarial accrued liability to the covered payroll was 17.1%. (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 the Plan is unfunded, 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 - 55	10.0%
55 +	7.5%

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

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

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

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

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

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

**Schedule of Funding Progress for the Plan.**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
9/30/2006	\$ 0	\$ 1,972,724	\$ 1,972,724	0%	\$ 11,485,000	17.18%
9/30/2007	0	1,972,724	1,972,724	0%	11,546,000	17.10%

## 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 2007 were as follows:

	<b>Amount</b>
Property tax commissions	\$ 189,804
Jefferson County Department of Health	130,482
Maintenance of maps and appraisals	166,763
Personnel Board of Jefferson County	250,000
Birmingham-Jefferson County Transit Authority	78,724
Birmingham Regional Planning Commission	11,229

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, 2007, were \$26.84 per month for single and multiple family residential units and \$33.34 per month for commercial units. The annual cost incurred under this agreement for the year ended September 30, 2007, was approximately \$2,412,000. Total garbage service fee revenues collected by the City from its residents and commercial customers during the year were approximately \$463,000.

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

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

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

In connection with the Consortium's purchase of the property and adoption of restrictive covenants, the City of Birmingham (Birmingham) agreed to lease the adjoining zoo property to Birmingham Zoo, Inc. (BZI), a newly formed non-profit private corporation, for a period twenty-five (25) years with two, twenty-five year renewal options. In consideration of Birmingham's agreement to subsidize the operations of BZI and its commitment to leave the zoo at its present location, the Consortium agreed to pay Birmingham annual installments of \$300,000 commencing in fiscal 1999 for a period of 9-1/2 years. The City's share of the consortium commitment is \$100,000 annually through 2007 and \$16,667 on or before February 1, 2008.

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 \$5 million regardless of the actual costs incurred by the developer (which have been estimated to be \$8 million) and payable solely from a portion (50%) of the sales tax receipts realized by the City from the commercial development. Any portion of the \$5 million development agreement obligation not repaid after fifteen (15) years shall be cancelled. The fund financial statements include capital expenditures and a donation in the amount of \$1,652,643 for the year ended September 30, 2007.

The cumulative infrastructure costs incurred as of September 30, 2007 was \$5,289,438 which have been capitalized. As of September 30, 2007, the City's obligation under the terms of the development agreement totaled \$4,736,228 of which \$528,000 is reported as a current liability in the Government-Wide Statement of Net Assets. During 2007, the City paid \$263,772 under the terms of the development agreement.

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 2007, the City paid \$89,109 under the terms of the agreement.

**City of Mountain Brook, Alabama**

**Notes to Financial Statements**

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

Construction in progress (Note 4) at September 30, 2007 includes the following projects:

Drainage projects	\$ 380,084
Public facility improvements	194,072
Public parking	7,844
Crosswalks	18,773
Other	7,333
	<u>\$ 608,106</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 facility improvement projects include: 1) the razing and reconstruction of a substantial portion of the City's Public Works facility, 2) the relocation of Fire Station 1 and the related administrative offices, and 3) renovations of the existing Fire Station 1 facilities, Police building, and City Hall. The City has executed construction contracts for the Public Works facility totaling \$1.8 million. Construction is expected to commence in 2008 and be completed in 2009. There are no contracts or commitments for the renovations to the existing Fire, Police and City Hall facilities, public parking, crosswalks, 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.

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 value	\$ 108,088,282
Outstanding long-term debt as of September 30, 2007	<u>98,000</u>
Legal Debt Margin	<u>\$ 107,990,282</u>

## City of Mountain Brook, Alabama

### Notes to Financial Statements

#### 10. Litigation

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

#### 11. Subsequent event

On October 25, 2007, the City issued General Obligation Warrants, Series 2007 in the amount of \$5 million. The bonds mature annually beginning October 1, 2008 through 2027 plus interest on October 1 and April 1 each year at rates ranging from 3.875% to 4.0%.

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

<u>Year of Maturity</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 0	\$ 97,313	\$ 97,313
2009	170,000	191,332	361,332
2010	175,000	184,647	359,647
2011	180,000	177,769	357,769
2011	190,000	170,601	360,601
Thereafter	<u>4,285,000</u>	<u>1,482,044</u>	<u>5,767,044</u>
	<u>\$ 5,000,000</u>	<u>\$ 2,303,706</u>	<u>\$ 7,303,706</u>

**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, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues:</b>				
Taxes	\$ 23,917,606	\$ 24,429,606	\$ 25,237,920	\$ 808,314
Licenses and permits	2,839,600	2,920,900	3,246,474	325,574
Intergovernmental	49,538	49,538	40,544	(8,994)
Charges for services	932,441	932,441	979,998	47,557
Fines and forfeitures	621,000	621,000	597,961	(23,039)
Grants	39,850	46,045	51,434	5,389
Other operating revenues	393,940	563,940	814,912	250,972
<b>Total revenues</b>	<u>28,793,975</u>	<u>29,563,470</u>	<u>30,969,243</u>	<u>1,405,773</u>
<b>Expenditures:</b>				
General government	3,805,228	10,899,728	10,723,057	176,671
Public safety	11,469,561	11,507,341	10,972,546	534,795
Street and sanitation	5,562,168	5,562,168	5,378,476	183,692
Recreational	1,291,045	1,291,045	1,119,184	171,861
Library	2,221,542	2,221,542	2,248,826	(27,284)
<b>Total expenditures</b>	<u>24,349,544</u>	<u>31,481,824</u>	<u>30,442,089</u>	<u>1,039,735</u>
<b>Excess of revenues over expenditures</b>	<u>4,444,431</u>	<u>(1,918,354)</u>	<u>527,154</u>	<u>2,445,508</u>
<b>Other financing sources (uses):</b>				
Operating transfers in	6,000	7,256,000	7,006,000	(250,000)
Operating transfers (out)	(3,845,931)	(4,645,931)	(6,715,489)	(2,069,558)
Operating transfers in - component unit	17,000	17,000	69,582	52,582
Donations	63,500	63,500	68,045	4,545
<b>Total other financing (uses)</b>	<u>(3,759,431)</u>	<u>2,690,569</u>	<u>428,138</u>	<u>(2,262,431)</u>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	685,000	772,215	955,292	183,077
<b>Fund balances, beginning of year</b>	<u>5,527,099</u>	<u>5,527,099</u>	<u>5,527,099</u>	<u>0</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 6,212,099</u>	<u>\$ 6,299,314</u>	<u>\$ 6,482,391</u>	<u>\$ 183,077</u>

See accompanying notes to basic financial statements.

City of Mountain Brook, Alabama

Notes to Required Supplementary Information

**1. Summary of significant accounting policies**

A. Budgets and budgetary accounting

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

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

Budget information presented in the financial statements is based on the budget as amended by the City Council on June 25, 2007 (Resolution 07-090).



**SUPPLEMENTARY INFORMATION**

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City of Mountain Brook, Alabama

Combining Balance Sheet  
Other Governmental Funds  
September 30, 2007

State Shared Gasoline Tax Funds

	<u>Seven Cent</u>	<u>Four Cent</u>	<u>Five Cent</u>	<u>Two Cent</u>
<b>ASSETS</b>				
Cash and temporary investments	\$ 121,374	\$ 348,003	\$ 108,385	\$ 21,380
Receivables	<u>20,091</u>	<u>11,653</u>	<u>5,740</u>	<u>0</u>
<b>TOTAL ASSETS</b>	<u>\$ 141,465</u>	<u>\$ 359,656</u>	<u>\$ 114,125</u>	<u>\$ 21,380</u>
<b>LIABILITIES</b>				
Accounts payable	\$ <u>0</u>	\$ <u>12,301</u>	\$ <u>60,000</u>	\$ <u>3,562</u>
<b>Total liabilities</b>	<u>0</u>	<u>12,301</u>	<u>60,000</u>	<u>3,562</u>
<b>FUND EQUITY</b>				
Fund balance:				
Unreserved	<u>141,465</u>	<u>347,355</u>	<u>54,125</u>	<u>17,818</u>
<b>Total fund equity</b>	<u>141,465</u>	<u>347,355</u>	<u>54,125</u>	<u>17,818</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$ 141,465</u>	<u>\$ 359,656</u>	<u>\$ 114,125</u>	<u>\$ 21,380</u>

<u>Emergency Com- munication District</u>	<u>Drug Asset</u>	<u>D.A.R.E. Program</u>	<u>Com- munity Fund</u>	<u>Correc- tions Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
\$ 531,771	\$ 3,950	\$ 3,842	\$ (2,778)	\$ 6,130	\$ 1,628,131	\$ 2,770,188
<u>10,954</u>	<u>0</u>	<u>0</u>	<u>64,945</u>	<u>0</u>	<u>0</u>	<u>113,383</u>
<u>\$ 542,725</u>	<u>\$ 3,950</u>	<u>\$ 3,842</u>	<u>\$ 62,167</u>	<u>\$ 6,130</u>	<u>\$ 1,628,131</u>	<u>\$ 2,883,571</u>
\$ 130	\$ 0	\$ 0	\$ 1,378	\$ 6,130	\$ 0	\$ 83,501
<u>130</u>	<u>0</u>	<u>0</u>	<u>1,378</u>	<u>6,130</u>	<u>0</u>	<u>83,501</u>
<u>542,595</u>	<u>3,950</u>	<u>3,842</u>	<u>60,789</u>	<u>0</u>	<u>1,628,131</u>	<u>2,800,070</u>
<u>542,595</u>	<u>3,950</u>	<u>3,842</u>	<u>60,789</u>	<u>0</u>	<u>1,628,131</u>	<u>2,800,070</u>
<u>\$ 542,725</u>	<u>\$ 3,950</u>	<u>\$ 3,842</u>	<u>\$ 62,167</u>	<u>\$ 6,130</u>	<u>\$ 1,628,131</u>	<u>\$ 2,883,571</u>

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**City of Mountain Brook, Alabama**

**Combining Statement of Revenues, Expenditures and Changes  
in Fund Balances - Other Governmental Funds  
For the Year Ended September 30, 2007**

**State Shared Gasoline Tax Funds**

	<b>Seven Cent</b>	<b>Four Cent</b>	<b>Five Cent</b>	<b>Two Cent</b>
<b>Revenues:</b>				
Taxes	\$ 205,700	\$ 140,393	\$ 65,098	\$ 1,643
Intergovernmental	0	0	0	0
Charges for services	0	0	0	0
Fines and forfeitures	0	0	0	0
Other operating revenues:				
Investment earnings	156,073	16,201	4,171	1,088
<b>Total revenues</b>	<u>361,773</u>	<u>156,594</u>	<u>69,269</u>	<u>2,731</u>
<b>Expenditures:</b>				
General government	0	0	0	0
Public safety	0	0	0	0
Street and sanitation	500,000	37,533	60,000	3,562
Recreational	0	0	0	0
Debt service	0	0	0	0
<b>Total expenditures</b>	<u>500,000</u>	<u>37,533</u>	<u>60,000</u>	<u>3,562</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(138,227)</u>	<u>119,061</u>	<u>9,269</u>	<u>(831)</u>
<b>Other financing sources (uses):</b>				
Operating transfers in	150,000	0	0	0
Operating transfers out	0	0	0	0
Donations	0	0	0	0
<b>Total other financing sources (uses)</b>	<u>150,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	11,773	119,061	9,269	(831)
<b>Fund balances, beginning of year</b>	<u>129,692</u>	<u>228,294</u>	<u>44,856</u>	<u>18,649</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 141,465</u>	<u>\$ 347,355</u>	<u>\$ 54,125</u>	<u>\$ 17,818</u>

See notes to financial statements.

Emergency Com- munication District	Drug Asset	D.A.R.E. Program	Com- munity Fund	Correc- tions Fund	Debt Service Fund	Totals
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	412,834
0	0	0	32,473	0	0	32,473
213,153	0	0	32,472	0	0	245,625
0	2,559	0	0	152,445	0	155,004
<u>26,556</u>	<u>0</u>	<u>0</u>	<u>4,420</u>	<u>0</u>	<u>288,317</u>	<u>496,826</u>
<u>239,709</u>	<u>2,559</u>	<u>0</u>	<u>69,365</u>	<u>152,445</u>	<u>288,317</u>	<u>1,342,762</u>
0	0	0	0	225,474	0	225,474
160,960	0	129,770	0	96,539	0	387,269
0	0	0	0	0	0	601,095
0	0	0	167,976	0	0	167,976
0	0	0	0	0	105,301	105,301
<u>160,960</u>	<u>0</u>	<u>129,770</u>	<u>167,976</u>	<u>322,013</u>	<u>105,301</u>	<u>1,487,115</u>
<u>78,749</u>	<u>2,559</u>	<u>(129,770)</u>	<u>(98,611)</u>	<u>(169,568)</u>	<u>183,016</u>	<u>(144,353)</u>
0	0	85,321	0	169,568	105,301	510,190
0	0	0	(117,176)	0	(7,000,000)	(7,117,176)
0	0	0	174,693	0	0	174,693
<u>0</u>	<u>0</u>	<u>85,321</u>	<u>57,517</u>	<u>169,568</u>	<u>(6,894,699)</u>	<u>(6,432,293)</u>
78,749	2,559	(44,449)	(41,094)	0	(6,711,683)	(6,576,646)
<u>463,846</u>	<u>1,391</u>	<u>48,291</u>	<u>101,883</u>	<u>0</u>	<u>8,339,814</u>	<u>9,376,716</u>
<u>\$ 542,595</u>	<u>\$ 3,950</u>	<u>\$ 3,842</u>	<u>\$ 60,789</u>	<u>\$ 0</u>	<u>\$ 1,628,131</u>	<u>\$ 2,800,070</u>



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**City of Mountain Brook, Alabama**

**Combining Balance Sheet - Capital Projects Funds  
September 30, 2007**

	<u>City Capital Projects</u>	<u>Village Improvements (One Cent Sales Tax)</u>	<u>Sewer Projects</u>
<b>ASSETS</b>			
Cash and temporary investments	\$ 17,289,364	\$ 1,785,006	\$ 104,168
Receivables	<u>0</u>	<u>42,905</u>	<u>0</u>
<b>TOTAL ASSETS</b>	\$ <u>17,289,364</u>	\$ <u>1,827,911</u>	\$ <u>104,168</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 86,470	\$ 31,257	\$ 0
Other liabilities	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total liabilities</b>	<u>86,470</u>	<u>31,257</u>	<u>0</u>
<b>FUND EQUITY</b>			
Fund balance	<u>17,202,894</u>	<u>1,796,654</u>	<u>104,168</u>
<b>Total fund equity</b>	<u>17,202,894</u>	<u>1,796,654</u>	<u>104,168</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	\$ <u>17,289,364</u>	\$ <u>1,827,911</u>	\$ <u>104,168</u>

See notes to financial statements.

<u>Village Trail System (ISTEA)</u>	<u>Totals</u>
\$ (330,769)	\$ 18,847,769
<u>532,837</u>	<u>575,742</u>
\$ <u>202,068</u>	\$ <u>19,423,511</u>

\$ 202,068	\$ 319,795
<u>0</u>	<u>0</u>
<u>202,068</u>	<u>319,795</u>
<u>0</u>	<u>19,103,716</u>
<u>0</u>	<u>19,103,716</u>
\$ <u>202,068</u>	\$ <u>19,423,511</u>



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**City of Mountain Brook, Alabama**

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Capital Projects Funds  
For the Year Ended September 30, 2007**

	<b>City Capital Projects</b>	<b>Village Improvement (One Cent Sales Tax)</b>	<b>Sewer Projects</b>
<b>Revenues:</b>			
Revenues - grants	\$ 0	\$ 249,918	\$ 0
Investment earnings	720,476	99,908	5,459
Miscellaneous	11,334	0	0
<b>Total revenues</b>	<u>731,810</u>	<u>349,826</u>	<u>5,459</u>
<b>Expenditures:</b>			
General government	122,486	0	0
Public safety	1,130,735	0	0
Street and sanitation	594,646	2,572,204	0
Recreational	15,133	0	0
Library	36,505	0	0
<b>Total expenditures</b>	<u>1,899,505</u>	<u>2,572,204</u>	<u>0</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(1,167,695)</u>	<u>(2,222,378)</u>	<u>5,459</u>
<b>Other financing sources:</b>			
Operating transfers in	5,770,127	309,300	0
Operating transfers (out)	0	0	0
Donations	0	1,765,144	0
<b>Total other financing sources</b>	<u>5,770,127</u>	<u>2,074,444</u>	<u>0</u>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	4,602,432	(147,934)	5,459
<b>Fund balances, beginning of year</b>	<u>12,600,462</u>	<u>1,944,588</u>	<u>98,709</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 17,202,894</u>	<u>\$ 1,796,654</u>	<u>\$ 104,168</u>

See notes to financial statements.

<u>Village Trail System (ISTEA)</u>	<u>Totals</u>
\$ 831,693	\$ 1,081,611
0	825,843
0	11,334
<u>831,693</u>	<u>1,918,788</u>
0	122,486
0	1,130,735
1,027,434	4,194,284
41,307	56,440
0	36,505
<u>1,068,741</u>	<u>5,540,450</u>
<u>(237,048)</u>	<u>(3,621,662)</u>
237,048	6,316,475
0	0
0	1,765,144
<u>237,048</u>	<u>8,081,619</u>
0	4,459,957
0	14,643,759
<u>\$ 0</u>	<u>\$ 19,103,716</u>



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**City of Mountain Brook, Alabama**

**Schedule of General Fund Revenues by Source  
For the Years Ended September 30, 1998 to 2007**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<b>Taxes</b>				
Real property	\$ 6,171,581	\$ 6,316,472	\$ 8,003,594	\$ 8,100,952
Sales and use	5,514,754	5,603,635	5,671,220	5,564,912
Occupational	1,649,459	1,769,634	1,184,120	938,199
Utility	786,231	822,806	813,776	885,880
Personal property (automobiles)	651,542	735,010	845,199	940,088
Road and bridge	250,543	260,666	327,986	334,790
Other	660,409	624,280	548,064	700,188
<b>Total taxes</b>	<u>15,684,519</u>	<u>16,132,503</u>	<u>17,393,959</u>	<u>17,465,009</u>
<b>Licenses and permits</b>				
Business	1,727,688	1,694,072	1,598,265	1,565,134
Construction permits	397,665	348,737	469,291	478,476
Cable TV franchise fees	192,935	178,655	185,652	192,000
Waterworks Board	92,039	105,794	119,827	118,368
Other	49,784	51,138	48,622	48,608
<b>Total licenses and permits</b>	<u>2,460,111</u>	<u>2,378,396</u>	<u>2,421,657</u>	<u>2,402,586</u>
<b>Intergovernmental</b>	<u>115,895</u>	<u>30,383</u>	<u>71,288</u>	<u>70,132</u>
<b>Charges for services</b>				
Garbage fees	1,323,450	1,305,134	1,329,942	1,414,817
Other	377,131	377,442	582,955	997,159
<b>Total charges for services</b>	<u>1,700,581</u>	<u>1,682,576</u>	<u>1,912,897</u>	<u>2,411,976</u>
<b>Fines and forfeitures - court</b>	<u>306,312</u>	<u>294,946</u>	<u>256,604</u>	<u>287,425</u>
<b>Grants</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>12,500</u>
<b>Other operating revenue</b>				
Investment earnings	354,697	284,592	405,151	428,710
Other	241,407	141,117	243,628	283,182
<b>Total other operating revenue</b>	<u>596,104</u>	<u>425,709</u>	<u>648,779</u>	<u>711,892</u>
<b>TOTAL REVENUES</b>	<u>\$ 20,863,522</u>	<u>\$ 20,944,513</u>	<u>\$ 22,705,184</u>	<u>\$ 23,361,520</u>

See notes to financial statements.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
\$	8,177,532	\$ 8,422,094	\$ 10,244,362	\$ 11,094,902	\$ 11,976,292	\$ 13,181,868
	5,506,591	5,701,970	6,086,944	6,534,289	7,033,452	7,829,375
	945,302	905,432	929,454	939,127	248,283	1,475
	1,007,657	941,086	953,228	992,143	1,088,234	1,266,253
	967,329	1,054,267	1,076,449	1,108,807	1,131,386	1,139,952
	340,021	351,477	425,985	460,216	497,326	543,682
	931,057	974,690	1,072,439	1,053,130	1,316,806	1,275,315
	<u>17,875,489</u>	<u>18,351,016</u>	<u>20,788,861</u>	<u>22,182,614</u>	<u>23,291,779</u>	<u>25,237,920</u>
	1,632,925	1,567,743	1,647,641	1,756,226	1,729,727	1,872,058
	380,206	413,416	667,971	519,277	893,161	851,266
	218,235	223,181	245,986	257,695	282,379	300,204
	96,938	124,717	115,220	123,202	137,964	161,961
	47,100	51,380	55,717	55,535	60,966	60,985
	<u>2,375,404</u>	<u>2,380,437</u>	<u>2,732,535</u>	<u>2,711,935</u>	<u>3,104,197</u>	<u>3,246,474</u>
	<u>36,297</u>	<u>37,248</u>	<u>40,430</u>	<u>41,736</u>	<u>50,517</u>	<u>40,544</u>
	1,459,625	1,443,383	1,526,500	1,573,788	1,604,281	462,747
	711,632	508,902	481,656	486,567	486,385	517,251
	<u>2,171,257</u>	<u>1,952,285</u>	<u>2,008,156</u>	<u>2,060,355</u>	<u>2,090,666</u>	<u>979,998</u>
	<u>298,824</u>	<u>364,031</u>	<u>496,457</u>	<u>587,397</u>	<u>623,579</u>	<u>597,961</u>
	<u>5,738</u>	<u>32,748</u>	<u>172,338</u>	<u>1,907,290</u>	<u>73,278</u>	<u>51,434</u>
	268,893	235,998	126,245	141,783	235,866	653,609
	238,153	245,403	241,746	247,971	325,757	161,303
	<u>507,046</u>	<u>481,401</u>	<u>367,991</u>	<u>389,754</u>	<u>561,623</u>	<u>814,912</u>
\$	<u><u>23,270,055</u></u>	<u><u>23,599,166</u></u>	<u><u>26,606,768</u></u>	<u><u>29,881,081</u></u>	<u><u>29,795,639</u></u>	<u><u>30,969,243</u></u>



## City of Mountain Brook, Alabama

**Comparative Balance Sheet - General Fund**  
**September 30, 2007**  
 (With Comparative Totals for September 30, 2006)

	2007	2006
<b>ASSETS</b>		
Cash and temporary investments	\$ 7,514,084	\$ 6,898,176
Receivables	1,689,250	1,610,549
Due from related organizations	40,544	44,581
Inventory and prepaid expenses	50,868	44,132
<b>TOTAL ASSETS</b>	<b>\$ 9,294,746</b>	<b>\$ 8,597,438</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 949,640	\$ 1,029,281
Accrued salaries and wages	813,430	777,473
Due to related organizations	104,895	103,463
Other liabilities	944,390	966,408
Accrued compensated absences	0	193,714
<b>TOTAL LIABILITIES</b>	<b>2,812,355</b>	<b>3,070,339</b>
<b>FUND EQUITY</b>		
Fund balance:		
Reserve for inventory and prepaid expense	50,868	44,132
Reserved	108,301	122,726
Unreserved	6,323,222	5,360,241
<b>TOTAL FUND EQUITY</b>	<b>6,482,391</b>	<b>5,527,099</b>
 <b>TOTAL LIABILITIES AND FUND EQUITY</b>	 <b>\$ 9,294,746</b>	 <b>\$ 8,597,438</b>

See notes to financial statements.

City of Mountain Brook, Alabama

Comparative Balance Sheet - Capital Projects Fund  
September 30, 2007  
(With Comparative Totals for September 30, 2006)

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Cash and temporary investments	\$ 18,847,769	\$ 15,274,880
Receivables	<u>575,742</u>	<u>31,163</u>
<b>TOTAL ASSETS</b>	<u>\$ 19,423,511</u>	<u>\$ 15,306,043</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 319,795	\$ 549,784
Other liabilities	<u>0</u>	<u>112,500</u>
<b>TOTAL LIABILITIES</b>	<u>319,795</u>	<u>662,284</u>
<b>FUND EQUITY</b>		
Fund balance:		
Unreserved	<u>19,103,716</u>	<u>14,643,759</u>
<b>TOTAL FUND EQUITY</b>	<u>19,103,716</u>	<u>14,643,759</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$ 19,423,511</u>	<u>\$ 15,306,043</u>

See notes to financial statements.

## City of Mountain Brook, Alabama

**Comparative Statement of Revenues, Expenditures and  
Changes in Fund Balances - General Fund  
For the year ended September 30, 2007  
(With Comparative Totals for September 30, 2006)**

	<u>2007</u>	<u>2006</u>
<b>Revenues:</b>		
Taxes	\$ 25,237,920	\$ 23,291,779
Licenses and permits	3,246,474	3,104,197
Intergovernmental	40,544	50,517
Charges for services	979,998	2,090,666
Fines and forfeitures	597,961	623,579
Grants	51,434	73,278
Other operating revenues	814,912	561,623
<b>Total revenues</b>	<u>30,969,243</u>	<u>29,795,639</u>
<b>Expenditures:</b>		
<b>Current (operating):</b>		
General government	10,723,057	4,648,377
Public safety	10,972,546	10,767,527
Street and sanitation	5,378,476	5,344,269
Recreational	1,119,184	1,017,915
Library	2,248,826	2,074,012
<b>Total expenditures</b>	<u>30,442,089</u>	<u>23,852,100</u>
<b>Excess of revenues over expenditures</b>	<u>527,154</u>	<u>5,943,539</u>
<b>Other financing sources (uses):</b>		
Operating transfers in	7,006,000	37,710
Operating transfers out	(6,715,489)	(5,316,624)
Operating transfers in - component unit	69,582	45,383
Donations	68,045	72,477
<b>Total other financing (uses)</b>	<u>428,138</u>	<u>(5,161,054)</u>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	955,292	782,485
<b>Fund balances, beginning of year</b>	<u>5,527,099</u>	<u>4,744,614</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 6,482,391</u>	<u>\$ 5,527,099</u>

See notes to financial statements.

## City of Mountain Brook, Alabama

**Comparative Statement of Revenues, Expenditures and  
Changes in Fund Balances - Capital Projects Fund  
For the Year Ended September 30, 2007  
(With Comparative Totals for September 30, 2006)**

	<u>2007</u>	<u>2006</u>
<b>Revenues:</b>		
Grants	\$ 1,081,611	\$ 258,451
Other operating revenues	837,177	1,720,351
<b>Total revenues</b>	<u>1,918,788</u>	<u>1,978,802</u>
<b>Expenditures:</b>		
General government	122,486	288,468
Public safety	1,130,735	1,434,635
Street and sanitation	4,194,284	2,557,639
Recreational	56,440	99,625
Library	36,505	40,293
<b>Total expenditures</b>	<u>5,540,450</u>	<u>4,420,660</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(3,621,662)</u>	<u>(2,441,858)</u>
<b>Other financing sources:</b>		
Operating transfers in	6,316,475	4,327,977
Operating transfers (out)	0	(1,465,000)
Donations	1,765,144	1,495,118
<b>Total other financing sources</b>	<u>8,081,619</u>	<u>4,358,095</u>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	4,459,957	1,916,237
<b>Fund balances, beginning of year</b>	<u>14,643,759</u>	<u>12,727,522</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 19,103,716</u>	<u>\$ 14,643,759</u>

See notes to financial statements.

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



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

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

We have audited the financial statements of the City of Mountain Brook, Alabama (the City) as of and for the year ended September 30, 2007, and have issued our report thereon dated February 23, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting: 2007-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

### **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 or other matters that are required to be reported under *Government Auditing Standards*.

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the organization, and the State of Alabama Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties.

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

Birmingham, Alabama  
February 23, 2008

**Independent Auditors' Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control  
Over Compliance in Accordance with OMB A-133**



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**Independent Auditors' Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control  
Over Compliance in Accordance with OMB A-133**

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

**Compliance**

We have audited the compliance of the City of Mountain Brook, Alabama (the City) with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended September 30, 2007. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

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### **Internal Control Over Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the organization, the State of Alabama Department of Transportation 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.

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

Birmingham, Alabama  
February 23, 2008

City of Mountain Brook, Alabama

Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2007

<u>Description</u>	<u>Federal CFDA Number</u>	<u>Total Grant Award</u>	<u>Federal Expend- itures</u>
<b><u>U.S. Department of Transportation</u></b>			
<i>Passed through State Dept. of Transportation</i>			
Phase V of the Village Trail System	20.205	\$ 958,177	\$ 831,693
<b><u>U.S. Department of Agriculture</u></b>			
<b><u>Forest Service</u></b>			
Urban and Community Forestry Grant	10.664	35,065	30,836
<b><u>Federal Emergency Management Agency</u></b>			
Hazard Mitigation Funds	97.039	459,385	99,918
Disaster Relief Assistance	83.534	32,311	4,261
<b>Total Federal Emergency Management Agency</b>		<u>491,696</u>	<u>104,179</u>
<b>TOTAL FEDERAL AWARDS</b>		<u>\$ 1,484,938</u>	<u>\$ 966,708</u>

**City of Mountain Brook, Alabama**

**Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2007**

**Basis of presentation and accounting**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Mountain Brook, Alabama (the City) and is presented on the modified accrual basis of accounting, which is described in Note 1 to the City's financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**City of Mountain Brook, Alabama**

**Schedule of Findings and Questioned Costs**

**City of Mountain Brook, Alabama  
Schedule of Findings and Questioned Costs  
Year Ended September 30, 2007**

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

**Financial statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	_____ yes	_____ <u>x</u> no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ <u>x</u> yes	_____ none reported

Noncompliance material to financial statements noted?

	_____ yes	_____ <u>x</u> no
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**Federal awards**

Internal control over major programs:

Material weakness(es) identified?	_____ yes	_____ <u>x</u> no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ yes	_____ <u>x</u> none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

	_____ yes	_____ <u>x</u> no
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Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
20.205	U.S. Department of Transportation

Dollar threshold used to distinguish between Type A and Type B programs \$ 300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes \_\_\_\_\_ x no

**City of Mountain Brook, Alabama**  
**Schedule of Findings and Questioned Costs (continued)**  
**Year Ended September 30, 2007**

**Section II - Financial Statement Findings**

**Significant Deficiency**

**2007-1 Segregation of Duties**

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition: There is a lack of segregation of duties among City personnel.

Cause: There are a limited number of personnel for certain functions.

Recommendation: The duties should be separated as much as possible, and alternative controls should be used to compensate for lack of separation.

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 plans on hiring a part-time employee to help mitigate this condition.

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

There were no matters to be reported.

