

*CITY OF FAIRHOPE, ALABAMA*

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

**PREPARED BY:  
THE OFFICE OF THE FINANCE DIRECTOR**

CITY OF FAIRHOPE, ALABAMA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2012

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## **INTRODUCTORY SECTION**

center, a public golf course, indoor and outdoor swimming pools, a tennis complex, a skate park, a pet park, and many cultural events.

## **ECONOMIC CONDITION AND OUTLOOK**

The City of Fairhope showed significant economic growth during the year. The revenue from new construction and building permits, inspection and impact fees increased over 45% from the prior year. Total revenue from these key economic indicators was \$931,385 for the year, an increase of \$291,436.

Fairhope enjoys a strong sense of community ownership and responsibility among City officials and local citizens, resulting in active community participation and involvement in all current City projects and issues. Clean industry within the City supports health services and higher education. In addition, Fairhope gains strong economic stability from the significant industrial and commercial development in surrounding Baldwin County cities and in neighboring Mobile County. Austal Shipbuilding and the newly-acquired Airbus aircraft manufacturer, both located within 30 miles of Fairhope, promise to positively impact commercial growth and property values in our area. These factors, along with citizen involvement in planning, and strong city management provide strength and promise for continued economic good health for the City of Fairhope.

## **MAJOR INITIATIVES**

For the Year:

Sales tax receipts for the fiscal year totaled over \$4.89 million, exceeding the budgeted projection by approximately \$148,000. As part of the sales tax ordinance, one half of each month's sales tax receipts must go into reserves, to be used for debt prepayment and capital improvements, as authorized by the City Council. The sales tax reserve account balance at fiscal year-end totaled \$7 million.

Fairhope and surrounding Eastern Shore and Gulf coast cities continue to enjoy increasing revenues from tourism and corporate functions. Lodging tax and sales tax receipts, major indicators of tourism, remained strong during 2012, increasing 14.8% and 6.7%, respectively, over the prior year. The Mayor, City Council, and City department heads continue to strive to adhere to the City's established goals in planning for continuing growth, and in

maintaining the quality of life and the highest level of governmental services to all residents in the City.

Fairhope and other small cities in Baldwin County were somewhat buffered from the national economic downturn due to high percentages of resident retirees and by the majority of service, health, and education employers. At fiscal year end, the unemployment rate for Baldwin County was 6.3%, while the rate for the State as a whole was 7.5%, which closely followed the national unemployment rate in September, 2012. Both Mobile and Pensacola, neighboring cities to the west and to the east, matched the State rate of 7.5%.

The Finance Department was once again awarded the Certificate of Achievement for Excellence in Financial Reporting for its CAFR for the fiscal year 2011, by the Government Finance Officers Association (GFOA) of the United States and Canada. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to be considered for another certificate.

#### For The Future:

The City continues its focus on improvements to existing infrastructure for drainage, streets and the utilities, along with dependable excellent government services, with maximum efficiency and fiduciary responsibility. The budget for the fiscal year 2013 contains over \$5.8 million in the General, Capital Projects, Gas Tax, and Utility Funds for capital purchases, infrastructure improvements, and special projects throughout the City, as well as a decrease in transfers to 50% of operating income from the Enterprise funds into the General fund. Other improvements being completed in the next year include implementation of the new computer software program for the City. A portion of the sales tax reserve fund will be used to prepay \$2.4 million in General fund debt in the upcoming fiscal year. The Fairhope Airport Authority has plans for a \$2 million Aviation Training Center to be constructed at the Fairhope Airport to provide local flight training through cooperation between the Authority and local colleges. This endeavor goes hand-in-hand with the significant growth in the aircraft manufacturing and aerospace industries in neighboring Mobile county.

## **ENTERPRISE FUNDS HIGHLIGHTS**

The City's Enterprise funds, made up of Natural Gas, Electric, Water and Waste Water, recorded a combined increase in net assets of \$2,320,001 for the year, after transfers of \$4.17 million to support the General fund. Transfers to support the General fund represented 56% of the enterprise funds' operating income before transfers. The Enterprise funds expended over \$2.3 million in capital purchases, funded by operating income and reserves designated for capital purchases. Cash and cash equivalents in the Enterprise funds totaled \$11,849,294 at year-end, a decrease of 2% from the prior year. A ten-year old Utility Revenue Warrant was refunded at the beginning of the fiscal year to take advantage of lower interest rates, and this resulted in a reduction of \$1,436,163 in total debt service requirements for the Enterprise Funds. As part of this refunding, the Water/Waste Water Fund incurred \$8.6 million in new debt for up-grades and increased capacity for the Waste Water Treatment Plant. Total long-term debt at year-end for the Enterprise Funds was \$23,351,260, an increase of \$8,184,267. The City historically has used a short-term line of credit each year for use in funding the seasonally high electric power costs during the summer months, however this has not been necessary for the past four fiscal years. Gas line infrastructure was extended into growing areas and major electrical upgrades and improvements were completed. There are currently no plans for additional new debt for the Enterprise Funds.

## **GOVERNMENTAL FUNDS HIGHLIGHTS**

The Governmental funds are comprised of General, Capital Projects, Debt Service, and Special Revenue funds. The General Fund supports the General Administration, Police and Fire, Adult and Youth Recreation, Quail Creek Golf Course, Streets, Sanitation, and other department budgets providing City services. The Governmental Funds experienced a net surplus of \$2,226,652 for the fiscal year, including receipt of \$4.17 million in transfers from the utilities during the year. Total revenues in the General Fund, before utility transfers, increased by \$1,515,769 from the prior year. Operating expenses in the Governmental fund during the 2012 fiscal year increased by \$5,454,442, mainly due to the pay-off of a General Obligation Warrant. Capital purchases and improvements in the Governmental Fund totaled \$664,526.

The Governmental Fund Balance was \$10,580,412 at year-end, representing an increase of \$2.23 million over the prior year. Total General Fund cash was



\$11,659,785 at year-end, an increase of 43% over the prior year. Total long-term debt of the Governmental Funds at year-end was \$14,200,481, a decrease of \$765,311. A ten-year old General Obligation Warrant was refunded which resulted in an \$894,885 decrease in total debt service requirements for the General Fund. No new debt is anticipated for the Governmental Funds.

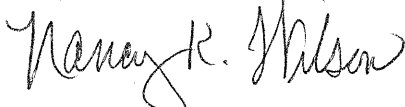
#### **INDEPENDENT AUDIT**

Alabama State law requires an annual audit by independent Certified Public Accountants. The accounting firm of Hartmann, Blackmon & Kilgore, P.C., was selected by the City to perform the audit. The Independent Auditors' Report on the basic financial statements is included in the financial section of this report.

The preparation of the CAFR on a timely basis has been accomplished with the efficient and dedicated service of the entire staff of the Finance and the Treasury Departments.

Preparation of this report would not have been possible without the leadership and support of the Mayor and City Council.

Respectfully submitted,

A handwritten signature in cursive script that reads "Nancy K. Wilson".

Nancy K. Wilson, CPA, MAc  
City Treasurer

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## City of Fairhope Alabama

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



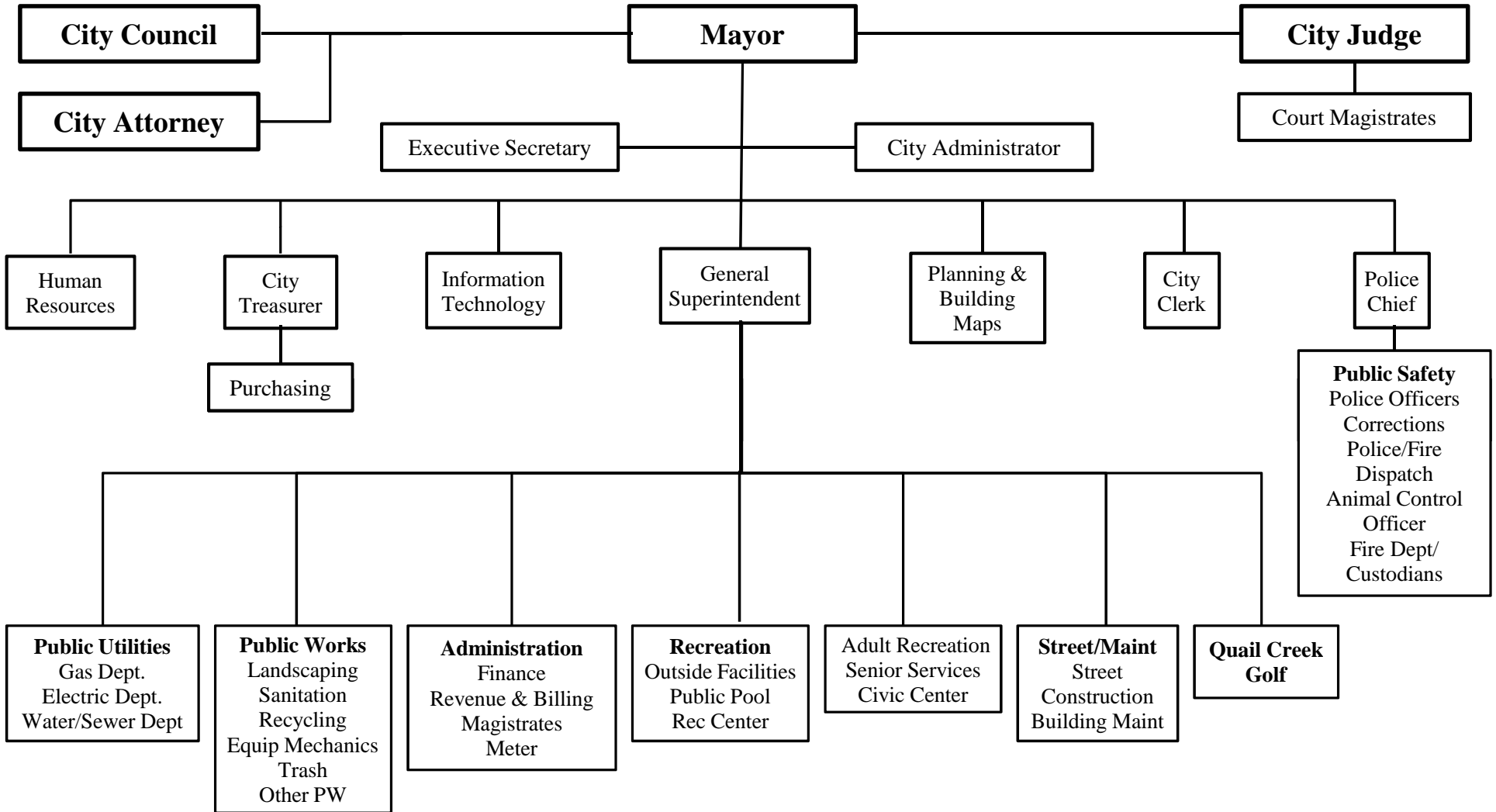
*Christopher P. Morill*

President

*Jeffrey R. Emer*

Executive Director

CITY OF FAIRHOPE, ALABAMA  
CITY ELECTED AND APPOINTED OFFICIALS  
SEPTEMBER 30, 2012

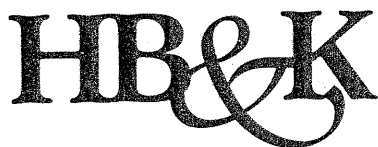


CITY OF FAIRHOPE, ALABAMA  
CITY ELECTED AND APPOINTED OFFICIALS  
SEPTEMBER 30, 2012

Timothy M. Kant, ACO	Mayor
Michael A. Ford, ACO	Councilmember
Rick Kingrea	Councilmember
Lonnie L. Mixon	Councilmember
Debbie W. Quinn, ACO	Councilmember
Daniel R. Stankoski, CO	Councilmember
Lisa Hanks	City Clerk
Nancy K. Wilson, CPA	City Treasurer
Bill D. Press	Police Chief
Marion E. Wynne, Jr.	City Attorney
Honorable Haymes Snedeker	City Judge

## **FINANCIAL SECTION**

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Hartmann, Blackmon & Kilgore, P.C.  
Certified Public Accountants & Consultants

Xavier A. Hartmann, III, CPA  
Rucker T. Taylor, III, CPA  
J. Earl Blackmon, Jr., CPA  
B. Vance Kilgore, CPA  
Sally S. Wagner, CPA  
Dennis E. Sherrin, CPA, CVA  
Melissa M. Thomas, CPA

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## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of the City Council  
City of Fairhope, Alabama

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fairhope, Alabama, as of September 30, 2012, and for the year then ended, 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 of Fairhope, Alabama's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fairhope, Alabama, as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have issued a report dated January 18, 2013 on our consideration of the City of Fairhope, Alabama's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 - 13 and the required supplementary information on pages 50 - 53 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We 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 of Fairhope, Alabama's basic financial statements. The introductory section, other supplementary information and the statistical information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on them.

*Hartmann, Blackburn & Kilgore, P.C.*  
Certified Public Accountants

January 18, 2013  
Fairhope, Alabama



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Fairhope's (the "City") financial performance provides a narrative overview of the City's financial activities for the fiscal year ended September 30, 2012. The intent of this Management Discussion and Analysis (MD&A) is to review the City's financial performance as a whole. Please read it in conjunction with the City's financial reports, which follow this section and the additional information furnished in the letter of transmittal, which can be found in the introductory section of this comprehensive annual financial report (CAFR).

### FINANCIAL HIGHLIGHTS

- Assets of the City exceeded its liabilities at the close of the fiscal year by \$114,464,317, a current year increase in net assets of \$3,304,451 (pages 14 and 15).
- At the close of the fiscal year, the City's combined governmental funds, including General, Capital Projects and Other Governmental Funds, reported ending fund balances totaling \$10,580,412, an increase of \$2,226,652 from the prior year. The General Fund closed with a fund balance of \$10,295,547, an increase of \$3,135,392. The Capital Projects Fund had a decrease in fund balance of \$1,745,223 after capital expenditures of \$2,045,667 and transfers from the General Fund of \$84,504 (page 18). A detailed explanation of these increases can be viewed on page six of this Management's Discussion and Analysis (MD&A).
- City-wide, governmental and business type funds cash (including restricted cash) totaled \$36,137,595, an increase of \$13,885,708 over the previous year. Governmental Funds cash totaled \$11,951,254 at September 30, 2012 (page 14). This is an increase of \$3,495,145 over the prior year. Most of the increase, approximately \$2 million, was from sales tax receipts. The business type funds cash totaled \$24,186,341 at year end (page 20), an increase of \$10,390,563 over last year. This increase was mainly due to unspent proceeds from the \$8.6 million of additional borrowings received when issuing the Utilities Revenue Warrant Series 2011. See additional information discussed under the debt administration section on page eight of this MD&A. Revenues in the governmental funds increased \$1.5 million from the previous year. Expenses increased \$5.5 million. However \$4.2 million of that amount was the refunding of the 2002 General Obligation Warrants, resulting in a net increase of operating expenses of \$1.3 million (**Figure 3**, page 11).
- During fiscal 2012, revenues from the City's 2% sales tax totaled \$4,898,362, an increase of approximately \$308,000 over the previous year. In November 2011, the City Council amended the ordinance allocating sales tax revenues. Fifty percent of sales tax revenues in excess of \$7 million have been designated for debt payment. These funds are stipulated for debt prepayment and are to be used only for prepayment of existing debt of the General fund. The remaining fifty percent in excess of \$7 million has been designated for infrastructure improvement. These funds are to be used only for improvements to City streets, sidewalks, and parks and buildings. The amount of these reserved funds at September 30, 2012 was \$7,000,000 (pages 14 and 16).
- The combined governmental funds expended \$664,526 for capital projects and purchases, including \$84,881 for special projects, \$81,377 of impact fee revenues for recreation projects and \$498,268 for vehicles, equipment and other infrastructure additions.
- The business-type activities, Gas, Electric, Water and Waste Water activities, ended the year with income before transfers of \$6,493,803, compared to \$9,839,682 for fiscal 2011. Although revenues decreased approximately \$3.4 million, costs of energy and operating expenses also decreased about \$285,000. The utilities made transfers to the General Fund of \$4,173,802 from income. The business-type activities recorded an increase in net assets, after transfers, of \$2,320,001 (page 21). Details pertaining to these increases can be seen on pages six and seven of this MD&A.
- The City's business-type activities made additions to property, plant and equipment of \$2,393,623. Funding for these additions was prior debt issues, current income and money set aside for this purpose. The business-type activities increased long-term debt by \$7.4 million for future capital additions and upgrades (pages 22 and 34).
- As noted above, the City's total debt increased by \$7,418,956 during fiscal year 2012, yielding total outstanding debt of \$37,551,741 compared to the previous year's \$30,132,785. These borrowed funds are to be used for improvements to the water and wastewater systems. Governmental activities total debt was \$14,200,481. Business-type activities total debt was \$23,351,260 (pages 35 and 36).

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of four components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to financial statements, and 4) required supplementary information.

The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances.

For governmental activities, the fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements start on page 25.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's General Fund budget. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget on page 51.

### The Statement of Net Assets and the Statement of Activities

The Fund Balance Sheets and the Statements of Revenues, Expenditures, and Changes in Fund Balances report information about the City as a whole and about its activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and any changes in them. Consideration of the City's net assets, i.e., - the difference between assets and liabilities, is one tool to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are indicators of whether its financial health is improving or deteriorating. Consideration of other non-financial factors, however, such as changes in the City's revenue sources and the condition of the City's infrastructure, utility systems and roads, is also necessary for a valid assessment of the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into three kinds of activities:

- Governmental activities — Most of the City's basic services are reported here, including the police, fire, public works, youth and senior recreation departments, and general administration. Gross receipts, business license fees, property and sales taxes, franchise fees, and state and federal grants finance most of these activities. Funds for Capital Projects, Debt Service, Gas Tax, and Impact Fees are also reported with Governmental activities.
- Business-type activities — The City charges a fee to customers to help it cover all or most of the cost of certain services provided. Financial information for the Electric Fund, Natural Gas Fund and the Water and Waste Water Fund is reported in this section.
- Component units — The City has two entities classified as component units, the Fairhope Public Library and the Airport Authority. Although legally separate and managed by City appointed boards, the Library and Airport Authority receive significant support from the City and the City is responsible for any deficits.

Net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$114,464,317 at the close of the most recent fiscal year, as shown in **Figure 1**, page 9 and page 14. This is an increase of \$3,304,451.

The largest portion of the City's net assets, approximately 73.4 percent, reflects its investment in capital assets (e.g. land, streets, sidewalks, buildings, infrastructure, equipment, etc.), less any related debt still outstanding used to acquire those assets. The City uses these capital assets to provide services and utilities to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, approximately 17.8 percent, represents resources that are subject to restrictions as to how they may be used. Funds restricted for debt service were \$12,715,534; for capital projects,

\$420,909; for road maintenance and construction, \$216,196; for City Council determined emergencies, \$7,000,000. Restricted funds increased approximately \$12.5 million over the previous year.

The unrestricted net assets, approximately 8.8 percent, may be used to meet the City's ongoing obligations to citizens and creditors. Unrestricted net assets, \$10,104,720, decreased \$556,043 during fiscal 2012 (pages 9 and 14).

The City has implemented Government Accounting Standards Statement 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions (GASB 45). The City's Annual Required Contribution (ARC) was actuarially determined to be \$908,803. The current year retirement premium was \$274,479. The liability for OPEB obligation at year end was \$1,985,035. This amount is reported on the Statement of Net Assets, page 14, as Net OPEB Obligation and on page 47, Note 18.

**Figure 2**, page 10, is a condensed Statement of Activities for the City as a whole for all activity types. This condensed statement includes comparative information from the prior year for the governmental and business-type activities, as well as the Library and Airport Authority component units.

### **Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds — not the City as a whole. Some funds are required to be established by State Law and by bond covenants. However, the City Council established many other funds to help control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds — *governmental* and *proprietary* — use different accounting approaches.

- *Governmental funds* — Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Government fund information helps determine whether there are more or fewer resources that can be spent in the near future to finance the City's programs.
- *Proprietary funds* — When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are reported as proprietary, or enterprise, funds. Proprietary funds are reported separately, on an *accrual* basis of accounting, in the Proprietary Fund Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets. The City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows. The City's proprietary funds include the Electric Fund, Natural Gas Fund and Water and Waste Water Fund, which are used to account for the operations of the utilities.

### **Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unrestricted fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**Figure 3**, page 11, presents summaries of the governmental funds (General Fund, Capital Projects, Debt Service, Gas Tax, and Impact Fees) revenues and expenditures, by function, for the fiscal year ended September 30, 2012, and the amounts of increases and decreases in relation to prior year revenues and expenditures.

Governmental fund revenues increased \$1,515,769 from the previous fiscal year. Expenditures of Governmental funds increased \$5,454,442 for the same period. Included in this increase is the issuance of general obligation warrants in the amount of \$4.2 million for the purpose of refunding the 2002 General Obligation Warrants. In addition to this refunding, approximately \$765,000 was used to pay down existing debt.

The following significant events, related to revenues and expense, occurred during fiscal 2012 (the figures are rounded):

Related to revenue:

- Taxes, property and local, were up \$420,000, with the majority of the increase from sales tax.

- Licenses and permits as well as fines and forfeitures increased by \$365,000. This was primarily due to an increase in building permits of 28% over last year. The total construction value in the City increased 63% compared to last year, indicating a significant upturn in the housing market.
- State of Alabama and United States Government tax and grant income increased by \$320,000.
- The Fairhope Library Board made a payment of \$1,000 for the “bridge loan” provided by the City for uncollected donations for the construction of the new Library (page 37, Note 6). This compared to a payment last year of \$185,000, a decrease of \$184,000.
- Charges for services were up \$617,000 over last year due to an increase in utility collection and administrative services fees.
- Income from the City’s golf course, approximately \$1,000,000 was down \$20,000 from the previous year.

Related to expenditure:

- Capital outlay expenditures were approximately \$665,000, down \$810,000 from the prior year. Expenditures of \$1.5 million for fiscal 2011 included \$450,000 for fire department equipment; \$70,000 for capital improvements at the James P. Nix Center; \$170,000 for street department equipment, including a new street sweeper; \$430,000 for sanitation collection equipment; and \$280,000 for vehicles and equipment. Major capital expenditures for fiscal 2012 were: \$85,000 for special projects, \$80,000 for impact fees recreation projects and \$500,000 for vehicles and equipment.
- The City’s General Department had increases in expenditures of \$1.7 million. The major increase for 2012 was the shift of all General Fund departmental medical insurance costs into the general department. This amount was \$1 million. This was a result of the disproportionate insurance costs among the individual General fund departments. It should be noted that although this shift increased expenditures in the General Department, medical insurance costs among all General fund departments totaled \$1.5 million for the year compared to \$1.9 million last year, a decrease of approximately \$400,000. The remaining increase related to the following: \$270,000 for sidewalk expenditures, an increase in employee costs of \$292,000, and other increases relating to professional services, computer expenses, and grant expenditures totaling \$160,000.
- The Police Department had decreases of \$270,000. Major decreases for 2012 included computer expense (\$78,000) and a shift in medical insurance to the General department (\$530,000). Employee costs, however, increased \$330,000.
- The Street Department’s expenses were up \$1.2 from the previous year, primarily because of paving projects of \$1.7 million. In contrast, employee costs were down \$230,000 and medical insurance decreased by \$320,000 due to the move into the General department.
- Debt service payments, \$5.4 million, increased \$3.9 million from the previous year’s \$1.5 million total. This was due to the refunding of the 2002 General Obligation Warrants in the amount of \$4.2 million. Funds for this refunding were provided by a new general obligation issue, at favorable interest rates.
- Golf activities expenses were down \$250,000. This was primarily from the move of employee medical insurance to the general department of \$135,000 and reductions in employee costs of \$75,000.

### **Fund Balances and Net Assets**

When reviewing the City’s finances, it is important to ask if the City as a whole is in better financial condition when compared with the prior year. An indicator of the City’s financial health is whether the fund balances of the governmental and net assets of the proprietary funds increased or decreased as a result of operating activities. Fund balances for all governmental funds, including General Fund, Capital Projects Fund, and Other Governmental Funds totaled \$10,580,412, an increase of \$2,226,652. This follows an increase in fund balances of \$2,803,470 the previous year. The General Fund had a fund balance of \$10,295,547, an increase of \$3,135,392. The Capital Projects Fund had a decrease in fund balance of \$1,745,223 after expenditures of \$1,690,107 for street repaving, \$270,679 for sidewalk renovations, capital outlay of \$84,881 and a transfer from the General Fund of \$84,504. The Other Governmental Funds had fund balances of \$1,354,289 at year end, including restrictions for Debt Service of \$325,214, a decrease of \$24,806 and assigned funds reported in special revenue funds (Gas Tax and Impact Fees) of \$1,029,075, an increase of \$861,289, after expenditures of \$39,862 for road repair and maintenance and a transfer from the General fund of \$857,807. (see pages 16, 18 and 54).

Increases and decreases in revenues and expenses are discussed in the **Governmental Funds** section of this MD&A, pages 5 and 6 above.

The governmental activities’ net assets at year end were \$74,088,588, an increase of \$984,450. This increase is directly related to transfers from the utilities in the amount of \$4,173,802. The Gas, Electric and Water and Waste Water Funds had net assets of \$40,375,729 at year end, an increase of \$2,320,001 (see pages 15 and 21). The increase in the previous

year was \$5,012,535. The significant change of \$3,307,774 from last year to this year is due to a decrease in the change of net assets before transfers and investment earnings.

Capital Project and Other Governmental Funds increases in fund balance are discussed above. Following are major factors effecting increases in fund balance and net assets in the General Fund and business-type operations.

**General Fund Balance:** The General Fund had an increase in revenues of \$1,258,026. Expenditures for the General Fund were down \$540,321 from the prior year. Transfers from the proprietary funds (Gas, Electric, Water and Waste Water Funds) were \$4,173,802 for the current year, a decrease of \$653,345 from the prior year. After transfers, the fund balance of the General Fund increased by \$3,135,392 during fiscal 2012. The most significant revenue increase was related to charges for services, an increase of \$616,844 over the prior year, due to an increase in utility collection and administrative services fees. Other major increases in revenue during the year were: an increase of \$418,864 in taxes, property and local, with the majority from sales tax. Although licenses and permits as well as fines and forfeitures were up \$365,326, the Library Board's contribution toward the loan for the construction of the library was \$182,285 less than last year. The most significant decrease related to General Fund expenditures was in capital outlay. This was due to an overall departmental cutback in capital spending throughout the year. This decrease totaled \$848,335. The remainder of the difference, approximately \$308,000, relates to increases and decreases in employee costs within the various General Fund departments.

**Enterprise Operations:** The City's enterprise operations consist of the Electric Fund, Natural Gas Fund and Water and Waste Water Fund. The enterprise funds' operating revenues decreased by \$3,423,449 over the prior fiscal year. This represented an 8.93% decrease. Operating expenses decreased by \$285,251, a 1% decrease. The decrease in expenses was due to decreases in energy purchases for resale of \$1,160,103, a decrease of 7.5%. Combined, other expenses were up from the prior year, \$874,852. Of this, \$265,589 was from the increase in community development projects, \$491,068 was from other operating expenses and \$106,862 was from salaries. Utility rate calculations are based on costs of energy, expenditures for operations, debt service costs, infrastructure upgrades, capacity increases and transfers to the General Fund to fund public safety, recreational and environmental activities of the City. The City employs a consultant to assist in the rate setting process. Income for the enterprise funds, before transfers to the General Fund, was \$6,493,803, a decrease of \$3,345,879. Transfers to the General Fund were \$4,173,802, or 64% of income. For fiscal 2011, the transfers to the General Fund were \$4,827,147, or 49% of income. For fiscal 2010, the transfers were \$4,897,104 or 60%. The reduced transfers, as a percent of income, have enabled the utilities to fund capital additions and reserves for emergencies. The change in net assets of the three utilities was an increase of \$2,320,001.

### **General Fund Budgetary Highlights**

Although there is no legal requirement to establish a budget, the City of Fairhope prepares an annual budget. The preparation process involves input from the Mayor, City managers, Council members and the City's Financial Advisory and Budget committees. Page 52 of this report lists the procedure for preparing the annual budgets. No adjustments to the budget were made during the year.

On page 51, in the Required Supplementary Information section of this report, there is a budgetary comparison schedule for the General Fund.

For the purposes of this discussion, variance amounts in excess of \$50,000 in each category or department will be discussed. All amounts are rounded.

The total revenue variance was \$297,000 for fiscal 2012. Local taxes were \$104,000 over budget. Licenses and permits were \$280,000 over budget. Of that amount, \$220,000 was from business licenses, building permits and inspection fees due to heightened collection efforts and new businesses. Charges for services were \$200,000 over budget. Subdivision fees and impact fees, both related to an improved construction outlook in Fairhope. Intergovernmental revenues were down \$150,000 from budgeted state grants that were not awarded in fiscal 2012. Golf revenue was \$80,000 under budget due to decreased memberships. Other revenue was down \$53,000.

The total expenditure variance was \$1,615,000. The favorable variance in the general government was \$1,390,000. A little over half of this variance was from less than anticipated employee medical insurance costs, totaling \$735,000. The remaining \$655,000 was due to reductions in employee costs relating to reduced overtime and unfunded OPEB contributions as well as decreased grant expenditures. Budgeted grants that were not awarded during the year contributed to this decrease. Adult recreation was \$102,000 under budget due to employee cost reductions as well as decreases in maintenance and supplies. Golf was under budget \$52,000 due to modest decreases in supplies, advertising and promotion, and pro shop sales expenses. The favorable variance in capital outlay of \$414,000 was due to an overall

departmental cutback in capital spending throughout the year. In contrast, the police department had an unfavorable variance of \$286,000 due mainly to unbudgeted employee costs. Streets also had an unfavorable variance of \$55,000 due primarily to higher than anticipated gas and oil costs as well as an increase in equipment and vehicle repair expenditures.

### **Capital Assets**

As of September 30, 2012, the City's governmental activities had \$80,181,945 invested in capital assets, net of depreciation. This is a decrease of \$1,617,674 from the prior year. The business-type activities had invested capital assets, net of depreciation of \$40,948,423, an increase of \$551,704 (see Note 3, Fixed Assets, pages 33 and 34).

The City's governmental activities capital assets, at cost, were \$125,894,483 at September 30, 2012, an increase of \$1.4 million from the prior year. The business-type activities, the Gas, Electric and Water and Waste Water Funds, had capital assets, at cost, of \$75,074,671, an increase of \$2.4 million. **Figure 4**, page 12, summarizes capital assets by asset type, at cost, and changes in fixed assets during the year.

### **Debt Administration**

As of September 30, 2012, the City had long-term debt of \$37,551,741 (excluding premiums and discounts), including bonds and warrants payable, notes payable, and obligations under capital leases. This is a net increase, city wide, of \$7,394,507 from the prior year. Governmental activities' decrease in long-term debt was \$789,760. Business-type activities' increase in long-term debt was \$8,184,267. The General Obligation Warrant Series 2011, in the amount of \$4.2 million, was issued for the purpose of refunding the City's General Obligation Warrant Series dated September 1, 2002. The Utilities Revenue Warrant Series 2011, in the amount of \$16,140,000 was issued for the purpose of refunding the Utilities Revenue Warrant Series 2002 dated September 1, 2002. A portion of this issuance, \$8.6 million, will be used for upgrades to the wastewater treatment plant. See Notes 5 through 10 in the financial statements for more detail. **Figure 5**, page 13, summarizes the City's long-term debt, including compensated absences.

### **ECONOMIC FACTORS**

The City's management has set a budget decrease in revenue for fiscal 2013 of \$1.2 million. Of this decrease, \$1 million is from the reduction of transfers from the utility funds, based on transferring 50% of utility profits.

Similarly, the General Fund budget has a \$1.2 million decrease in expenses for fiscal 2013, compared to fiscal 2012. Most departments are relatively flat, or have seen cuts in their budgets. The two major decreases are: a \$708,000 decrease in the General Department due to reductions in employee costs, legal fees, computer projects, and grant expenditures and the Police department's \$379,000 decrease due mainly to a reduction in employee costs.

Gas Fund, Electric Fund and Water and Waste Water Fund operations budgeted revenues are expected to increase 10% over actual amounts for 2012. Likewise, costs of energy and operating expenses in the three utilities are projected to increase by approximately 10% over actual amounts for 2012.

For the business-type activities, reported as Gas Fund, Electric Fund and Water and Waste Water Fund, a projected excess of revenues over expenditures, before transfers, is \$7,922,022 for fiscal 2013, compared to actual \$6,493,803 for fiscal 2012. This represents a projected increase of 22%. Transfers to the General Fund for fiscal 2013 are budgeted to be \$3,910,214, compared to \$4,173,802 for 2012. This represents a decrease of 6.3%. Earnings from operations in the utilities are monitored during the year to insure that excessive amounts are not transferred.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need any additional financial information, please contact Jill Cabaniss, Finance Director, or Nancy Wilson, City Treasurer, at 161 N. Section Street, Fairhope, Alabama, (251) 928-2136.

Figure 1

**CITY OF FAIRHOPE  
CONDENSED STATEMENT OF NET ASSETS FOR THE YEAR ENDED 9/30/2012**

**COMPONENT UNITS**

	<b>GOVERNMENTAL ACTIVITIES</b>		<b>BUSINESS - TYPE ACTIVITIES</b>		<b>TOTAL PRIMARY GOVERNMENT</b>		<b>LIBRARY</b>		<b>AIRPORT AUTHORITY</b>	
	<u>9/30/2012</u>	<u>9/30/2011</u>	<u>9/30/2012</u>	<u>9/30/2011</u>	<u>9/30/2012</u>	<u>9/30/2011</u>	<u>9/30/2012</u>	<u>9/30/2011</u>	<u>9/30/2012</u>	<u>9/30/2011</u>
Current & Other Assets	\$ 12,908,889	\$ 9,365,227	\$ 27,582,275	\$ 17,098,616	\$ 40,491,164	\$ 26,463,843	\$ 125,316	\$ 96,306	\$ 715,140	\$ 701,050
Capital Assets, net	80,181,945	81,799,619	40,948,423	40,396,719	121,130,368	122,196,338	60,710	78,267	22,381,758	22,022,916
<b>Total Assets</b>	<u>\$ 93,090,834</u>	<u>\$ 91,164,846</u>	<u>\$ 68,530,698</u>	<u>\$ 57,495,335</u>	<u>\$ 161,621,532</u>	<u>\$ 148,660,181</u>	<u>\$ 186,026</u>	<u>\$ 174,573</u>	<u>\$ 23,096,898</u>	<u>\$ 22,723,966</u>
Long-Term Debt	\$ 13,802,816	\$ 14,700,965	\$ 22,242,224	\$ 14,362,872	\$ 36,045,040	\$ 29,063,837	\$ -	\$ -	\$ 8,935,000	\$ 8,935,000
Other Liabilities	5,199,430	3,359,743	5,912,745	5,076,735	11,112,175	8,436,478	3,698	3,822	-	-
<b>Total Liabilities</b>	<u>19,002,246</u>	<u>18,060,708</u>	<u>28,154,969</u>	<u>19,439,607</u>	<u>47,157,215</u>	<u>37,500,315</u>	<u>3,698</u>	<u>3,822</u>	<u>8,935,000</u>	<u>8,935,000</u>
Net Assets:										
Invested in Capital Assets, net of related debt	66,016,012	66,845,689	17,990,946	25,786,974	84,006,958	92,632,663	60,710	78,267	13,446,758	13,087,916
Restricted	8,015,592	6,207,809	12,337,047	1,658,631	20,352,639	7,866,440	-	-	-	112,573
Unrestricted	56,984	50,640	10,047,736	10,610,123	10,104,720	10,660,763	121,618	92,484	715,140	588,477
Total Net Assets	<u>74,088,588</u>	<u>73,104,138</u>	<u>40,375,729</u>	<u>38,055,728</u>	<u>114,464,317</u>	<u>111,159,866</u>	<u>182,328</u>	<u>170,751</u>	<u>14,161,898</u>	<u>13,788,966</u>
<b>Total Liabilities &amp; Net Assets</b>	<u>\$ 93,090,834</u>	<u>\$ 91,164,846</u>	<u>\$ 68,530,698</u>	<u>\$ 57,495,335</u>	<u>\$ 161,621,532</u>	<u>\$ 148,660,181</u>	<u>\$ 186,026</u>	<u>\$ 174,573</u>	<u>\$ 23,096,898</u>	<u>\$ 22,723,966</u>



Figure 2

**CITY OF FAIRHOPE  
CONDENSED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED 9/30/2012**

**COMPONENT UNITS**

	GOVERNMENTAL ACTIVITIES		BUSINESS - TYPE ACTIVITIES		TOTAL PRIMARY GOVERNMENT		LIBRARY		AIRPORT AUTHORITY	
	9/30/2012	9/30/2011	9/30/2012	9/30/2011	9/30/2012	9/30/2011	9/30/2012	9/30/2011	9/30/2012	9/30/2011
Program Revenues										
Charges for Services	\$ 9,409,956	\$ 8,376,902	\$ 34,921,900	\$ 38,345,349	\$ 44,331,856	\$ 46,722,251	\$ 37,396	\$ 43,040	\$ 145,792	\$ 129,358
Operating Grants & Contributions	-	24,402	-	-	-	24,402	670,950	569,597	788,671	438,107
Capital Grants & Contributions	1,317,475	302,963	-	-	1,317,475	302,963	-	-	-	-
General Revenues										
Taxes	10,609,365	10,190,500	-	-	10,609,365	10,190,500	-	-	-	-
Intergovernmental	314,525	248,011	-	-	314,525	248,011	-	-	-	-
Investment Earnings	226,642	249,489	20,417	58,522	247,059	308,011	-	-	3,406	4,746
Other	143,319	124,161	-	-	143,319	124,161	-	-	-	-
Total Revenues	22,021,282	19,516,428	34,942,317	38,403,871	56,963,599	57,920,299	708,346	612,637	937,869	572,211
Expenses										
General Government	8,103,118	6,176,077	-	-	8,103,118	6,176,077	-	-	-	-
Sanitation	1,814,947	1,868,364	-	-	1,814,947	1,868,364	-	-	-	-
Police	4,925,437	5,213,031	-	-	4,925,437	5,213,031	-	-	-	-
Fire	461,865	483,670	-	-	461,865	483,670	-	-	-	-
Airport	281,124	225,843	-	-	281,124	225,843	-	-	-	-
Street	5,502,244	4,251,404	-	-	5,502,244	4,251,404	-	-	-	-
Adult Recreation	613,614	654,736	-	-	613,614	654,736	-	-	-	-
Recreation	1,176,191	1,138,079	-	-	1,176,191	1,138,079	-	-	-	-
Golf	932,284	1,106,624	-	-	932,284	1,106,624	-	-	-	-
Public Library Board	810,636	798,997	-	-	810,636	798,997	-	-	-	-
Interest on Long Term Debt	589,174	633,161	-	-	589,174	633,161	-	-	-	-
Electric	-	-	16,912,834	16,909,931	16,912,834	16,909,931	-	-	-	-
Natural Gas	-	-	4,484,683	5,037,587	4,484,683	5,037,587	-	-	-	-
Water and Wastewater	-	-	7,050,997	6,616,671	7,050,997	6,616,671	-	-	-	-
Golf	-	-	-	-	-	-	-	-	-	-
Airport Authority	-	-	-	-	-	-	-	-	564,937	499,410
Fairhope Public Library	-	-	-	-	-	-	696,769	686,573	-	-
Total Expenses	25,210,634	22,549,986	28,448,514	28,564,189	53,659,148	51,114,175	696,769	686,573	564,937	499,410
Change in net assets before transfers	(3,189,352)	(3,033,558)	6,493,803	9,839,682	3,304,451	6,806,124	11,577	(73,936)	372,932	72,801
Transfers	4,173,802	4,827,147	(4,173,802)	(4,827,147)	-	-	-	-	-	-
Change in net assets	984,450	1,793,589	2,320,001	5,012,535	3,304,451	6,806,124	11,577	(73,936)	372,932	72,801
Net Assets, beginning	73,104,138	71,310,549	38,055,728	33,043,193	111,159,866	104,353,742	170,751	244,687	13,788,966	13,716,165
Net Assets, ending	\$ 74,088,588	\$ 73,104,138	\$ 40,375,729	\$ 38,055,728	\$ 114,464,317	\$ 111,159,866	\$ 182,328	\$ 170,751	\$ 14,161,898	\$ 13,788,966

Figure 3

**Statement of Revenues and Expenditures  
Governmental Funds  
For the Year Ended September 30, 2012**

<u>Revenues</u>	<u>9/30/2012 Total</u>	<u>9/30/2011 Total</u>	<u>Increase (Decrease)</u>
Local taxes	\$ 10,609,364	\$ 10,190,500	\$ 418,864
Licenses & Permits	2,612,793	2,295,795	316,998
Fines & Forfeitures	289,432	241,104	48,328
State of Alabama	206,254	223,511	(17,257)
U. S. Government	461,090	122,455	338,635
Contribution from Public Library Board	1,000	183,285	(182,285)
Interests and Rents	226,748	249,489	(22,741)
Charges for Service	5,096,593	4,479,749	616,844
Golf Course Revenue	1,001,627	1,020,250	(18,623)
Assessments	3,659	-	3,659
Other	552,904	539,557	13,347
Totals	<u>\$ 21,061,464</u>	<u>\$ 19,545,695</u>	<u>\$ 1,515,769</u>
<u>Expenditures</u>	<u>Total</u>	<u>Total</u>	<u>Increase (Decrease)</u>
General	\$ 7,026,721	\$ 5,335,143	\$ 1,691,578
Sanitation	1,607,918	1,745,785	(137,867)
Police	4,671,591	4,941,051	(269,460)
Fire	339,080	395,224	(56,144)
Airport	281,124	225,843	55,281
Street Department	3,872,517	2,639,416	1,233,101
Adult Recreation	525,212	577,015	(51,803)
Debt Service			
Principal	4,804,960	831,483	3,973,477
Interest	616,221	666,652	(50,431)
Recreation Department	989,463	969,025	20,438
Golf	863,593	1,113,178	(249,585)
Public Library Board	600,000	565,000	35,000
Other	160,888	89,620	71,268
Capital Outlay	664,526	1,474,937	(810,411)
Totals	<u>\$ 27,023,814</u>	<u>\$ 21,569,372</u>	<u>\$ 5,454,442</u>

Figure 4

**City of Fairhope  
Capital Assets**

<b><u>Governmental Activities</u></b>	<b>Balance @ 10/1/11</b>	<b>Additions</b>	<b>Reclassifications/ Retirements</b>	<b>Balance @ 9/30/12</b>
Land	\$ 19,827,727	\$ -	\$ -	\$ 19,827,727
Buildings & Structures	32,455,192	1,310,101	-	33,765,293
Vehicles and Equipment	12,972,069	354,425	(297,024)	13,029,470
Infrastructure	59,271,993	-	-	59,271,993
<b>Total Capital Assets</b>	<b>\$ 124,526,981</b>	<b>\$ 1,664,526</b>	<b>\$ (297,024)</b>	<b>\$ 125,894,483</b>

<b><u>Business-type activities</u></b>	<b>Electric Fund</b>	<b>Natural Gas Fund</b>	<b>Water/Wastewater Fund</b>
Balance @ 10/01/11	\$ 22,020,892	\$ 12,153,214	\$ 38,506,942
Additions to Plant	624,114	295,298	742,636
Addition to Land, Buildings, Vehicles and Equipment	423,772	150,885	142,428
Completed Construction in Progress	-	-	14,490
Disposals	-	-	-
<b>Total Capital Assets @ 9/30/2012</b>	<b>\$ 23,068,778</b>	<b>\$ 12,599,397</b>	<b>\$ 39,406,496</b>

**Figure 5**

**City of Fairhope  
Debt Administration**

<u>LONG TERM DEBT</u>	<u>GOVERNMENTAL FUNDS</u>	<u>BUSINESS-TYPE ACTIVITIES</u>
General Obligation Warrants, 2011	\$ 3,828,780	\$ -
General Obligation Warrants, 2008	721,741	-
General Obligation Warrants, 2007	6,920,000	-
General Obligation Refunding Warrant, 2009	2,729,960	-
Utilities Revenue Warrants, 2011	-	15,625,000
Utilities Revenue Warrants, 2005	-	6,530,000
Utilities Revenue Warrants, 2009	-	970,000
General Obligation Refunding Warrant, 2009	-	50,040
General Obligation Warrants, 2011	-	176,220
Obligations under capital leases	-	-
Compensated absences	<u>1,061,968</u>	<u>527,422</u>
<b>TOTALS</b>	<b>\$ <u>15,262,449</u></b>	<b>\$ <u>23,878,682</u></b>

**See Notes 5 through 10 beginning on page 35 for additional detail.**

## **BASIC FINANCIAL STATEMENTS**

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2012

	Governmental Fund Types			
	Governmental Activities	Business-type Activities	Total	Component Units
<b>ASSETS</b>				
Cash	\$ 11,659,784	\$ 11,849,294	\$ 23,509,078	\$ 813,610
Restricted cash	291,470	12,337,047	12,628,517	-
Receivables, net	765,782	2,223,186	2,988,968	-
Internal balances	14,459	(14,459)	-	-
Inventories	-	745,341	745,341	-
Other assets	177,394	441,866	619,260	26,846
Land and construction in progress	19,827,727	383,770	20,211,497	11,886,328
Capital assets, net	60,354,218	40,564,653	100,918,871	10,556,140
Total assets	<u>\$ 93,090,834</u>	<u>\$ 68,530,698</u>	<u>\$ 161,621,532</u>	<u>\$ 23,282,924</u>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	\$ 557,934	\$ 2,054,800	\$ 2,612,734	\$ 3,698
Deferred revenue	3,936	-	3,936	-
Customer deposits	-	2,228,579	2,228,579	-
Line of credit payable	1,705,225	-	1,705,225	-
Long-term liabilities				
Due within one year	1,425,085	1,151,581	2,576,666	240,000
Due in more than one year	13,802,816	22,242,224	36,045,040	8,695,000
Net OPEB obligation	1,507,250	477,785	1,985,035	-
Total liabilities	<u>19,002,246</u>	<u>28,154,969</u>	<u>47,157,215</u>	<u>8,938,698</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	66,016,012	17,990,946	84,006,958	13,507,468
Restricted for:				
Debt service	378,487	12,337,047	12,715,534	-
Capital projects	420,909	-	420,909	-
Road maintenance and construction	216,196	-	216,196	-
Council approved emergencies	7,000,000	-	7,000,000	-
Unrestricted	56,984	10,047,736	10,104,720	836,758
Total net assets	<u>74,088,588</u>	<u>40,375,729</u>	<u>114,464,317</u>	<u>14,344,226</u>
Total liabilities and net assets	<u>\$ 93,090,834</u>	<u>\$ 68,530,698</u>	<u>\$ 161,621,532</u>	<u>\$ 23,282,924</u>

See independent auditors' report and notes to the financial statements.

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF ACTIVITIES  
SEPTEMBER 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
<b>Primary Government</b>								
Governmental activities:								
General	\$ 8,103,118	\$ 6,301,207	\$ -	\$ -	\$ (1,801,911)		\$ (1,801,911)	
Sanitation	1,814,947	1,408,179	-	-	(406,768)		(406,768)	
Police	4,925,437	289,432	-	71,582	(4,564,423)		(4,564,423)	
Fire	461,865	-	-	-	(461,865)		(461,865)	
Airport Authority	281,124	-	-	-	(281,124)		(281,124)	
Street	5,502,244	-	-	1,244,893	(4,257,351)		(4,257,351)	
Adult Recreation	613,614	41,018	-	-	(572,596)		(572,596)	
Recreation	1,176,191	368,493	-	-	(807,698)		(807,698)	
Golf	932,284	1,001,627	-	-	69,343		69,343	
Public Library Board	810,636	-	-	1,000	(809,636)		(809,636)	
Interest on long term debt	589,174	-	-	-	(589,174)		(589,174)	
Total governmental activities	<u>25,210,634</u>	<u>9,409,956</u>	<u>-</u>	<u>1,317,475</u>	<u>(14,483,203)</u>		<u>(14,483,203)</u>	
Business-type activities								
Electric	16,912,834	18,891,334	-	-	-	\$ 1,978,500	1,978,500	
Natural gas	4,484,683	6,191,986	-	-	-	1,707,303	1,707,303	
Water and Wastewater	7,050,997	9,838,580	-	-	-	2,787,583	2,787,583	
Total business-type activities	<u>28,448,514</u>	<u>34,921,900</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,473,386</u>	<u>6,473,386</u>	
Total primary government	<u>\$ 53,659,148</u>	<u>\$ 44,331,856</u>	<u>\$ -</u>	<u>\$ 1,317,475</u>	<u>(14,483,203)</u>	<u>6,473,386</u>	<u>(8,009,817)</u>	
Component Units	<u>\$ 1,261,706</u>	<u>\$ 183,188</u>	<u>\$ 1,459,621</u>	<u>\$ -</u>				<u>\$ 381,103</u>
General revenues:								
Property taxes					4,591,739	-	4,591,739	-
Sales tax					4,898,362	-	4,898,362	-
Liquor taxes					425,888	-	425,888	-
Lodging taxes					569,142	-	569,142	-
Other taxes					124,234	-	124,234	-
Intergovernmental					314,525	-	314,525	-
Investment earnings					226,642	20,417	247,059	3,406
Other					143,319	-	143,319	-
Transfers					4,173,802	(4,173,802)	-	-
Total general revenues and transfers					<u>15,467,653</u>	<u>(4,153,385)</u>	<u>11,314,268</u>	<u>3,406</u>
Change in net assets					984,450	2,320,001	3,304,451	384,509
Net assets, beginning, as previously reported					73,104,138	38,055,728	111,159,866	13,959,717
Net assets, ending					<u>\$ 74,088,588</u>	<u>\$ 40,375,729</u>	<u>\$ 114,464,317</u>	<u>\$ 14,344,226</u>

See independent auditors' report and notes to the financial statements.

CITY OF FAIRHOPE, ALABAMA

FUND BALANCE SHEETS  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2012

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash	\$ 10,142,189	\$ 444,128	\$ 1,073,468	\$ 11,659,785
Investments	-	-	291,470	291,470
Receivables, net	525,270	214,892	25,617	765,779
Due from other funds	47,169	-	-	47,169
Other assets	34,925	-	-	34,925
	<u>10,749,553</u>	<u>659,020</u>	<u>1,390,555</u>	<u>12,799,128</u>
Total assets	<u>\$ 10,749,553</u>	<u>\$ 659,020</u>	<u>\$ 1,390,555</u>	<u>\$ 12,799,128</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 236,534	\$ -	\$ 1,159	\$ 237,693
Accrued expenses and taxes	193,536	-	-	193,536
Line of credit payable	-	1,705,225	-	1,705,225
Due to other funds	-	23,219	9,490	32,709
Deferred revenue	23,936	-	25,617	49,553
	<u>454,006</u>	<u>1,728,444</u>	<u>36,266</u>	<u>2,218,716</u>
Total liabilities	<u>454,006</u>	<u>1,728,444</u>	<u>36,266</u>	<u>2,218,716</u>
<b>FUND BALANCES</b>				
Restricted for:				
Debt service	-	-	325,214	325,214
Council approved emergencies	7,000,000	-	-	7,000,000
Assigned to:				
Construction and road maintenance	-	-	1,029,075	1,029,075
Unassigned	3,295,547	(1,069,424)	-	2,226,123
	<u>10,295,547</u>	<u>(1,069,424)</u>	<u>1,354,289</u>	<u>10,580,412</u>
Total fund balances	<u>10,295,547</u>	<u>(1,069,424)</u>	<u>1,354,289</u>	<u>10,580,412</u>
Total liabilities and fund balances	<u>\$ 10,749,553</u>	<u>\$ 659,020</u>	<u>\$ 1,390,555</u>	<u>\$ 12,799,128</u>

See independent auditors' report and notes to the financial statements.



CITY OF FAIRHOPE, ALABAMA

RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
SEPTEMBER 30, 2012

<b>Fund balance as reported on page 16</b>	\$ 10,580,412
Net Assets reported for governmental activities in the Statement of Net Assets are different from Fund Balance for governmental activities because:	
Capital assets used in governmental activities are financial resources and therefore are not reported in fund financial statements.	125,894,483
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.	(45,712,538)
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred revenue in fund financial statements.	188,082
Long-term liabilities, including warrants, notes, capital lease obligations and OPEB obligations are not due and payable in the current period and therefore are not reported in fund financial statements:	
Warrants and notes payable (net of warrant discount of \$34,548)	(14,165,933)
OPEB obligations	(1,507,250)
Accrued interest on long-term debt is not due and payable in the current-period and therefore not included in fund financial statements.	(179,070)
Compensated absences not expected to be paid with current resources as determined under Governmental Accounting Standards are not reported in fund financial statements.	<u>(1,009,598)</u>
<b>Net Assets of Governmental Activities as reported on page 14</b>	<u><u>\$ 74,088,588</u></u>

See independent auditors' report and notes to the financial statements.

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Local taxes	\$ 10,609,364	\$ -	\$ -	\$ 10,609,364
Licenses and permits	2,612,793	-	-	2,612,793
Fines and forfeitures	289,432	-	-	289,432
Intergovernmental	327,836	214,893	88,271	631,000
Contribution from Public Library Board	1,000	-	-	1,000
Interest and rents	223,969	1,047	1,732	226,748
Charges for services	5,096,593	-	-	5,096,593
Golf course revenue	1,001,627	-	-	1,001,627
Assessments	-	-	3,659	3,659
Other	552,904	-	-	552,904
<b>Total revenues</b>	<b>20,715,518</b>	<b>215,940</b>	<b>93,662</b>	<b>21,025,120</b>
<b>EXPENDITURES</b>				
General	6,756,042	270,679	-	7,026,721
Sanitation	1,607,918	-	-	1,607,918
Police	4,671,591	-	-	4,671,591
Fire	339,080	-	-	339,080
Airport	281,124	-	-	281,124
Street	2,142,548	1,690,107	39,862	3,872,517
Adult Recreation	525,212	-	-	525,212
Recreation	989,463	-	-	989,463
Golf	863,593	-	-	863,593
Public Library Board	600,000	-	-	600,000
Other	108,976	-	51,912	160,888
Debt service payments				
Principal	148,490	-	4,656,470	4,804,960
Interest	30,807	-	585,414	616,221
Capital Outlay	498,268	84,881	81,377	664,526
<b>Total expenditures</b>	<b>19,563,112</b>	<b>2,045,667</b>	<b>5,415,035</b>	<b>27,023,814</b>
Excess of Revenues over (under) Expenditures	1,152,406	(1,829,727)	(5,321,373)	(5,998,694)
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from issuance of debt	4,015,200	-	-	4,015,200
Transfers in	4,173,802	84,504	6,121,512	10,379,818
Transfers out	(6,206,016)	-	-	(6,206,016)
<b>Total other financing sources (uses)</b>	<b>1,982,986</b>	<b>84,504</b>	<b>6,121,512</b>	<b>8,189,002</b>
Net change in fund balances	3,135,392	(1,745,223)	800,139	2,190,308
Fund balances - beginning of year	7,160,155	675,799	517,806	8,353,760
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 10,295,547</b>	<b>\$ (1,069,424)</b>	<b>\$ 1,317,945</b>	<b>\$ 10,544,068</b>

See independent auditors' report and notes to the financial statements.

CITY OF FAIRHOPE, ALABAMA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

**Net change in fund balances - total governmental funds, page 18** \$ 2,190,308

Amounts reported for governmental activities in the Statement of Activities are different from the Statements of Revenues, Expenditures and Changes in Fund balances - Governmental Funds because:

Amortization of bond costs and discounts is not recorded in fund level statements. 27,962

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.

Capital outlays for the year	664,526
Depreciation expense for the year	(3,109,091)
Loss on assets disposed	(173,109)

Bond and other debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term liabilities is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal payments on long term debt	4,804,960
Proceeds from issuance of long term debt	(4,015,200)

Some capital assets were acquired through capital contributions and reported as such in the statement of activities and therefore are not reported as a capital outlay in the governmental funds.

Capital contributions for the year	1,000,000
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Some expenses reported in the statement of activities do not require the use of current resources and therefore are not reported as expenditures in governmental funds.

Decrease in compensated absences liability	5,025
Decrease in accrued interest payable	37,022
Increase in OPEB liability	(484,297)

**Change in Net Assets of Governmental Activities, page 15** \$ 948,106

CITY OF FAIRHOPE, ALABAMA

FUND BALANCE SHEETS  
 PROPRIETARY FUNDS  
 SEPTEMBER 30, 2012

	Major Funds			Total
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 4,438,977	\$ 3,944,259	\$ 3,466,058	\$ 11,849,294
Restricted cash for debt service	324,456	147,515	11,865,076	12,337,047
Receivables, net	2,204,961	1,548	16,677	2,223,186
Inventories	278,534	178,876	287,931	745,341
Prepaid expenses	16,016	8,652	11,254	35,922
<b>Total current assets</b>	<b>7,262,944</b>	<b>4,280,850</b>	<b>15,646,996</b>	<b>27,190,790</b>
Noncurrent assets				
Unamortized expense	25,585	12,845	331,424	369,854
Due from other funds	162,834	-	206,236	369,070
Other assets	12,030	12,030	12,030	36,090
Capital assets				
Distribution and collection systems	17,872,654	9,692,862	36,171,935	63,737,451
Buildings, vehicles and equipment	5,065,878	2,831,043	3,056,529	10,953,450
Land and construction in progress	130,246	75,492	178,032	383,770
Less accumulated depreciation	(10,934,591)	(5,804,917)	(17,386,740)	(34,126,248)
<b>Total noncurrent assets</b>	<b>12,334,636</b>	<b>6,819,355</b>	<b>22,569,446</b>	<b>41,723,437</b>
<b>Total assets</b>	<b>\$ 19,597,580</b>	<b>\$ 11,100,205</b>	<b>\$ 38,216,442</b>	<b>\$ 68,914,227</b>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable and accrued liabilities	\$ 1,443,080	\$ 242,428	\$ 369,292	\$ 2,054,800
Customer deposits	2,133,675	-	94,904	2,228,579
Warrants, notes and capital leases payable	127,123	52,435	972,023	1,151,581
<b>Total current liabilities</b>	<b>3,703,878</b>	<b>294,863</b>	<b>1,436,219</b>	<b>5,434,960</b>
Noncurrent liabilities				
Compensated absences	129,654	157,821	148,853	436,328
Warrants, notes and capital leases payable	1,392,274	740,989	19,672,633	21,805,896
Net OPEB Obligation	139,647	145,229	192,909	477,785
Due to other funds	219,624	162,834	1,071	383,529
<b>Total noncurrent liabilities</b>	<b>1,881,199</b>	<b>1,206,873</b>	<b>20,015,466</b>	<b>23,103,538</b>
<b>Total liabilities</b>	<b>5,585,077</b>	<b>1,501,736</b>	<b>21,451,685</b>	<b>28,538,498</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	10,614,790	6,001,056	1,375,100	17,990,946
Restricted for debt service	324,456	147,515	11,865,076	12,337,047
Unrestricted	3,073,257	3,449,898	3,524,581	10,047,736
<b>Total net assets</b>	<b>14,012,503</b>	<b>9,598,469</b>	<b>16,764,757</b>	<b>40,375,729</b>
<b>Total liabilities and net assets</b>	<b>\$ 19,597,580</b>	<b>\$ 11,100,205</b>	<b>\$ 38,216,442</b>	<b>\$ 68,914,227</b>

See independent auditors' report and notes to the financial statements.

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Major Funds			Total
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
<b>OPERATING REVENUES</b>				
Sales and services	\$ 18,547,156	\$ 6,190,435	\$ 8,992,228	\$ 33,729,819
Other charges, sales and receipts	344,178	1,551	846,352	1,192,081
Total operating revenues	<u>18,891,334</u>	<u>6,191,986</u>	<u>9,838,580</u>	<u>34,921,900</u>
<b>OPERATING EXPENSES</b>				
Energy purchases and cost of goods sold	12,102,716	1,538,747	740,345	14,381,808
Salaries	591,320	568,845	908,331	2,068,496
Depreciation	642,043	282,866	917,010	1,841,919
Insurance	327,353	236,566	263,427	827,346
Electric energy furnished to other departments	1,050,924	-	-	1,050,924
Maintenance	484,669	192,090	1,375,464	2,052,223
Community development projects	145,309	145,309	147,099	437,717
Other operating expense	1,497,964	1,431,741	1,911,084	4,840,789
Total operating expenses	<u>16,842,298</u>	<u>4,396,164</u>	<u>6,262,760</u>	<u>27,501,222</u>
<b>OPERATING INCOME</b>	<u>2,049,036</u>	<u>1,795,822</u>	<u>3,575,820</u>	<u>7,420,678</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest expense	(70,536)	(34,519)	(788,237)	(893,292)
Interest income	6,211	7,840	6,366	20,417
Distribution of joint revenue (expense) – net	-	(54,000)	-	(54,000)
Total nonoperating revenues (expenses)	<u>(64,325)</u>	<u>(80,679)</u>	<u>(781,871)</u>	<u>(926,875)</u>
<b>INCOME BEFORE TRANSFERS AND OTHER ITEMS</b>	<u>1,984,711</u>	<u>1,715,143</u>	<u>2,793,949</u>	<u>6,493,803</u>
<b>TRANSFERS AND OTHER ITEMS</b>				
Transfers out	(1,564,847)	(1,248,609)	(1,360,346)	(4,173,802)
Total transfers (out)	<u>(1,564,847)</u>	<u>(1,248,609)</u>	<u>(1,360,346)</u>	<u>(4,173,802)</u>
<b>Change in net assets</b>	419,864	466,534	1,433,603	2,320,001
<b>NET ASSETS – BEGINNING OF YEAR</b>	<u>13,592,639</u>	<u>9,131,935</u>	<u>15,331,154</u>	<u>38,055,728</u>
<b>NET ASSETS – END OF YEAR</b>	<u>\$ 14,012,503</u>	<u>\$ 9,598,469</u>	<u>\$ 16,764,757</u>	<u>\$ 40,375,729</u>

See independent auditors' report and notes to the financial statements.

CITY OF FAIRHOPE, ALABAMA  
 STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Major Funds			Total
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Received from customers	\$ 19,274,794	\$ 6,195,732	\$ 9,838,892	\$ 35,309,418
Paid to suppliers for goods and services	(15,248,762)	(3,556,396)	(4,678,300)	(23,483,458)
Paid to personnel for services	(591,320)	(568,845)	(908,331)	(2,068,496)
Net cash provided (used) by operating activities	<u>3,434,712</u>	<u>2,070,491</u>	<u>4,252,261</u>	<u>9,757,464</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income and joint revenue (expense)	6,211	(46,160)	6,366	(33,583)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from borrowings	385,746	385,746	15,553,308	16,324,800
Repayment of debt	(495,142)	(432,036)	(7,044,661)	(7,971,839)
Interest paid	(77,361)	(36,696)	(751,446)	(865,503)
Purchase of property, plant and equipment	(1,047,885)	(446,184)	(899,552)	(2,393,621)
Net cash provided (used) by capital and related financing activities	<u>(1,234,642)</u>	<u>(529,170)</u>	<u>6,857,649</u>	<u>5,093,837</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Change in interfund receivable/payable	(311,421)	(41,413)	99,481	(253,353)
Transfers in (out)	(1,564,847)	(1,248,609)	(1,360,346)	(4,173,802)
Net cash provided (used) by noncapital financing activities	<u>(1,876,268)</u>	<u>(1,290,022)</u>	<u>(1,260,865)</u>	<u>(4,427,155)</u>
INCREASE (DECREASE) IN CASH	330,013	205,139	9,855,411	10,390,563
Cash – beginning of year	<u>4,433,420</u>	<u>3,886,635</u>	<u>5,475,723</u>	<u>13,795,778</u>
CASH – END OF YEAR	<u>\$ 4,763,433</u>	<u>\$ 4,091,774</u>	<u>\$ 15,331,134</u>	<u>\$ 24,186,341</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>				
Income (loss) from operations	\$ 2,049,036	\$ 1,795,822	\$ 3,575,820	\$ 7,420,678
Adjustments to reconcile income from operations to net cash provided (used) by operating activities				
Depreciation	642,043	282,866	917,010	1,841,919
Amortization	(2,197)	(3,665)	(182,986)	(188,848)
Change in assets and liabilities				
Decrease (increase) in accounts receivable	383,460	3,746	314	387,520
Decrease (increase) in inventories	(19,966)	(21,680)	(15,966)	(57,612)
Decrease (increase) in prepaid expenses	11,993	5,130	2,073	19,196
Increase (decrease) in accounts payable	154,907	(47,340)	(93,851)	13,716
Increase (decrease) in customer deposits	157,460	-	50,800	208,260
Increase (decrease) in compensated absences	13,231	10,867	(61,490)	(37,392)
Increase (decrease) in net OPEB obligation	44,745	44,745	60,537	150,027
Net cash provided (used) by operating activities	<u>\$ 3,434,712</u>	<u>\$ 2,070,491</u>	<u>\$ 4,252,261</u>	<u>\$ 9,757,464</u>

See independent auditors' report and notes to the financial statements.

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CITY OF FAIRHOPE, ALABAMA

COMBINING STATEMENT OF NET ASSETS  
DISCRETELY PRESENTED COMPONENT UNITS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Governmental Activities		
	Public Library Board	Airport Authority	Total
<b>ASSETS</b>			
Cash	\$ 125,316	\$ 688,294	\$ 813,610
Other assets	-	26,846	26,846
Land and construction in progress	-	11,886,328	11,886,328
Capital assets, net	<u>60,710</u>	<u>10,495,430</u>	<u>10,556,140</u>
Total assets	<u>\$ 186,026</u>	<u>\$ 23,096,898</u>	<u>\$ 23,282,924</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 3,698	\$ -	\$ 3,698
Long-term liabilities			
Due within one year	-	240,000	240,000
Due in more than one year	<u>-</u>	<u>8,695,000</u>	<u>8,695,000</u>
Total liabilities	<u>3,698</u>	<u>8,935,000</u>	<u>8,938,698</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	60,710	13,446,758	13,507,468
Restricted for:			
Capital projects	-	-	-
Unrestricted	<u>121,618</u>	<u>715,140</u>	<u>836,758</u>
Total net assets	<u>182,328</u>	<u>14,161,898</u>	<u>14,344,226</u>
Total liabilities and net assets	<u>\$ 186,026</u>	<u>\$ 23,096,898</u>	<u>\$ 23,282,924</u>

See independent auditors' report and notes to the financial statements.



CITY OF FAIRHOPE, ALABAMA

COMBINING STATEMENT OF ACTIVITIES  
DISCRETELY PRESENTED COMPONENT UNITS  
SEPTEMBER 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities		
					Public Library Board	Airport Authority	Total
Airport Authority	\$ 564,937	\$ 145,792	\$ 788,671	\$ -	\$ -	\$ 369,526	\$ 369,526
Public Library Board	696,769	37,396	670,950	-	11,577	-	11,577
	<u>\$ 1,261,706</u>	<u>\$ 183,188</u>	<u>\$ 1,459,621</u>	<u>\$ -</u>	<u>11,577</u>	<u>369,526</u>	<u>381,103</u>
General revenues:							
	Investment earnings				-	3,406	3,406
	Total general revenues				-	3,406	3,406
	Change in net assets				11,577	372,932	384,509
	Net assets, beginning				170,751	13,788,966	13,959,717
	Net assets, ending				<u>\$ 182,328</u>	<u>\$ 14,161,898</u>	<u>\$ 14,344,226</u>

See independent auditors' report and notes to the financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS**

CITY OF FAIRHOPE, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Fairhope, Alabama (the City) was incorporated in April, 1908. The City operates under a Mayor – Council form of government chosen at large every four years.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to municipal governments. The following is a summary of the more significant policies.

A. REPORTING ENTITY

The financial statements of the City have been prepared in conformity with the accounting principles generally accepted in the United States of America as specified by the Governmental Accounting Standards Board (GASB).

These financial statements present the primary government (the City) and its discretely presented component units, entities for which the government is considered financially accountable. The units are governmental fund type component units and are reported in a separate column of the government-wide statements to emphasize they are legally separate from the primary government. The discretely presented component units have a September 30 fiscal year-end.

Component Units

Fairhope Public Library - The Library has its own governing body which operates the City public library and is appointed by the City Council. The City provides significantly all the annual operating financial support to the Library. The Library's other sources of revenue come from State financial assistance, gifts, bequests and user fees. The Library Board does not issue separate financial statements.

Fairhope Airport Authority - The Authority operates the City Airport and has its own governing body which is appointed by the City Council. The City provides a significant portion of the annual operating funds support to the Airport. The Airport's other sources of revenue come from Hanger and Office rentals, and fuel sales. The Airport Authority does not issue separate financial statements.

These financial statements do not include the following:

Bay Medical Clinic Board  
Industrial Board of the City of Fairhope  
Medical Clinic Board – East, West or North  
Downtown Redevelopment Authority  
Parking Authority

City management does not exert significant influence or control and does not guarantee any of their outstanding debts.

CITY OF FAIRHOPE, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. BASIS OF PRESENTATION – GOVERNMENT-WIDE AND FUND LEVEL

Government-wide

The basic financial statements include government-wide and fund financial statements. The reporting model focuses on the City, as a whole, and major funds. Government-wide and fund financial statements categorize primary activities as governmental or business-type. In the Statement of Net Assets, governmental and business-type activities (a) are presented on a consolidated basis, (b) reflect, full accrual accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations, and (c) are reported using the economic resources measurement focus. Receivables and payables between activities are eliminated in the government-wide presentation through the caption “Internal Balances” on the Statement of Net Assets.

The Statement of Activities reflects both the gross and net cost per functional category (street, police, fire, etc.) which are otherwise being supported by general government revenues (taxes, licenses, and permits, etc.). The Statement of Activities reduces gross expenses, including depreciation, by related program revenues. The program revenues must be directly associated with a function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Fund Level

The governmental fund level financial statements are presented on a current financial resource and modified accrual basis of accounting. Since governmental fund level financial statements are presented on a different basis of accounting and measurement focus than governmental activities in the government-wide presentation, a summary is presented to explain adjustments necessary to reconcile fund level statements to the government-wide presentation.

The accounts of the City are organized on the basis of funds which are each considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into broad fund categories as follows:

General Fund – The General Fund 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 use by outside sources are recorded in the General Fund.

Special Revenue Fund – Special revenue funds are operating funds for which the use of revenues (usually from taxes) is restricted or designated by outside sources. They are usually required by State or local laws to finance certain activities or functions.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Service Fund – Debt service funds are used to account for the payment of interest and principal on general long term warrants and notes not accounted for in the proprietary funds.

Capital Project Fund – Capital project funds are used to account for the financial resources used to construct or acquire major capital items (other than those financed by proprietary funds).

Enterprise Funds:

The Electric Fund, Natural Gas Fund, and Water and Waste Water Fund are Enterprise Funds, which are used to account for the operations of the utilities. Utilities are provided to residents in and around the City of Fairhope. Enterprise Funds are used to account for operations which are financed or operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered through user charges and fees. Operating revenues, shown for proprietary operations, generally result from producing or providing goods and services. Operating expenses include all costs related to providing services or products. All other revenues or expenses not meeting these criteria are reported as nonoperating income or expenses.

C. CAPITAL ASSETS

The accounting treatment for capital assets depends on whether the assets are used by governmental funds or proprietary funds and fund level or government-wide reporting.

In government-wide reporting, all capital assets are reported as capital assets for both governmental-type and business-type activities. The City has not established a minimum capitalization threshold at this time. Depreciation is provided on all capital assets at the government-wide level.

In fund level reporting, capital assets are reported as expenditures by governmental funds, while they remain capital assets in proprietary funds. Depreciation is provided, only, in proprietary funds at the fund level.

Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at estimated fair value on the date donated.

Depreciation is allocated as an expense in the Statement of Activities (government-wide level) and accumulated depreciation is reflected in the Statement of Net Assets (government-wide level). Depreciation has been provided over the estimated useful lives using the straight line rates as follows:

Plant and distribution systems	30 - 40 years
Buildings	25 - 50 years
Golf course improvements	10 - 40 years
Vehicles and equipment	3 - 10 years
Infrastructure (roads, bridges, drainage)	25 - 50 years
Runways and taxiways	75 years

CITY OF FAIRHOPE, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become susceptible to accrual, that is when they become both “measurable” and “available” to finance expenditures of the current period. Ad valorem and other taxes collected by an intermediary are considered “measurable” when in the hand of the intermediary collecting governments and may be recognized as revenue at that time. Expenditures, generally, are recorded at the time liabilities are incurred. Revenues susceptible to accrual are: lodging tax, property taxes, and federal financial assistance programs, which are measurable and available to finance expenditures of the current period. The City uses a 60-day availability period except for FEMA disaster recovery grants which are recognized using a 12-month availability period. Revenue which is not both measurable and available includes licenses, rents, permits and fines.

The proprietary fund financial statements are presented on the accrual basis of accounting in accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The City has elected to apply all applicable GASB pronouncements as well as any statements and interpretations issued by the Financial Accounting Standards Board (FASB) on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The City also elected to apply all statements and interpretations issued by the FASB after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

E. CASH

The City maintains a system in which some excess cash is placed in interest bearing accounts. Cash applicable to a particular fund is readily identifiable. Interest earned is allocated to each fund based upon the proportionate balances of each fund’s cash in the account.

F. RECEIVABLES FROM UTILITY CUSTOMERS

The Electric Fund purchases at face value, the utility receivables of the Natural Gas Fund and the Water and Waste Water Fund as well as the garbage receivable of the General Fund. Purchase is made at the time customers are billed. Customer payments for all are then deposited to the Utility Account in the Electric Fund.

CITY OF FAIRHOPE, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. INVENTORIES

Governmental fund inventories are maintained on a purchase method of accounting where items are purchased and charged to the budgetary accounts upon receipt. Year-end balances are not significant in governmental funds. Proprietary fund inventories are maintained on a consumption basis and consist of supplies for the utility plant.

H. PROPERTY TAX

All ad valorem taxes levied by the state, county and any municipality in Baldwin County are assessed and collected by the Revenue Commissioner of Baldwin County. The Baldwin County property tax calendar requires the Revenue Commissioner to assess and attach taxes as enforceable liens on property as of September 30, and taxes are due October 1 through December 31. Property taxes not paid by January 1 are considered as delinquent. Tax collections received by the County Revenue Commissioner are remitted to the City monthly. In accordance with the implementation of Governmental Accounting Standard (GASB) No. 33, revenue is recorded based upon taxes assessed and considered available. Any taxes not considered available are recorded as deferred revenue.

I. DEBT ISSUE COST

Issuance expenses on long term debt of proprietary funds are deferred and amortized, on the bonds outstanding method, over the terms of the related issues. In the fund financial statements, bond discounts, premiums, and issuance costs are treated as period costs in the year of issue. In the government-wide financial statements, bond discounts, premiums, and issuance costs are deferred and amortized over the term of the bonds using the bonds outstanding method. Bond discounts/premiums are presented as a reduction/addition to the face amount of the bonds payable whereas issuance costs are recorded as other assets.

J. DEFERRED REVENUE

The City reports deferred revenue on its fund balance sheet. Deferred revenues arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Revenues derived from Street Assessments are deferred and included in revenue when the receivables become available (collected). Proprietary funds defer revenue recognition when monies are collected for goods and services prior to the provision of services.

K. CASH AND CASH EQUIVALENTS

For purposes of the statements of cash flows, the proprietary funds consider all highly liquid investments, with an original maturity of three months or less, to be cash equivalents. Investments consist of U. S. Treasury money market accounts which are presented at cost which equals fair market value.



CITY OF FAIRHOPE, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

M. NET ASSET AND EQUITY CLASSIFICATIONS

Government-wide Financial Statements

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

- 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.
- 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) the City's own laws through its enabling legislation and other provisions of its laws and regulations.
- 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 Financial Statements

The fund equity of the governmental fund financial statements is classified as fund balance. In March 2009, the City adopted a GASB standard that establishes a hierarchy based on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds.

Fund balance is classified into one of the following four components:

- Restricted fund balance – Consists of fund balances with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; (2) or the City's own laws through its enabling legislation and other provisions of its laws and regulations.
- Committed fund balance – Consists of fund balances that are useable only for specific purposes by formal action of the government's highest level of decision making authority. The City's highest level of decision making lies with the Mayor of the City and the City Council. In order to establish, modify or rescind a fund balance commitment, the Mayor and City Council must pass a law by formal action committing the funds.
- Assigned fund balance – Consists of fund balances that are intended to be used for specific purposes but are neither restricted nor committed. Intent should be expressed by (1) the governing body itself, or (2) a subordinate high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. The Mayor and the City Council have the power to assign fund balance amounts to specific purposes. The governing body must vote to grant authorization of assigned fund balances to specific purposes.

CITY OF FAIRHOPE, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Unassigned fund balances – All other fund balances that do not meet the definition of “restricted, committed or assigned fund balances.”

The City considers restricted fund balances to have been spent when both restricted and unrestricted fund balances are available. Also, the City considers assigned and committed fund balances to have been spent when unassigned or unrestricted amounts are available.

N. MAJOR FUNDS

The City reports the following major Governmental funds:

- General Fund
- Capital Projects Fund

The City reports the following enterprise funds as major funds:

- Electric Fund
- Natural Gas Fund
- Water and Waste Water Fund

NOTE 2 INTERFUND TRANSACTIONS

The selling price of electric energy delivered without charge by the Electric Fund to various other funds, boards, and offices of the City of Fairhope is charged to the Electric Fund’s operations as electric energy furnished to other divisions of the City of Fairhope. The Water and Waste Water Fund and Golf Department purchase electric energy they receive, at cost.

In fiscal year 2012, the General Fund transferred to the Debt Service Fund \$5,263,705 in support of long term debt service.

In August 2012, the General Fund transferred to the Special Revenue Fund-Impact Fees the revenue and expenditures related to Impact Fees including the prior year cash balance. The current year Impact Fee revenue totals \$439,254. Revenue is reflected in the Governmental Funds and the Special Revenue Fund-Impact Fees as Charges for Services.

The utility operations transfer a portion of their earnings to the General Fund each year to support general government operations. In fiscal year 2012, the following amounts were transferred from the utility funds noted to the General Fund.

Electric Fund	\$ 1,564,847
Natural Gas Fund	1,248,609
Water and Waste Water Fund	<u>1,360,346</u>
Total	\$ <u>4,173,802</u>

In fiscal year 2012, the City transferred \$281,124 to the Airport Authority and \$600,000 to the Public Library Board, both discretely presented component units.

CITY OF FAIRHOPE, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

NOTE 2 INTERFUND TRANSACTIONS (continued)

Interfund receivables and payables at September 30, 2012 are:

	<u>Due from</u>	<u>Due to</u>
<b>General Fund</b>		
Electric	\$ 13,389	\$ -
Water and Waste Water	1,071	-
Gas Tax	760	-
Capital Projects	23,219	-
Special Revenue - Impact Fees	8,730	-
<b>Electric Fund</b>		
General	-	13,389
Water and Waste Water	-	206,236
Natural Gas	162,834	-
<b>Natural Gas Fund</b>		
Electric	-	162,834
<b>Water and Wastewater Fund</b>		
General	-	1,071
Electric	206,236	-
<b>Gas Tax Fund</b>		
General	-	760
<b>Capital Projects Fund</b>		
General	-	23,219
<b>Special Revenue Fund - Impact Fees</b>		
General	-	8,730
	<u>\$ 416,239</u>	<u>\$ 416,239</u>

During the course of normal operations, the City has numerous transactions between funds to provide services, construct assets, service debt, etc. These transactions are generally reflected as interfund receivables and liabilities. Transactions reimbursing a fund for expenditures are recorded as expenditures in the disbursing fund as revenues in the receiving fund.

CITY OF FAIRHOPE, ALABAMA  
 NOTES TO THE FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2012

NOTE 2 CAPITAL ASSETS

Changes in capital assets, during the fiscal year, were as follows:

	<u>Balance</u> <u>10/01/11</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>09/30/12</u>
<u>Governmental Activities</u>				
Capital assets not subject to depreciation				
Land	\$ 19,827,727	\$ -	\$ -	\$ 19,827,727
Total	<u>19,827,727</u>	<u>-</u>	<u>-</u>	<u>19,827,727</u>
Other capital assets				
Buildings and structures	32,455,192	1,310,101	-	33,765,293
Vehicles and equipment	12,972,069	354,425	(297,024)	13,029,470
Infrastructure	59,271,993	-	-	59,271,993
Total	<u>104,699,254</u>	<u>1,664,526</u>	<u>(297,024)</u>	<u>106,066,756</u>
Less accumulated depreciation for				
Buildings and structures	(6,859,692)	(792,881)	-	(7,652,573)
Vehicles and equipment	(10,794,400)	(738,310)	123,915	(11,408,795)
Infrastructure	<u>(25,073,270)</u>	<u>(1,577,900)</u>	<u>-</u>	<u>(26,651,170)</u>
Total accumulated depreciation	<u>(42,727,362)</u>	<u>(3,109,091)</u>	<u>123,915</u>	<u>(45,712,538)</u>
Other capital assets, net	61,971,892	(1,444,565)	(173,109)	60,354,218
Governmental capital assets, net	<u>\$ 81,799,619</u>	<u>\$ (1,444,565)</u>	<u>\$ (173,109)</u>	<u>\$ 80,181,945</u>

Depreciation was charged to governmental activities as follows:

General	\$ 334,084
Sanitation	207,860
Police	257,498
Fire	122,907
Public Library	210,635
Street	1,630,748
Adult Recreation	88,804
Recreation	187,372
Golf	69,183
Total	<u>\$ 3,109,091</u>

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

NOTE 2 CAPITAL ASSETS – CONTINUED

	Balance 10/01/11	Increases	Decreases	Balance 09/30/12
<u>Business Type Activities</u>				
Capital assets not subject to depreciation				
Land	\$ 369,280	\$ -	\$ -	\$ 369,280
Construction in progress	-	14,490	-	14,490
Total	<u>369,280</u>	<u>14,490</u>	<u>-</u>	<u>383,770</u>
Other capital assets				
Distribution and collection system	62,075,403	1,662,048	-	63,737,451
Buildings, vehicles and equipment	10,236,365	717,085	-	10,953,450
Total	<u>72,311,768</u>	<u>2,379,133</u>	<u>-</u>	<u>74,690,901</u>
Less accumulated depreciation for				
Distribution and collection system	(24,389,673)	(1,506,888)	-	(25,896,561)
Buildings, vehicles and equipment	(7,894,656)	(335,031)	-	(8,229,687)
Total accumulated depreciation	<u>(32,284,329)</u>	<u>(1,841,919)</u>	<u>-</u>	<u>(34,126,248)</u>
Other capital assets, net	<u>40,027,439</u>	<u>537,214</u>	<u>-</u>	<u>40,564,653</u>
Capital assets, net	<u>\$ 40,396,719</u>	<u>\$ 551,704</u>	<u>\$ -</u>	<u>\$ 40,948,423</u>
<u>Component Unit - Public Library</u>				
Equipment	\$ 332,938	\$ 10,663	\$ -	\$ 343,601
Less accumulated depreciation	(254,671)	(28,220)	-	(282,891)
Capital assets, net	<u>\$ 78,267</u>	<u>\$ (17,557)</u>	<u>\$ -</u>	<u>\$ 60,710</u>
<u>Component Unit - Airport Authority</u>				
Capital assets not subject to depreciation				
Land	\$ 10,934,228	\$ -	\$ -	\$ 10,934,228
Construction in progress	366,483	585,617	-	952,100
Total	<u>11,300,711</u>	<u>585,617</u>	<u>-</u>	<u>11,886,328</u>
Other capital assets				
Runways	9,309,815	-	-	9,309,815
Buildings and improvements	3,968,008	-	-	3,968,008
Equipment	98,885	-	-	98,885
Total	<u>13,376,708</u>	<u>-</u>	<u>-</u>	<u>13,376,708</u>
Less accumulated depreciation for				
Runways	(910,426)	(124,130)	-	(1,034,556)
Buildings and improvements	(1,659,518)	(99,505)	-	(1,759,023)
Equipment	(84,559)	(3,140)	-	(87,699)
Total accumulated depreciation	<u>(2,654,503)</u>	<u>(226,775)</u>	<u>-</u>	<u>(2,881,278)</u>
Other capital assets, net	<u>10,722,205</u>	<u>(226,775)</u>	<u>-</u>	<u>10,495,430</u>
Capital assets, net	<u>\$ 22,022,916</u>	<u>\$ 358,842</u>	<u>\$ -</u>	<u>\$ 22,381,758</u>

(continued)

CITY OF FAIRHOPE, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

NOTE 4 SINKING FUNDS – PROPRIETARY FUNDS

The cash and investments in these sinking funds (bond, reserve, and replacement funds) are restricted as to their use in accordance with their respective bond indentures. Amounts in bond funds are included in current assets, while amounts in reserve funds are separately listed as restricted assets.

NOTE 5 NOTES AND WARRANTS PAYABLE – BUSINESS-TYPE ACTIVITIES

The following is a summary of revenue bonds, notes and warrants payable from the proprietary funds as of September 30, 2012:

Utilities Revenue Warrants, Series 2011 dated October 13, 2011, original debt obligation of \$16,140,000, interest rate 3.15%, payable semi-annually, principal payable December 1, 2011 through December 1, 2030.	\$15,625,000
General Obligation Warrant, Series 2011, dated October 13, 2011, original debt obligation of \$195,000, Interest at 2.55% payable semi-annually, principal payments due December 1, 2012 through June 1, 2025.	176,220
Utilities Revenue Warrants, Series 2005 dated March 1, 2005, original debt obligation of \$8,455,000, interest rate 2.20% to 4.25%, payable semi-annually, principal payable December 1, 2005 through December 1, 2020.	6,530,000
Utilities Revenue Warrants, Series 2009 dated April 2, 2009, original debt obligation of \$1,250,000, interest rate 3.85%, payable semi-annually, principal payable 2009 through 2019.	970,000
General Obligation Refunding Warrant, Series 2009, dated April 2, 2009, original debt obligation of \$61,740, interest rate 3.62%, payable semi-annually, principal payable 2010 through 2020.	<u>50,040</u>
TOTAL	<u>\$23,351,260</u>

(continued)

CITY OF FAIRHOPE, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

NOTE 5 NOTES AND WARRANTS PAYABLE – BUSINESS-TYPE ACTIVITIES (CONTINUED)

On October 13, 2011, the City issued utilities revenue warrants at par in the amount of \$16,140,000 at a 3.15% interest rate. A portion of this issue together with the sum of \$823,453 on deposit in escrow was used to refund the City's Utilities Revenue Warrants, Series 2002, dated September 1, 2002, with an outstanding value of \$6,720,000. The Utilities Revenue Warrants, Series 2011 mature on December 1, 2030. The sum of \$6,885,825 was deposited into an irrevocable trust with an escrow agent to provide debt service payments until the warrants were called on December 1, 2011.

As a result of the refunding, the City reduced its total debt service requirements by \$1,436,163, which resulted in an economic gain (difference between the present value of the debt service payments on the old debt and the new debt) of \$354,680.

Revenue bonds, notes, and warrants payable from the proprietary funds 2011 and prior were for the purpose of financing, or re-financing, new water tanks, new water wells, UV Sewer System, new booster pump, radio system, support tower, phone system, construction of warehouse building and mechanics shop, and extensions to the City's water and sewer lines.

NOTE 6 NOTE AND WARRANTS PAYABLE – GOVERNMENTAL ACTIVITIES

The following is a governmental fund summary of long term debt at September 30, 2012:

General Obligation Warrant, Series 2011, dated October 13, 2011, original debt obligation of \$4,005,000, interest at 2.55%, payable semi-annually, principal payments due December 1, 2012 through June 1, 2025.	\$ 3,828,780
General Obligation Warrant, Series 2008, dated March 6, 2008, original debt obligation of \$1,300,000, interest at 2.91%, payable semi-annually, \$130,000 annual principal payments are due on April 1 from 2009 to 2018.	721,741
General Obligation Warrants, Series 2007 dated June 1, 2007, original debt obligation of \$7,900,000, interest rate 4.00% to 5.00%, payable semi-annually, principal payable June 1, 2008 through June 1, 2032.	6,920,000
General Obligation Refunding Warrant, Series 2009, dated April 2, 2009, original debt obligation of \$3,368,260, interest rate 3.62%, payable semi-annually, principal payable 2010 through 2020.	<u>2,729,960</u>
<b>TOTAL</b>	<b><u>\$14,200,481</u></b>

(continued)

CITY OF FAIRHOPE, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

NOTE 6 NOTE AND WARRANTS PAYABLE – GOVERNMENTAL ACTIVITIES (CONTINUED)

On October 13, 2011, The City issued general obligation warrants at par in the amount of \$4,200,000 at a 2.55% interest rate. The issue together with the sum of \$151,431 on deposit in escrow was used to refund the City's General Obligation Warrants, Series 2002, dated September 1, 2002, with an outstanding value of \$4,225,325. The General Obligation Warrants, Series 2011 mature on June 1, 2025. The sum of \$4,313,491 was deposited in an irrevocable trust with an escrow agent to provide debt service payments until the warrants were called on November 15, 2011.

As a result of the refunding, the City reduced its total debt service requirements by \$894,885, which resulted in an economic gain (difference between the present value of the debt service payments on the old debt and the new debt) of \$622,430.

The General Obligation Warrant Series 2009 were issued for the purpose of refunding the City's General Obligation Warrants Series 1999.

The General Obligation Warrant Series 2008 related to construction costs on the new Library. The Public Library Board requested the City secure a warrant as a "bridge loan" until pledges from outside donors are collected and remitted to the City. In 2008, the City refunded the original short term note with a general obligation warrant to be paid over 10 years. The Library Board committed to pay costs of the Library project in excess of \$3,000,000. Excluding interest on related long-term debt, the Library project costs, to date, are \$8,070,288. As of September 30, 2012, the Library Board has provided funding of \$3,263,461 from donations and grants.

General Obligation Warrants and notes payable from the governmental funds issued prior to 2008 were for the purpose of financing, or re-financing, automated garbage equipment, fire truck pumper, city drainage projects, hurricane damage repairs and upgrade to Municipal pier, construction of new facilities, including justice center, public library, tennis complex, recreation center, outdoor swimming pool, baseball facility, and renovation of Fairhope historic museum.

(continued)



CITY OF FAIRHOPE, ALABAMA  
 NOTES TO THE FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2012

NOTE 7 CHANGES IN LONG TERM DEBT

	Balance 10/01/11	Additions	Reductions	Balance 09/30/12	Amounts due within one year
<b>GOVERNMENTAL ACTIVITIES</b>					
Warrants and notes payable					
General obligation warrants	\$ 14,965,792	\$ 4,015,200	\$ (4,780,511)	\$ 14,200,481	\$ 893,420
Total warrants and notes payable	14,965,792	4,015,200	(4,780,511)	14,200,481	893,420
Warrant discount	(36,311)	-	1,763	(34,548)	-
	14,929,481	4,015,200	(4,778,748)	14,165,933	893,420
Other liabilities					
Obligations under capital leases	24,449	-	(24,449)	-	-
Compensated absences	1,069,676	692,820	(700,528)	1,061,968	531,665
Governmental activities long-term liabilities	\$ 16,023,606	\$ 4,708,020	\$ (5,503,725)	\$ 15,227,901	\$ 1,425,085

The City's general obligation warrants are paid through the Debt Service Fund while notes and capital leases are paid direct by the General Fund. The compensated absences liability will be liquidated by the General Fund.

	Balance 10/01/11	Additions	Reductions	Balance 09/30/12	Amounts due within one year
<b>BUSINESS-TYPE ACTIVITIES</b>					
Warrants and notes payable					
General obligation warrants	\$ 241,993	\$ 184,800	\$ (200,533)	\$ 226,260	\$ 16,581
Utilities revenue warrants	14,925,000	16,140,000	(7,940,000)	23,125,000	1,135,000
Total warrants and notes payable	15,166,993	16,324,800	(8,140,533)	23,351,260	1,151,581
Deferred amount on refunding	(359,350)	(58,808)	176,404	(241,754)	-
Warrant discounts	(197,898)	-	45,869	(152,029)	-
	14,609,745	16,265,992	(7,918,260)	22,957,477	1,151,581
Other liabilities					
Compensated absences	560,563	53,702	(86,843)	527,422	-
Business-type activities long-term liabilities	\$ 15,170,308	\$ 16,319,694	\$ (8,005,103)	\$ 23,484,899	\$ 1,151,581
Compensated absences due within one year included in accrued liabilities					\$ 91,094
Compensated absences due in more than one year included in noncurrent liabilities					436,328
Total compensated absences liability					\$ 527,422

CITY OF FAIRHOPE, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

NOTE 8 SUMMARY OF DEBT SERVICE REQUIREMENTS TO MATURITY

GOVERNMENTAL ACTIVITIES

The following is a summary of debt service requirements to maturity of long term debt of the Governmental Funds as of September 30, 2012, including interest payments:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 893,420	\$ 528,728	\$ 1,422,148
2014	908,330	499,032	1,407,362
2015	932,930	466,455	1,399,385
2016	967,440	432,902	1,400,342
2017	987,260	397,945	1,385,205
2018 - 2022	4,188,021	1,485,661	5,673,682
2023 - 2027	2,998,080	838,307	3,836,387
2028 - 2032	<u>2,325,000</u>	<u>322,875</u>	<u>2,647,875</u>
TOTALS	\$ <u>14,200,481</u>	\$ <u>4,971,905</u>	\$ <u>19,172,386</u>

BUSINESS-TYPE ACTIVITIES

The following is a summary of debt service requirements to maturity of long term debt of the Proprietary Funds as of September 30, 2012, including interest payments and excluding discounts and premiums related to warrant issuance:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,151,581	\$ 775,965	\$ 1,927,546
2014	1,196,670	735,223	1,931,893
2015	1,237,070	692,187	1,929,257
2016	1,282,560	646,768	1,929,328
2017	1,327,740	598,866	1,926,606
2018 - 2022	7,433,720	2,204,805	9,638,525
2023 - 2027	7,416,920	879,878	8,296,798
2028 - 2030	<u>2,304,999</u>	<u>148,129</u>	<u>2,453,128</u>
	\$ <u>23,351,260</u>	\$ <u>6,681,821</u>	\$ <u>30,033,081</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

NOTE 9 BONDS PAYABLE – COMPONENT UNITS

On August 26, 2010, the Airport Authority issued Airport Improvement Refunding Bonds in the amount of \$8,935,000 at a variable interest rate. The bonds are repriced monthly by the remarketing agent at a rate to maintain market value of 100% principal. This issue was used to refund the Series 2007 Airport Improvement Bonds with an outstanding balance of \$8,845,000. The 2010 Airport Improvement Refunding Bonds mature March 1, 2020, but have mandatory redemption requirements as presented below. The bonds are limited obligations of the Airport Authority, payable solely out of appropriations received from the City of Fairhope, Alabama. The Appropriation Agreement between the Airport Authority and the City expires annually on September 30 and is renewable at the City's option. The bond rate at September 30, 2012, was 1.56%.

The following is a summary of debt service requirements to maturity of long term debt of the Airport Authority as of September 30, 2012, including estimated interest payments at 1.56% and excluding discounts related to bonds:

Year Ending Sept. 30,	Principal	Interest	Total
2013	\$ 240,000	\$ 138,202	\$ 378,202
2014	255,000	134,149	389,149
2015	270,000	129,857	399,857
2016	285,000	125,327	410,327
2017	305,000	124,294	429,294
2018 - 2020	7,580,000	52,220	7,632,220
	<u>\$ 8,935,000</u>	<u>\$ 704,049</u>	<u>\$ 9,639,049</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

NOTE 10 LINE OF CREDIT PAYABLE

On November 28, 2011, the City established a revolving line of credit with a \$2,000,000 limit through the issuance of a general obligation warrant. The line of credit, dated November 28, 2011, bears interest at a variable rate of 80% of the One Month LIBOR Rate plus 100 basis points, and matures November 28, 2012. The interest rate at September 30, 2012 is 1.1844%. This line of credit is available to enable the City to acquire, construct and provide various public street improvements in the City.

Following is the summary of activity for fiscal year 2012:

	<u>General Fund</u>
Beginning Balance	\$ -
Advances	1,705,225
Payments	<u>-</u>
Balance at September 30, 2012	<u>\$ 1,705,225</u>

NOTE 11 SALARIES – PROPRIETARY FUNDS

The following is a summary of employees’ salaries by Utility Fund for the year ended September 30, 2012:

	<u>Electric Fund</u>	<u>Natural Gas Fund</u>	<u>Water and Waste Water Fund</u>
Total salaries	\$ 879,009	\$ 738,417	\$ 966,845
Less:			
Salaries capitalized for plant additions	<u>287,690</u>	<u>169,572</u>	<u>58,514</u>
Amount of salaries charged to operations	<u>\$ 591,319</u>	<u>\$ 568,845</u>	<u>\$ 908,331</u>

NOTE 12 RISK MANAGEMENT AND CONTINGENCIES

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City obtains coverage from commercial insurance companies and effectively manages risk through various employee education and prevention programs. There were no instances where settlements exceeded insurance coverage in the last three years.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

NOTE 12 RISK MANAGEMENT AND CONTINGENCIES (continued)

Various lawsuits are pending against the City. City management believes that the potential adverse impact of these claims is mitigated by insurance and will not be material to the financial statements of the City.

The City receives Federal and State grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under the terms of the grant. City management believes such disallowances, if any, will be immaterial.

NOTE 13 COMPENSATED ABSENCES

The City accrues vacation earned by employees as well as other compensated absences with similar characteristics. Sick leave, which can be paid at termination, if certain conditions are met, is accrued based on the probability that a portion of the current employees will meet required criteria. A liability for sick leave to be paid at termination has been accrued based on estimated probability factors to years of service. The liability to employees who currently meet the criteria to receive sick leave pay has been accrued at 100% of the current hours sick leave earned at current pay rates. Accumulated unpaid vacation and sick pay are accrued when incurred in the Proprietary Funds. Amounts normally paid with expendable available financial resources are recorded in the General Fund when the obligation has matured.

Employees may accumulate vacation leave without limitation, however, the maximum accumulation of sick leave is limited to 960 hours. Employees are paid 100% of their accumulated vacation upon termination. Accumulated sick leave is paid only upon retirement to employees with 25 years or more of service, at any age, and to employees with 10 years of service who have attained age sixty (60).

CITY OF FAIRHOPE, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

NOTE 14 PENSION PLAN

Plan Description

The City's defined benefit pension plan provides retirement and disability benefits, cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is affiliated with the Employees Retirement System of Alabama (RSA), an agent multiple-employer pension plan. At September 30, 2011, RSA had a total of 1,145 participating units.

RSA issues a publicly available financial report that includes financial statements and required supplementary information for the plan. RSA prepares its financial statements using the accrual basis of accounting and recognizes contributions as revenues when earned. Benefits and refunds are recognized when due and payable. The report may be obtained by writing the Retirement Systems of Alabama, P. O. Box 302150, Montgomery, Alabama 36130-2150.

Substantially all employees are members of RSA. Membership is mandatory for covered or eligible employees. Vested employees may retire with full benefits at age 60 (with 10 years of service) or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method producing the highest benefit. The methods are: (1) Minimum Guaranteed, and (2) Formula. The Formula method usually produces the highest benefit. Under this method, the retiree receives an amount equal to 2.0125% of their average final salary (best three of last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

The RSA 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 RSA 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 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the City authority to accept or reject various cost-of-living adjustments granted to retirees.

Funding Policy

During its 2012 session, the Alabama Legislature passed and the Governor signed into law changes in the pension plan effective January 1, 2013. Employees hired prior to January 1, 2013 (Tier 1 employees) must contribute 5% of his or her gross earnings, except law enforcement who must contribute 6%, to the pension plan. Employees hired on or after that date (Tier 2 employees) will contribute on gross earnings at a rate of 6%, except law enforcement who must contribute 7%. The City is required to contribute at an actuarially determined rate. At September 30, 2012, the rate is 9.81% of covered payroll. At September 30, 2012, RSA decreased the City's contribution rate to 9.38% for Tier 1 employees and established at rated of 7.08% for Tier 2 employees. The contribution requirements of plan members and the City are established and may be amended by RSA.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

NOTE 14 PENSION PLAN (continued)

A Tier 1 employee may retire after 25 years of credited service and receive pension benefits equal to 2.0125% of the employee's average final salary multiplied times years of credited service. A Tier 2 employee may retire after attainment of age 62 and ten years of service years and with benefits equal to 1.65% of the employee's average final salary multiplied by years of credited service. Average final salary is defined as the average of the three highest years' salary out of the last ten years of service. The pension plan also provides death benefits and disability benefits as determined by state statutes.

The following is the Schedule of Funding Progress – Employee Retirement System which provides trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

The Schedule of Funding Progress – Employee Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b) <sup>1</sup>	Unfunded AAL (UAAL) b-a	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
9/30/2011 <sup>5,6</sup>	\$ 23,552,946	\$ 33,999,408	\$ 10,446,462	69.3%	\$ 11,028,263	94.7%
9/30/2010 <sup>6</sup>	\$ 23,618,878	\$ 33,649,326	\$ 10,030,448	70.2%	\$ 11,212,324	89.5%
9/30/2009	\$ 23,297,926	\$ 32,295,205	\$ 8,997,279	72.1%	\$ 11,396,085	79.0%
9/30/2008	\$ 22,906,152	\$ 30,483,488	\$ 7,577,336	75.1%	\$ 11,367,443	66.7%
9/30/2007	\$ 21,712,337	\$ 28,365,980	\$ 6,653,643	76.5%	\$ 10,431,006	63.8%
9/30/2006 <sup>5</sup>	\$ 19,895,139	\$ 26,367,319	\$ 6,472,180	75.5%	\$ 9,530,701	67.9%
9/30/2005	\$ 18,565,922	\$ 23,773,976	\$ 5,208,054	78.1%	\$ 9,706,576	53.7%
9/30/2004 <sup>4</sup>	\$ 17,075,176	\$ 19,888,433	\$ 2,813,257	85.9%	\$ 7,537,837	37.3%
9/30/2003 <sup>3</sup>	\$ 16,083,240	\$ 18,576,805	\$ 2,493,565	86.6%	\$ 7,555,473	33.0%
9/30/2002 <sup>2</sup>	\$ 15,177,087	\$ 16,920,564	\$ 1,743,477	89.7%	\$ 7,190,278	24.2%
9/30/2001 <sup>1</sup>	\$ 14,577,706	\$ 15,046,428	\$ 468,722	96.9%	\$ 6,617,043	7.1%

<sup>1</sup> Reflects changes in actuarial assumptions (as of September 30, 2001).

<sup>2</sup> Reflects effect of DROP if unit elected to enroll prior to June 20, 2003.

<sup>3</sup> Reflects effect of DROP if unit elected to enroll prior to May 18, 2004.

<sup>4</sup> Reflects effect of DROP if unit elected to enroll prior to August 4, 2005.

<sup>5</sup> Reflects changes in actuarial assumptions.

<sup>6</sup> Reflects impact of Act 2011-27, as well as Act 2011-676, which increases the member contribution rates by 2.25% beginning October 1, 2011 and by an additional 0.25% beginning October 1, 2012.

Annual Pension Cost

For 2012, the City's annual pension cost of \$949,822 was equal to the City's required and actual contributions. The required contribution was determined as part of an actuarial valuation (dated September 30, 2011) using the entry age actuarial cost method. Amortization is determined using the level open percent method over a remaining amortization period of 30 years. The actuarial assumptions included (a) 8.0% investment rate of return, (b) projected salary increases ranging from 3.75-7.25% per year, and (c) no cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of the City of Fairhope's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 5-year period.

(continued)

CITY OF FAIRHOPE, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

NOTE 14 PENSION PLAN (continued)

Trend Information

<u>Fiscal Year Funding</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/12	\$ 949,822	100%	-
9/30/11	\$ 1,056,337	100%	-
9/30/10	\$ 1,086,667	100%	-
9/30/09	\$ 1,091,972	100%	-
9/30/08	\$ 985,276	100%	-
9/30/07	\$ 804,930	100%	-

Funded status and Funding Progress

The funded status of the plan as of October 1, 2011 was as follows:

Actuarial accrued liability (AAL)	\$ 33,999,408
Actuarial value of plan assets	<u>23,552,946</u>
Unfunded actuarial accrued liability (UAAL)	\$ 10,446,462
Funded ratio	69.3%
Covered payroll	\$ 11,028,263
UAAL as a percentage of covered payroll	94.7%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress is presented in these notes to the financial statements. This schedule presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.



CITY OF FAIRHOPE, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

NOTE 15 DEPOSIT AND INVESTMENT RISK

At September 30, 2012, the City had investments in U. S. Treasury money market mutual funds through its trustee agreement for debt sinking funds. The fair value was \$1,979,594 (\$320,963 in governmental activities and \$1,658,631 in business-type activities). The average maturity of the portfolio was 50 days.

**Investment Risk** – The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk** - State statutes authorize the City’s investments. The City is authorized to invest in U.S. Government obligations and its agencies or instrumentalities, direct obligations of the state, or SEC registered mutual funds holding like securities. The City has no investment policy that further limits investment choices. As of September 30, 2012, the City’s mutual fund investments principal stability rating was AAAM as reported by Standard & Poor’s.

**Custodial Credit Risk** - The City is a participant in the Security for Alabama Funds Enhancement (SAFE) Program, a multiple financial institution collateral pool, administered by the State of Alabama. The program, by law, provides administration of pledged collateral coverage for all governments and agencies in the state and requires qualified financial institutions to provide collateral to the administrator adequate to secure all deposits of public funds in that financial institution. The State guarantees deposits identified as “public funds” will be adequately secured by insurance or collateral. Any collateral shortages of one financial institution are assessed to other member financial institutions.

NOTE 16 COMMITMENTS

The City has various contractual commitments outstanding at year-end. The commitments under these contracts totaled \$1,346,043. The commitments funded from governmental activities will be \$1,676 and from business-type activities will be \$1,344,367.

CITY OF FAIRHOPE, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

NOTE 17 DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The plan was established by and is administered by the Retirement Systems of Alabama. Any plan changes are at the discretion of the administrator. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The City makes no contributions to the plan.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the individuals who participate in the deferred compensation plan and are not subject to the claims of the City's general creditors.

NOTE 18 POST EMPLOYMENT HEALTH BENEFITS

Plan Description – The City provides a comprehensive medical plan to eligible retirees and their spouses through the City's group health insurance plan (the Plan), which covers both active and retired members. The Plan is a single-employer defined benefit healthcare plan administered and governed solely by the City and does not issue a publicly available financial report.

Effective with the Fiscal Year beginning October 1, 2008, the City implemented Government Accounting Standards City Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions* (GASB 45), for its financial disclosure and reporting purposes. The City intends to fund the OPEB Obligation pursuant to GASB 45 to the extent the funding requirement is not met by the retiree health care premiums paid outright. During the year ended September 30, 2012, the City's portion of health care funding cost for retired employees (retiree premiums) totaled \$274,479.

Contribution Rates – Eligible retirees are subject to employer contributions for medical benefits equal to 90% of the premium. At September 30, 2010, the valuation date, 29 participants were receiving benefits under various provisions of the Plan. Complete plan provisions are included in the official plan documents.

Employees do not contribute to their post employment benefits costs until they become retirees and begin receiving those benefits. The plan provisions and contribution rates are contained in the official plan documents.

Annual Required Contribution – The City's Annual Required Contribution (ARC) is an amount actuarially determined using the Projected Unit Credit Method in accordance with GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a level percentage of pay, open amortization period of thirty years. The remaining amortization period at September 30, 2012, was 30 years.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

NOTE 18 POST EMPLOYMENT HEALTH BENEFITS (continued)

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan using operating funds, and changes in the City's net OPEB obligation to the Plan:

Annual required contribution	\$ 665,895
Interest on net OPEB obligation	-
Adjustment to ARC	<u>242,908</u>
Annual OPEB cost (expense)	908,803
Current year retiree premium	<u>(274,479)</u>
Change in net OPEB obligation	634,324
Net OPEB obligation – beginning of year	<u>1,350,711</u>
Net OPEB obligation – end of year	<u>\$ 1,985,035</u>

Interest expense on the net OPEB contribution in the amount of \$54,028 was considered not significant and was not recorded in 2012.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
9/30/12	\$ 908,803	30.2%	\$ 1,985,035
9/30/11	908,803	37.0%	1,350,711
9/30/10	611,853	39.3%	778,165
9/30/09	611,853	33.5%	406,645

Funded Status and Funding Progress – The first actuarial valuation under GASB 45 was as of September 30, 2008, and the most recent actuarial valuation was as of September 30, 2010. There were no assets accumulated in the Plan, however, market value will be used to value such assets. At September 30, 2010, the Actuarial Accrued Liability (AAL) was \$8,093,303, which is defined as that portion, as determined by a particular actuarial cost method (the City uses the Projected Unit Credit Method), of the actuarial present value of post employment plan benefits and expenses which is not provided by normal cost. The funded ratio is developed below.

Schedule of Funding Progress

<u>Actuarial Valuation Dated</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL)* - Entry Age (b)</u>	<u>Unfunded (AAL) (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/c</u>
9/29/2011	\$ -	\$ 8,093,303	\$ (8,093,303)	0.0%	\$ 11,028,263	73.4%
9/30/2010	\$ -	\$ 8,093,303	\$ (8,093,303)	0.0%	\$ 11,212,324	72.2%
9/30/2009	\$ -	\$ 6,740,895	\$ (6,740,895)	0.0%	\$ 11,396,085	59.2%
9/30/2008	\$ -	\$ 6,740,895	\$ (6,740,895)	0.0%	\$ 11,189,043	60.2%

\*GASB 45 permits the AAL determined at September 30, 2010 to be used for two consecutive years

(continued)

CITY OF FAIRHOPE, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

NOTE 18 POST EMPLOYMENT HEALTH BENEFITS (continued)

Actuarial Methods and Assumptions - The actuarial calculations are based on the types of benefits provided under the terms of the substantive plan (the plan as understood by the employer and the 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.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. 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 following assumptions were made:

*Turnover Rate* - An age-related turnover scale based on actual experience has been used.

*Retirement Rate* - Based on past experience, it has been assumed that entitlement to benefits will commence at the earlier of: first, completion of 25 years of service, regardless of age; and, second, attainment of age 60 and completion of 10 years of service.

*Health Care Cost Trend Rate* - The expected rate of increase in medical cost is based on a 10.5% projected increase for 2011 graduated down to an ultimate annual rate of 5% for 2018 and beyond.

*Mortality Rate* - Life expectancies were based accordingly to the 1994 Group Annuity Mortality Table set forward three years for males and set forward two years for females. Special tables are used for the period after disability retirement.

*Investment Return Assumption (Discount Rate)* - Based on the assumption that the ARC will be funded, a 4% annual investment return has been used in this valuation.

*Inflation Rate and Projected Salary Increase* - A rate of 4.5% has been used for both inflation and projected salary increases.

*Method of Determining Value of Benefits* - The "value of benefits" has been assumed to be the portion of the premium after retirement date expected to be paid by the City for each retiree and has been used as the basis for calculating the actuarial present value of OPEB benefits to be paid.

NOTE 19 OPERATING LEASES

The City holds various leases with entities for use of City property. Most of these leases are monthly and insignificant. In addition, the City rents certain facilities to groups for events and activities on a per use basis.

CITY OF FAIRHOPE, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

NOTE 20 LEASE EXPENSE

The City rents equipment, primarily, on monthly arrangements. The leases are not significant to the operations of the City.

NOTE 21 SUBSEQUENT EVENTS

The City has evaluated subsequent events through January 18, 2013, the date which the financial statements were available to be issued.

In fiscal year 2013, the City paid off General Obligation Warrant, Series 2008 totaling approximately \$721,000.

In fiscal year 2013, the City paid off the line of credit totaling approximately \$1,700,000.

There were no other material subsequent events which require disclosure at September 30, 2012.

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**REQUIRED SUPPLEMENTARY INFORMATION  
OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS**

REQUIRED SUPPLEMENTARY INFORMATION  
CITY OF FAIRHOPE, ALABAMA  
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Local taxes	\$ 10,505,090	\$ 10,505,090	\$ 10,609,364	\$ 104,274
Licenses and permits	2,331,700	2,331,700	2,612,793	281,093
Fine and forfeitures	275,000	275,000	289,432	14,432
Intergovernmental	477,500	477,500	327,836	(149,664)
Interest and rents	238,500	238,500	223,969	(14,531)
Charges for services	4,894,250	4,894,250	5,096,593	202,343
Golf course revenue	1,091,028	1,091,028	1,001,627	(89,401)
Contributions from Public Library Board	-	-	1,000	1,000
Other revenue	605,794	605,794	552,904	(52,890)
Total revenues	<u>20,418,862</u>	<u>20,418,862</u>	<u>20,715,518</u>	<u>296,656</u>
<b>EXPENDITURES</b>				
General government	8,147,893	8,147,893	6,756,042	1,391,851
Sanitation	1,577,221	1,577,221	1,607,918	(30,697)
Police	4,385,825	4,385,825	4,671,591	(285,766)
Fire	363,676	363,676	339,080	24,596
Airport Authority	281,124	281,124	281,124	-
Streets	2,087,252	2,087,252	2,142,548	(55,296)
Adult recreation	627,436	627,436	525,212	102,224
Recreation	1,012,712	1,012,712	989,463	23,249
Golf	915,636	915,636	863,593	52,043
Public Library Board	600,000	600,000	600,000	-
Other	89,000	89,000	108,976	(19,976)
Debt service	179,297	179,297	179,297	-
Capital outlay	911,920	911,920	498,268	413,652
Total expenditures	<u>21,178,992</u>	<u>21,178,992</u>	<u>19,563,112</u>	<u>1,615,880</u>
Excess of Revenues over (under) Expenditures	<u>(760,130)</u>	<u>(760,130)</u>	<u>1,152,406</u>	<u>1,912,536</u>
<b>Other financing sources (uses)</b>				
Proceeds from issuance of debt	-	-	4,015,200	4,015,200
Transfers in	4,902,949	4,902,949	4,173,802	(729,147)
Transfers out	(1,717,441)	(1,717,441)	(6,206,016)	(4,488,575)
Total other financing sources (uses)	<u>3,185,508</u>	<u>3,185,508</u>	<u>1,982,986</u>	<u>(1,202,522)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 2,425,378</u>	<u>\$ 2,425,378</u>	3,135,392	<u>\$ 710,014</u>
<b>FUND BALANCE - BEGINNING OF YEAR</b>			<u>7,160,155</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 10,295,547</u>	



CITY OF FAIRHOPE, ALABAMA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2012

NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING

Although no legal requirement to establish a budget exists, the City Council follows these procedures in establishing the budgets:

- (1) The City Council has appointed a Budget Committee to work with City Management to prepare a proposed working budget for the fiscal year commencing the following October 1. The budget includes proposed expenditures and the means of financing them for the upcoming year. Line item budgets are used for administrative control. The level of control for the detailed budgets is at the department head/function level.
- (2) Council budget meetings are conducted to obtain manager and taxpayer input.
- (3) The budget is enacted through council action.
- (4) Reports are submitted to the City Council, showing approved budget and actual operations.
- (5) The Mayor 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.
- (6) Formal budgetary integration is employed as a management control device during the year for the General Fund.
- (7) Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).
- (8) Budgetary data, if any, for Capital Project Funds are budgeted over the life of the respective project and not on an annual basis.
- (9) All appropriations lapse at year-end.

CITY OF FAIRHOPE, ALABAMA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2012

NOTE 2 EXCESS EXPENDITURES

The following are General Fund expenditures in excess of final budget amounts:

	<u>Excess Expenditures</u>		<u>Excess Expenditures</u>
<b>General Government</b>		<b>Recreation Department</b>	
Salaries-Judge & Court Clerk	\$ 16,967	Casualty and Workers Comp Insurance	\$ 967
Salaries-Mechanics	19,563	General Supplies	139,527
Salaries-Building & Zoning	6,201	General Maintenance	50,753
Employee Payroll Taxes	849	Gasoline and Oil	2,182
Casualty and Workers Comp Insurance	15,138	Equipment and Vehicle Repair	9,943
Services - Excluding Accounting & Legal	62,748		
Office Supplies	4,587	<b>Adult Recreation Department</b>	
General Supplies	11,733	Casualty and Workers Comp Insurance	732
General Maintenance	10,403	Office Expense	1,376
Dues/Memberships/Subscriptions	11,990		
Equipment and Vehicle Repair	6,060	<b>Street Department</b>	
Printing	2,796	Employee Payroll Taxes	4,531
Lease on Terminals	67	Casualty and Workers Comp Insurance	10,740
Recording Fees Paid	27	Gasoline and Oil	83,456
Book and Sidewalk Brick	19	Equipment and Vehicle Repair	67,928
Historical District Expense	431	Equipment Rental	32,299
County Prisoner Expense	2,770	Material and Landscaping	21,531
City Hall Maintenance	2,963		
ALDOT Spring Run	235	<b>Sanitation Department</b>	
Sales Tax Collection Fees	24,980	Casualty and Workers Comp Insurance	1,919
Hurricane Isaac Costs	786	General Supplies	11,100
PCP Fees	76,065	Gasoline and Oil	14,126
		Equipment and Vehicle Repair	97,485
<b>Police Department</b>		Uniforms	3,508
Salaries	210,969		
Employee Payroll Taxes	16,472	<b>Golf Department</b>	
Services - Excluding Accounting & Legal	9,646	Salaries - Club House	6,351
City Computer Expense	1,972	Supplies - Club House	1,276
General Supplies	14,082	Gasoline and Oil	4,493
Gasoline and Oil	26,891	Equipment and Vehicle Repair	625
Equipment and Vehicle Repair	13,139	Pro Shop - Custom Orders	17,712
NCIC Data System	540		
Court Supplies and Expense	2,050	<b>Capital Outlay</b>	
DEA Funds Purchases	57,451	Vehicles and Equipment	3,476
Corrections Operation Expenses	7,159		
		<b>Staff Agencies</b>	
<b>Fire Department</b>		Impact Fee Expense	19,976
General Supplies	1,324		
Gasoline and Oil	3,789		
Uniforms	539		

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**OTHER SUPPLEMENTARY INFORMATION**

**COMBINING FINANCIAL STATEMENTS  
NONMAJOR GOVERNMENTAL FUNDS**

CITY OF FAIRHOPE, ALABAMA  
COMBINING BALANCE SHEETS  
NONMAJOR GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2012

	Special Revenue Fund Impact Fees	Special Revenue Fund Gas Tax	Debt Service	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash	\$ 821,610	\$ 216,955	\$ 34,903	\$ 1,073,468
Investments	-	-	291,470	291,470
Receivables	-	-	25,617	25,617
<b>TOTAL ASSETS</b>	<u>\$ 821,610</u>	<u>\$ 216,955</u>	<u>\$ 351,990</u>	<u>\$ 1,390,555</u>
<b>LIABILITIES</b>				
Accounts payable – trade	\$ -	\$ -	\$ 1,159	\$ 1,159
Due to other funds	8,730	760	-	9,490
Deferred assessment revenue	-	-	25,617	25,617
<b>TOTAL LIABILITIES</b>	<u>8,730</u>	<u>760</u>	<u>26,776</u>	<u>36,266</u>
<b>FUND BALANCES</b>				
Restricted for:				
Debt service	-	-	325,214	325,214
Assigned to:				
Construction and road maintenance	812,880	216,195	-	1,029,075
<b>TOTAL FUND BALANCES</b>	<u>812,880</u>	<u>216,195</u>	<u>325,214</u>	<u>1,354,289</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 821,610</u>	<u>\$ 216,955</u>	<u>\$ 351,990</u>	<u>\$ 1,390,555</u>

CITY OF FAIRHOPE, ALABAMA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Special Revenue Fund Impact Fees	Special Revenue Fund Gas Tax	Debt Service	Total Nonmajor Governmental Funds
<b>REVENUES</b>				
Intergovernmental	\$ -	\$ 88,271	\$ -	\$ 88,271
Charges for services	36,344	-	-	36,344
Interest and rents	106	-	1,626	1,732
Assessments	-	-	3,659	3,659
Total	<u>36,450</u>	<u>88,271</u>	<u>5,285</u>	<u>130,006</u>
<b>EXPENDITURES</b>				
Street department	-	39,862	-	39,862
Recreation	-	-	-	-
Other	-	-	51,912	51,912
Debt service				
Principal	-	-	4,656,470	4,656,470
Interest	-	-	585,414	585,414
Capital outlay	81,377	-	-	81,377
Total	<u>81,377</u>	<u>39,862</u>	<u>5,293,796</u>	<u>5,415,035</u>
Excess of revenues over (under) expenditures	<u>(44,927)</u>	<u>48,409</u>	<u>(5,288,511)</u>	<u>(5,285,029)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	<u>857,807</u>	<u>-</u>	<u>5,263,705</u>	<u>6,121,512</u>
Total other financing sources (uses)	<u>857,807</u>	<u>-</u>	<u>5,263,705</u>	<u>6,121,512</u>
Net change in fund balances	812,880	48,409	(24,806)	836,483
Fund balances – beginning of year	<u>-</u>	<u>167,786</u>	<u>350,020</u>	<u>517,806</u>
<b>FUND BALANCES – END OF YEAR</b>	<u>\$ 812,880</u>	<u>\$ 216,195</u>	<u>\$ 325,214</u>	<u>\$ 1,354,289</u>

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**INDIVIDUAL FUND FINANCIAL STATEMENTS  
DISCRETELY PRESENTED COMPONENT UNITS**

CITY OF FAIRHOPE, ALABAMA  
FUND BALANCE SHEET  
FAIRHOPE PUBLIC LIBRARY BOARD  
SEPTEMBER 30, 2012

ASSETS	
Cash and cash equivalents	\$ <u>125,316</u>
TOTAL ASSETS	\$ <u><u>125,316</u></u>
LIABILITIES	
Accounts payable and accrued expenses	\$ <u>3,698</u>
FUND BALANCES	
Restricted for:	
Capital projects	66,197
Unassigned	<u>55,421</u>
Total fund balances	<u><u>121,618</u></u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u><u>125,316</u></u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA  
RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
FAIRHOPE PUBLIC LIBRARY BOARD  
SEPTEMBER 30, 2012

<b>Fund balance as reported on page 56</b>	\$	121,618
Net Assets reported for governmental activities in the Statement of Net Assets are different from Fund Balance for governmental activities because:		
Capital assets used in governmental activities are financial resources and therefore are not reported in fund financial statements.		343,601
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.		<u>(282,891)</u>
<b>Net Assets of Governmental Activities as reported on page 23</b>	\$	<u><u>182,328</u></u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FAIRHOPE PUBLIC LIBRARY BOARD  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

REVENUES	
Fines and lost books	\$ 20,444
Donations, gifts, memorials and bequests	58,606
State aid	15,011
Lease income	1,500
Payments from City of Fairhope	597,333
Miscellaneous	15,452
Total revenues	<u>708,346</u>
EXPENDITURES	
Salaries	423,867
Payroll taxes	32,086
Employees' retirement	19,813
Books, periodicals, audio visual	87,474
Supplies	11,073
Janitorial service	16,450
Professional fees	9,065
Telecommunications	4,575
Payments to City of Fairhope for Library Debt	1,000
Capital outlay	10,663
Maintenance	41,628
Friends expenses	5,349
Miscellaneous	16,169
Total expenditures	<u>679,212</u>
Net change in fund balance	29,134
Fund balance – beginning of year	<u>92,484</u>
Fund balance – end of year	<u>\$ 121,618</u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
FAIRHOPE PUBLIC LIBRARY BOARD  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

**Net change in fund balances - total governmental funds, page 58** \$ 29,134

Amounts reported for governmental activities in the Statement of Activities are different from the Statements of Revenues, Expenditures and Changes in Fund balances - Governmental Funds because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.

Capital outlays for the year	10,663
Depreciation expense for the year	<u>(28,220)</u>

**Change in Net Assets of Governmental Activities, page 24** \$ 11,577

CITY OF FAIRHOPE, ALABAMA  
FUND BALANCE SHEET  
FAIRHOPE AIRPORT AUTHORITY  
SEPTEMBER 30, 2012

ASSETS

Cash and cash equivalents \$ 688,294

TOTAL ASSETS \$ 688,294

FUND BALANCES

Restricted for:

Capital projects \$ 231,790

Unassigned 456,504

Total fund balances 688,294

TOTAL FUND BALANCES \$ 688,294

CITY OF FAIRHOPE, ALABAMA  
RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
FAIRHOPE AIRPORT AUTHORITY  
SEPTEMBER 30, 2012

<b>Fund balance as reported on page 60</b>	\$ 688,294
Net Assets reported for governmental activities in the Statement of Net Assets are different from Fund Balance for governmental activities because:	
Capital assets used in governmental activities are financial resources and therefore are not reported in fund financial statements	25,263,036
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.	(2,881,278)
Cost associated with warrant issuance are expensed in the current period in Fund Financial Statements	
Warrant Issuance costs, net	26,846
Long-term liabilities, including warrants payable, capital lease obligations and notes payable are not due and payable in the current period and therefore are not reported in fund financial statements	<u>(8,935,000)</u>
<b>Net Assets of Governmental Activities as reported on page 23</b>	<u><u>\$ 14,161,898</u></u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FAIRHOPE AIRPORT AUTHORITY  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

REVENUES	
Fuel sales and rentals	\$ 145,791
Interest income	3,406
Federal grant revenue	507,547
Payments from City of Fairhope	281,124
Total revenues	<u>937,868</u>
EXPENDITURES	
Insurance	28,968
Legal and professional	18,120
Maintenance	125,228
Capital outlay	585,617
Debt service interest	142,913
Other	19,313
Total expenditures	<u>920,159</u>
Net change in fund balance	17,709
Fund balance – beginning of year	<u>670,585</u>
Fund balance – end of year	<u>\$ 688,294</u>

See independent auditors' report.



CITY OF FAIRHOPE, ALABAMA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
FAIRHOPE AIRPORT AUTHORITY  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

**Net change in fund balances - total governmental funds, page 62** \$ 17,709

Amounts reported for governmental activities in the Statement of Activities are different from the Statements of Revenues, Expenditures and Changes in Fund balances - Governmental Funds because:

Amortization of bond costs and discounts is not recorded in fund level statements (3,619)

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.

Capital outlays for the year 585,617  
Depreciation expense for the year (226,775)

**Change in Net Assets of Governmental Activities, page 24** \$ 372,932

CITY OF FAIRHOPE, ALABAMA  
SCHEDULE OF CAPITAL PROJECTS EXPENDITURES  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Special Projects	\$ 84,881
Sidewalks	270,679
Fairhope Paving Projects	<u>1,690,107</u>
Total capital projects expenditures	<u>\$ 2,045,667</u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA  
 SCHEDULE OF INFORMATION REQUIRED BY BOND INDENTURES  
 SEPTEMBER 30, 2012

	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
A. Utility customers at September 30, 2012 were as follows:				
Number of customers	6,485	9,240	16,016	
Number of metered customers	6,485	9,240	16,016	
Number of unmetered customers	-	-	-	
Number of waste water customers	-	-	9,051	
B. Annual Net Income of Utility Operations				
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	Total
Income from operations	\$2,049,036	\$ 1,795,822	\$ 3,575,820	\$7,420,678
Add:				
Depreciation and amortization	639,846	279,201	734,024	1,653,071
Interest income	6,211	7,840	6,366	20,417
Annual net income as prescribed by debt covenants	<u>\$2,695,093</u>	<u>\$2,082,863</u>	<u>\$ 4,316,210</u>	<u>\$9,094,166</u>
C. Utility fund casualty insurance coverage on electrical sub stations, natural gas facilities, water and waste-water facilities is included in a blanket policy with the Governmental Funds general capital assets building and facilities. The City of Fairhope, Alabama is the named insured on all policies.				
Comprehensive general liability – expires January 2013				\$3,000,000
Buildings and facilities – expires January 2013				67,570,834
Automobile – expires January 2013				
Liability				1,000,000
Uninsured motorist				50,000
Inland Marine – expires January 2013				44,112
Public officials errors and omissions liability – expires January 2012				3,000,000
Police liability – expires January 2013				3,000,000
Aggregate				2,000,000
Per occurrence				
Excess liability policy for general liability, police and public official – expires January 2013				5,000,000
D. The City has complied with all requirements of the respective bond indentures.				

CITY OF FAIRHOPE, ALABAMA  
 SUMMARY OF DEPOSITS, WITHDRAWALS AND BALANCES OF SELECTED TRUST ACCOUNTS AS  
 REQUIRED UNDER CERTAIN TRUST INDENTURES  
 SEPTEMBER 30, 2012

	1996 Capital Improvement	2002 Warrant Fund	2002 Warrant Fund	2002 Reserve Fund	2005 Warrant Fund	2005 Reserve Fund	2007 Warrant Fund	2009 Warrant Fund	2009 Reserve Fund	2011 Construction Fund	2011 Warrant Fund	2011 Reserve Fund
Balance 10/01/11	\$ 50,000	\$ 110,558	\$ 151,432	\$ 672,023	\$ 597,501	\$ 874,692	\$ 176,007	\$ 97,070	\$ 125,003	\$ -	\$ -	\$ -
Deposits	5	40,866	4,162,086	6	884,549	874,770	528,506	146,321	13	8,662,753	1,326,299	1,415,769
Disbursements	(5)	(151,424)	(4,313,518)	(672,029)	(874,692)	(874,692)	(527,971)	(139,270)	(13)	-	(828,882)	(90)
Balance 9/30/12	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 607,358</u>	<u>\$ 874,770</u>	<u>\$ 176,542</u>	<u>\$ 104,121</u>	<u>\$ 125,003</u>	<u>\$ 8,662,753</u>	<u>\$ 497,417</u>	<u>\$ 1,415,679</u>

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## **STATISTICAL SECTION**

## STATISTICAL SECTION

This part of the City of Fairhope, Alabama's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

<b>Contents</b>	<b>Page</b>
Financial Trends <i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	68-73
Revenue Capacity <i>These schedules contain information to help the reader assess the government's most significant local revenue sources, the sales tax and the property tax.</i>	74-79
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.</i>	80-83
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.</i>	84-85
Operating Information <i>These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.</i>	86-88

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF FAIRHOPE, ALABAMA  
NET ASSETS BY COMPONENT  
LAST TEN FISCAL YEARS  
(accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Governmental activities</b>										
Invested in capital assets, net of related debt	\$ 54,678,761	\$ 57,031,298	\$60,149,769	\$67,742,360	\$61,450,916	\$67,338,065	\$ 66,295,379	\$ 65,963,325	\$ 66,845,689	\$ 66,016,012
Restricted	1,695,559	1,788,014	1,908,452	787,538	1,073,262	847,580	1,462,430	3,564,376	6,207,809	8,015,592
Unrestricted	(12,322)	273,964	88,053	(1,195)	54,300	(84,709)	165,029	1,782,848	50,640	56,984
Total governmental activities net assets	\$ 56,361,998	\$ 59,093,276	\$62,146,274	\$68,528,703	\$62,578,478	\$68,100,936	\$ 67,922,838	\$ 71,310,549	\$ 73,104,138	\$ 74,088,588
<b>Business-type activities</b>										
Invested in capital assets, net of related debt	\$ 11,617,954	\$ 17,337,442	\$15,801,139	\$19,307,068	\$23,076,992	\$24,573,181	\$ 24,210,082	\$ 24,697,607	\$ 25,786,974	\$ 17,990,946
Restricted	1,652,831	1,991,871	2,058,968	2,089,642	2,106,516	2,092,174	1,883,768	1,649,106	1,658,631	12,337,047
Unrestricted	8,962,015	2,949,282	5,082,800	3,334,264	2,105,886	1,422,972	3,691,056	6,696,480	10,610,123	10,047,736
Total business-type activities net assets	\$ 22,232,800	\$ 22,278,595	\$22,942,907	\$24,730,974	\$27,289,394	\$28,088,327	\$ 29,784,906	\$ 33,043,193	\$ 38,055,728	\$ 40,375,729
<b>Primary government</b>										
Invested in capital assets, net of related debt	\$ 66,296,715	\$ 74,368,740	\$75,950,908	\$87,049,428	\$84,527,908	\$91,911,246	\$ 90,505,461	\$ 90,660,932	\$ 92,632,663	\$ 84,006,958
Restricted	3,348,390	3,779,885	3,967,420	2,877,180	3,179,778	2,939,754	3,346,198	5,213,482	7,866,440	20,352,639
Unrestricted	8,949,693	3,223,246	5,170,853	3,333,069	2,160,186	1,338,263	3,856,085	8,479,328	10,660,763	10,104,720
Total primary government net assets	\$ 78,594,798	\$ 81,371,871	\$85,089,181	\$93,259,677	\$89,867,872	\$96,189,263	\$ 97,707,744	\$ 104,353,742	\$ 111,159,866	\$ 114,464,317



**CITY OF FAIRHOPE, ALABAMA**  
**CHANGES IN NET ASSETS**  
**LAST TEN FISCAL YEARS**  
 (accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Expenses</b>										
Governmental activities:										
General	\$ 2,493,723	\$ 3,674,382	\$ 2,679,665	\$ 3,873,823	\$ 5,540,860	\$ 6,392,335	\$ 6,536,802	\$ 6,929,734	\$ 6,176,077	\$ 8,103,118
Public safety										
Police	2,316,492	2,683,124	3,202,753	3,482,683	3,789,666	4,011,091	4,090,851	4,740,344	5,213,031	4,925,437
Fire	572,709	559,002	550,602	692,972	781,696	843,469	878,148	1,017,184	483,670	461,865
Public works										
Sanitation	826,924	922,013	990,511	1,123,517	1,479,374	1,564,126	1,657,615	1,973,942	1,868,364	1,814,947
Street	5,208,843	3,488,870	6,767,426	4,653,792	3,757,204	3,671,572	4,308,575	4,452,370	4,251,404	5,502,244
Public Library Board	300,451	341,789	355,908	336,823	594,378	771,373	760,174	772,539	798,997	810,636
Airport	166,760	98,890	95,272	149,179	397,183	545,000	242,090	249,856	225,843	281,124
Recreation	448,782	518,126	596,686	645,154	819,051	900,759	1,031,886	1,269,393	1,138,079	1,176,191
Adult Recreation	274,802	281,383	305,018	321,557	390,125	459,961	438,442	601,232	654,736	613,614
Golf	-	-	-	-	-	-	1,292,200	1,102,861	1,106,624	932,284
Interest on long-term debt	673,220	526,835	503,428	475,699	624,883	743,451	878,534	694,083	633,161	589,174
Total governmental activities expenses	<u>13,282,706</u>	<u>13,094,414</u>	<u>16,047,269</u>	<u>15,755,199</u>	<u>18,174,420</u>	<u>19,903,137</u>	<u>22,115,317</u>	<u>23,803,538</u>	<u>22,549,986</u>	<u>25,210,634</u>
Business-type activities:										
Natural gas	4,714,305	4,891,447	5,345,092	6,329,438	5,948,144	6,709,491	5,349,209	5,757,648	5,037,587	4,484,683
Electric	10,406,720	10,428,908	11,213,904	12,842,542	14,029,975	16,006,139	15,540,148	15,664,835	16,909,931	16,912,834
Water and wastewater	4,521,100	4,756,900	5,255,779	5,682,694	6,387,739	6,502,942	6,803,566	6,533,138	6,616,671	7,050,997
Golf	1,154,390	1,278,737	1,320,403	1,476,373	1,544,528	1,713,486	-	-	-	-
Total business-type activities expenses	<u>20,796,515</u>	<u>21,355,992</u>	<u>23,135,178</u>	<u>26,331,047</u>	<u>27,910,386</u>	<u>30,932,058</u>	<u>27,692,923</u>	<u>27,955,621</u>	<u>28,564,189</u>	<u>28,448,514</u>
Total primary government expenses	<u>\$34,079,221</u>	<u>\$34,450,406</u>	<u>\$39,182,447</u>	<u>\$42,086,246</u>	<u>\$46,084,806</u>	<u>\$50,835,195</u>	<u>\$49,808,240</u>	<u>\$51,759,159</u>	<u>\$51,114,175</u>	<u>\$53,659,148</u>
<b>Program Revenues</b>										
Governmental activities:										
Charges for services:										
General	\$ 1,396,101	\$ 1,637,995	\$ 2,098,805	\$ 3,726,334	\$ 5,862,118	\$ 5,952,299	\$ 5,140,160	\$ 5,249,279	\$ 5,383,822	\$ 6,301,207
Police	267,834	249,181	325,728	354,504	362,441	252,838	224,022	261,070	241,104	289,432
Sanitation	824,893	772,645	749,301	1,252,282	1,294,033	1,331,617	1,368,656	1,380,238	1,391,722	1,408,179
Recreation	28,736	90,954	70,665	73,975	75,592	83,919	130,740	366,683	369,135	368,493
Adult Recreation	43,677	44,608	40,019	41,590	34,534	32,791	36,316	45,889	46,261	41,018
Golf	-	-	-	-	-	-	847,016	776,173	944,858	1,001,627
Operating grants and contributions	130,119	1,453,233	3,472,502	3,065,387	631,133	206,012	87,416	22,267	24,402	-
Capital grants and contributions	2,392,663	2,325,885	3,792,402	4,861,100	8,526,591	7,310,387	384,358	1,389,592	302,963	1,317,475
Total governmental activities program revenues	<u>5,084,023</u>	<u>6,574,501</u>	<u>10,549,422</u>	<u>13,375,172</u>	<u>16,786,442</u>	<u>15,169,863</u>	<u>8,218,684</u>	<u>9,491,191</u>	<u>8,704,267</u>	<u>10,727,431</u>
Business-type activities:										
Charges for services:										
Gas	5,995,994	6,330,451	6,606,396	7,112,944	7,388,531	7,841,853	8,341,855	8,631,935	8,219,447	6,191,986
Electric	12,196,246	11,918,793	12,497,288	14,683,254	16,658,326	17,777,703	18,800,459	18,496,651	19,838,004	18,891,334
Water and wastewater	5,603,119	7,119,904	7,330,152	8,348,064	8,669,895	8,166,344	8,194,949	8,959,041	10,287,898	9,838,580
Golf course	1,250,380	1,259,510	1,233,703	1,527,311	1,505,211	1,487,811	-	-	-	-
Total business-type activities program revenues	<u>25,045,739</u>	<u>26,628,658</u>	<u>27,667,539</u>	<u>31,671,573</u>	<u>34,221,963</u>	<u>35,273,711</u>	<u>35,337,263</u>	<u>36,087,627</u>	<u>38,345,349</u>	<u>34,921,900</u>
Total primary government program revenues	<u>\$30,129,762</u>	<u>\$33,203,159</u>	<u>\$38,216,961</u>	<u>\$45,046,745</u>	<u>\$51,008,405</u>	<u>\$50,443,574</u>	<u>\$43,555,947</u>	<u>\$45,578,818</u>	<u>\$47,049,616</u>	<u>\$45,649,331</u>

(continued)

CITY OF FAIRHOPE, ALABAMA  
CHANGES IN NET ASSETS  
LAST TEN FISCAL YEARS  
(accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net (expense)/revenue										
Governmental activities	\$ (8,198,683)	\$ (6,519,913)	\$ (5,497,847)	\$ (2,380,027)	\$ (1,387,978)	\$ (4,733,274)	#####	#####	\$ (13,845,719)	#####
Business-type activities	4,249,224	5,272,666	4,532,361	5,340,526	6,311,577	4,341,653	7,644,340	8,132,006	9,781,160	6,473,386
Total primary government net expense	<u>\$ (3,949,459)</u>	<u>\$ (1,247,247)</u>	<u>\$ (965,486)</u>	<u>\$ 2,960,499</u>	<u>\$ 4,923,599</u>	<u>\$ (391,621)</u>	<u>\$ (6,252,293)</u>	<u>\$ (6,180,341)</u>	<u>\$ (4,064,559)</u>	<u>\$ (8,009,817)</u>
<b>General Revenues and Other Changes in Net Assets</b>										
Governmental activities:										
Taxes										
Property taxes	\$ 2,278,650	\$ 2,674,204	\$ 2,710,256	\$ 3,159,187	\$ 3,589,489	\$ 4,631,476	\$ 4,939,840	\$ 4,842,366	\$ 4,590,840	\$ 4,591,739
Sales taxes	-	-	-	-	-	-	1,003,864	4,443,325	4,590,149	4,898,362
Liquor taxes	299,681	317,899	352,827	347,415	373,794	396,196	385,411	392,255	393,123	425,888
Lodging taxes	-	362,860	449,079	196,224	420,024	495,850	474,852	483,271	495,870	569,142
Other	27,152	100,554	130,305	124,738	138,857	145,836	134,413	131,135	120,518	124,234
Intergovernmental	288,487	243,469	325,557	522,196	472,667	293,007	436,472	424,359	248,011	314,525
Investment earnings	328,868	290,659	327,687	394,006	508,558	340,530	225,860	239,256	249,489	226,642
Other	4,613	107,685	205,060	230,691	251,476	294,469	109,958	1,293,419	124,161	143,319
Transfer of Golf Fund to Governmental Activities	-	-	-	-	-	-	913,729	-	-	-
Transfers in/(out)	4,360,675	5,330,481	4,058,380	3,787,999	(10,317,112)	3,658,368	5,094,136	4,897,104	4,827,147	4,173,802
Total government activities	<u>7,588,126</u>	<u>9,427,811</u>	<u>8,559,151</u>	<u>8,762,456</u>	<u>(4,562,247)</u>	<u>10,255,732</u>	<u>13,718,535</u>	<u>17,146,490</u>	<u>15,639,308</u>	<u>15,467,653</u>
Business-type activities:										
Investment earnings	176,061	103,610	190,330	235,538	266,888	115,648	60,104	23,385	58,522	20,417
Transfer of Golf Fund to Governmental Activities	-	-	-	-	-	-	(913,729)	-	-	-
Transfers in/(out)	(4,360,675)	(5,330,481)	(4,058,380)	(3,787,999)	(4,020,046)	(3,658,368)	(5,094,136)	(4,897,104)	(4,827,147)	(4,173,802)
Total business-type activities	<u>(4,184,614)</u>	<u>(5,226,871)</u>	<u>(3,868,050)</u>	<u>(3,552,461)</u>	<u>(3,753,158)</u>	<u>(3,542,720)</u>	<u>(5,947,761)</u>	<u>(4,873,719)</u>	<u>(4,768,625)</u>	<u>(4,153,385)</u>
Total primary government	<u>\$ 3,403,512</u>	<u>\$ 4,200,940</u>	<u>\$ 4,691,101</u>	<u>\$ 5,209,995</u>	<u>\$ (8,315,405)</u>	<u>\$ 6,713,012</u>	<u>\$ 7,770,774</u>	<u>\$ 12,272,771</u>	<u>\$ 10,870,683</u>	<u>\$ 11,314,268</u>
<b>Change in Net Assets</b>										
Governmental activities	\$ (610,557)	\$ 2,907,898	\$ 3,061,304	\$ 6,382,429	\$ (5,950,225)	\$ 5,522,458	\$ (178,098)	\$ 2,834,143	\$ 1,793,589	\$ 984,450
Business-type activities	64,610	45,795	664,311	1,788,065	2,558,419	798,933	1,696,579	3,258,287	5,012,535	2,320,001
Total primary government	<u>\$ (545,947)</u>	<u>\$ 2,953,693</u>	<u>\$ 3,725,615</u>	<u>\$ 8,170,494</u>	<u>\$ (3,391,806)</u>	<u>\$ 6,321,391</u>	<u>\$ 1,518,481</u>	<u>\$ 6,092,430</u>	<u>\$ 6,806,124</u>	<u>\$ 3,304,451</u>

CITY OF FAIRHOPE, ALABAMA  
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE  
LAST TEN FISCAL YEARS  
(accrual basis of accounting)

<u>Fiscal Year</u>	<u>Sales Tax</u>	<u>Ad Valorem Tax</u>	<u>Automobile Tax</u>	<u>Beer, Wine and Liquor Tax</u>	<u>Cigarette Tax</u>	<u>Lodging Tax</u>	<u>Dog Tax</u>	<u>Burglar Alarm Tax</u>	<u>Total</u>
2003	\$ -	\$ 1,953,186	\$ 325,464	\$ 299,681	\$ 26,941	\$ -	\$ 211	\$ -	\$ 2,605,483
2004	-	2,328,984	345,220	317,899	100,379	362,860	175	-	3,455,517
2005	-	2,268,195	442,061	352,827	130,168	449,079	137	-	3,642,467
2006	-	2,639,610	519,577	347,415	124,606	196,224	107	25	3,827,539
2007	-	3,103,284	486,205	373,794	138,754	420,024	103	-	4,522,164
2008	-	4,143,286	488,190	396,080	145,836	495,852	114	-	5,669,358
2009	1,003,864	4,424,103	515,737	385,411	134,297	474,852	116	-	6,938,380
2010	4,443,325	4,421,646	420,720	392,255	131,063	483,271	73	-	10,292,352
2011	4,590,149	4,102,942	487,897	393,123	120,458	495,870	60	-	10,190,500
2012	4,898,362	4,065,822	525,917	425,888	124,183	569,142	50	-	10,609,364

CITY OF FAIRHOPE, ALABAMA  
 FUND BALANCES OF GOVERNMENTAL FUNDS  
 (modified accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General fund										
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 501,932	\$ 2,723,595	\$ 5,014,205	\$ 7,000,000
Unassigned	<u>382,274</u>	<u>421,331</u>	<u>1,033,668</u>	<u>1,087,642</u>	<u>1,703,619</u>	<u>1,083,383</u>	<u>1,574,743</u>	<u>1,985,914</u>	<u>2,145,950</u>	<u>3,295,547</u>
Total general fund	<u>\$ 382,274</u>	<u>\$ 421,331</u>	<u>\$ 1,033,668</u>	<u>\$ 1,087,642</u>	<u>\$ 1,703,619</u>	<u>\$ 1,083,383</u>	<u>\$ 2,076,675</u>	<u>\$ 4,709,509</u>	<u>\$ 7,160,155</u>	<u>\$ 10,295,547</u>
All other governmental funds										
Restricted-Debt Service	\$ 558,630	\$ 377,983	\$ 272,950	\$ 235,348	\$ 456,957	\$ 470,671	\$ 350,987	\$ 351,008	\$ 350,020	\$ 325,214
Assigned, reported in:										
Special revenue funds	92,201	143,257	227,109	257,881	311,553	66,907	59,142	127,419	167,786	1,029,075
Capital projects funds	876,358	1,219,106	1,602,259	263,202	3,892,524	2,070,337	550,369	362,354	675,799	-
Unassigned										
Capital projects funds										(1,069,424)
Total all other governmental funds	<u>\$ 1,527,189</u>	<u>\$ 1,740,346</u>	<u>\$ 2,102,318</u>	<u>\$ 756,431</u>	<u>\$ 4,661,034</u>	<u>\$ 2,607,915</u>	<u>\$ 960,498</u>	<u>\$ 840,781</u>	<u>\$ 1,193,605</u>	<u>\$ 284,865</u>

The City implemented GASB Statement number 54 fiscal year 2011. This statement replaces the previous classifications of reserved, unreserved, designated and undesignated fund balances.

**CITY OF FAIRHOPE, ALABAMA**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
(modified accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>REVENUES</b>										
Local taxes	\$ 2,605,483	\$ 3,455,517	\$ 3,642,467	\$ 3,827,564	\$ 4,522,164	\$ 5,669,358	\$ 6,938,380	\$ 10,292,352	\$ 10,190,500	\$ 10,609,364
Licenses and permits	1,363,785	1,527,160	2,055,861	3,401,207	2,996,213	2,729,209	2,058,105	2,178,982	2,295,795	2,612,793
Fines and forfeitures	267,834	249,181	325,728	354,504	362,441	252,838	224,022	261,070	241,104	289,432
Intergovernmental	2,336,195	3,598,224	6,514,824	7,319,833	3,167,141	1,826,517	837,246	547,556	345,966	667,344
Contribution from Public Library Bd	-	-	1,500,000	1,128,850	685,003	208,931	71,000	65,000	183,285	1,000
Interest and rents	328,868	290,659	327,686	394,009	377,743	340,530	225,861	239,256	249,489	226,748
Charges for services	704,228	735,311	792,245	1,577,409	4,149,905	4,610,307	4,450,711	4,450,535	4,479,749	5,096,593
Assessments	182,764	122,170	124,582	39,199	1,831	-	-	-	-	3,659
Golf course revenue	-	-	-	-	-	-	959,730	858,237	1,020,250	1,001,627
Other	258,351	391,478	315,745	343,588	492,419	411,179	277,015	1,705,991	539,557	552,904
Total revenues	<u>8,047,508</u>	<u>10,369,700</u>	<u>15,599,138</u>	<u>18,386,163</u>	<u>16,754,860</u>	<u>16,048,869</u>	<u>16,042,070</u>	<u>20,598,979</u>	<u>19,545,695</u>	<u>21,061,464</u>
<b>EXPENDITURES</b>										
General government	2,353,659	3,595,220	2,412,693	2,731,819	5,090,777	6,318,322	5,948,479	6,279,197	5,335,143	7,026,721
Sanitation	745,802	861,317	929,815	960,328	1,254,694	1,405,774	1,475,035	1,758,543	1,745,785	1,607,918
Police	2,124,786	2,476,353	2,881,293	3,110,086	3,405,687	3,913,015	3,922,163	4,404,803	4,941,051	4,671,591
Fire	372,263	366,421	492,552	576,191	619,434	707,513	765,645	837,597	395,224	339,080
Airport	6,895	12,742	9,124	63,031	397,183	545,000	242,090	249,856	225,843	281,124
Street	4,159,154	2,453,144	5,636,288	3,580,189	2,552,328	2,554,959	2,704,242	2,797,566	2,639,416	3,872,517
Recreation	366,531	396,660	472,129	513,503	658,837	785,425	867,174	1,050,957	969,025	989,463
Adult recreation	231,615	238,007	261,569	277,808	328,744	431,481	400,494	553,125	577,015	525,212
Golf	-	-	-	-	-	-	1,303,135	1,094,604	1,113,178	863,593
Capital outlay	4,146,979	2,544,947	4,131,361	14,308,234	6,054,830	3,227,604	1,775,834	1,565,192	1,474,937	664,526
Debt service:										
Principal	891,680	712,321	1,288,488	835,627	4,412,690	2,424,796	863,329	1,047,483	831,483	4,804,960
Interest	666,600	532,508	512,025	482,436	532,687	802,140	809,715	704,043	666,652	616,221
Bond issuance costs	-	-	-	-	138,476	-	-	-	-	-
Public Library Board	300,450	288,400	330,806	336,823	396,000	504,560	530,000	565,000	565,000	600,000
Other	-	-	60,000	60,000	60,000	60,000	60,000	75,000	89,620	160,888
Total expenditures	<u>16,366,414</u>	<u>14,478,040</u>	<u>19,418,143</u>	<u>27,836,075</u>	<u>25,902,367</u>	<u>23,680,589</u>	<u>21,667,335</u>	<u>22,982,966</u>	<u>21,569,372</u>	<u>27,023,814</u>
Excess (deficiency) of revenues over expenditures	<u>(8,318,906)</u>	<u>(4,108,340)</u>	<u>(3,819,005)</u>	<u>(9,449,912)</u>	<u>(9,147,507)</u>	<u>(7,631,720)</u>	<u>(5,625,265)</u>	<u>(2,383,987)</u>	<u>(2,023,677)</u>	<u>(5,962,350)</u>
<b>OTHER FINANCING SOURCES (USES)</b>										
Transfers in	5,293,525	5,561,528	4,876,111	5,325,589	4,897,503	5,228,182	9,542,134	6,541,730	6,557,708	10,379,818
Proceeds from issuance of debt	126,903	-	734,934	4,370,000	9,692,000	1,300,000	3,368,260	-	-	4,015,200
Cost from issuance of debt	-	-	-	-	-	-	(78,364)	-	-	-
Payment to Defeased Warrants Escrow Agent	-	-	-	-	-	-	(3,412,892)	-	-	-
Transfer to Debt Service to defease warrants	-	-	-	-	-	-	(3,289,896)	-	-	-
Warrant discount	-	-	-	-	(43,956)	-	-	-	-	-
Transfers out	(932,851)	(1,200,974)	(817,731)	(1,537,590)	(877,457)	(1,569,814)	(1,158,102)	(1,644,626)	(1,730,561)	(6,206,016)
Total other financing sources (uses)	<u>4,487,577</u>	<u>4,360,554</u>	<u>4,793,314</u>	<u>8,157,999</u>	<u>13,668,090</u>	<u>4,958,368</u>	<u>4,971,140</u>	<u>4,897,104</u>	<u>4,827,147</u>	<u>8,189,002</u>
Net change in fund balance	<u>\$ (3,831,329)</u>	<u>\$ 252,214</u>	<u>\$ 974,309</u>	<u>\$ (1,291,913)</u>	<u>\$ 4,520,583</u>	<u>\$ (2,673,352)</u>	<u>\$ (654,125)</u>	<u>\$ 2,513,117</u>	<u>\$ 2,803,470</u>	<u>\$ 2,226,652</u>
Debt service as a percentage of noncapital expenditures	12.8%	10.4%	11.8%	9.7%	24.9%	15.8%	8.4%	8.2%	7.5%	20.6%

CITY OF FAIRHOPE, ALABAMA  
 ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY  
 LAST TEN FISCAL YEARS

<b>Fiscal Year Ended September 30</b>	<b>Residential Property</b>	<b>Commercial Property</b>	<b>Industrial Property</b>	<b>Less: Tax Exempt Real Property</b>	<b>Total Taxable Assessed Value</b>	<b>Total Direct Tax Rate</b>	<b>Estimated Actual Taxable Value</b>
2003	\$ 66,037,480	\$ 1,446,470	\$ 99,099,267	\$ 25,446,440	\$ 141,136,777	15	\$ 2,117,051,655
2004	76,237,460	1,512,340	109,796,799	28,481,560	159,065,039	15	2,385,975,585
2005	81,947,620	1,615,900	110,912,740	29,677,300	164,798,960	15	2,471,984,400
2006	96,692,100	1,715,620	127,556,120	32,829,960	193,133,880	15	2,897,008,200
2007	111,365,480	1,842,120	147,264,040	36,224,280	224,247,360	15	3,363,710,400
2008	167,784,240	1,268,220	217,340,040	58,488,560	327,903,940	15	4,918,559,100
2009	166,205,000	1,412,140	224,300,620	61,340,580	330,577,180	15	4,958,657,700
2010	166,238,280	1,362,280	212,323,800	61,797,320	318,127,040	15	4,771,905,600
2011	152,409,500	1,293,000	199,340,360	61,323,460	291,719,400	15	4,375,791,000
2012	151,955,400	1,165,600	205,976,380	69,676,780	289,420,600	15	4,341,309,000

Source: Baldwin County Revenue Commissioner

CITY OF FAIRHOPE, ALABAMA  
PROPERTY TAX RATES  
DIRECT AND OVERLAPPING GOVERNMENTS  
LAST TEN FISCAL YEARS

Fiscal Year					Overlapping Rates											Total Direct & Overlapping Rates
					County					State						
	General Millage	School Millage	Bond Tax Millage	Total City Millage	General Millage	Road/Bridge Millage	Fire Millage	School Millage	Health Care Authority Millage	Total County Millage	General Millage	School Millage	Soldier Millage	Total State Millage		
2003	5.0	5.0	5.0	15.0	5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0	
2004	5.0	5.0	5.0	15.0	5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0	
2005	5.0	5.0	5.0	15.0	5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0	
2006	5.0	5.0	5.0	15.0	5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0	
2007	5.0	5.0	5.0	15.0	5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0	
2008	5.0	5.0	5.0	15.0	5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0	
2009	5.0	5.0	5.0	15.0	5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0	
2010	5.0	5.0	5.0	15.0	5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0	
2011	5.0	5.0	5.0	15.0	5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0	
2012	5.0	5.0	5.0	15.0	5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0	

Source: Baldwin County Commission

CITY OF FAIRHOPE, ALABAMA  
 PRINCIPAL PROPERTY TAXPAYERS  
 CURRENT YEAR AND NINE YEARS AGO

Taxpayer	2012			2003		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Bayview II Developer LLC	\$ 7,646,500	1	2.6%			
Arbor Gates LLC	2,007,700	2	0.7%	\$ 2,421,680	1	1.7%
Point Clear Partners LLC	1,809,000	3	0.6%			
FST Mississippi Baldwin Square	1,808,800	4	0.6%			
Fairhope LLC	1,568,720	5	0.5%			
AI Corte Jr Family Limited Partnership	1,425,640	6	0.5%	1,690,540	4	1.2%
CHS Properties, Inc.	1,125,440	7	0.4%	2,198,940	2	1.6%
Fairhope Yacht Club	1,088,300	8	0.4%			
Bones & Babies, LLC	1,053,380	9	0.4%			
Fairhope Commercial Investments, LLC	1,022,020	10	0.4%			
Bellsouth Tele, Inc. dba AT&T				1,316,100	5	0.9%
FST Eastern Shores Shopping Center				977,640	7	0.7%
FST E&A Southeast Limited Partnership				2,046,560	3	1.5%
Fairhope Mob, LLC				876,240	8	0.6%
Rock Creek Partners LLC				1,074,060	6	0.8%
Poser Business Forms Inc.				659,240	9	0.5%
FST Greeno Properties North II LTD				653,040	10	0.5%
	<u>\$ 20,555,500</u>		<u>7.1%</u>	<u>\$ 13,914,040</u>		<u>9.9%</u>

Source: Baldwin County Revenue Commissioner



CITY OF FAIRHOPE, ALABAMA  
PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS

Fiscal Year Ended September 30	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2003	\$ 2,117,052	\$ 1,936,184	91.46%	\$ 109,150	\$ 2,045,334	96.61%
2004	2,385,976	2,233,532	93.61%	119,877	2,353,409	98.64%
2005	2,471,984	2,240,259	90.63%	140,397	2,380,656	96.31%
2006	2,897,008	2,650,741	91.50%	138,659	2,789,400	96.29%
2007	3,363,710	3,053,904	90.79%	185,405	3,239,309	96.30%
2008	4,918,559	4,087,005	83.09%	344,238	4,431,243	90.09%
2009	4,958,658	4,378,939	88.31%	338,819	4,717,758	95.14%
2010	4,771,906	4,293,008	89.96%	347,908	4,640,916	97.25%
2011	4,375,791	3,336,261	76.24%	971,558	4,307,819	98.45%
2012	4,341,309	3,327,041	76.64%	458,193 *	3,785,234	87.19%

Source: Baldwin County Revenue Commissioner.

\* Report only included 17 days of late payments.

CITY OF FAIRHOPE, ALABAMA  
DIRECT AND OVERLAPPING SALES TAX RATES  
CURRENT & LAST THREE FISCAL YEARS

<b>Fiscal Year</b>	<b>City Direct Rate</b>	<b>Baldwin County</b>	<b>State of Alabama</b>
2009	2.00%	2.00%	4.00%
2010	2.00%	2.00%	4.00%
2011	2.00%	3.00%	4.00%
2012	2.00%	3.00%	4.00%

Source: City Clerk's Office

The City implemented its first sales tax effective July 1, 2009

CITY OF FAIRHOPE, ALABAMA  
PRINCIPAL SALES TAXPAYERS  
\* LAST FOUR YEARS

	<b>Top 25 Taxpayers (approximate)</b>	<b>Total Tax</b>	<b>% of Total Tax</b>
<b>2009 (partial year)</b>	\$ 632,797	\$ 1,003,864	63%
<b>2010</b>	2,124,169	4,443,325	48%
<b>2011</b>	2,502,259	4,591,088	55%
<b>2012</b>	2,525,722	4,855,972	52%

\* The City implemented its first sales tax effective July 1, 2009. Fiscal year 2009 is partial year.  
Source: City Treasurer's Office, AL Dept of Revenue and AlaTax Revenue Discovery Systems  
Note: State law prohibits the disclosure of tax information for specific taxpayers.

CITY OF FAIRHOPE, ALABAMA  
 RATIOS OF OUTSTANDING DEBT BY TYPE  
 LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities			Business-Type Activities				Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Debt	Notes Payable	Capital Leases	General Obligation Debt	Utilities Revenue Debt	Notes Payable	Capital Leases			
2003	\$ 9,988,410	\$ 285,104	\$ 979,700	\$ 471,590	\$ 18,470,000	\$ 177,395	\$ 1,076,351	\$ 31,448,550	8.30%	2,249
2004	9,522,129	246,607	772,224	462,871	18,340,000	158,761	993,213	30,495,805	7.46%	2,168
2005	9,046,405	650,780	290,221	453,595	18,615,000	593,077	448,007	30,097,085	7.29%	2,134
2006	11,437,202	1,943,967	140,632	442,820	18,045,000	446,267	284,572	32,740,460	7.46%	2,203
2007	18,430,349	230,130	111,245	431,688	17,465,000	293,764	122,438	37,084,614	8.28%	2,465
2008	17,474,232	81,604	91,092	413,404	16,865,000	170,145	7,387	35,102,864	7.26%	2,204
2009	16,768,901	30,364	69,942	271,397	16,235,000	86,035	-	33,461,639	6.65%	2,067
2010	15,773,979	-	47,745	256,962	15,610,000	24,681	-	31,713,367	6.43%	1,933
2011	14,965,792	-	24,449	241,993	14,925,000	-	-	30,157,234	6.47%	1,818
2012	14,200,481	-	-	226,260	23,125,000	-	-	37,551,741	9.37%	2,647

CITY OF FAIRHOPE, ALABAMA  
RATIOS OF GENERAL BONDED DEBT OUTSTANDING  
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>General Obligation Debt</u>	<u>Less: Amounts Available in Debt Service Fund</u>	<u>Total</u>	<u>Percentage of Estimated Actual Taxable Value of Property</u>	<u>Per Capita</u>
2003	\$ 10,460,000	\$ 558,630	\$ 9,901,370	2.61%	708
2004	9,985,000	377,983	9,607,017	2.35%	683
2005	9,500,000	272,950	9,227,050	2.23%	654
2006	11,880,022	235,347	11,644,675	2.65%	783
2007	18,862,037	456,957	18,405,080	4.11%	1,223
2008	17,887,636	470,671	17,416,965	3.60%	1,094
2009	17,040,298	350,987	16,689,311	3.32%	1,031
2010	16,030,941	351,008	15,679,933	3.18%	956
2011	15,207,785	350,020	14,857,765	3.19%	896
2012	14,426,741	325,214	14,101,527	3.52%	994

CITY OF FAIRHOPE, ALABAMA  
COMPUTATION OF OVERLAPPING DEBT  
SEPTEMBER 30, 2012

	<u>Outstanding Debt</u>	<u>Percentage of debt Applicable to the City Fairhope (1)</u>	<u>Amount of debt Applicable to City of Fairhope</u>
Direct debt of the City	\$ 14,200,481	100.00%	\$ 14,200,481
Overlapping Debt (Supported by ad valorem tax)			
Baldwin County	127,144,314	8.51% <sup>(1)</sup>	<u>10,819,981</u>
			<u>\$ 25,020,462</u>

(1) Percentage of net assessed value of property in City (\$289,420,600) to net assessed value of property in Baldwin County (\$3,399,511,400) on 10/1/2012.

CITY OF FAIRHOPE, ALABAMA  
LEGAL DEBT MARGIN INFORMATION  
LAST TEN FISCAL YEARS

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt limit	\$28,227,355	\$31,813,008	\$32,959,792	\$38,626,776	\$44,849,472	\$65,580,788	\$66,115,436	\$63,625,408	\$58,343,880	\$ 57,884,120
Total net debt applicable to limit	<u>11,724,805</u>	<u>11,003,831</u>	<u>9,987,406</u>	<u>13,381,169</u>	<u>18,660,479</u>	<u>17,555,836</u>	<u>17,070,662</u>	<u>16,030,941</u>	<u>15,207,785</u>	<u>14,426,741</u>
Legal debt margin	<u>\$16,502,550</u>	<u>\$20,809,177</u>	<u>\$22,972,386</u>	<u>\$25,245,607</u>	<u>\$26,188,993</u>	<u>\$48,024,952</u>	<u>\$49,044,774</u>	<u>\$47,594,467</u>	<u>\$43,136,095</u>	<u>\$ 43,457,379</u>
Total net debt applicable to limit as a percentage of debt limit	41.54%	34.59%	30.30%	34.64%	41.61%	26.77%	25.82%	25.20%	26.07%	24.92%

**Legal Debt Margin Calculation for Fiscal Year 2012**

Total assessed value	\$ <u>289,420,600</u>
Debt limit (20% of total assessed value)	<u>57,884,120</u>
Debt applicable to limit:	
General obligation warrants	14,426,741
Notes payable	-
Total net debt applicable to limit	<u>14,426,741</u>
Legal debt margin	\$ <u>43,457,379</u>

CITY OF FAIRHOPE, ALABAMA  
DEMOGRAPHIC AND ECONOMIC STATISTICS  
LAST TEN FISCAL YEARS

<b>Fiscal Year</b>	<b>Population</b>	<b>Personal Income</b>	<b>Per Capita Personal Income</b>	<b>School Enrollment</b>	<b>Unemployment Rate</b>
2003	13,985	\$ 378,923,575	\$ 27,095	3,701	4.5%
2004	14,067	408,899,556	29,068	3,965	4.6%
2005	14,106	413,136,528	29,288	3,906	3.4%
2006	14,863	438,948,979	29,533	4,305	2.8%
2007	15,046	447,693,730	29,755	4,050	2.7%
2008	15,927	483,400,377	30,351	4,307	4.1%
2009	16,185	503,418,240	31,104	4,320	8.6%
2010	16,409	492,959,178	30,042	4,385	8.9%
2011	16,588	466,189,152	28,104	4,477	8.7%
2012	14,184	400,712,184	28,251	4,487	7.1%

Sources: U.S. Census Bureau  
State of Alabama Department of Industrial Relations  
Eastern Shore Chamber of Commerce  
[www.schooldigger.com](http://www.schooldigger.com)



CITY OF FAIRHOPE, ALABAMA  
 PRINCIPAL EMPLOYERS  
 CURRENT YEAR AND NINE YEARS AGO

Employer	2012			2003		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Thomas Hospital	1,000	1	15.8%	812	1	13.7%
Grand Hotel	650	2	10.3%	400	2	6.8%
City of Fairhope	326	3	5.1%	196	3	3.3%
Wal-Mart	325	4	5.1%			
Publix	100	5	1.6%			
Segers Aero Corporation	96	6	1.5%			
Winn-Dixie	75	7	1.2%	75	7	1.3%
Print Xcel (formerly Poser Business Forms)	63	8	1.0%	170	4	2.9%
Balloons Everywhere	65	9	1.0%	60	9	1.0%
Piggly Wiggly	60	10	0.9%			
Bruno's				100	5	1.7%
BF Goodrich Aerospace						
Rock Creek				80	6	1.4%
Food World				70	8	1.2%
Seton Home Health				58	10	1.0%
	2,760		43.6%	2,021		34.1%

Sources: Eastern Shore Chamber of Commerce  
 State Department of Industrial Relations

*NOTE: Total city employment number represents people residing in COF that are employed (place of residence) rather than employment for COF businesses*  
 2003: 5,921    2012: 6,332

CITY OF FAIRHOPE, ALABAMA  
 FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION  
 LAST TEN FISCAL YEARS

Function	Full-time Equivalent Employees as of September 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Government	46	48	49	58	61	62	54	55	53	53
Public Safety										
Police	35	37	39	40	41	42	51	48	48	44
Fire										
Firefighters and Dispatch	4	5	7	9	9	14	13	13	17	18
Highways and Streets										
Public Works	26	28	28	27	29	28	37	37	35	36
Sanitation	19	21	19	25	22	20	21	20	20	19
Culture and Recreation										
Recreation	6	8	8	8	8	9	18	18	19	19
Adult Recreation	1	1	1	1	3	6	10	13	14	14
Gas Department	16	17	17	16	16	19	18	18	18	18
Electric Department	17	17	17	17	20	19	17	17	17	18
Water/Waste Water Department	21	23	23	24	24	25	23	23	24	26
Golf Department	13	13	12	12	13	13	19	19	16	14
<b>Total</b>	<u>204</u>	<u>218</u>	<u>220</u>	<u>237</u>	<u>246</u>	<u>257</u>	<u>281</u>	<u>281</u>	<u>281</u>	<u>279</u>

Source: City of Fairhope human resources department

CITY OF FAIRHOPE, ALABAMA  
OPERATING INDICATORS BY FUNCTION  
LAST TEN FISCAL YEARS

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police										
Physical arrests	539	840	949	1,255	1,710	1,131	993	833	1,134	603
Parking violations	65	65	27	56	13	71	285	201	163	128
Traffic violations	1,566	2,116	2,381	2,589	1,516	996	1,004	1,245	1,419	2,215
Fire										
Number of calls answered	332	364	429	381	339	432	427	658	801	657
Inspections	429	505	585	463	282	196	382	291	143	101
Highways and streets										
Street resurfacing (miles)	7.80	0.25	0.25	2.30	-	-	1.5	-	-	8.1
Potholes repaired	416	416	312	312	312	414	384	400	425	450
Sanitation										
Garbage collected (tons/year)	6,010	6,566	7,000	7,200	8,246	7,520	7,782	8,627	9,100	8,711
Trash collected (tons/year)	5,227	4,953	6,411	4,845	5,213	5,915	5,744	7,385	6,487	5,767
Recyclables collected (tons/year)	1,660	1,699	2,112	1,959	2,131	1,989	1,297	1,281	1,495	1,508
Culture and recreation										
Golf course rounds @ 9 hole rounds	70,948	82,695	80,603	93,082	92,702	88,475	53,755	62,720	61,283	65,500
Pavilion/park parties	***	9	87	59	74	88	84	80	64	56
Waste water										
Average daily sewage treatment (millions of gallons)	1.7	1.8	1.8	1.6	1.7	1.7	1.7	1.8	1.8	1.8

Sources: Various government departments

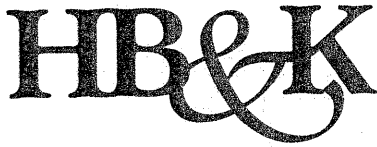
\*\*\* Ordinance was passed in June 2004 - no rent collected prior to this time

CITY OF FAIRHOPE, ALABAMA  
CAPITAL ASSET STATISTICS BY FUNCTION  
LAST TEN FISCAL YEARS

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public safety										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	26	29	32	33	35	36	40	45	45	45
Fire stations	3	3	3	3	3	3	3	3	3	3
Highways and streets										
Streets (miles)	75.2	82.2	84.2	89.7	89.7	98.1	98.1	98.1	98.1	99.1
Culture and recreation										
Parks acreage	168	168	168	168	208	208	208	248	248	248
Parks	46	46	46	46	50	50	50	51	51	51
Swimming pools	2	2	2	2	3	3	3	3	3	3
Tennis courts	4	4	4	4	6	6	6	6	6	6
Community center	2	2	2	2	2	1	3	3	3	3
Sewer										
Sanitary sewers (miles)	114	115	117	119	120	121	121	125	125	125
Storm sewers (miles)	6.55	9.45	12.45	14.05	15.55	16.75	16.75	16.75	16.75	17.25
Maximum daily treatment capacity (millions of gallons)	4	4	4	4	4	4	4	4	4	4

Sources: Various government departments

## **COMPLIANCE SECTION**



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CITY OF FAIRHOPE, ALABAMA  
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS

Honorable Mayor and Members  
of the City Council  
City of Fairhope, Alabama

We have audited the basic financial statements of the City of Fairhope, Alabama as of and for the year ended September 30, 2012, and have issued our report thereon dated January 18, 2013. 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 City of Fairhope, Alabama'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 City of Fairhope, Alabama's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Fairhope, Alabama's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Fairhope, Alabama'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.

This report is intended for the information of management, 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.

*Hentmann, Blackburn & Helgen, P.C.*  
Certified Public Accountants

January 18, 2013  
Fairhope, Alabama