

CITY OF FAIRHOPE, ALABAMA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015
PREPARED BY:
THE OFFICE OF THE FINANCE DIRECTOR

CITY OF FAIRHOPE, ALABAMA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2015

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INTRODUCTORY SECTION



January 21, 2016

Timothy M. Kant, A.C.M.O.
Mayor

Council Members

Kevin G. Boone

Diana J. Brewer

Jack Burrell, C.M.O.

Michael A. Ford, A.C.M.O.

Richard A. Mueller, Sr.

Lisa A. Hanks, M.M.C.
City Clerk

Deborah A. Smith, C.P.A.
City Treasurer

Honorable Mayor,
Council President,
City Council Members,
and Citizens
City of Fairhope, Alabama

The Comprehensive Annual Financial Report (CAFR) of the City of Fairhope, Alabama (the City) for the fiscal year ended September 30, 2015 is hereby submitted.

Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City's management. A comprehensive framework of internal control has been established and is updated and maintained in a manner that offers assurance that the financial statements are free of any material misstatements. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the City, on a government-wide and fund basis. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

Hartmann, Blackmon & Kilgore, P.C. has issued an unmodified ("clean") opinion on the City's financial statements for the year ended September 30, 2015. The independent auditors' report is located at the front of the financial section of this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of the Management's Discussion and Analysis (MD&A). This letter is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditors' Report located in the financial statements.

Profile of the Government

The City of Fairhope was incorporated in 1908 and currently services an estimated population of 18,089, and occupies approximately 12 square miles. The City is governed by a mayor-council form of government, with each

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www.cofairhope.com

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official elected on an at-large basis for a four-year term. The council is presided over by a president who is chosen by the council members and is also a voting member of the council.

The City provides a full range of services including natural gas, electricity, water and waste water services for its citizens, as well as police and fire protection, sanitation and recycling services, maintenance of streets and infrastructure, numerous parks, recreational activities for all ages, a recreation center, a museum, a welcome center, a public golf course, indoor and outdoor swimming pools, a tennis complex, a skate park, a pet park, and sponsorship of many cultural events. The City evaluated various other entities within the vicinity of the City, which could possibly be subject to inclusion within the City's financial statements under criteria established to define the reporting entity. The Fairhope Public Library and the Fairhope Airport Authority are discretely presented component units of the City and are reported in the City's financial statements. The following entities are related entities, but do not meet the established criteria for inclusion in the reporting entity: Bay Medical Clinic Board, the Industrial Development Board, Medical Clinic Board, Downtown Redevelopment Authority, and the Parking Authority. Additional information on the reporting entity can be found in the notes to the financial statement (see note 1.A).

The Council adopts an initial budget for each fiscal year, which serves as the City's guide to financial planning and control. Budgetary control is maintained at the departmental level and revisions to budgeted amounts that alter the total expenditures of any fund, or transfer of funds between departments, must be approved by the Council. Departmental capital purchases included in the budget are subject to further justification and approval by Council prior to starting the requisition process. With the exception of capital project appropriations that generally span multiple years, budgets for all funds lapse at the end of each fiscal year.

Local economy

The City of Fairhope continued to show economic growth during the year. 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.

Fairhope and other small cities in Baldwin County remain somewhat buffered from national economic downturns due to high percentages of resident retirees and by the majority of stable service, health, and education employers. At fiscal year-end, according to the Alabama Department of Labor, the unemployment rate for Baldwin County was 5.4%, while the rate for the state as a whole was 6.0%.

Median household income within the City is significantly higher than for the state as a whole. According to the U.S. Census Bureau, as of 2014, the City's median family income was \$58,767, while the state's was \$43,511. According to the U.S. Census Bureau, as of 2014, the median value of the City's owner-occupied housing units was \$232,500.

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 Airbus aircraft manufacturer, both located within 30 miles of Fairhope, promise to positively impact commercial growth and property values in our area. Construction is underway on the \$600 million Airbus facility in the Mobile Aeroplex at Brookley in Mobile and first deliveries are expected in 2016. Austal Shipbuilding is Mobile's largest manufacturing employer, and now employs over 4,200 people, working on military contracts of up to \$5.1 billion. The Fairhope Airport Authority's new \$2.7 million 15,000-square-foot Aviation Academy was completed in 2015, and began enrolling students from high schools in Baldwin County in August, 2014, for flight and mechanical training.

On May 28, 2014, Standard & Poors upgraded by two notches the City of Fairhope's long-term bond rating on General Obligation Warrants, to AA+. The upgrade was credited by S & P to the City's strong management with good financial practices, budgetary flexibility, strong liquidity, very favorable debt to governmental funds revenue ratio, and Fairhope's strong local economy and per capita market value.

Researcher NewGeography named Fairhope as one of the four Alabama cities in the Top 100 of 'America's Smartest Cities,' based on a high quality of life and a high percentage of citizens with college degrees. (<http://www.newgeography.com/content/004774-americas-smartest-cities>). The Alabama Policy Institute listed Fairhope in the Top 10 Business-Friendly Cities for 2014. (The Alabama Policy Institute, Birmingham, Alabama, March, 2014, page 7; www.alabamapolicy.org). Baldwin County was described by Forbes magazine as a top place to grow a business. (Baldwin Insider Quarterly, Vol. 1V, 2014). Alabama ranked 4th in the Top 10 states for doing business. (Baldwin Insider Quarterly, Vol. 1V, 2014).

Relevant financial policies

The City strives to maintain an up-to-date set of comprehensive financial policies. New Governmental Accounting Standards Board (GASB) pronouncements are closely analyzed to determine any impact to the City's financial reporting requirements and proactive steps are taken to ensure implementation guidelines are followed and deadlines are met.

The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits and the valuation of the costs and benefits requires estimates and judgments by management. We believe the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions and will continue to implement policies and procedures that improve and strengthen internal controls.

Long-term financial planning and major initiatives

Unrestricted fund balance (the total of committed, assigned, and unassigned components of fund balance) in the General Fund at year-end was \$3,992,803 which represents 16% of total general fund revenues. The Council has restricted, by City Ordinance, \$7 million in the General Fund for use in times of emergency. This restricted amount is periodically reviewed to ensure the City is able to endure periods of economic stress.

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. In 2015, the City earned the "Alabama Communities of Excellence" designation after a year-long process aimed at shaping the future of cities through guidance from planning experts and input from residents. The process included three phases: assessment from the University of Alabama Center for Economic Development; leadership development and strategic planning; and implementation and comprehensive planning focused on commercial business development, education enhancement, infrastructure, health and human services, retiree attraction, tourism, economic development, and quality of life.

The City of Fairhope was the winner in the 16,000-20,000 population category in the prestigious 2015 "America in Bloom" national awards program held annually in Holland, Michigan. All participants were evaluated on six criteria: overall impression, environmental awareness, heritage preservation, urban forestry, landscape, and floral displays. Additionally, participants were judged on their community involvement across municipal, residential, and commercial sectors. America in Bloom is the only national awards program that sends specially trained judges to personally visit participants. In addition, each participant receives a detailed written evaluation that can be used as a guide to future improvements. The City received a special mention and an outstanding achievement award for its efforts in urban forestry in recognition of the preservation and restoration work done on historic Knoll Park, the City's old growth, longleaf pine urban forest. In addition, in 2015 the City achieved the rank of "Circle of

Champions,” which is for cities that have a combination of three population wins and / or outstanding achievement awards.

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 2016 contains over \$13 million in the General, Capital Projects, Gas Tax, Impact, and Utility Funds for capital purchases, infrastructure improvements, and special projects throughout the City. Improvements expected to be completed in the next year include major street projects for resurfacing, and new sidewalks, drainage improvements, completion of a new soccer complex, and additional tennis courts.

Awards and acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Fairhope, Alabama, for its comprehensive annual financial report for the fiscal year ended September 30, 2014. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program’s requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this comprehensive annual financial report could not be accomplished without the dedicated services of the Finance Division staff. We express appreciation to each member of the Department and to the member of other City departments for their contributions made in the preparation of this report.

The commitment of maintaining the highest standards of accountability in financial reporting speaks to the leadership and dedication to public service of the Mayor and City Council. Their support for a policy of financial integrity has been instrumental in the preparation of this report.

Respectfully submitted,



Deborah A. Smith, CPA
City Treasurer



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Fairhope
Alabama**

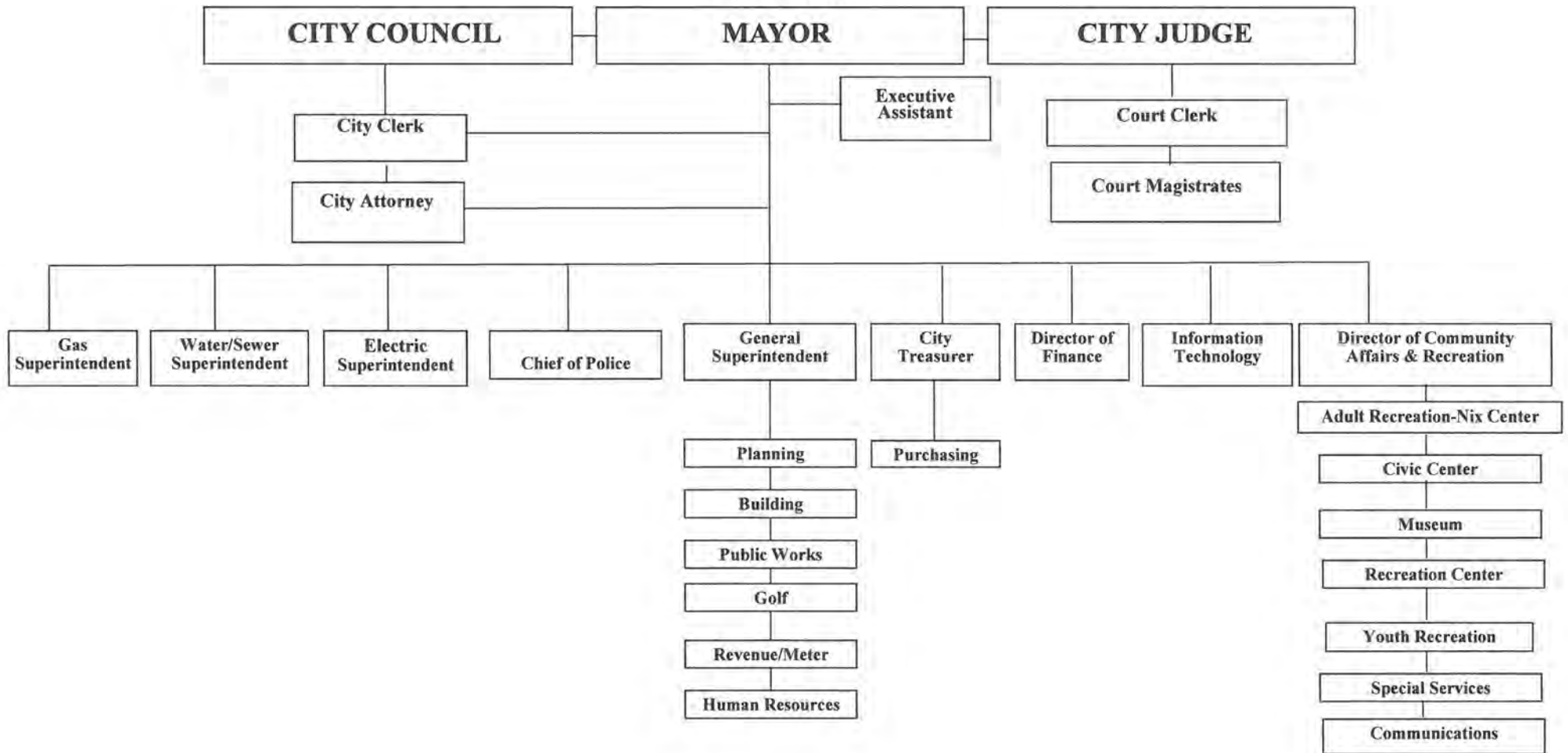
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2014

A handwritten signature in black ink, appearing to read 'Jeffrey R. Egan'.

Executive Director/CEO

X
City of Fairhope, Alabama
Organizational Chart
September 30, 2015



CITY OF FAIRHOPE, ALABAMA
CITY ELECTED AND APPOINTED OFFICIALS
SEPTEMBER 30, 2015

Timothy M. Kant, ACO

Michael A. Ford, ACO

Kevin Boone

Diana J. Brewer

Jack Burrell, CMO

Rich Mueller

Lisa Hanks

Deborah A. Smith, CPA

Joseph Petties

Marion E. Wynne, Jr.

Honorable Haymes Snedeker

Mayor

Councilmember

Councilmember

Councilmember

Councilmember

Councilmember

City Clerk

City Treasurer

Police Chief

City Attorney

City Judge

FINANCIAL SECTION

Shareholders

J. Earl Blackmon, Jr., CPA
B. Vance Kilgore, CPA
Sally S. Wagner, CPA
Dennis E. Sherrin, CPA

Principals

Rachel M. Godwin, CPA
G. Allen Cave, CPA

Of Counsel

Xavier A. Hartmann, III, CPA
Rucker T. Taylor, III, CPA



Certified Public Accountants & Consultants
INDEPENDENT AUDITORS' REPORT

Hartmann, Blackmon & Kilgore, P.C.

806 North Section Street
P. O. Box 1469
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Honorable Mayor and Members of the City Council
City of Fairhope, Alabama

Report on the Financial Statements

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 and for the year then ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-14 and 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary

information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, other supplementary information, and 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 Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The introductory section and the statistical section are the responsibility of management and have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restatement of Prior Periods

The financial statements of the City as of September 30, 2014, dated January 15, 2015, expressed an unmodified opinion on the financials statements. As discussed in Note 23 to the financial statements, the City has adjusted its September 30, 2014, financial statements to retrospectively apply the implementation of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*.

As part of our audit, we also audited the adjustments to the September 30, 2014, financials statements to retroactively apply the change in accounting principle as described in Note 23. In our opinion, such adjustments are appropriate and have been properly applied.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Certified Public Accountants

January 21, 2016
Fairhope, Alabama

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2015. The intent of this Management's 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 and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$135,481,963, a current year increase in adjusted net position of \$11,052,270 (pages 15 and 16).
- 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 \$17,826,311, an increase of \$3,011,191 from the prior year. The General Fund closed with a fund balance of \$10,992,803, an increase of \$543,280. The reason for the smaller than anticipated increase is from transfers into Capital Projects for projects scheduled for the first part of fiscal year 2016. The Capital Projects Fund had an increase in fund balance of \$2,441,420 after capital expenditures of \$2,459,578 and transfers from the General and Impact Fee Funds of \$4,595,908 (page 19). A detailed explanation of these increases can be viewed on page six and seven of this MD&A.
- City wide, governmental and business type funds, cash (including restricted cash) totaled \$29,777,706, a decrease of \$1,350,422 from the previous year. Governmental Funds cash totaled \$17,629,506 at September 30, 2015 (page 15). This is an increase of \$2,703,779 over the prior year. Most of the increase, approximately \$1.4 million was from a settlement related to the BP oil spill. Another \$600,000 of the increase related to settlement for past litigation. The business type funds cash totaled \$12,148,200 at year end (page 21), a decrease of \$4,054,201 from last year. This decrease is primarily a result of payments made on sewer plant upgrades totaling \$4,565,515 and an additional principal debt payment in the amount of \$2,000,000. Revenues in the governmental funds increased approximately \$2.8 million from the previous year. Expenses decreased approximately \$928,000.
- During fiscal 2015, revenues from the sales tax totaled \$6,797,757, an increase of approximately \$280,000 over the previous year. At year end, the General Fund's sales tax reserve totaled \$7 million with an additional \$4 million in unreserved.
- The combined governmental funds expended \$3,840,803 for capital projects and purchases, including \$2,459,578 for special projects, such as the Manley Road Soccer Complex as well as the Golf Course irrigation system, \$86,000 for a new fire station from impact fees and \$1,295,225 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 \$8,389,791, compared to \$8,047,842 for fiscal 2014. Revenues decreased approximately \$350,000. Costs of energy and operating expenses also decreased about \$685,000. The utilities made transfers to the General Fund of \$1,826,575 from income, which is \$1,785,907 less than transfers last year. This significant reduction in transfers allowed the utilities to make an extra principal debt payment in the amount of \$2,000,000. The business-type activities recorded an increase in net position, after transfers, of \$6,563,216 (page 22). Details pertaining to these increases can be seen on page seven and eight of this MD&A.
- The City's business-type activities made additions to property, plant and equipment of \$7,631,504, while also reducing debt. The main factor contributing to this increase was payment of \$4.6 million for sewer plant upgrades. The remaining increase was due to routine system improvements totaling \$2.4 million and vehicles and equipment of \$620,000. Funding for these additions was prior debt issues, current income and money set aside for this purpose (pages 23 and 37).
- The City of Fairhope's long term debt decreased by \$5,675,000 during fiscal year 2015, yielding total outstanding debt of \$30,859,616 compared to the previous year's \$36,534,616. In fiscal year 2015, \$2 million was used for retiring and refunding of the 2005 Utilities Revenue Warrants. Governmental activities total debt was \$9,336,616. Business-type activities total debt was \$21,523,000 (pages 38 and 39).

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 Position 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 26.

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 60.

The Statement of Net Position and the Statement of Activities

The Statement of Net Position and the Statement of Activities 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 position and any changes in them. Consideration of the City's net position, i.e., the difference between assets and liabilities plus deferred, is one tool to measure the City's financial health, or financial condition. Over time, increases or decreases in the City's net position 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 Position 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 position may serve over time as a useful indicator of a government's financial condition. The City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$135,481,963 at the close of the most recent fiscal year, as shown in **Figure 1**, page 10 and page 15. This is an increase of \$11,052,270.

The major factors contributing to this increase are as follows: revenues among the governmental funds increased \$2,761,328 from last year due mainly to a \$1.4 million settlement related to the BP oil spill as well as a settlement of \$600,000 for past litigation. In addition, property and sales taxes increased \$574,000 from the prior year.

The largest portion of the City's net position, approximately 89 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 position, approximately 8.3 percent, represents resources that are subject to restrictions as to how they may be used. Funds restricted for debt service were \$2,967,971; for capital projects, \$1,154,000; for road maintenance and construction, \$105,947; for City Council determined emergencies, \$7,000,000. Restricted funds decreased approximately \$1,048,000 from the previous year due to an additional principal payment in the amount of \$2 million paid by the business-type activities.

The unrestricted net position, approximately 2.6 percent, may be used to meet the City's ongoing obligations to citizens and creditors. Unrestricted net position, \$3,557,475, decreased \$1,229,138 during fiscal 2015 due to the implementation of GASB 68 and 71 (pages 10 and 15). As a result of the implementation of these new standards, a net pension liability was retrospectively accounted for resulting in a prior period adjustment of \$9,462,600. Due to the fact that the City had a current year change in net position of \$11,052,270, there was a positive trend in net position despite the large prior period adjustment.

Effective for year ended September 30, 2015, the City implemented Government Accounting Standards Statement 68, *Accounting and Financial Reporting for Pensions* (GASB 68) and Government Accounting Standards Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (GASB 71) and is discussed in Note 1, page 30.

Under 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 \$862,809. The current year retirement premium was \$599,019. The liability for OPEB obligation at year end was \$3,320,014. This amount is reported on the Statement of Net Position, page 15, as Net OPEB Obligation and on page 52, Note 18.

Under Government Accounting Standards Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), service concession arrangements exist between the Airport Authority and the Baldwin County Board of Education (BCBOE) and a private company. See Note 21, page 55 for detailed explanation of this agreement. At year end, the balance of this deferred inflow of resources is \$3,612,604.

Under Government Accounting Standards Statement 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), implemented in the prior fiscal year, certain items that were previously reported as assets and liabilities were reclassified as deferred outflows of resources, deferred inflows of resources or current period outflows (expenses) and inflows (revenues). At year end, deferred outflows of resources included employer retirement contributions of \$1,033,161. Conversely, deferred inflows of resources consisted of the net difference between projected and actual earnings on plan investments and had a balance of \$830,621 at year end. These amounts are reported on the Statement of Net Position, page 15 and on page 30, Note 1.

Figure 2, page 11, 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 Position.

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 12, 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, 2015, and the amounts of increases and decreases in relation to prior year revenues and expenditures.

Governmental activities revenues increased \$2,761,328 from the previous fiscal year. However, expenditures of Governmental funds decreased \$928,077 for the same period. The following significant events, related to revenues and expense, occurred during fiscal 2015 (the figures are rounded):

Related to revenue:

- Taxes, property and local, were up \$574,000, with the majority of the increase from property taxes and sales tax.
- Licenses and permits increased by \$306,000. This was primarily due to an increase in building permits of 24% over last year, signifying continual growth in the City.
- Charges for services were up \$230,000 due mainly to an increase in impact fee revenue.
- A settlement in the amount of \$1.4 million was received as a result of the BP oil spill.
- Another settlement related to past litigation was received. This amount totaled \$600,000.
- Intergovernmental revenues decreased \$352,000 from the prior year due to a federal payment that was received in the prior year as a result of a flood event in the area.

Related to expenditure:

- Capital outlay expenditures were approximately \$3,841,000, up \$1,933,000 from the prior year. Expenditures of \$1,908,000 for fiscal 2014 included \$1,189,000 for special projects, including the Community Park and the widening of Fairhope Avenue, \$30,000 for impact fees transportation projects and \$689,000 for vehicles and equipment. Major capital expenditures for fiscal 2015 were: \$2,460,000 for special projects, including the Manley Road Soccer Complex and the Golf Course irrigation system, \$86,000 for a new fire station from impact fees and \$1,295,000 for vehicles, equipment and other infrastructure additions.
- The Police Department had decreases of \$124,000. This decrease was from a reduction in salaries of \$126,000 due to vacancies and the elimination of two positions.
- The Street Department's expenses were down \$323,000. Unforeseen emergency repairs were made in the previous year as a result of the April 2014 flood event. These costs totaled \$337,000.
- Debt service payments, \$858,000, decreased \$2.5 million from the previous year's \$3.4 million total. This was due to the payoff of the 2009 General Obligation Warrant in the amount of \$2.4 million in the previous year.

Fund Balances and Net Position

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 position 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 \$17,826,311, an increase of \$3,011,191. This follows an increase in fund balances of \$1,107,692 the previous year. The General Fund had a fund balance of \$10,992,803, an increase of \$543,280. The Capital Projects Fund had an increase in fund balance of \$2,441,420 after \$982,058 for park, soccer, and recreation projects, \$414,319 for NRCS projects, an irrigation system for the Golf Course of \$765,817, capital outlay of \$297,383 and transfers from the General and Impact Fee Funds of \$4,595,908.

The Other Governmental Funds had fund balances of \$1,281,102 at year end, including restrictions for Debt Service of \$348,720, a decrease of \$8,436 and assigned funds reported in special revenue fund (Gas Tax and Impact Fees) of \$826,435, a decrease of \$25,013, after expenditures of \$86,000 for capital outlay and \$30,327 for road repair and maintenance. (see pages 17, 19, 63 and 64). Increases and decreases in revenues and expenses are discussed in the **Governmental Funds** section of this MD&A, page 6 above.

The governmental activities' net position at year end was \$83,135,930, a decrease of \$2,738,708. The Gas, Electric and Water and Waste Water Funds had a net position of \$52,346,033 at year end, an increase of \$4,328,378 (see pages 16 and 22). The increase in the previous year was \$4,435,360. The total increase of \$1,589,670 from last year to this year is directly related to the prior period adjustment of \$9,462,600 as a result of the implementation of GASB 68, mentioned above in The Statement of Net Position and the Statement of Activities section of this MD&A, page 5.

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

General Fund Balance: The General Fund had an increase in revenues of \$2,862,865. Expenditures for the General Fund were up \$617,308 from the prior year. Transfers from the proprietary funds (Gas, Electric, Water and Waste Water Funds) were \$1,826,575 for the current year, a decrease of \$1,785,907 from the prior year. After transfers, the fund balance of the General Fund increased by \$543,280 during fiscal 2015. The most significant revenue increase was related to litigation settlements totaling \$2 million. In addition, local taxes increased \$574,000, with the majority from sales tax. Another factor affecting fund balance of the General Fund was an increase in licenses and permits of \$306,000. The most significant increase related to General Fund expenditures was in capital outlay. This increase totaled \$606,442, constituting 98% of the change from last year. The remaining difference was due to modest increases and decreases among all 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 \$349,735 from the prior fiscal year. This represented a .89% decrease. Operating expenses also decreased by \$685,144, a 2.3% decrease. The decrease in expenses was due to mainly to decreases in energy purchases for resale of \$707,561, a decrease of 4.3%. Combined, other expenses were up from the prior year, \$22,417. 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 \$8,389,791, an increase of \$341,949. Transfers to the General Fund were \$1,826,575, or 22% of income. For fiscal 2014 the transfers to the General Fund were \$3,612,482, or 45% of income. For fiscal 2013 the transfers were \$3,236,251 or 48%. The reduced transfers, as a percent of income, have enabled the utilities to fund capital additions, reserves for emergencies, and the early payoff of debt. The change in net position of the three utilities was an increase of \$6,563,216.

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, and the City Council budget committee. Page 61 of this report lists the procedure for preparing the annual budgets. No adjustments to the budget were made during the

year.

On page 60, 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 \$2,725,000 for fiscal 2015. Local taxes were \$329,000 over budget due primarily to greater than expected sales tax revenue. Licenses and permits were \$292,000 over budget. Of that amount, \$247,000 was from business licenses and building permits. Charges for services were \$62,000 over budget. Subdivision fees related to an improved construction outlook in Fairhope, and sanitation collections exceeded budgeted amounts. Recreation department revenue was \$52,000 over budget due primarily to an increase in memberships. Settlements related to the BP oil spill and past litigation were received during the year. These totaled \$2 million.

At year end, expenditures were \$408,000 under budget. General government was \$196,000 under budget due mainly to less than anticipated medical insurance costs of \$184,000. The favorable variances in police and golf totaled \$195,000 due primarily to employee cost reductions. The favorable variance in capital outlay was \$60,000 due to an overall departmental cutback in capital spending throughout the year. In contrast, the sanitation department had an unfavorable variance of \$84,000 due primarily to an increase in equipment and vehicle repairs.

Capital Assets

As of September 30, 2015, the City's governmental activities had \$85,515,608 invested in capital assets, net of depreciation. This is an increase of \$921,765 from the prior year. The business-type activities had invested capital assets, net of depreciation of \$65,805,991, an increase of \$5,420,661 (see Note 3, Capital Assets, pages 36 and 37).

The City's governmental activities capital assets, at cost, were \$137,361,991 at September 30, 2015, an increase of \$4,008,100 from the prior year. The business-type activities, the Gas, Electric and Water and Waste Water Funds, had capital assets, at cost, of \$106,177,132, an increase of \$7.6 million. **Figure 4**, page 13, summarizes capital assets by asset type, at cost, and changes in fixed assets during the year.

Debt Administration

As of September 30, 2015, the City had long-term debt of \$30,859,616 (excluding premiums and discounts), including bonds and warrants payable, notes payable, and obligations under capital leases. This is a net decrease, city wide, of \$5,675,000 from the prior year. Governmental activities' decrease in long-term debt was \$483,780. In addition, business-type activities' decrease in long-term debt was \$5,191,220.

In May 2015, the City issued, at a favorable interest rate, the Utilities Revenue Warrants Series 2015 in the amount of \$1,780,000. The proceeds were used to advance refund the Utilities Revenue Warrants Series 2005, dated March 1, 2005 in the amount of \$4,590,000. This advanced refunding, along with the net proceeds from issuance and normal debt service payments contributed to the significant decrease for the year. Due to the favorable interest rate change of this new issuance, the City's total debt service requirements decreased approximately \$920,000. See Notes 5 through 8 in the financial statements for more detail. **Figure 5**, page 14, summarizes the City's long-term debt, including compensated absences.

ECONOMIC FACTORS

The City's management has set a budget increase in revenue for fiscal 2016 of \$3.3 million. Property taxes, local taxes, licenses and permits, and charges and services are expected to increase \$1,653,000. Transfers from the utilities are budgeted to increase \$1,600,000.

In addition, the General Fund budget has a \$625,000 increase in expenses for fiscal 2016, compared to fiscal 2015. Most departments are relatively flat, or have seen small increases in their budgets. The majority of this increase, \$487,000, relates to police department expenses. The two major increases are employee costs of \$223,000 as well as vehicle and equipment purchases of \$132,000. The remaining increase of \$132,000 in the police department is due to modest increases in general supplies, maintenance, corrections capital improvements and jail expenses. The remaining

difference is due to increases in employee costs for recreation and golf grounds, totaling \$143,000.

Gas Fund, Electric Fund and Water and Waste Water Fund operations budgeted revenues are expected to decrease less than 1% from actual amounts for 2015. Costs of energy and operating expenses in the three utilities are projected to increase by approximately 3% from actual amounts for 2015.

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 \$7,949,195 for fiscal 2016, compared to actual \$8,389,791 for fiscal 2015. This represents a projected decrease of 5%. Transfers to the General Fund for fiscal 2016 are budgeted to be \$3,417,969, compared to \$1,826,575 for 2015. This represents an 87% increase. By significantly increasing transfers, the City's General Fund will be able to make an extra principal debt payment in the amount of \$2,000,000 in fiscal year 2016 contrasted to the utilities extra principal debt payment of this same amount in fiscal year 2015. 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 Deborah A. Smith, City Treasurer, at 161 N. Section Street, Fairhope, Alabama, (251) 928-2136.

Figure 1

**CITY OF FAIRHOPE
CONDENSED STATEMENT OF NET POSITION FOR THE YEAR ENDED 9/30/2015**

	COMPONENT UNITS									
	GOVERNMENTAL ACTIVITIES		BUSINESS - TYPE ACTIVITIES		TOTAL PRIMARY GOVERNMENT		LIBRARY		AIRPORT AUTHORITY	
	9/30/2015	9/30/2014	9/30/2015	9/30/2014	9/30/2015	9/30/2014	9/30/2015	9/30/2014	9/30/2015	9/30/2014
Current & Other Assets	\$ 18,828,818	\$ 15,708,701	\$ 15,925,388	\$ 19,973,176	\$ 34,754,206	\$ 35,681,877	\$ 352,791	\$ 155,642	\$ 685,835	\$ 1,327,960
Capital Assets, net	85,515,608	84,593,843	65,805,991	60,385,330	151,321,599	144,979,173	90,103	69,032	26,304,653	24,212,839
Total Assets	104,344,426	100,302,544	81,731,379	80,358,506	186,075,805	180,661,050	442,894	224,674	26,990,488	25,540,799
Total Deferred Outflows of Resources	789,153	-	244,008	-	1,033,161	-	43,472	-	-	-
Total Assets and Deferred Outflows of Resources	\$ 105,133,579	\$ 100,302,544	\$ 81,975,387	\$ 80,358,506	\$ 187,108,966	\$ 180,661,050	\$ 486,366	\$ 224,674	\$ 26,990,488	\$ 25,540,799
Long-Term Debt	\$ 9,509,538	\$ 10,048,834	\$ 20,052,497	\$ 24,529,566	\$ 29,562,035	\$ 34,578,400	\$ -	\$ -	\$ 7,730,629	\$ 8,440,000
Other Liabilities	11,853,663	4,379,072	9,380,684	7,811,285	21,234,347	12,190,357	333,671	4,306	2,968	-
Total Liabilities	21,363,201	14,427,906	29,433,181	32,340,851	50,796,382	46,768,757	333,671	4,306	7,733,597	8,440,000
Total Deferred Inflows of Resources	634,448	-	196,173	-	830,621	-	21,582	-	3,612,604	2,632,500
Net Position:										
Invested in Capital Assets, net of related debt	76,208,248	74,804,467	44,488,322	42,025,762	120,696,570	116,830,229	90,103	69,032	18,574,024	15,772,839
Restricted	8,608,667	8,557,163	2,619,251	3,718,288	11,227,918	12,275,451	-	-	364,946	-
Unrestricted	(1,680,985)	2,513,008	5,238,460	2,273,605	3,557,475	4,786,613	41,010	151,336	(3,294,683)	(1,304,540)
Total Net Position	83,135,930	85,874,638	52,346,033	48,017,655	135,481,963	133,892,293	131,113	220,368	15,644,287	14,468,299
Total Liabilities, Deferred Inflows of Resources & Net Position	\$ 105,133,579	\$ 100,302,544	\$ 81,975,387	\$ 80,358,506	\$ 187,108,966	\$ 180,661,050	\$ 486,366	\$ 224,674	\$ 26,990,488	\$ 25,540,799

Figure 2

CITY OF FAIRHOPE
CONDENSED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED 9/30/2015

COMPONENT UNITS

	GOVERNMENTAL ACTIVITIES		BUSINESS - TYPE ACTIVITIES		TOTAL PRIMARY GOVERNMENT		LIBRARY		AIRPORT AUTHORITY	
	9/30/2015	9/30/2014	9/30/2015	9/30/2014	9/30/2015	9/30/2014	9/30/2015	9/30/2014	9/30/2015	9/30/2014
Program Revenues										
Charges for Services	\$ 9,939,084	\$ 9,526,574	\$ 38,741,246	\$ 39,090,981	\$ 48,680,330	\$ 48,617,555	232,715	32,527	274,163	163,065
Operating Grants & Contributions	-	9,144	-	-	-	-	724,355	730,811	1,554,730	516,715
Capital Grants & Contributions	1,319,753	8,416,283	-	-	1,319,753	8,416,283	-	-	-	-
General Revenues	-	-	-	-	-	-	-	-	-	-
Taxes	12,620,043	12,046,400	-	-	12,620,043	12,046,400	-	-	-	-
Intergovernmental	334,433	389,561	-	-	334,433	389,561	-	-	-	-
BP settlement proceeds	1,361,255	-	-	-	1,361,255	-	-	-	-	-
Legal settlement	598,640	-	-	-	598,640	-	-	-	-	-
Investment Earnings	228,670	239,205	18,440	30,815	247,110	270,020	-	-	353	9,224
Gain (loss) on sale of Assets	-	(261,340)	-	-	-	-	-	-	-	-
Other	106,502	147,672	-	-	106,502	147,672	-	-	-	-
Total Revenues	\$ 26,508,380	\$ 30,513,499	\$ 38,759,686	\$ 39,121,796	\$ 65,268,066	\$ 69,887,491	\$ 957,070	\$ 763,338	\$ 1,829,246	\$ 689,004
Expenses										
General Government	\$ 8,890,052	\$ 9,067,340	\$ -	\$ -	\$ 8,890,052	\$ 9,067,340	\$ -	\$ -	\$ -	\$ -
Sanitation	1,790,554	1,873,508	-	-	1,790,554	1,873,508	-	-	-	-
Police	3,945,496	4,220,003	-	-	3,945,496	4,220,003	-	-	-	-
Fire	424,789	431,955	-	-	424,789	431,955	-	-	-	-
Airport	412,632	443,000	-	-	412,632	443,000	-	-	-	-
Street	4,057,713	4,095,487	-	-	4,057,713	4,095,487	-	-	-	-
Adult Recreation	665,804	663,982	-	-	665,804	663,982	-	-	-	-
Recreation	1,328,674	1,250,689	-	-	1,328,674	1,250,689	-	-	-	-
Golf	1,060,643	978,819	-	-	1,060,643	978,819	-	-	-	-
Public Library Board	924,736	886,028	-	-	924,736	886,028	-	-	-	-
Interest on Long Term Debt	344,808	472,222	-	-	344,808	472,222	-	-	-	-
Electric	-	-	18,227,563	18,379,231	18,227,563	18,379,231	-	-	-	-
Natural Gas	-	-	5,056,618	5,529,610	5,056,618	5,529,610	-	-	-	-
Water and Wastewater	-	-	7,085,714	7,165,113	7,085,714	7,165,113	-	-	-	-
Golf	-	-	-	-	-	-	-	-	-	-
Airport Authority	-	-	-	-	-	-	-	-	653,258	612,581
Fairhope Public Library	-	-	-	-	-	-	737,178	749,508	-	-
Total Expenses	\$ 23,845,901	\$ 24,383,033	\$ 30,369,895	\$ 31,073,954	\$ 54,215,796	\$ 55,456,987	\$ 737,178	\$ 749,508	\$ 653,258	\$ 612,581
Change in Net Position before transfers	2,662,479	6,130,466	8,389,791	8,047,842	11,052,270	14,178,308	219,892	13,830	1,175,988	76,423
Special Item - Trans of Golf to Governmental Activities										
Transfers	1,826,575	3,612,482	(1,826,575)	(3,612,482)	-	-	-	-	-	-
Change in Net Position	4,489,054	9,742,948	6,563,216	4,435,360	11,052,270	14,178,308	219,892	13,830	1,175,988	76,423
Net Position, beginning, as adjusted	78,646,876	76,131,690	45,782,817	43,582,295	124,429,693	119,713,985	(88,779)	206,538	14,468,299	14,391,876
Net Position, ending	\$ 83,135,930	\$ 85,874,638	\$ 52,346,033	\$ 48,017,655	\$ 135,481,963	\$ 133,892,293	\$ 131,113	\$ 220,368	\$ 15,644,287	\$ 14,468,299

Figure 3

**Statement of Revenues and Expenditures
Governmental Funds
For the Year Ended September 30, 2015**

<u>Revenues</u>	<u>9/30/2015 Total</u>	<u>9/30/2014 Total</u>	<u>Increase (Decrease)</u>
Local taxes	\$ 12,620,043	\$ 12,046,399	\$ 573,644
Licenses & Permits	3,306,620	3,000,673	305,947
Fines & Forfeitures	278,837	285,573	(6,736)
State of Alabama	254,608	320,432	(65,824)
U. S. Government	384,915	671,182	(286,267)
Contribution from Public Library Board	-	-	-
Interests and Rents	228,669	239,205	(10,536)
Charges for Service	5,395,287	5,165,291	229,996
Golf Course Revenue	1,137,114	1,067,593	69,521
Recreation Department	444,410	436,453	7,957
BP Settlement Proceeds	1,361,255	-	1,361,255
Legal Settlement	598,640	-	598,640
Other	180,644	196,913	(16,269)
Totals	<u>\$ 26,191,042</u>	<u>\$ 23,429,714</u>	<u>\$ 2,761,328</u>
<u>Expenditures</u>	<u>Total</u>	<u>Total</u>	<u>Increase (Decrease)</u>
General	\$ 8,289,346	\$ 8,311,150	\$ (21,804)
Sanitation	1,598,404	1,673,938	(75,534)
Police	3,813,581	3,937,151	(123,570)
Fire	338,547	339,623	(1,076)
Airport	412,632	443,000	(30,368)
Street Department	2,382,418	2,705,732	(323,314)
Adult Recreation	581,338	566,000	15,338
Debt Service			
Principal	483,780	2,894,540	(2,410,760)
Interest	374,479	465,409	(90,930)
Recreation Department	1,095,605	1,024,526	71,079
Golf	987,957	901,085	86,872
Public Library Board	714,100	674,100	40,000
Other	93,436	89,785	3,651
Capital Outlay	3,840,803	1,908,464	1,932,339
Totals	<u>\$ 25,006,426</u>	<u>\$ 25,934,503</u>	<u>\$ (928,077)</u>

Figure 4

City of Fairhope
Capital Assets

<u>Governmental Activities</u>	<u>Balance @ 10/1/14</u>	<u>Additions</u>	<u>Reclassifications/ Retirements</u>	<u>Balance @ 9/30/15</u>
Land	\$ 21,961,802	\$ 350,022	\$ -	\$ 22,311,824
Buildings & Structures	35,288,110	1,913,598	(182,725)	37,018,983
Vehicles and equipment	11,131,986	1,239,059	-	12,371,045
Infrastructure	64,971,993	688,146	-	65,660,139
Total Capital Assets	<u>\$ 133,353,891</u>	<u>\$ 4,190,825</u>	<u>\$ (182,725)</u>	<u>\$ 137,361,991</u>

<u>Business-type activities</u>	<u>Electric Fund</u>	<u>Natural Gas Fund</u>	<u>Water/Wastewater Fund</u>
Balance @ 10/01/14	\$ 33,758,487	\$ 15,495,338	\$ 49,313,077
Additions to Plant	993,063	510,328	867,514
Addition to land, buildings, vehicles and equipment	346,050	217,957	131,077
Completed Construction in Progress	-	-	4,565,515
Disposals	-	(21,273)	-
Total Capital Assets @ 9/30/2015	<u>\$ 35,097,600</u>	<u>\$ 16,202,350</u>	<u>\$ 54,877,183</u>

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	\$ 3,106,616	\$ 143,000
General Obligation Warrants, 2007	6,230,000	-
Utilities Revenue Warrants, 2011	-	14,370,000
Utilities Revenue Warrants, 2015	-	1,780,000
Utilities Revenue Warrants, 2009	-	630,000
General Obligation Warrant, 2013	-	4,600,000
Compensated absences	<u>1,164,827</u>	<u>569,041</u>
TOTALS	\$ <u><u>10,501,443</u></u>	\$ <u><u>22,092,041</u></u>

See Notes 5 through 8 beginning on page 38 for additional detail.

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BASIC FINANCIAL STATEMENTS

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

	Governmental Fund Types			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash	\$ 17,280,786	\$ 9,528,949	\$ 26,809,735	\$ 990,148
Restricted cash	348,720	2,619,251	2,967,971	-
Receivables, net	1,078,126	2,516,770	3,594,896	48,478
Internal balances	86,261	(86,261)	-	-
Inventories	-	675,835	675,835	-
Other assets	34,925	670,844	705,769	-
Land and construction in progress	22,311,824	21,568,184	43,880,008	11,463,429
Capital assets, net	63,203,784	44,237,807	107,441,591	14,931,327
Total assets	104,344,426	81,731,379	186,075,805	27,433,382
DEFERRED OUTFLOWS OF RESOURCES				
Employer retirement contributions	789,153	244,008	1,033,161	43,472
Total deferred inflows of resources	789,153	244,008	1,033,161	43,472
Total assets and deferred outflows of resources	\$ 105,133,579	\$ 81,975,387	\$ 187,108,966	\$ 27,476,854
LIABILITIES				
Accounts payable and accrued expenses	\$ 1,044,980	\$ 2,611,592	\$ 3,656,572	\$ 9,258
Customer deposits	-	1,978,288	1,978,288	-
Long-term liabilities				
Due within one year	962,649	1,736,441	2,699,090	285,000
Due in more than one year	9,509,538	20,052,497	29,562,035	7,445,629
Net pension liability	7,317,727	2,262,656	9,580,383	327,381
Net OPEB obligation	2,528,307	791,707	3,320,014	-
Total liabilities	21,363,201	29,433,181	50,796,382	8,067,268
DEFERRED INFLOWS OF RESOURCES				
Net difference between projected and actual earnings on plan investments	634,448	196,173	830,621	21,582
Service concession arrangement revenue applicable to future years	-	-	-	3,612,604
Total deferred inflows of resources	634,448	196,173	830,621	3,634,186
NET POSITION				
Net investment in capital assets	76,208,248	44,488,322	120,696,570	18,664,127
Restricted for:				
Debt service	348,720	2,619,251	2,967,971	-
Capital projects	1,154,000	-	1,154,000	364,946
Road maintenance and construction	105,947	-	105,947	-
Council approved emergencies	7,000,000	-	7,000,000	-
Unrestricted	(1,680,985)	5,238,460	3,557,475	(3,253,673)
Total net position	83,135,930	52,346,033	135,481,963	15,775,400
Total liabilities, deferred inflows of resources, and net position	\$ 105,133,579	\$ 81,975,387	\$ 187,108,966	\$ 27,476,854

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

CITY OF FAIRHOPE, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary Government								
Governmental activities:								
General	\$ 8,890,052	\$ 6,816,431	\$ -	\$ -	(2,073,621)		\$ (2,073,621)	
Sanitation	1,790,554	1,499,670	-	-	(290,884)		(290,884)	
Police	3,945,496	-	-	23,262	(3,922,234)		(3,922,234)	
Fire	424,789	-	-	128,276	(296,513)		(296,513)	
Airport Authority	412,632	-	-	-	(412,632)		(412,632)	
Street	4,057,713	-	-	804,656	(3,253,057)		(3,253,057)	
Adult Recreation	665,804	41,459	-	-	(624,345)		(624,345)	
Recreation	1,328,674	444,410	-	363,559	(520,705)		(520,705)	
Golf	1,060,643	1,137,114	-	-	76,471		76,471	
Public Library Board	924,736	-	-	-	(924,736)		(924,736)	
Interest on long term debt	344,808	-	-	-	(344,808)		(344,808)	
Total governmental activities	<u>23,845,901</u>	<u>9,939,084</u>	<u>-</u>	<u>1,319,753</u>	<u>(12,587,064)</u>		<u>(12,587,064)</u>	
Business-type activities								
Electric	18,227,563	20,527,031	-	-	-	\$ 2,299,468	2,299,468	
Natural gas	5,056,618	7,354,080	-	-	-	2,297,462	2,297,462	
Water and Waste water	7,085,714	10,860,135	-	-	-	3,774,421	3,774,421	
Total business-type activities	<u>30,369,895</u>	<u>38,741,246</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,371,351</u>	<u>8,371,351</u>	
Total primary government	<u>\$ 54,215,796</u>	<u>\$ 48,680,330</u>	<u>\$ -</u>	<u>\$ 1,319,753</u>	<u>(12,587,064)</u>	<u>8,371,351</u>	<u>(4,215,713)</u>	
Component Units	\$ 1,390,436	\$ 506,878	\$ 2,279,085	\$ -			\$ 1,395,527	
General revenues:								
Property taxes					4,550,766	-	4,550,766	-
Sales tax					6,797,757	-	6,797,757	-
Liquor taxes					451,719	-	451,719	-
Lodging taxes					681,419	-	681,419	-
Other taxes					138,382	-	138,382	-
Intergovernmental					334,433	-	334,433	-
BP settlement proceeds					1,361,255	-	1,361,255	-
Legal settlement					598,640	-	598,640	-
Investment earnings					228,670	18,440	247,110	353
Other					106,502	-	106,502	-
Transfers					1,826,575	(1,826,575)	-	-
Total general revenues and transfers					<u>17,076,118</u>	<u>(1,808,135)</u>	<u>15,267,983</u>	<u>353</u>
Change in net position					4,489,054	6,563,216	11,052,270	1,395,880
Net position, beginning, as previously reported					85,874,638	48,017,655	133,892,293	14,688,667
Prior period adjustment					(7,227,762)	(2,234,838)	(9,462,600)	(309,147)
Net position, ending					<u>\$ 83,135,930</u>	<u>\$ 52,346,033</u>	<u>\$ 135,481,963</u>	<u>\$ 15,775,400</u>

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

CITY OF FAIRHOPE
FUND BALANCE SHEETS
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 10,486,895	\$ 5,860,608	\$ 1,282,003	\$ 17,629,506
Receivables, net	645,134	407,375	25,617	1,078,126
Due from other funds	86,261	-	-	86,261
Other assets	34,925	-	-	34,925
	<u>\$ 11,253,215</u>	<u>\$ 6,267,983</u>	<u>\$ 1,307,620</u>	<u>\$ 18,828,818</u>
Total assets				
LIABILITIES				
Accounts payable	\$ 44,631	\$ 715,577	\$ 25,617	\$ 785,825
Accrued expenses and taxes	194,529	-	-	194,529
Deferred revenue	21,252	-	-	21,252
Due to other funds	-	-	901	901
	<u>260,412</u>	<u>715,577</u>	<u>26,518</u>	<u>1,002,507</u>
Total liabilities				
FUND BALANCES				
Restricted for:				
Debt service	-	-	348,720	348,720
Council approved emergencies	7,000,000	-	-	7,000,000
Construction	-	1,154,000	-	1,154,000
Road maintenance and construction	-	-	105,947	105,947
Assigned to:				
Construction and road maintenance	-	4,398,406	826,435	5,224,841
Unassigned	3,992,803	-	-	3,992,803
	<u>10,992,803</u>	<u>5,552,406</u>	<u>1,281,102</u>	<u>17,826,311</u>
Total fund balances				
Total liabilities and fund balances	<u>\$ 11,253,215</u>	<u>\$ 6,267,983</u>	<u>\$ 1,307,620</u>	<u>\$ 18,828,818</u>

CITY OF FAIRHOPE, ALABAMA

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2015

Fund balances as reported on page 17	\$	17,826,311
Net position reported for governmental activities in the statement of net position are different from Fund Balances for governmental activities because:		
Capital assets used in governmental activities are financial resources and therefore are not reported in fund financial statements.		137,361,990
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.		(51,846,382)
Other long-term assets are not available to pay for current-period expenditures and therefore are unearned revenue in fund financial statements.		75,709
Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Employment retirement contributions		789,153
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 \$29,256)		(9,307,360)
Net Pension Liability		(7,317,727)
OPEB obligations		(2,528,307)
Deferred inflows of resources		(634,448)
Accrued interest on long-term debt is not due and payable in the current-period and therefore not included in fund financial statements.		(118,182)
Compensated absences not expected to be paid with current resources as determined under Governmental Accounting Standards are not reported in fund financial statements.		<u>(1,164,827)</u>
Net position of governmental activities as reported on page 15	\$	<u><u>83,135,930</u></u>

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Local taxes	\$ 12,620,043	\$ -	\$ -	\$ 12,620,043
Licenses and permits	3,306,620	-	-	3,306,620
Fines and forfeitures	278,837	-	-	278,837
Intergovernmental	244,166	305,090	90,267	639,523
Interest and rents	228,317	-	352	228,669
Charges for services	4,730,645	-	664,642	5,395,287
Golf course revenue	1,137,114	-	-	1,137,114
Recreation department	444,410	-	-	444,410
BP settlement proceeds	1,361,255	-	-	1,361,255
Legal settlement	598,640	-	-	598,640
Other	180,644	-	-	180,644
Total revenues	<u>25,130,691</u>	<u>305,090</u>	<u>755,261</u>	<u>26,191,042</u>
EXPENDITURES				
General	8,289,346	-	-	8,289,346
Sanitation	1,598,404	-	-	1,598,404
Police	3,813,581	-	-	3,813,581
Fire	338,547	-	-	338,547
Airport	412,632	-	-	412,632
Street	2,352,091	-	30,327	2,382,418
Adult recreation	581,338	-	-	581,338
Recreation	1,095,605	-	-	1,095,605
Golf	987,957	-	-	987,957
Public Library Board	714,100	-	-	714,100
Other	89,000	-	4,436	93,436
Debt service payments				
Principal	-	-	483,780	483,780
Interest	-	-	374,479	374,479
Capital outlay	1,295,225	2,459,578	86,000	3,840,803
Total expenditures	<u>21,567,826</u>	<u>2,459,578</u>	<u>979,022</u>	<u>25,006,426</u>
Excess of Revenues over (under) Expenditures	3,562,865	(2,154,488)	(223,761)	1,184,616
OTHER FINANCING SOURCES (USES)				
Transfers in	1,826,575	4,595,908	850,252	7,272,735
Transfers out	(4,846,160)	-	(600,000)	(5,446,160)
Total other financing sources (uses)	<u>(3,019,585)</u>	<u>4,595,908</u>	<u>250,252</u>	<u>1,826,575</u>
Net change in fund balances	543,280	2,441,420	26,491	3,011,191
Fund balances - beginning of year	10,449,523	3,110,986	1,254,611	14,815,120
FUND BALANCES-END OF YEAR	<u>\$ 10,992,803</u>	<u>\$ 5,552,406</u>	<u>\$ 1,281,102</u>	<u>\$ 17,826,311</u>

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, 2015

Net change in fund balances - total governmental funds, page 19	\$ 3,011,191
<p>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:</p>	
Amortization of bond costs and discounts is not recorded in fund level statements.	(4,266)
<p>Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.</p>	
Capital outlays for the year	3,840,803
Depreciation expense for the year	(3,236,681)
Loss on assets disposed	(32,379)
<p>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.</p>	
Principal payments on long term debt	483,780
<p>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.</p>	
Capital contributions for the year	350,022
<p>Some expenditures reported in governmental funds are to be paid on a long term basis and therefore are not reported as expenses in the statement of activities</p>	
Change in deferred outflows - employer retirement contributions	47,989
<p>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.</p>	
Decrease in compensated absences liability	103,241
Decrease in accrued interest payable	31,435
Change in net pension liability and deferred inflows of resources	16,748
Increase in OPEB liability	(122,829)
Change in net position of governmental activities, page 16	\$ <u>4,489,054</u>

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

CITY OF FAIRHOPE, ALABAMA

FUND BALANCE SHEETS
 PROPRIETARY FUNDS
 SEPTEMBER 30, 2015

	Major Funds			Total
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 4,079,420	\$ 3,842,562	\$ 1,606,967	\$ 9,528,949
Restricted cash for debt service	120,234	73,581	2,425,436	2,619,251
Receivables, net	2,400,285	1,115	115,370	2,516,770
Inventories	345,485	166,289	164,061	675,835
Prepaid expenses	35,441	3,833	7,706	46,980
Total current assets	6,980,865	4,087,380	4,319,540	15,387,785
Noncurrent assets				
Unamortized expense	-	-	587,774	587,774
Due from other funds	-	293,003	834,098	1,127,101
Other assets	12,030	12,030	12,030	36,090
Capital assets				
Distribution and collection systems	21,535,188	10,862,907	39,364,331	71,762,426
Buildings, vehicles and equipment	5,676,397	3,763,951	3,406,174	12,846,522
Land and construction in progress	7,886,014	1,575,492	12,106,678	21,568,184
Less accumulated depreciation	(13,051,980)	(6,926,815)	(20,392,346)	(40,371,141)
Total noncurrent assets	22,057,649	9,580,568	35,918,739	67,556,956
Total assets	29,038,514	13,667,948	40,238,279	82,944,741
DEFERRED OUTFLOWS OF RESOURCES				
Employer retirement contributions	97,823	57,839	88,346	244,008
Total deferred inflows of resources	97,823	57,839	88,346	244,008
Total assets and deferred outflows of resources	\$ 29,136,337	\$ 13,725,787	\$ 40,326,625	\$ 83,188,749
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	\$ 1,664,366	\$ 445,286	\$ 501,940	\$ 2,611,592
Customer deposits	1,820,738	-	157,550	1,978,288
Warrants, notes and capital leases payable	1,160,875	10,875	564,691	1,736,441
Total current liabilities	4,645,979	456,161	1,224,181	6,326,321
Noncurrent liabilities				
Compensated absences	176,523	130,217	164,529	471,269
Warrants, notes and capital leases payable	4,071,865	439,240	15,070,123	19,581,228
Net pension liability	907,099	536,334	819,223	2,262,656
Net OPEB obligation	244,274	229,288	318,145	791,707
Due to other funds	1,201,159	1,794	10,409	1,213,362
Total noncurrent liabilities	6,600,920	1,336,873	16,382,429	24,320,222
Total liabilities	11,246,899	1,793,034	17,606,610	30,646,543
DEFERRED INFLOWS OF RESOURCES				
Net difference between projected and actual earnings on plan investments	78,646	46,500	71,027	196,173
Total deferred inflows of resources	78,646	46,500	71,027	196,173
NET POSITION				
Net investment in capital assets net of related debt	16,812,879	8,825,420	18,850,023	44,488,322
Restricted for debt service	120,234	73,581	2,425,436	2,619,251
Unrestricted	877,679	2,987,252	1,373,529	5,238,460
Total net position	17,810,792	11,886,253	22,648,988	52,346,033
Total liabilities and net position	\$ 29,136,337	\$ 13,725,787	\$ 40,326,625	\$ 83,188,749

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

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Business Type Activities			
	Major Funds			Total
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
OPERATING REVENUES				
Sales and services	\$ 20,100,698	\$ 7,347,472	\$ 9,313,557	\$ 36,761,727
Other charges, sales and receipts	426,333	6,608	1,546,578	1,979,519
Total operating revenues	<u>20,527,031</u>	<u>7,354,080</u>	<u>10,860,135</u>	<u>38,741,246</u>
OPERATING EXPENSES				
Energy purchases and cost of goods sold	13,098,448	1,999,793	787,352	15,885,593
Salaries	760,606	459,347	984,426	2,204,379
Depreciation	743,663	404,740	1,041,167	2,189,570
Insurance	153,626	42,513	113,876	310,015
Electric energy furnished to other departments	1,091,317	-	-	1,091,317
Maintenance	571,747	117,709	1,373,612	2,063,068
Community development projects	130,174	436,086	274,952	841,212
Other operating expense	1,557,782	1,542,662	1,901,709	5,002,153
Total operating expenses	<u>18,107,363</u>	<u>5,002,850</u>	<u>6,477,094</u>	<u>29,587,307</u>
OPERATING INCOME	<u>2,419,668</u>	<u>2,351,230</u>	<u>4,383,041</u>	<u>9,153,939</u>
NONOPERATING REVENUES (EXPENSES)				
Interest expense	(120,200)	(25,268)	(608,620)	(754,088)
Interest income	5,670	9,724	3,046	18,440
Distribution of joint revenue (expense) – net	-	(28,500)	-	(28,500)
Total nonoperating revenues (expenses)	<u>(114,530)</u>	<u>(44,044)</u>	<u>(605,574)</u>	<u>(764,148)</u>
INCOME BEFORE TRANSFERS AND OTHER ITEMS	<u>2,305,138</u>	<u>2,307,186</u>	<u>3,777,467</u>	<u>8,389,791</u>
TRANSFERS AND OTHER ITEMS				
Transfers out	(500,000)	(1,326,575)	-	(1,826,575)
Total transfers (out)	<u>(500,000)</u>	<u>(1,326,575)</u>	<u>-</u>	<u>(1,826,575)</u>
Change in net position	1,805,138	980,611	3,777,467	6,563,216
NET POSITION – BEGINNING OF YEAR	16,901,601	11,435,382	19,680,672	48,017,655
Prior period adjustment	(895,947)	(529,740)	(809,151)	(2,234,838)
NET POSITION – END OF YEAR	<u>\$ 17,810,792</u>	<u>\$ 11,886,253</u>	<u>\$ 22,648,988</u>	<u>\$ 52,346,033</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, 2015

	Business Type Activities			
	Major Funds			Total
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
CASH FLOWS FROM OPERATING ACTIVITIES				
Received from customers	\$ 20,474,418	\$ 7,354,665	\$ 10,756,132	\$ 38,585,215
Paid to suppliers for goods and services	(16,711,645)	(3,955,239)	(4,362,562)	(25,029,446)
Paid to personnel for services	(760,606)	(459,347)	(984,426)	(2,204,379)
Net cash provided (used) by operating activities	<u>3,002,167</u>	<u>2,940,079</u>	<u>5,409,144</u>	<u>11,351,390</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income and joint revenue (expense)	<u>5,670</u>	<u>(18,776)</u>	<u>3,046</u>	<u>(10,060)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from borrowings	-	-	1,780,000	1,780,000
Repayment of debt	(1,846,209)	(269,103)	(4,946,446)	(7,061,758)
Interest paid	(128,378)	(28,302)	(622,890)	(779,570)
Proceeds from disposal of capital assets	-	22,743	-	22,743
Acquisition of capital assets	<u>(1,339,113)</u>	<u>(728,516)</u>	<u>(5,564,104)</u>	<u>(7,631,733)</u>
Net cash provided (used) by capital and related financing activities	<u>(3,313,700)</u>	<u>(1,003,178)</u>	<u>(9,353,440)</u>	<u>(13,670,318)</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES				
Change in interfund receivable	18,657	(175,872)	(59,531)	(216,746)
Change in interfund payable	316,314	1,794	-	318,108
Transfers out	<u>(500,000)</u>	<u>(1,326,575)</u>	<u>-</u>	<u>(1,826,575)</u>
Net cash provided (used) by noncapital financing activities	<u>(165,029)</u>	<u>(1,500,653)</u>	<u>(59,531)</u>	<u>(1,725,213)</u>
INCREASE (DECREASE) IN CASH	<u>(470,892)</u>	<u>417,472</u>	<u>(4,000,781)</u>	<u>(4,054,201)</u>
Cash – beginning of year	<u>4,670,546</u>	<u>3,498,671</u>	<u>8,033,184</u>	<u>16,202,401</u>
CASH – END OF YEAR	<u>\$ 4,199,654</u>	<u>\$ 3,916,143</u>	<u>\$ 4,032,403</u>	<u>\$ 12,148,200</u>
Reconciliation of operating income to net cash provided (used) by operating activities				
Income (loss) from operations	\$ 2,419,668	\$ 2,351,230	\$ 4,383,041	\$ 9,153,939
Adjustments to reconcile income from operations to net cash provided (used) by operating activities				
Depreciation	743,663	404,740	1,041,167	2,189,570
Amortization	-	-	561,167	561,167
Change in pension expense as related to GASB 68	(8,026)	(4,745)	(7,246)	(20,017)
Loss on disposal of property, plant and equipment	-	-	-	-
Change in assets and liabilities				
Decrease (increase) in accounts receivable	(52,613)	585	(104,001)	(156,029)
Decrease (increase) in inventories	(36,869)	2,709	89,317	55,157
Decrease (increase) in prepaid expenses	(8,381)	2,234	1,041	(5,106)
Decrease (increase) in unamortized expense	-	-	(561,169)	(561,169)
Increase (decrease) in accounts payable	(154,979)	170,534	(110,336)	(94,781)
Increase (decrease) in customer deposits	74,306	-	83,950	158,256
Increase (decrease) in compensated absences	14,060	3,974	17,726	35,760
Increase (decrease) in net OPEB obligation	11,338	8,818	14,487	34,643
Net cash provided (used) by operating activities	<u>\$ 3,002,167</u>	<u>\$ 2,940,079</u>	<u>\$ 5,409,144</u>	<u>\$ 11,351,390</u>

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

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CITY OF FAIRHOPE, ALABAMA

COMBINING STATEMENT OF NET POSITION
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Governmental Activities		
	Public Library Board	Airport Authority	Total
ASSETS			
Cash	\$ 352,791	\$ 637,357	\$ 990,148
Grants receivable	-	48,478	48,478
Land and construction in progress	-	11,463,429	11,463,429
Capital assets, net	90,103	14,841,224	14,931,327
Total assets	442,894	26,990,488	27,433,382
DEFERRED OUTFLOWS OF RESOURCES			
Employer retirement contributions	43,472	-	43,472
Total deferred inflows of resources	43,472	-	43,472
Total assets and deferred outflows of resources	\$ 486,366	\$ 26,990,488	\$ 27,476,854
LIABILITIES			
Accounts payable and accrued expenses	\$ 6,290	\$ 2,968	\$ 9,258
Long-term liabilities			
Due within one year	-	285,000	285,000
Due in more than one year	-	7,445,629	7,445,629
Net pension liability	327,381	-	327,381
Total liabilities	333,671	7,733,597	8,067,268
DEFERRED INFLOWS OF RESOURCES			
Net difference between projected and actual earnings on plan investments	21,582	-	21,582
Service concession arrangement revenue applicable to future years	-	3,612,604	3,612,604
Total deferred inflows of resources	21,582	3,612,604	3,634,186
NET POSITION			
Net investment in capital assets	90,103	18,574,024	18,664,127
Restricted for:			
Capital projects	-	364,946	364,946
Unrestricted	41,010	(3,294,683)	(3,253,673)
Total net position	131,113	15,644,287	15,775,400
Total liabilities, deferred inflows of resources, and net position	\$ 486,366	\$ 26,990,488	\$ 27,476,854

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

CITY OF FAIRHOPE, ALABAMA

COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities		
					Public Library Board	Airport Authority	Total
Airport Authority	\$ 653,258	\$ 274,163	\$ 1,554,730	\$ -	\$ -	\$ 1,175,635	\$ 1,175,635
Public Library Board	737,178	232,715	724,355	-	219,892	-	219,892
	<u>\$ 1,390,436</u>	<u>\$ 506,878</u>	<u>\$ 2,279,085</u>	<u>\$ -</u>	<u>219,892</u>	<u>1,175,635</u>	<u>1,395,527</u>
General revenues:							
Investment earnings					-	353	353
Total general revenues					-	353	353
Change in net position					219,892	1,175,988	1,395,880
Net position, beginning					220,368	14,468,299	14,688,667
Prior period adjustment					(309,147)	-	(309,147)
Net position, ending					<u>\$ 131,113</u>	<u>\$ 15,644,287</u>	<u>\$ 15,775,400</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, 2015

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.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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 Position, 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 Position.

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, 2015

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. City 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 non-operating 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 Position (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	75year

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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*.

E. IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES

Recently Issued and Adopted Accounting Principles

On October 1, 2012, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The adoption of GASB Statement No. 62 did not have any impact on the City's consolidated financial statements for the year ended September 30, 2015.

On October 1, 2012, the City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Balance Sheet is renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources. The City has determined they have no deferred outflows of resources at September 30, 2014, under the requirements of GASB Statement No. 63. The City's component unit, the Airport Authority, has determined they have a deferred inflow of resources related to a service concession arrangement as discussed in Note 21 to the financial statements at September 30, 2015.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

During the year ended September 30, 2014, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 requires certain items that are currently reported as assets and liabilities to be reclassified as deferred outflows of resources, deferred inflows of resources or current-period outflows (expenses) and inflows (revenues). These determinations are based on the definitions of those elements in Concepts Statement No. 4, *Elements of Financial Statements*.

Deferred outflows of resources are consumptions of net assets by the City that are applicable to a future reporting period.

Deferred inflows of resources are acquisitions of net assets by the City that are applicable to a future reporting period.

Outflows of resources are consumptions of net assets by the City that are applicable to the reporting period.

Inflows of resources are acquisitions of net assets by the City that are applicable to the reporting period.

During the year ended September 30, 2015, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements create disclosure and reporting requirements that may or may not be consistent with the basis used for funding the plan. As a result, a net position liability equal to the difference between the actuarial present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service, less the amount of the pension plan's fiduciary net position was recognized. Additionally, pension expense and deferred outflows of resources and deferred inflows of resources were recognized from changes in the components of the net pension liability. See note 14 and 23 for more information.

Recently Issued Accounting Principles

GASB Statement No. 72, *Fair Value Measurement and Application*, was issued to provide guidance for determining a fair value measurement for financial reporting purposes. The requirements for GASB Statement No. 72 are effective for fiscal year 2016. The City is currently evaluating the impact this standard may have on its financial statements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement No. 68* was issued to establish requirements for assets that are not within the scope of GASB Statement No. 68. The requirements of GASB Statement No. 73 are effective for fiscal year 2016. The City is currently evaluating the impact this standard may have on its financial statements.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans (OPEB)*, was issued to establish new accounting and financial reporting requirements for governments whose employees are provided with OPEB. The requirements of GASB Statement No. 74 are effective for fiscal year 2017. The City is currently evaluating the impact that this statement may have on its financial statements.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pension Plans*, was issued to address new accounting and financial reporting for OPEB that is provided to the employees of the state and local government employers. The requirements of GASB Statement No. 75 are effective for fiscal year 2018. The City is currently evaluating the impact that this statement may have on its financial statements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued to identify the hierarchy of generally accepted accounting principles. The requirements of GASB Statement No. 76 are effective immediately and were applied retroactively resulting in no significant impact to the financial statements.

GASB Statement No. 77, *Tax Abatement Disclosures*, was issued to improve financial reporting by giving users of the financial statements essential information that is not consistently or comprehensively reported to the public at the present. The requirements of GASB Statement No. 77 are effective for fiscal year 2017. The City is currently evaluating the impact that this statement may have on its financial statements.

F. 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.

G. 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.

H. 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.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. 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) Statement No. 33, revenue is recorded based upon taxes assessed and considered available. Any taxes not considered available are recorded as deferred revenue.

J. DEBT ISSUE COST

Issuance expenses on long term debt of proprietary funds are expensed as incurred in accordance with GASB Statement No. 65. 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 and premiums are deferred and amortized over the term of the bonds using the bonds outstanding method. Bond discounts and premiums are presented as a reduction or addition to the face amount of the bonds payable whereas issuance costs are expensed as incurred. Deferred losses associated with the issuance of long-term debt are presented as Deferred Outflows of Resources and are amortized on the straight-line method over the term of the bond.

K. UNEARNED REVENUE

The City reports unearned 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.

L. 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.

M. 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.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. NET POSITION AND EQUITY CLASSIFICATIONS

Government-wide Financial Statements

The City applies GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, that superseded GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government*. Equity is classified as net position and displayed in three components:

- Net investment in capital assets - Consists of 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at year-end, the portion of the debt of deferred inflows of resources attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of the related debt. Rather, that portion of the debt or deferred inflows of resources is included in the same net position as the unspent proceeds.
- Restricted net position - Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.
- Unrestricted net position – The net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Fund Financial Statements

The Fund equity of the governmental fund financial statements is classified as fund balance. The City adopted a GASB standard establishing 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, by passage of a resolution.
- 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

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

- Unassigned fund balances – All other fund balances that do not meet the definition of “restricted, committed or assigned fund balances.” The general fund is the only fund that reports a positive unassigned fund balance amount.

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.

O. 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 2015, the General Fund transferred to the Debt Service Fund \$850,252 in support of long term debt service.

The utility operations transfer a portion of their earnings to the General Fund each year to support general government operations. In fiscal year 2015, the following amounts were transferred from the utility funds noted to the General Fund.

Electric Fund	\$ 500,000
Natural Gas Fund	<u>1,326,575</u>
Total	<u>\$ 1,826,575</u>

In fiscal year 2015, the City transferred \$421,632 to the Airport Authority and \$714,100 to the Public Library Board, both discretely presented component units.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 2 INTERFUND TRANSACTIONS (CONTINUED)

Interfund receivables and payables at September 30, 2015 are:

	<u>Due from</u>	<u>Due to</u>
General Fund		
Electric	\$ 74,058	\$ -
Water and Waste Water	10,409	-
Natural Gas	1,794	-
Electric Fund		
General	-	74,058
Water and Waste Water	-	834,098
Natural Gas	-	293,003
Natural Gas Fund		
General	-	1,794
Electric	293,003	-
Water and Waste Water Fund		
Electric	834,098	-
General	-	10,409
	<u>\$ 1,213,362</u>	<u>\$ 1,213,362</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, 2015

NOTE 3 CAPITAL ASSETS

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

	Balance 10/01/14	Increases	Decreases	Balance 09/30/15
<u>Governmental Activities</u>				
Capital assets not subject to depreciation				
Land	\$ 21,961,802	\$ 350,022	\$ -	\$ 22,311,824
Total	<u>21,961,802</u>	<u>350,022</u>	<u>-</u>	<u>22,311,824</u>
Other capital assets				
Buildings and structures	35,288,110	1,913,598	(182,725)	37,018,983
Vehicles and equipment	11,131,986	1,239,059	-	12,371,045
Infrastructure	64,971,993	688,146	-	65,660,139
Total	<u>111,392,089</u>	<u>3,840,803</u>	<u>(182,725)</u>	<u>115,050,167</u>
Less accumulated depreciation for				
Buildings and structures	(8,941,205)	(652,335)	-	(9,593,540)
Vehicles and equipment	(9,944,609)	(854,507)	150,346	(10,648,770)
Infrastructure	(29,874,234)	(1,729,839)	-	(31,604,073)
Total accumulated depreciation	<u>(48,760,048)</u>	<u>(3,236,681)</u>	<u>150,346</u>	<u>(51,846,383)</u>
Other capital assets, net	<u>62,632,041</u>	<u>604,122</u>	<u>(32,379)</u>	<u>63,203,784</u>
Governmental capital assets, net	<u>\$ 84,593,843</u>	<u>\$ 954,144</u>	<u>\$ (32,379)</u>	<u>\$ 85,515,608</u>

Depreciation was charged to governmental activities as follows:

General Government	\$ 693,042
Police Department	160,764
Fire Department	87,564
Recreation Department	240,408
Adult Recreation Department	97,074
Street Department	1,683,006
Sanitation Department	197,456
Golf Department	77,367
Total	<u>\$ 3,236,681</u>

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 3 CAPITAL ASSETS (CONTINUED)

	Balance 10/01/14	Increases	Decreases	Balance 09/30/15
<u>Business Type Activities</u>				
Capital assets not subject to depreciation				
Land	\$ 9,612,038	\$ 53,690	\$ -	\$ 9,665,728
Construction in progress	7,336,941	4,565,515	-	11,902,456
Total	<u>16,948,979</u>	<u>4,619,205</u>	<u>-</u>	<u>21,568,184</u>
Other capital assets				
Distribution and collection system	69,391,521	2,370,905	-	71,762,426
Buildings, vehicles and equipment	12,226,401	641,394	(21,273)	12,846,522
Total	<u>81,617,922</u>	<u>3,012,299</u>	<u>(21,273)</u>	<u>84,608,948</u>
Less accumulated depreciation for				
Distribution and collection system	(29,101,272)	(1,676,494)	-	(30,777,766)
Buildings, vehicles and equipment	(9,080,299)	(516,660)	3,584	(9,593,375)
Total accumulated depreciation	<u>(38,181,571)</u>	<u>(2,193,154)</u>	<u>3,584</u>	<u>(40,371,141)</u>
Other capital assets, net	43,436,351	819,145	(17,689)	44,237,807
Capital assets, net	<u>\$ 60,385,330</u>	<u>\$ 5,438,350</u>	<u>\$ (17,689)</u>	<u>\$ 65,805,991</u>
<u>Component Unit - Public Library</u>				
Equipment	\$ 396,937	\$ 40,081	\$ -	\$ 437,018
Less accumulated depreciation	(327,905)	(19,010)	-	(346,915)
Capital assets, net	<u>\$ 69,032</u>	<u>\$ 21,071</u>	<u>\$ -</u>	<u>\$ 90,103</u>
<u>Component Unit - Airport Authority</u>				
Capital assets not subject to depreciation				
Land	\$ 10,934,228	\$ -	\$ (260,000)	\$ 10,674,228
Construction in progress	2,191,692	789,201	(2,191,692)	789,201
Total	<u>13,125,920</u>	<u>789,201</u>	<u>(2,451,692)</u>	<u>11,463,429</u>
Other capital assets				
Runways	10,373,708	268,103	-	10,641,811
Buildings and improvements	3,968,008	3,791,254	-	7,759,262
Equipment	98,885	-	-	98,885
Total	<u>14,440,601</u>	<u>4,059,357</u>	<u>-</u>	<u>18,499,958</u>
Less accumulated depreciation for				
Runways	(1,271,633)	(141,146)	-	(1,412,779)
Buildings and improvements	(1,988,069)	(160,766)	-	(2,148,835)
Equipment	(93,980)	(3,140)	-	(97,120)
Total accumulated depreciation	<u>(3,353,682)</u>	<u>(305,052)</u>	<u>-</u>	<u>(3,658,734)</u>
Other capital assets, net	11,086,919	3,754,305	-	14,841,224
Capital assets, net	<u>\$ 24,212,839</u>	<u>\$ 4,543,506</u>	<u>\$ (2,451,692)</u>	<u>\$ 26,304,653</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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, 2015:

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.	\$14,370,000
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.	143,000
Utilities Revenue Warrants, Series 2015 dated May 14, 2015, original debt obligation of \$1,780,000, interest rate 2.11%, payable semi-annually, principal payable December 1, 2015 through December 1, 2020.	1,780,000
General Obligation Warrant, Series 2013, dated December 30, 2013, original debt obligation of \$5,750,000, interest rate equal to 65% times the LIBOR rate + 1.23%, 1.34% at September 30, 2015, payable semi-annually, principle payments are due December 1, 2015 through December 1, 2018.	4,600,000
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.	<u>630,000</u>
TOTAL	<u>\$21,523,000</u>

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.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 6 NOTE AND WARRANTS PAYABLE – GOVERNMENTAL ACTIVITIES

The following is a governmental fund summary of long term debt at September 30, 2015:

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.	\$ 3,106,616
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.	<u>6,230,000</u>
TOTAL	<u>\$ 9,336,616</u>

The General Obligation Warrant Series 2011 was issued for the purpose of refunding the City's General Obligation Warrants Series 2002.

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.

NOTE 7 BOND DEFEASANCE

Business-type activities defeasance

On May 14, 2015, the City of Fairhope issued 2015 general obligation bonds in the amount of \$1,780,000. The proceeds were used to advance refund the 2005 revenue bonds. The refunded bond had a balance of \$4,590,000. The net proceeds from the issuance of the revenue bonds of \$1,219,702 were deposited into an irrevocable trust with an escrow agent to provide debt service payments on the 2005 revenue bonds until they are called. The advance refunding met the requirements of an in-substance debt defeasance and the 2005 revenue bonds were removed from the City's proprietary fund financial statements.

As a result of the advanced refunding, the City's total debt service requirements decreased by \$922,173, which resulted in an economic gain of \$536,462. The decrease in the cash flow requirement is attributable to a decrease in the interest rates on the new revenue bonds compared to the old bonds.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8 CHANGES IN LONG TERM DEBT

	Balance 10/1/2014	Additions	Reductions	Balance 9/30/2015	Amounts due within one year
GOVERNMENTAL ACTIVITIES					
Warrants and notes payable					
General obligation warrants	\$ 9,820,396	\$ -	\$ (483,780)	\$ 9,336,616	\$ 503,560
Total warrants and notes payable	9,820,396	-	(483,780)	9,336,616	503,560
Warrant discount	(31,020)	-	1,764	(29,256)	-
	9,789,376	-	(482,016)	9,307,360	503,560
Other liabilities					
Compensated absences	1,268,068	541,870	(645,111)	1,164,827	459,089
Governmental activities long-term liabilities	\$ 11,057,444	\$ 541,870	\$ (1,127,127)	\$ 10,472,187	\$ 962,649

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

	Balance 10/1/2014	Additions	Reductions	Balance 9/30/2015	Amounts due within one year
BUSINESS-TYPE ACTIVITIES					
Warrants and notes payable					
General obligation warrants	\$ 5,904,220	\$ -	\$ (1,161,220)	\$ 4,743,000	\$ 1,161,441
Utilities revenue warrants	20,810,000	1,780,000	(5,810,000)	16,780,000	575,000
Total warrants and notes payable	26,714,220	1,780,000	(6,971,220)	21,523,000	1,736,441
Deferred amount on refunding	(174,005)	-	29,807	(144,198)	-
Warrant discounts	(64,938)	-	3,805	(61,133)	-
	26,475,277	1,780,000	(6,937,608)	21,317,669	1,736,441
Other liabilities					
Compensated absences	537,099	251,378	(219,436)	569,041	97,772
Business-type activities long-term liabilities	\$ 27,012,376	\$ 2,031,378	\$ (7,157,044)	\$ 21,886,710	\$ 1,834,213
Compensated absences due within one year included in accrued liabilities					\$ 97,772
Compensated absences due in more than one year included in noncurrent liabilities					471,269
Total compensated absences liability					\$ 569,041

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 9 SUMMARY OF DEBT SERVICE REQUIREMENTS TO MATURITY

The following is a summary of debt service requirements to maturity of long term debt of the Governmental Funds as of September 30, 2015, including interest payments:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 503,560	\$ 356,500	\$ 860,060
2017	513,560	337,411	850,971
2018	533,340	317,823	851,163
2019	552,900	299,813	852,713
2020	567,680	281,147	848,827
2021-2025	3,545,960	1,076,035	4,621,995
2026-2030	2,130,000	518,850	2,648,850
2031-2032	<u>989,616</u>	<u>67,275</u>	<u>1,056,891</u>
TOTALS	<u>\$ 9,336,616</u>	<u>\$ 3,254,854</u>	<u>\$ 12,591,470</u>

The following is a summary of debt service requirements to maturity of long term debt of the Proprietary Funds as of September 30, 2015, 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>
2016	\$ 1,736,441	\$ 543,795	\$ 2,280,236
2017	2,091,440	524,096	2,615,536
2018	2,121,660	481,358	2,603,018
2019	2,152,100	437,711	2,589,811
2020	1,032,320	400,857	1,433,177
2021-2025	7,764,040	1,383,869	9,147,909
2026-2030	4,020,000	337,050	4,357,050
2031	<u>604,999</u>	<u>9,529</u>	<u>614,528</u>
	<u>\$ 21,523,000</u>	<u>\$ 4,118,265</u>	<u>\$ 25,641,265</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 10 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, 2015, was 1.55%.

The following is a summary of debt service requirements to maturity of long term debt of the Airport Authority as of September 30, 2015, including estimated interest payments at 1.55% and excluding discounts related to bonds:

Year Ending Sept. 30,	Principal	Interest	Total
2016	\$ 285,000	\$ 119,910	\$ 404,910
2017	305,000	115,489	420,489
2018	320,000	110,758	430,758
2019	340,000	105,795	445,795
2020	6,480,629	17,889	6,498,518
	<u>\$ 7,730,629</u>	<u>\$ 469,841</u>	<u>\$ 8,200,470</u>

NOTE 11 SALARIES – PROPRIETARY FUNDS

The following is a summary of employees' salaries by Utility Fund for the year ended September 30, 2015:

	Electric Fund	Natural Gas Fund	Water and Waste Water Fund
Total salaries	\$ 1,084,085	\$ 645,046	\$ 1,030,587
Less:			
Salaries capitalized for plant additions	<u>323,479</u>	<u>185,699</u>	<u>46,161</u>
Amount of salaries charged to operations	<u>\$ 760,606</u>	<u>\$ 459,347</u>	<u>\$ 984,426</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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.

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 must use all vacation time annually, and the maximum accumulation of sick leave is limited to 960 hours. 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).

NOTE 14 PENSION PLAN

General Information about Retirement Plan

Plan Description - The City of Fairhope, Alabama and its component unit, the Fairhope Public Library (herein collectively referred to as 'the City') participate in the Retirement System of the State of Alabama (RSA) which is an agent multiple-employer pension plan. The two entities are considered separate agents under the Plan. It is the responsibility of the retirement system to act on behalf of the City as an investment and administrative agent with respect to the pension plan.

The RSA was established on 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,

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 14 PENSION PLAN (CONTINUED)

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.

RSA issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained at www.rsa-al.gov.

As established by state statute, all full-time employees of the City must participate in the pension plan from the date they are hired. Contributions made by an employee vest immediately and contributions made by the City vest after 10 years of full-time employment. An employee who leaves the employment of the City is entitled to his or her contributions and the City's contributions if vesting requirements are satisfied. During its 2012 session, the Alabama Legislature passed and the Governor signed into law changes in the pension plan creating a Tier 2 employee. Employees hired prior to January 1, 2013 (Tier 1 employees) must contribute 5% of his or her gross earnings to the pension plan. Employees hired on or after that date (Tier 2 employees) will contribute on gross earnings at rate of 6%.

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. Average final salary for Tier 1 employees is defined as the average of the three highest years' salary out of the last ten years of service. Average final salary for Tier 2 employees is defined as the average of the five 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 Fairhope Public Library's 's contractually required contribution rate for the year ended September 30, 2015, was 11.38% for Tier 1 employees, and 9.88% for Tier 2 employees. The contribution requirements of plan members and the City are established and may be amended by RSA. These required contribution rates are based upon the actuarial valuation dated September 30, 2014, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan were \$1,076,161 paid by the City and \$40,747 paid by the Fairhope Public Library for the year ended September 30, 2015.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 14 PENSION PLAN (CONTINUED)

Net Pension Liability

The City's and Fairhope Public Library's net pension liabilities were measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013 rolled forward to September 30, 2014 using standard roll-forward techniques as shown in the following table:

<u>City of Fairhope</u>	
(a) Total Pension Liability for September 30, 2013	\$ 36,758,207
(b) Entry Age Normal Cost for the period	
October 1, 2013 to September 30, 2014	944,066
(c) Actual Benefit Payments & Refunds for	
October 1, 2013 to September 30, 2014	(2,210,748)
(d) Total Pension Liability as of September 30, 2014	
$[(a) \times 1.08] + (b) - [(c) \times (1.04)]$	\$ 38,343,752
<u>Fairhope Public Library</u>	
(a) Total Pension Liability for September 30, 2013	\$ 1,022,630
(b) Entry Age Normal Cost for the period	
October 1, 2013 to September 30, 2014	38,648
(c) Actual Benefit Payments & Refunds for	
October 1, 2013 to September 30, 2014	(48,791)
(d) Total Pension Liability as of September 30, 2014	
$[(a) \times 1.08] + (b) - [(c) \times (1.04)]$	\$ 1,092,346

Actuarial Assumptions - The total pension liability in the September 30, 2013, actuarial valuation was determined as part of actuarial valuations using the entry age actuarial cost method. The actuarial assumptions included (a) 8.0% investment rate of return (net of pension plan investment expense), (b) projected salary increases ranging from 3.75% to 7.25% per year, and an inflation component of 3%. Mortality rates for RSA were based on the RP-2000 Combined Mortality Table Projected with Scale

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 14 PENSION PLAN (CONTINUED)

AA to 2015 set forward three years for males and two years for females. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disability Mortality Table.

The actuarial assumptions used in the September 30, 2013, valuation were based on the results of an investigation of the economic and demographic experience for the RSA based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long Term Expected Rate of Return *
Fixed Income	25.0%	5.0%
U.S. Large Stocks	34.0%	9.0%
U.S. Mid Stocks	8.0%	12.0%
U.S. Small Stocks	3.0%	15.0%
International Developed Market Stocks	15.0%	11.0%
International Developed Market Stocks	3.0%	16.0%
Real Estate	10.0%	7.5%
Cash	2.0%	1.5%

*Includes assumed rate of inflation of 2.5%

Discount Rate - The discount rate used to measure the total pension liability was the long term rate of return, 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the RSA Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current pan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 14 PENSION PLAN (CONTINUED)

Changes in Net Pension Liability

	<u>City of Fairhope</u> Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at September 30, 2013	\$ 36,758,207	\$ 26,284,372	\$ 10,473,835
Changes for the year:			
Service cost	944,066	-	944,066
Interest	2,852,227	-	2,852,227
Differences between expected and actual experience			
Contributions - employer	-	1,011,234	(1,011,234)
Contributions - employee	-	599,215	(599,215)
Net investment income	-	3,115,563	(3,115,563)
Benefit payments, including refunds of employee contributions	(2,210,748)	(2,210,748)	-
Administrative expense			
Transfers among employers	-	(36,267)	36,267
Net Changes	<u>1,585,545</u>	<u>2,478,997</u>	<u>(893,452)</u>
Balances at September 30, 2014	<u>\$ 38,343,752</u>	<u>\$ 28,763,369</u>	<u>\$ 9,580,383</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 14 PENSION PLAN (CONTINUED)

Changes in Net Pension Liability

	<u>Fairhope Public Library</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balances at September 30, 2013	\$ 1,022,630	\$ 669,681	\$ 352,949
Changes for the year:			
Service cost	38,648	-	38,648
Interest	79,859	-	79,859
Differences between expected and actual experience			
Contributions - employer	-	43,802	(43,802)
Contributions - employee	-	19,155	(19,155)
Net investment income	-	81,118	(81,118)
Benefit payments, including refunds of employee contributions	(48,791)	(48,791)	-
Administrative expense			
Transfers among employers	-	-	-
Net Changes	<u>69,716</u>	<u>95,284</u>	<u>(25,568)</u>
Balances at September 30, 2014	<u>\$ 1,092,346</u>	<u>\$ 764,965</u>	<u>\$ 327,381</u>

Sensitivity of the net pension liability to changes in the discount rate - The following table presents the Board's net pension liability calculated using the discount rate of 8%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	<u>1% Decrease (7%)</u>	<u>Current Rate (8.0%)</u>	<u>1% Increase (9%)</u>
Net pension liability, City	\$ 14,090,810	\$ 9,580,384	\$ 5,774,636
Net pension liability, Fairhope Public Library	\$ 430,775	\$ 327,381	\$ 237,872

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2014. The supporting actuarial information is included in the GASB Statement No. 68 Report for the RSA prepared as of September 30, 2014. The auditor's report dated June 3, 2015 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 14 PENSION PLAN (CONTINUED)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2015, the City recognized pension expense of \$1,159,894 while the Fairhope Public Library recognized pension expense of \$37,091. At September 30, 2015, the City and Fairhope Public Library reported deferred outflows of resources and deferred inflows of resources, respectively, related to pensions of the following sources:

	<u>City of Fairhope</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	-	\$ -
Changes of assumption		-	-
Net difference between projected and actual earnings on plan investments		-	830,621
Employer contributions subsequent to measurement date		1,033,161	-
Total	\$	<u>1,033,161</u>	<u>\$ 830,621</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized as an increase (decrease) in pension expense as follows:

Year Ending September 30,	
2016	\$ (825,506)
2017	207,655
2018	207,655
2019	207,655
	<u>\$ (202,541)</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 14 PENSION PLAN (CONTINUED)

Fairhope Public Library

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumption	-	-
Net difference between projected and actual earnings on plan investments	-	21,582
Employer contributions subsequent to measurement date	43,472	-
Total	<u>\$ 43,472</u>	<u>\$ 21,582</u>

Year Ending September 30,	
2016	\$ (38,076)
2017	5,396
2018	5,396
2019	5,396
	<u>\$ (21,888)</u>

Schedule of Funding Progress, City of Fairhope

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b) ¹	Unfunded AAL (UAAL) b-a	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
9/30/2014 ³	\$ 27,027,655	\$ 37,524,238	\$ 10,496,583	72.0%	\$ 11,394,370	92.1%
9/30/2013 ²	\$ 25,073,787	\$ 35,442,562	\$ 10,368,775	70.7%	\$ 11,752,353	88.2%
9/30/2012 ¹	\$ 23,502,551	\$ 32,809,270	\$ 9,306,719	71.6%	\$ 11,752,353	79.2%

¹ Reflects changes to interest smoothing methodology.

² Reflects implementation of Board Funding Policy

³ Reflects the impact of 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.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 14 PENSION PLAN (CONTINUED)

Schedule of Funding Progress, Fairhope Public Library

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b) ¹	Unfunded AAL (UAAL) b-a	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
9/30/2014 ³	\$ 720,707	\$ 1,062,427	\$ 341,720	67.8%	\$ 383,102	89.2%
9/30/2013 ²	\$ 634,725	\$ 988,328	\$ 353,603	64.2%	\$ 405,343	87.2%
9/30/2012 ¹	\$ 579,908	\$ 906,261	\$ 326,353	64.0%	\$ 303,564	107.5%

1 Reflects changes to interest smoothing methodology.

2 Reflects implementation of Board Funding Policy

3 Reflects the impact of 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.

NOTE 15 DEPOSIT AND INVESTMENT RISK

At September 30, 2015, the City had investments in U. S. Treasury money market mutual funds through its trustee agreement for debt sinking funds. The fair value was \$2,782,989 (\$177,443 in governmental activities and \$2,619,248 in business-type activities). The average maturity of the portfolio was 6 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, 2015, 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 \$137,969. The commitments funded from governmental activities will be \$118,247 and from business-type activities will be \$19,722.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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.

The City implemented Government Accounting Standards Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions* (GASB Statement No. 45), for its financial disclosure and reporting purposes. The City intends to fund the OPEB Obligation pursuant to GASB Statement No. 45 to the extent the funding requirement is not met by the retiree health care premiums paid outright. During the year ended September 30, 2015, the City's portion of health care funding cost for retired employees (retiree premiums) totaled \$599,019.

Contribution Rates – Eligible retirees are subject to employer contributions for medical benefits equal to 90% of the premium. At September 30, 2015, the valuation date, 27 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 Statement No. 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, 2015, was 30 years.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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	\$ 862,809
Interest on net OPEB obligation	124,187
Adjustment to ARC	<u>(172,638)</u>
Annual OPEB cost (expense)	814,358
Current year retiree premium	<u>(599,019)</u>
Change in net OPEB obligation	215,339
Net OPEB obligation – beginning of year	<u>3,104,675</u>
Net OPEB obligation – end of year	<u>\$ 3,320,014</u>

The OPEB obligation is primarily funded using the operating funds of the General Fund.

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>
9/30/15	\$ 814,358	73.5%	\$ 3,320,014
9/30/14	960,415	33.2%	3,104,675
9/30/13	951,222	32.7%	2,624,374

Funded Status and Funding Progress – The first actuarial valuation under GASB Statement No. 45 was as of September 30, 2008, and the most recent actuarial valuation was as of September 30, 2014. There were no assets accumulated in the Plan, however, market value will be used to value such assets. At September 30, 2014, the Actuarial Accrued Liability (AAL) was \$8,408,943, 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.

Actuarial Valuation Dated	Actuarial Value of Assets (a)	Schedule of Funding Progress		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
		Actuarial Accrued Liability (AAL)* - Entry Age (b)	Unfunded (AAL) (UAAL) (b-a)			
9/30/2014	\$ -	\$ 8,408,943	\$ (8,408,943)	0.0%	\$ 8,343,375	100.8%
9/30/2013	\$ -	\$ 9,379,777	\$ (9,379,777)	0.0%	\$ 11,394,370	82.3%
9/30/2012	\$ -	\$ 9,379,777	\$ (9,379,777)	0.0%	\$ 11,752,353	79.8%

*GASB 45 permits the AAL determined at September 30, 2014 to be used for two consecutive years

Actuarial Methods and Assumptions - The actuarial calculations are based on the types of benefits

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 18 POST EMPLOYMENT HEALTH BENEFITS (CONTINUED)

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.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 21 SERVICE CONCESSION ARRANGEMENT

The Airport Authority, entered into an agreement with the Baldwin County Board of Education (BCBOE), under which the BCBOE will operate and collect tuition from aviation training facility at the airport for the next 40 years with an automatic extension of 5 years unless written notice is received six months prior to the expiration of the initial term. BCBOE paid the City \$2,700,000 upon execution of the arrangement. The initial payment was used in the construction of the aviation training facility. The initial payment was considered a deferred inflow of resources and rental revenue will be recognized over the life of the initial term of the lease. The City will report the aviation training facility as a capital asset upon completion of the facility and will depreciate the capital asset in accordance with the City's depreciation policy. Upon receipt, the City reported a cash balance in the construction fund of \$2,700,000 with a corresponding balance of \$2,700,000 as a deferred inflow of resources pursuant to the service concession arrangement. The construction fund balance at September 30, 2015, totaled \$18,484. The balance of the deferred inflow of resources is \$2,565,000 at September 30, 2015.

The Airport Authority, entered into an agreement with a private company, under which the private company will operate and collect fees from third parties from a leased space at the airport for the next 25 years. The private company's lease agreement with the City is such that the company remits monthly rent in the amount of \$12,750 to the Airport Authority and required to invest at least \$850,000 in capital improvements on the premises during the first year of the lease. The total value of the capital improvements, \$1,091,254 was considered a deferred inflow of resources and rent revenue will be recognized over the life of the term of the lease. The City will report the capital improvements as a capital asset and will depreciate in accordance with the City's depreciation policy. Upon completion in fiscal year 2015, the City reported a capital improvement in the amount of \$1,091,254 with a corresponding balance of \$1,091,254 as a deferred inflow of resources pursuant to the service concession arrangement. The balance of the deferred inflow of resources is \$1,047,603 at September 30, 2015.

NOTE 22 SUBSEQUENT EVENTS

The City has evaluated subsequent events through January 21, 2016, the date which the financial statements were available to be issued. There were no material subsequent events which require disclosure at September 30, 2015.

NOTE 23 PRIOR PERIOD ADJUSTMENT

Effective October 1, 2014, the Board implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pension* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* effective by recording a prior period adjustment in the amount of \$9,462,600. The prior period adjustment increased deferred outflow of resources by \$1,011,234 for the employer pension plan contributions made from the measurement date (September 30, 2014) through September 30, 2015, and established a net pension liability in the amount of \$10,473,835.

A prior period adjustment was also recorded for the City's component unit, Fairhope Public Library in the amount of \$309,147 as related to GASB Statement Nos. 68 and 71 as described above. The prior period adjustment increased deferred outflow of resources by \$43,802 for the employer pension plan contributions made from the measurement date (September 30, 2014) through September 30, 2015, and established a net pension liability in the amount of \$352,949.

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

CITY OF FAIRHOPE, ALABAMA

SCHEDULES OF EMPLOYER CONTRIBUTIONS
LAST 10 FISCAL YEARS ENDING SEPTEMBER 30*

	<u>2015</u>
Actuarially determined contribution	\$ 1,033,161
Contributions in relations to the actuarially determined contribution	<u>1,033,161</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 11,740,415
Contributions as a percentage of covered-employee payroll	9%

Notes to Schedule

Actuarially determined contribution rates were calculated as of September 30, 2013, two years prior to the end of the fiscal year in which contributions were reported. Contributions for fiscal year 2015 were based on the September 30, 2013 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	26 years
Asset valuation method	Five year smoothed Market
Inflation	3.00%
Salary increases	3.75 – 7.25%
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

*This schedule is presented to illustrate the requirement to show information for 10 years. However, currently, information is only available for 2015

CITY OF FAIRHOPE, ALABAMA

SCHEDULES OF EMPLOYER CONTRIBUTIONS
LAST 10 FISCAL YEARS ENDING SEPTEMBER 30*

	<u>2015</u>
Actuarially determined contribution	\$ 43,472
Contributions in relations to the actuarially determined contribution	<u>43,472</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 397,846
Contributions as a percentage of covered-employee payroll	11%

Notes to Schedule

Actuarially determined contribution rates were calculated as of September 30, 2013, two years prior to the end of the fiscal year in which contributions were reported. Contributions for fiscal year 2015 were based on the September 30, 2013 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	26 years
Asset valuation method	Five year smoothed market
Inflation	3.00%
Salary increases	3.75 – 7.25%
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

*This schedule is presented to illustrate the requirement to show information for 10 years. However, currently, information is only available for 2015

CITY OF FAIRHOPE, ALABAMA

SCHEDULES OF CHANGES IN THE NET PENSION LIABILITY
LAST 10 FISCAL YEARS ENDING SEPTEMBER 30*

	<u>2015</u>
Total pension liability	
Service Cost	\$ 944,066
Interest	2,852,227
Chages in benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments, including refunds of employee contributions	(2,210,748)
Net change in total pension liability	1,585,545
Total pension liability - beginning	<u>36,758,207</u>
Total pension liability - ending (a)	<u>\$ 38,343,752</u>
Plan fiduciary net position	
Contributions - employer	\$ 1,011,234
Contributions - member	599,215
Net investment income	3,115,563
Benefit payments, including refunds of employee contributions	(2,210,748)
Transfers among employers	<u>(36,268)</u>
Net change in plan fiduciary net position	2,478,996
Plan net position - beginning	<u>26,284,372</u>
Plan net position - ending (b)	<u>\$ 28,763,368</u>
Net pension liability (asset) - ening (a)-(b)	\$ 9,580,384
Plan fiduciary net position as a percentage of the total pension liability	75.01%
Covered-employee payroll	\$ 11,740,415
Net pension liability (asset) as a percentage of covered-employee payroll	82%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, currently, information is only available for 2015

CITY OF FAIRHOPE, ALABAMA

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
LAST 10 FISCAL YEARS ENDING SEPTEMBER 30*

	<u>2015</u>
Total pension liability	
Service Cost	\$ 38,648
Interest	79,859
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments, including refunds of employee contributions	(48,791)
Net change in total pension liability	69,716
Total pension liability - beginning	<u>1,022,630</u>
Total pension liability - ending (a)	<u>\$ 1,092,346</u>
Plan fiduciary net position	
Contributions - employer	\$ 43,802
Contributions - member	19,155
Net investment income	81,118
Benefit payments, including refunds of employee contributions	(48,791)
Transfers among employers	-
Net change in plan fiduciary net position	95,284
Plan net position - beginning	<u>669,681</u>
Plan net position - ending (b)	<u>\$ 764,965</u>
Net pension liability (asset) - ending (a)-(b)	\$ 327,381
Plan fiduciary net position as a percentage of the total pension liability	70.03%
Covered-employee payroll	\$ 397,846
Net pension liability (asset) as a percentage of covered-employee payroll	82.29%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, currently, information is only available for 2015

CITY OF FAIRHOPE, ALABAMA

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Local taxes	\$ 12,291,100	\$ 12,291,100	\$ 12,620,043	\$ 328,943
Licenses and permits	3,014,500	3,014,500	3,306,620	292,120
Fine and forfeitures	320,000	320,000	278,837	(41,163)
Intergovernmental	202,200	202,200	244,166	41,966
Interest and rents	223,500	223,500	228,317	4,817
Charges for services	4,669,000	4,669,000	4,730,645	61,645
Golf course revenue	1,140,540	1,140,540	1,137,114	(3,426)
Recreation department	392,000	392,000	444,410	52,410
BP settlement proceeds	-	-	1,361,255	1,361,255
Legal settlement	-	-	598,640	598,640
Other revenue	153,300	153,300	180,644	27,344
Total revenues	<u>22,406,140</u>	<u>22,406,140</u>	<u>25,130,691</u>	<u>2,724,551</u>
EXPENDITURES				
General government	8,485,269	8,485,269	8,289,346	195,923
Sanitation	1,514,237	1,514,237	1,598,404	(84,167)
Police	3,954,345	3,954,345	3,813,581	140,764
Fire	353,426	353,426	338,547	14,879
Airport Authority	412,632	412,632	412,632	-
Streets	2,311,183	2,311,183	2,352,091	(40,908)
Adult recreation	621,432	621,432	581,338	40,094
Recreation	1,121,934	1,121,934	1,095,605	26,329
Golf	1,042,330	1,042,330	987,957	54,373
Public Library Board	714,100	714,100	714,100	-
Other	89,000	89,000	89,000	-
Capital outlay	1,355,710	1,355,710	1,295,225	60,485
Total expenditures	<u>21,975,598</u>	<u>21,975,598</u>	<u>21,567,826</u>	<u>407,772</u>
Excess of Revenues over (under) Expenditures	<u>430,542</u>	<u>430,542</u>	<u>3,562,865</u>	<u>3,132,323</u>
Other financing sources (uses)				
Transfers in	1,826,575	1,826,575	1,826,575	-
Transfers out	<u>(2,159,071)</u>	<u>(2,159,071)</u>	<u>(4,846,160)</u>	<u>(2,687,089)</u>
Total other financing sources (uses)	<u>(332,496)</u>	<u>(332,496)</u>	<u>(3,019,585)</u>	<u>(2,687,089)</u>
NET CHANGE IN FUND BALANCES	<u>\$ 98,046</u>	<u>\$ 98,046</u>	543,280	<u>\$ 445,234</u>
FUND BALANCES - BEGINNING OF YEAR			<u>10,449,523</u>	
FUND BALANCES - END OF YEAR			<u>\$ 10,992,803</u>	

CITY OF FAIRHOPE, ALABAMA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2015**

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 Budget Committee works 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, 2015

NOTE 2 EXCESS EXPENDITURES

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

	<u>Excess Expenditures</u>		<u>Excess Expenditures</u>
General Government		Recreation Department	
Salaries - administrative	\$ 46,967	General supplies	\$ 35,478
Salaries - judge and court clerk	2,424	Equipment and vehicle repair	10,271
Salaries - mechanics and janitors	10,819		
Salaries - building and zoning	3,420	Adult Recreation Department	
Employee payroll taxes	25,256	Special programs	42
Training, school and travel	16,166	Shuttle bus expense	235
Professional services	73,377		
City computer expense	17,335	Street Department	
Office supplies	7,051	General supplies	5,382
Postage	3,855	Equipment and vehicle repair	61,664
General supplies	8,527	Equipment rental	7,426
Dues, membership and subscriptions	4,027	Street material and landscaping	132,093
Credit card processing fees	651		
Recording fees paid	14	Sanitation Department	
Colony rent	239	Equipment and vehicle repair	106,735
Publications newspapers	8,071	Landfill charges	27,252
Election expense	366	Landfill maintenance	11,505
COF book and sidewalk brick	1,205	Purchases of recycle bins and garbage	16,880
Fishermans Wharf Maintenance	228		
Required OPEB contribution	246,208	Golf Department	
		General supplies	5,054
Police Department		General maintenance	3,527
Overtime - special events	289	Purchases - beer, wine	3,787
Professional services	6,310	Purchases - food	1,960
General supplies	18,653	Supplies - grill	1,128
General maintenance	8,262	Cost - Pro Shop Sales	8,531
Jail expense	36,986	Pro Shop custom orders	21,632
DEA Funds purchases	22,555		
Fire Department			
Fire call payments	6,150		
Equipment and vehicle repair	12,701		

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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, 2015

	Special Revenue Fund Impact Fees	Special Revenue Fund Gas Tax	Debt Service	Total Nonmajor Governmental Funds
ASSETS				
Cash	\$ 826,435	\$ 106,848	\$ 348,720	\$ 1,282,003
Receivables	-	-	25,617	25,617
Total assets	<u>\$ 826,435</u>	<u>\$ 106,848</u>	<u>\$ 374,337</u>	<u>\$ 1,307,620</u>
LIABILITIES				
Accounts payable – trade	\$ -	\$ -	\$ 25,617	\$ 25,617
Due to other funds	-	901	-	901
Total liabilities	<u>-</u>	<u>901</u>	<u>25,617</u>	<u>26,518</u>
FUND BALANCES				
Restricted for:				
Debt service	-	-	348,720	348,720
Road maintenance and construction	-	105,947	-	105,947
Assigned to:				
Construction and road maintenance	<u>826,435</u>	<u>-</u>	<u>-</u>	<u>826,435</u>
Total fund balances	<u>826,435</u>	<u>105,947</u>	<u>348,720</u>	<u>1,281,102</u>
Total liabilities and fund balances	<u>\$ 826,435</u>	<u>\$ 106,848</u>	<u>\$ 374,337</u>	<u>\$ 1,307,620</u>

CITY OF FAIRHOPE, ALABAMA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Special Revenue Fund Impact Fees	Special Revenue Fund Gas Tax	Debt Service	Total Nonmajor Governmental Funds
REVENUES				
Intergovernmental	\$ -	\$ 90,267	\$ -	\$ 90,267
Charges for services	664,642	-	-	664,642
Interest and rents	265	-	87	352
Total revenues	<u>664,907</u>	<u>90,267</u>	<u>87</u>	<u>755,261</u>
EXPENDITURES				
Street department	-	30,327	-	30,327
Recreation	-	-	-	-
Other	3,920	-	516	4,436
Debt service				
Principal	-	-	483,780	483,780
Interest	-	-	374,479	374,479
Capital outlay	86,000	-	-	86,000
Total expenditures	<u>89,920</u>	<u>30,327</u>	<u>858,775</u>	<u>979,022</u>
Excess of revenues over (under) expenditures	<u>574,987</u>	<u>59,940</u>	<u>(858,688)</u>	<u>(223,761)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	850,252	850,252
Transfers out	<u>(600,000)</u>	<u>-</u>	<u>-</u>	<u>(600,000)</u>
Total other financing sources (uses)	<u>(600,000)</u>	<u>-</u>	<u>850,252</u>	<u>250,252</u>
Net change in fund balances	(25,013)	59,940	(8,436)	26,491
Fund balances – beginning of year	<u>851,448</u>	<u>46,007</u>	<u>357,156</u>	<u>1,254,611</u>
FUND BALANCES – END OF YEAR	<u>\$ 826,435</u>	<u>\$ 105,947</u>	<u>\$ 348,720</u>	<u>\$ 1,281,102</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, 2015

ASSETS

Cash and cash equivalents	\$ <u>352,791</u>
Total assets	\$ <u><u>352,791</u></u>

LIABILITIES

Accounts payable and accrued expenses	\$ <u>6,290</u>
---------------------------------------	-----------------

FUND BALANCES

Restricted for:	
Capital projects	-
Unassigned	<u>346,501</u>
Total fund balances	<u><u>346,501</u></u>

Total liabilities and fund balances	\$ <u><u>352,791</u></u>
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CITY OF FAIRHOPE, ALABAMA

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
FAIRHOPE PUBLIC LIBRARY BOARD
SEPTEMBER 30, 2015

Fund balances as reported on page 65	\$	346,501
Net position reported for governmental activities in the statement of net position are different from fund balances for governmental activities because:		
Capital assets used in governmental activities are financial resources and therefore are not reported in fund financial statements.		437,018
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.		(346,915)
Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Employment retirement contributions		43,472
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:		
Net Pension Liability		(327,381)
Deferred inflows of resources		(21,582)
		<hr/>
Net position of governmental activities as reported on page 24	\$	<u><u>131,113</u></u>

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FAIRHOPE PUBLIC LIBRARY BOARD
FOR THE YEAR ENDED SEPTEMBER 30, 2015

REVENUES

Fines and lost books	\$ 18,471
Donations, gifts, memorials and bequests	196,582
State aid	13,588
Lease income	1,500
Payments from City of Fairhope	710,767
Miscellaneous	16,162
Total revenues	<u>957,070</u>

EXPENDITURES

Salaries	468,829
Payroll taxes	36,137
Employees' retirement	40,747
Books, periodicals, audio visual	75,560
Supplies	9,261
Janitorial service	24,789
Professional fees	7,640
Telecommunications	468
Capital outlay	40,081
Maintenance	22,896
Miscellaneous	35,497
Total expenditures	<u>761,905</u>

Net change in fund balances 195,165

Fund balances – beginning of year 151,336

FUND BALANCES - END OF YEAR \$ 346,501

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, 2015

Net change in fund balances - total governmental funds, page 67	\$ 195,165
<p>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:</p>	
<p>Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.</p>	
Capital outlays for the year	40,081
Depreciation expense for the year	(19,010)
<p>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.</p>	
Change in net pension liability and deferred inflows of resources	<u>3,656</u>
Change in net position of governmental activities, page 25	<u><u>\$ 219,892</u></u>

CITY OF FAIRHOPE, ALABAMA

FUND BALANCE SHEET
FAIRHOPE AIRPORT AUTHORITY
SEPTEMBER 30, 2015

ASSETS

Cash and cash equivalents	\$ 637,357
Grants receivable	<u>48,477</u>
Total assets	<u>\$ 685,834</u>

LIABILITIES

Unearned rent	\$ 2,565,000
Accounts payable	<u>2,968</u>
Total liabilities	<u>2,567,968</u>

FUND BALANCES

Restricted for:	
Capital projects	364,946
Unassigned	<u>(2,247,080)</u>
Total fund balances	<u>(1,882,134)</u>
Total liabilities and fund balances	<u>\$ 685,834</u>

CITY OF FAIRHOPE, ALABAMA

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
FAIRHOPE AIRPORT AUTHORITY
SEPTEMBER 30, 2015

Fund balances as reported on page 69	\$	(1,882,134)
Net position reported for governmental activities in the statement of net position are different from fund balances for governmental activities because:		
Capital assets used in governmental activities are financial resources and therefore are not reported in fund financial statements		29,963,388
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.		(3,658,735)
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		(7,730,629)
Revenue received from service concession arrangement will be recognized in future periods and is derived from capital assets and therefore is not reported in fund financial statements		<u>(1,047,603)</u>
Net position of governmental activities as reported on page 24	\$	<u><u>15,644,287</u></u>

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FAIRHOPE AIRPORT AUTHORITY
FOR THE YEAR ENDED SEPTEMBER 30, 2015

REVENUES

Fuel sales and rentals	\$	230,513
Interest income		353
Federal grant revenue		1,020,169
Revenue from service concession arrangement		67,500
Payments from City of Fairhope		467,061
Sale of assets		260,000
Total revenues		<u>2,045,596</u>

EXPENDITURES

Insurance		38,617
Legal and professional		85,554
Maintenance		83,754
Capital outlay		1,565,613
Debt service payments		
Principal		709,371
Interest		122,798
Other		17,483
Total expenditures		<u>2,623,190</u>

Net change in fund balances (577,594)

Fund balances – beginning of year (1,304,540)

FUND BALANCES - END OF YEAR \$ (1,882,134)

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, 2015

Net change in fund balances - total governmental funds, page 71 \$ (577,594)

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:

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

Proceeds from the issuance of debt

Principal payments on long-term debt 709,371

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

Proceeds from the sale of assets (260,000)

Capital outlays for the year 1,565,613

Depreciation expense for the year (305,052)

Unearned revenue as related to service concession arrangement derived from the acquisition of capital assets

43,650

Change in net position of governmental activities, page 25

\$ 1,175,988

CITY OF FAIRHOPE, ALABAMA

SCHEDULE OF CAPITAL PROJECTS EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

NCRS Grant Expenditures	\$	251,951
NCRS Grant Expenditures WasteWater Treatment Plant		162,368
Flood Event		44,666
Troyer Booth Extension Project		43,164
Community Park Project		13,613
ATRIP Fairhope Avenue 181 to Bancroft		14,690
Fairhope Avenue Widening		19,808
Manley Road Soccer		953,971
Pier Restrooms		27,410
Emergency Repairs		303
Tennis Courts		14,474
Golf Course Irrigation System		765,817
Boys and Girls Club		17,658
Quail Creek Sidewalks		<u>129,684</u>
Total capital projects expenditures	\$	<u>2,459,577</u>

CITY OF FAIRHOPE, ALABAMA

SCHEDULE OF INFORMATION REQUIRED BY BOND INDENTURES
SEPTEMBER 30, 2015

	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
A. Utility customers at September 30, 2015 were as follows:				
Number of customers	6,721	10,039	17,372	
Number of metered customers	6,721	10,039	17,372	
Number of unmetered customers	-	-	-	
Number of waste water customers	-	-	9,960	
B. Annual Net Income of Utility Operations				
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	Total
Income from operations	\$2,419,668	\$2,351,230	\$ 4,383,041	\$ 9,153,939
Add:				
Depreciation and amortization	743,663	404,740	1,041,167	2,189,570
Interest income	5,670	9,724	3,046	18,440
Annual net income as prescribed by debt covenants	<u>\$3,169,001</u>	<u>\$2,765,694</u>	<u>\$ 5,427,254</u>	<u>\$11,361,949</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 2016				\$ 5,000,000
Buildings and facilities – expires January 2016				76,815,702
Automobile – expires January 2016				
Liability				1,000,000
Uninsured motorist				50,000
Public officials errors and omissions liability – expires January 2015				5,000,000
Police liability – expires January 2015				5,000,000
Aggregate				2,000,000
Per occurrence				
Excess liability policy for general liability, police and public official – expires January 2016				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, 2015

	1996 Capital Improvement	2005 Warrant Fund	2005 Reserve Fund	2007 Warrant Fund	2009 Warrant Fund	2009 Reserve Fund
Balance 10/01/14	\$ 50,000	\$ 629,503	\$ 874,715	\$ 176,443	\$ 109,630	\$ 125,003
Deposits	5	3,968,342	-	530,271	145,024	13
Disbursements	(5)	(4,597,845)	(874,715)	(529,271)	(146,565)	(13)
Balance 9/30/15	\$ <u>50,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>177,443</u>	\$ <u>108,089</u>	\$ <u>125,003</u>

	2011 Construction Fund	2011 Warrant Fund	2011 Reserve Fund	2015 Reserve Fund	2015 Warrant Fund
Balance 10/01/14	\$ 2,278,602	\$ 513,758	\$ 1,415,679	\$ -	\$ -
Deposits	-	905,745	142	376,702	13,702
Disbursements	(2,278,602)	(889,428)	(142)	(2)	-
Balance 9/30/15	\$ <u>-</u>	\$ <u>530,075</u>	\$ <u>1,415,679</u>	\$ <u>376,700</u>	\$ <u>13,702</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.

Contents	Page
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>	77-82
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>	83-87
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>	88-91
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>	92-93
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>	94-97

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 POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(accrual basis of accounting)

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Governmental activities										
Invested in capital assets, net of related debt	\$67,742,360	\$61,450,916	\$67,338,065	\$66,295,379	\$ 65,963,325	\$ 66,845,689	\$ 66,016,012	\$ 65,671,272	\$ 74,804,467	\$ 76,208,248
Restricted	787,538	1,073,262	847,580	1,462,430	3,564,376	6,207,809	8,015,592	9,007,967	8,557,163	2,308,667
Unrestricted	(1,195)	54,300	(84,709)	165,029	1,782,848	50,640	56,984	1,586,709	2,513,008	4,619,015
Total governmental activities net positions	\$68,528,703	\$62,578,478	\$68,100,936	\$67,922,838	\$ 71,310,549	\$ 73,104,138	\$ 74,088,588	\$ 76,265,948	\$ 85,874,638	\$ 83,135,930
Business-type activities										
Invested in capital assets, net of related debt	\$19,307,068	\$23,076,992	\$24,573,181	\$24,210,082	\$ 24,697,607	\$ 25,786,974	\$ 17,990,946	\$ 29,971,506	\$ 42,025,762	\$ 44,488,322
Restricted	2,089,642	2,106,516	2,092,174	1,883,768	1,649,106	1,658,631	12,337,047	3,698,889	3,718,288	2,619,251
Unrestricted	3,334,264	2,105,886	1,422,972	3,691,056	6,696,480	10,610,123	10,047,736	10,197,284	2,273,605	5,238,460
Total business-type activities net positions	\$24,730,974	\$27,289,394	\$28,088,327	\$29,784,906	\$ 33,043,193	\$ 38,055,728	\$ 40,375,729	\$ 43,867,679	\$ 48,017,655	\$ 52,346,033
Primary government										
Invested in capital assets, net of related debt	\$87,049,428	\$84,527,908	\$91,911,246	\$90,505,461	\$ 90,660,932	\$ 92,632,663	\$ 84,006,958	\$ 95,642,778	\$ 116,830,229	\$ 120,696,570
Restricted	2,877,180	3,179,778	2,939,754	3,346,198	5,213,482	7,866,440	20,352,639	12,706,856	12,275,451	4,927,918
Unrestricted	3,333,069	2,160,186	1,338,263	3,856,085	8,479,328	10,660,763	10,104,720	11,783,993	4,786,613	9,857,475
Total primary government net position	\$93,259,677	\$89,867,872	\$96,189,263	\$97,707,744	\$ 104,353,742	\$ 111,159,866	\$ 114,464,317	\$ 120,133,627	\$ 133,892,293	\$ 135,481,963

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

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Expenses										
Governmental activities:										
General	\$ 3,873,823	\$ 5,540,860	\$ 6,392,335	\$ 6,536,802	\$ 6,929,734	\$ 6,176,077	\$ 8,103,118	\$ 7,451,793	\$ 9,067,340	\$ 8,890,052
Public safety										
Police	3,482,683	3,789,666	4,011,091	4,090,851	4,740,344	5,213,031	4,925,437	4,441,429	4,220,003	3,945,496
Fire	692,972	781,696	843,469	878,148	1,017,184	483,670	461,865	407,361	431,955	424,789
Public works										
Sanitation	1,123,517	1,479,374	1,564,126	1,657,615	1,973,942	1,868,364	1,814,947	1,824,259	1,873,508	1,790,554
Street	4,653,792	3,757,204	3,671,572	4,308,575	4,452,370	4,251,404	5,502,244	3,996,599	4,095,487	4,057,713
Public Library Board	336,823	594,378	771,373	760,174	772,539	798,997	810,636	840,636	886,028	924,736
Airport	149,179	397,183	545,000	242,090	249,856	225,843	281,124	443,000	443,000	412,632
Recreation	645,154	819,051	900,759	1,031,886	1,269,393	1,138,079	1,176,191	1,281,865	1,250,689	1,328,674
Adult Recreation	321,557	390,125	459,961	438,442	601,232	654,736	613,614	640,917	663,982	665,804
Golf	-	-	-	1,292,200	1,102,861	1,106,624	932,284	987,869	978,819	1,060,643
Interest on long-term debt	475,699	624,883	743,451	878,534	694,083	633,161	589,174	507,982	472,222	344,808
Total governmental activities expenses	15,755,199	18,174,420	19,903,137	22,115,317	23,803,538	22,549,986	25,210,634	22,823,710	24,383,033	23,845,901
Business-type activities:										
Natural gas	6,329,438	5,948,144	6,709,491	5,349,209	5,757,648	5,037,587	4,484,683	5,234,887	5,529,610	5,056,618
Electric	12,842,542	14,029,975	16,006,139	15,540,148	15,664,835	16,909,931	16,912,834	17,164,781	18,379,231	18,227,563
Water and wastewater	5,682,694	6,387,739	6,502,942	6,803,566	6,533,138	6,616,671	7,050,997	7,294,799	7,165,113	7,085,714
Golf	1,476,373	1,544,528	1,713,486	-	-	-	-	-	-	-
Total business-type activities expenses	26,331,047	27,910,386	30,932,058	27,692,923	27,955,621	28,564,189	28,448,514	29,694,467	31,073,954	30,369,895
Total primary government expenses	\$ 42,086,246	\$ 46,084,806	\$ 50,835,195	\$ 49,808,240	\$ 51,759,159	\$ 51,114,175	\$ 53,659,148	\$ 52,518,177	\$ 55,456,987	\$ 54,215,796
Program Revenues										
Governmental activities:										
Charges for services:										
General	\$ 3,726,334	\$ 5,862,118	\$ 5,952,299	\$ 5,140,160	\$ 5,249,279	\$ 5,383,822	\$ 6,301,207	\$ 6,052,493	\$ 6,225,471	\$ 3,585,456
Police	354,504	362,441	252,838	224,022	261,070	241,104	289,432	291,749	285,573	-
Sanitation	1,252,282	1,294,033	1,331,617	1,368,656	1,380,238	1,391,722	1,408,179	1,431,883	1,462,243	4,730,645
Recreation	73,975	75,592	83,919	130,740	366,683	369,135	368,493	391,024	436,453	444,410
Adult Recreation	41,590	34,534	32,791	36,316	45,889	46,261	41,018	39,977	49,241	41,459
Golf	-	-	-	847,016	776,173	944,858	1,001,627	1,113,277	1,067,593	1,137,114
Operating grants and contributions	3,065,387	631,133	206,012	87,416	22,267	24,402	-	-	9,144	-
Capital grants and contributions	4,861,100	8,526,591	7,310,387	384,358	1,389,592	302,963	1,317,475	438,033	8,416,283	1,319,753
Total governmental activities program revenues	13,375,172	16,786,442	15,169,863	8,218,684	9,491,191	8,704,267	10,727,431	9,758,436	17,952,001	11,258,837
Business-type activities:										
Charges for services:										
Gas	7,112,944	7,388,531	7,841,853	8,341,855	8,631,935	8,219,447	6,191,986	6,769,649	8,023,473	7,354,080
Electric	14,683,254	16,658,326	17,777,703	18,800,459	18,496,651	19,838,004	18,891,334	19,647,662	21,049,277	20,527,031
Water and wastewater	8,348,064	8,669,895	8,166,344	8,194,949	8,959,041	10,287,898	9,838,580	9,980,089	10,018,231	10,860,135
Golf course	1,527,311	1,505,211	1,487,811	-	-	-	-	-	-	-
Total business-type activities program revenues	31,671,573	34,221,963	35,273,711	35,337,263	36,087,627	38,345,349	34,921,900	36,397,400	39,090,981	38,741,246
Total primary government program revenues	\$ 45,046,745	\$ 51,008,405	\$ 50,443,574	\$ 43,555,947	\$ 45,578,818	\$ 47,049,616	\$ 45,649,331	\$ 46,155,836	\$ 57,042,982	\$ 50,000,083

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

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net (expense)/revenue										
Governmental activities	\$ (2,380,027)	\$ (1,387,978)	\$ (4,733,274)	\$ (13,896,633)	\$ (14,312,347)	\$ (13,845,719)	\$ (14,483,203)	\$ (13,065,274)	\$ (6,431,032)	\$ (12,587,064)
Business-type activities	5,340,526	6,311,577	4,341,653	7,644,340	8,132,006	9,781,160	6,473,386	6,702,933	8,017,027	8,371,351
Total primary government net expense	\$ 2,960,499	\$ 4,923,599	\$ (391,621)	\$ (6,252,293)	\$ (6,180,341)	\$ (4,064,559)	\$ (8,009,817)	\$ (6,362,341)	\$ 1,585,995	\$ (4,215,713)
General Revenues and Other Changes in Net Positions										
Governmental activities:										
Taxes										
Property taxes	\$ 3,159,187	\$ 3,589,489	\$ 4,631,476	\$ 4,939,840	\$ 4,842,366	\$ 4,590,840	\$ 4,591,739	\$ 4,298,046	\$ 4,330,537	\$ 4,550,766
Sales tax	-	-	-	1,003,864	4,443,325	4,590,149	4,898,362	5,437,863	6,518,249	6,797,757
Liquor taxes	347,415	373,794	396,196	385,411	392,255	393,123	425,888	425,816	445,132	451,719
Lodging taxes	196,224	420,024	495,850	474,852	483,271	495,870	569,142	643,495	614,278	681,419
Other	124,738	138,857	145,836	134,413	131,135	120,518	124,234	139,666	138,204	138,382
Intergovernmental	522,196	472,667	293,007	436,472	424,359	248,011	314,525	596,816	389,561	334,433
BP settlement proceeds	-	-	-	-	-	-	-	-	-	1,361,255
Legal settlement	-	-	-	-	-	-	-	-	-	598,640
Investment earnings	394,006	508,558	340,530	225,860	239,256	249,489	226,642	251,512	239,205	228,670
Gain (loss) on sale of assets	-	-	-	-	-	-	-	-	(261,340)	-
Other	230,691	251,476	294,469	109,958	1,293,419	124,161	143,319	213,169	147,672	106,502
Transfer of Golf Fund to Governmental Activities	-	-	-	913,729	-	-	-	-	-	-
Transfers in/(out)	3,787,999	(10,317,112)	3,658,368	5,094,136	4,897,104	4,827,147	4,173,802	3,236,251	3,612,482	1,826,575
Total government activities	8,762,456	(4,562,247)	10,255,732	13,718,535	17,146,490	15,639,308	15,467,653	15,242,634	16,173,980	17,076,118
Business-type activities:										
Investment earnings	235,538	266,888	115,648	60,104	23,385	58,522	20,417	25,268	30,815	18,440
Transfer of Golf Fund to Governmental Activities	-	-	-	(913,729)	-	-	-	-	-	-
Transfers in/(out)	(3,787,999)	(4,020,046)	(3,658,368)	(5,094,136)	(4,897,104)	(4,827,147)	(4,173,802)	(3,236,251)	(3,612,482)	(1,826,575)
Total business-type activities	(3,552,461)	(3,753,158)	(3,542,720)	(5,947,761)	(4,873,719)	(4,768,625)	(4,153,385)	(3,210,983)	(3,581,667)	(1,808,135)
Total primary government	\$ 5,209,995	\$ (8,315,405)	\$ 6,713,012	\$ 7,770,774	\$ 12,272,771	\$ 10,870,683	\$ 11,314,268	\$ 12,031,651	\$ 12,592,313	\$ 15,267,983
Change in Net Positions										
Governmental activities	\$ 6,382,429	\$ (5,950,225)	\$ 5,522,458	\$ (178,098)	\$ 2,834,143	\$ 1,793,589	\$ 984,450	\$ 2,177,360	\$ 9,742,948	\$ 4,489,054
Business-type activities	1,788,065	2,558,419	798,933	1,696,579	3,258,287	5,012,535	2,320,001	3,491,950	4,435,360	6,563,216
Total primary government	\$ 8,170,494	\$ (3,391,806)	\$ 6,321,391	\$ 1,518,481	\$ 6,092,430	\$ 6,806,124	\$ 3,304,451	\$ 5,669,310	\$ 14,178,308	\$ 11,052,270

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>
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	-	5,934,516
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
2013	5,437,863	3,738,511	559,534	425,816	139,526	643,495	140	-	10,944,885
2014	6,518,249	3,759,584	570,954	445,132	138,204	614,278	75	-	12,046,475
2015	6,797,757	3,950,750	600,015	451,719	138,298	681,419	84	-	12,620,043

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

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General fund										
Restricted	\$ -	\$ -	\$ -	\$ 501,932	\$ 2,723,595	\$ 5,014,205	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000
Unassigned	1,087,642	1,703,619	1,083,383	1,574,743	1,985,914	2,145,950	3,295,547	3,447,451	3,449,523	3,992,803
Total general fund	<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>	<u>\$ 10,447,451</u>	<u>\$ 10,449,523</u>	<u>\$ 10,992,803</u>
All other governmental funds										
Restricted										
Debt Service - Other Gov. Funds	\$ 235,348	\$ 456,957	\$ 470,671	\$ 350,987	\$ 351,008	\$ 350,020	\$ 325,214	\$ 339,308	\$ 357,156	\$ 348,720
Road Maint & Const. - Other Gov. Funds	-	-	-	-	-	-	-	274,746	46,007	105,947
Construction - Capital Projects	-	-	-	-	-	-	-	1,154,000	1,154,000	1,154,000
Assigned, reported in:										
Other Governmental Funds	257,881	311,553	66,907	59,142	127,419	167,786	1,029,075	1,252,213	851,448	826,435
Capital Projects Funds	263,202	3,892,524	2,070,337	550,369	362,354	675,799	-	58,625	1,956,986	4,398,406
Unassigned										
Capital projects funds	-	-	-	-	-	-	(1,069,424)	181,085	-	-
Total all other governmental funds	<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>	<u>\$ 3,259,977</u>	<u>\$ 4,365,597</u>	<u>\$ 6,833,508</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									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
REVENUES										
Local taxes	\$ 3,827,564	\$ 4,522,164	\$ 5,669,358	\$ 6,938,380	\$ 10,292,352	\$ 10,190,500	\$ 10,609,364	\$ 10,944,885	\$ 12,046,399	\$ 12,620,043
Licenses and permits	3,401,207	2,996,213	2,729,209	2,058,105	2,178,982	2,295,795	2,612,793	2,731,766	3,000,673	3,306,620
Fines and forfeitures	354,504	362,441	252,838	224,022	261,070	241,104	289,432	291,749	285,573	278,837
Intergovernmental	7,319,833	3,167,141	1,826,517	837,246	547,556	345,966	667,344	1,022,649	991,614	639,523
Contribution from Public Library Bd	1,128,850	685,003	208,931	71,000	65,000	183,285	1,000	1,500	-	-
Interest and rents	394,009	377,743	340,530	225,861	239,256	249,489	226,748	253,003	239,205	228,669
Charges for services	1,577,409	4,149,905	4,610,307	4,450,711	4,450,535	4,479,749	5,096,593	5,317,255	5,165,291	5,395,287
Assessments	39,199	1,831	-	-	-	-	3,659	-	-	-
Golf course revenue	-	-	-	959,730	858,237	1,020,250	1,001,627	1,113,277	1,067,593	1,137,114
Recreation Department	-	-	-	-	-	369,135	368,493	391,024	436,453	444,410
BP settlement proceeds	-	-	-	-	-	-	-	-	-	1,361,255
Legal settlement	-	-	-	-	-	-	-	-	-	598,640
Other	343,588	492,419	411,179	277,015	1,705,991	170,422	184,411	253,146	196,913	180,644
Total revenues	18,386,163	16,754,860	16,048,869	16,042,070	20,598,979	19,545,695	21,061,464	22,320,254	23,429,714	26,191,042
EXPENDITURES										
General government	2,731,819	5,090,777	6,318,322	5,948,479	6,279,197	5,335,143	7,026,721	6,862,394	8,311,150	8,289,346
Sanitation	960,328	1,254,694	1,405,774	1,475,035	1,758,543	1,745,785	1,607,918	1,643,715	1,673,938	1,598,404
Police	3,110,086	3,405,687	3,913,015	3,922,163	4,404,803	4,941,051	4,671,591	4,164,674	3,937,151	3,813,581
Fire	576,191	619,434	707,513	765,645	837,597	395,224	339,080	312,647	339,623	338,547
Airport	63,031	397,183	545,000	242,090	249,856	225,843	281,124	443,000	443,000	412,632
Street	3,580,189	2,552,328	2,554,959	2,704,242	2,797,566	2,639,416	3,872,517	2,358,383	2,705,732	2,382,418
Recreation	513,503	658,837	785,425	867,174	1,050,957	969,025	989,463	1,062,174	1,024,526	1,095,605
Adult recreation	277,808	328,744	431,481	409,494	553,125	577,015	525,212	543,109	566,000	581,338
Golf	-	-	-	1,303,135	1,094,604	1,113,178	863,593	907,216	901,085	987,957
Capital outlay	14,308,234	6,054,830	3,227,604	1,775,834	1,565,192	1,474,937	664,526	1,418,813	1,908,464	3,840,803
Debt service:										
Principal	835,627	4,412,690	2,424,796	863,329	1,047,483	831,483	4,804,960	1,485,545	2,894,540	483,780
Interest	482,436	532,687	802,140	809,715	704,043	666,652	616,221	508,483	465,409	374,479
Bond issuance costs	-	138,476	-	-	-	-	-	-	-	-
Public Library Board	336,823	396,000	504,560	530,000	565,000	565,000	600,000	630,000	674,100	714,100
Other	60,000	60,000	60,000	60,000	75,000	89,620	160,888	89,133	89,785	93,436
Total expenditures	27,836,075	25,902,367	23,680,589	21,667,335	22,982,966	21,569,372	27,023,814	22,429,286	25,934,503	25,006,426
Excess (deficiency) of revenues over expenditures	(9,449,912)	(9,147,507)	(7,631,720)	(5,625,265)	(2,383,987)	(2,023,677)	(5,962,350)	(109,032)	(2,504,789)	1,184,616
OTHER FINANCING SOURCES (USES)										
Transfers in	5,325,589	4,897,503	5,228,182	9,542,134	6,541,730	6,557,708	10,379,818	7,236,241	9,640,199	7,272,735
Proceeds from issuance of debt	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	(1,537,590)	(877,457)	(1,569,814)	(1,158,102)	(1,644,626)	(1,730,561)	(6,206,016)	(3,999,990)	(6,027,718)	(5,446,160)
Total other financing sources (uses)	8,157,999	13,668,090	4,958,368	4,971,140	4,897,104	4,827,147	8,189,002	3,236,251	3,612,481	1,826,575
Net change in fund balance	\$ (1,291,913)	\$ 4,520,583	\$ (2,673,352)	\$ (654,125)	\$ 2,513,117	\$ 2,803,470	\$ 2,226,652	\$ 3,127,219	\$ 1,107,692	\$ 3,011,191
Debt service as a percentage of noncapital expenditures	9.7%	24.9%	15.8%	8.4%	8.2%	7.5%	20.6%	9.5%	14.0%	4.1%

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

<u>Fiscal Year Ended September 30</u>	<u>Residential Property</u>	<u>Commercial Property</u>	<u>Industrial Property</u>	<u>Less: Tax Exempt Real Property</u>	<u>Total Taxable Assessed Value</u>	<u>Total Direct Tax Rate</u>	<u>Estimated Actual Taxable Value</u>
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
2013	142,695,840	1,188,460	189,033,860	64,091,460	268,826,700	15	4,032,400,500
2014	146,270,400	1,188,460	195,105,420	67,346,480	275,217,800	15	4,128,267,000
2015	173,467,000	1,448,760	185,206,880	56,434,980	303,687,660	15	4,555,314,900

Source: Baldwin County Revenue Commissioner

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

Fiscal Year	City				Overlapping Rates							Total Direct & Overlapping Rates			
	General Millage	School Millage	Bond Tax Millage	Total City Millage	County				State						
					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	
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
2013	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
2014	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
2015	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 TEN YEARS AGO

Taxpayer	2015			2006		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
FST Wal-mart Stores East L P	\$ 2,979,840	1	1.0%			
Arbor Gates LLC	2,098,340	2	0.7%	\$ 2,843,440	1	1.5%
Fairhope LLC	1,802,480	3	0.6%			
FST Mississippi Baldwin Square	1,542,540	4	0.5%			
Truland Homes LLC	1,385,300	5	0.5%			
FST Fairhope Hospitality Group LLC	1,375,540	6	0.5%			
Fairhope Ridge LLC	1,318,720	7	0.4%			
Bones Set Too LLC	1,184,240	8	0.4%			
CHS Properties Inc	1,115,140	9	0.4%	1,291,980	6	0.7%
Health Care Reit Inc	1,102,240	10	0.4%			
FST E&A Southeast Limited Partnership				2,526,220	2	1.3%
AI Corte Jr Family Limited Partnership				1,566,120	3	0.8%
Adams Homes LLC				1,412,820	4	0.7%
Bellsouth Telecommunications Inc				1,300,400	5	0.7%
CHS Properties Inc				1,067,360	7	0.6%
Duck Duck Goose Inc				915,000	8	0.5%
Fairhope Mob, LLC				876,240	9	0.5%
FST Greeno Properties North II LTD				813,760	10	0.4%
	<u>\$ 15,904,380</u>		<u>5.2%</u>	<u>\$ 14,613,340</u>		<u>7.6%</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
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%	673,667	4,000,708	92.15%
2013	4,032,401	3,590,944	89.05%	414,166	4,005,110	99.32%
2014	4,128,267	3,834,734	92.89%	175,177	4,009,911	97.13%
2015	4,556,121	4,123,187	90.50%	74,801	4,197,988	92.14%

Source: Baldwin County Revenue Commissioner.

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

<u>Fiscal Year</u>	<u>City Direct Rate</u>	<u>Baldwin County</u>	<u>State of Alabama</u>
2012	2.00%	3.00%	4.00%
2013	2.00%	3.00%	4.00%
2014	2.00%	3.00%	4.00%
2015	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 TAX REMITTERS
LAST SIX YEARS

	<u>Top 25 Taxpayers</u> <u>(approximate)</u>		<u>Total Tax</u>	<u>% of Total Tax</u>
2010	\$ 2,124,169	\$	4,443,325	48%
2011	2,502,259		4,591,088	55%
2012	2,525,722		4,855,972	52%
2013	2,641,175		5,437,863	49%
2014	3,673,425		6,518,249	56%
2015	3,624,562		6,733,115	54%

Source: City Treasurer's Office and AL Dept of Revenue

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			
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	8.07%	2,279
2013	12,682,152	-	-	209,680	21,636,094	-	-	34,527,926	6.93%	2,107
2014	9,789,376	-	-	5,904,220	20,571,057	-	-	36,264,653	6.23%	2,159
2015	9,307,360	-	-	4,743,000	16,574,669	-	-	30,625,029	4.87%	1,693

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>
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	3.03%	856
2013	12,891,832	339,308	12,552,524	2.52%	766
2014	15,693,596	357,156	15,336,440	2.64%	913
2015	14,050,360	348,720	13,701,640	2.18%	757

CITY OF FAIRHOPE, ALABAMA
COMPUTATION OF OVERLAPPING DEBT
SEPTEMBER 30, 2015

	<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	\$ 9,307,360	100.00%	\$ 9,307,360
Overlapping Debt (Supported by ad valorem tax) Baldwin County	\$ 99,255,236	8.04% ⁽¹⁾	<u>7,980,121</u>
			<u>\$ 17,287,481</u>

(1) Percentage of net assessed value of property in City (\$303,687,660) to net assessed value of property in Baldwin County (\$3,778,576,700) on 10/1/2014.

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

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Debt limit	\$38,626,776	\$44,849,472	\$65,580,788	\$66,115,436	\$63,625,408	\$58,343,880	\$57,884,120	\$ 53,765,340	\$ 55,043,560	\$ 60,737,532
Total net debt applicable to limit	<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>	<u>12,924,616</u>	<u>15,724,616</u>	<u>14,079,616</u>
Legal debt margin	<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>	<u>\$ 40,840,724</u>	<u>\$39,318,944</u>	<u>\$46,657,916</u>
Total net debt applicable to limit as a percentage of debt limit	34.64%	41.61%	26.77%	25.82%	25.20%	26.07%	24.92%	24.04%	28.57%	23.18%

Legal Debt Margin Calculation for Fiscal Year 2014

Total assessed value	\$ <u>303,687,660</u>
Debt limit (20% of total assessed value)	<u>60,737,532</u>
Debt applicable to limit:	
General obligation warrants	14,079,616
Notes payable	-
Total net debt applicable to limit	<u>14,079,616</u>
Legal debt margin	\$ <u>46,657,916</u>

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

<u>Fiscal Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>	<u>School Enrollment</u>	<u>Unemployment Rate</u>
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	16,479	465,548,229	28,251	4,487	7.1%
2013	16,385	497,890,995	30,387	4,526	6.1%
2014	16,794	581,996,070	34,655	4,734	5.8%
2015	18,089	628,773,640	34,760	4,995	5.4%

Sources: U.S. Census Bureau
Sperling's Best Places Website
State of Alabama Department of Industrial Relations
Eastern Shore Chamber of Commerce
Baldwin County Board of Education
www.schooldigger.com

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

Employer	2015			2006		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Thomas Hospital	1,000	1	14.6%	1,210	1	19.4%
Grand Hotel	500	2	7.3%	650	2	10.4%
City of Fairhope	418	3	6.1%	366	3	5.9%
Wal-Mart	320	4	4.7%			
Publix	165	5	2.4%			
Winn-Dixie	155	7	2.3%	80	5	1.3%
Segers Aero Corporation	130	6	1.9%			
Piggly Wiggly	65	8	0.9%			
Balloons Everywhere	60	9	0.9%	60	7	1.0%
Print Xcel (formerly Poser Business Forms)	50	10	0.7%			
Bruno's				83	4	1.3%
Rock Creek				70	6	1.1%
Food World				63	8	1.0%
Seton Home Health				55	9	0.9%
	2,863		41.7%	2,637		42.4%

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

Additional 2006 employment data is not available.

NOTE: Total city employment number represents people residing in COF that are employed (place of residence) rather than employment for COF businesses

2006: 6,431 2015: 7,450

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,									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Government	58	61	62	54	55	53	53	48	48	49
Public Safety										
Police	40	41	42	51	48	48	44	48	46	46
Fire										
Firefighters and Dispatch	9	9	14	13	13	17	18	17	18	17
Highways and Streets										
Public Works	27	29	28	37	37	35	36	39	39	41
Sanitation	25	22	20	21	20	20	19	17	21	22
Culture and Recreation										
Recreation	8	8	9	18	18	19	19	24	23	25
Adult Recreation	1	3	6	10	13	14	14	9	10	11
Gas Department	16	16	19	18	18	18	18	17	15	15
Electric Department	17	20	19	17	17	17	18	17	22	21
Water/Waste Water Department	24	24	25	23	23	24	26	24	23	23
Golf Department	12	13	13	19	19	16	14	15	16	18
Total	<u>237</u>	<u>246</u>	<u>257</u>	<u>281</u>	<u>281</u>	<u>281</u>	<u>279</u>	<u>275</u>	<u>281</u>	<u>288</u>

Source: City of Fairhope Human Resources Department

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

Function	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Police										
Physical arrests	1,255	1,710	1,131	993	833	1,134	603	759	750	1,423
Parking violations	56	13	71	285	201	163	128	22	49	121
Traffic violations	2,589	1,516	996	1,004	1,245	1,419	2,215	1,379	887	633
Fire										
Number of calls answered	381	339	432	427	658	801	657	690	853	836
Inspections	463	282	196	382	291	143	101	85	35	161
Highways and streets										
Street resurfacing (miles)	2.30	-	-	1.5	-	-	8.1	-	-	-
Potholes repaired	312	312	414	384	400	425	450	1,345	1,480	1,620
Sanitation										
Garbage collected (tons/year)	7,200	8,246	7,520	7,782	8,627	9,100	8,711	7,564	8,509	8,236
Trash collected (tons/year)	4,845	5,213	5,915	5,744	7,385	6,487	5,767	5,513	6,292	5,545
Recyclables collected (tons/year)	1,959	2,131	1,989	1,297	1,281	1,495	1,508	1,512	1,714	1,779
Culture and recreation										
Golf course rounds @ 9 hole rounds	93,082	92,702	88,475	53,755	62,720	61,283	65,500	62,266	59,261	57,405
Pavilion/park parties	59	74	88	84	80	64	56	58	61	59
Waste water										
Average daily sewage treatment (millions of gallons)	1.6	1.7	1.7	1.7	1.8	1.8	1.8	1.8	1.8	2.0

Sources: Various government departments

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

Function	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Public safety										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	33	35	36	40	45	45	45	43	37	38
Fire stations	3	3	3	3	3	3	3	3	3	4
Highways and streets										
Streets (miles)	89.7	89.7	98.1	98.1	98.1	98.1	99.1	99.1	103.84	106.54
Culture and recreation										
Parks acreage	168	208	208	208	248	248	248	248	356	504
Parks	46	50	50	50	51	51	51	51	52	54
Swimming pools	2	3	3	3	3	3	3	3	3	3
Tennis courts	4	6	6	6	6	6	6	6	6	6
Community center	2	2	1	3	3	3	3	3	3	3
Sewer										
Sanitary sewers (miles)	119	120	121	121	125	125	125	126	126	130
Storm sewers (miles)	14.05	15.55	16.75	16.75	16.75	16.75	17.25	17.25	19.17	20.57
Maximum daily treatment capacity (millions of gallons)	4	4	4	4	4	4	4	4	4	4

Sources: Various government departments

COMPLIANCE SECTION

Shareholders

J. Earl Blackburn, Jr., CPA
B. Vance Kilgore, CPA
Sally S. Wagner, CPA
Dennis E. Sherrin, CPA

Principals

Rachel M. Godwin, CPA
G. Allen Cave, CPA

Of Counsel

Xavier A. Hartmann, III, CPA
Rucker T. Taylor, III, CPA



Certified Public Accountants & Consultants

Hartmann, Blackmon & Kilgore, P.C.

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Fairhope, Alabama 36532

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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, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of as of and for the year ended , and the related notes to the financial statements, which collectively comprise the City of Fairhope, Alabama's basic financial statements, and have issued our report thereon dated January 15, 2016.

Internal Control over Financial Reporting

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

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

Our consideration of 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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



Certified Public Accountants

January 21, 2016
Fairhope, Alabama

Shareholders

J. Earl Blackmon, Jr., CPA
B. Vance Kilgore, CPA
Sally S. Wagner, CPA
Dennis E. Sherrin, CPA

Principals

Rachel M. Godwin, CPA
G. Allen Cave, CPA

Of Counsel

Xavier A. Hartmann, III, CPA
Rucker T. Taylor, III, CPA



Certified Public Accountants & Consultants

Hartmann, Blackmon & Kilgore, P.C.

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the City of Fairhope, Alabama with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the entity's management.

Auditors' Responsibility

Our responsibility is to express an opinion on the City's compliance with the applicable compliance requirements based on our compliance audit.

We conducted our compliance audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and Circular A-133 require that we plan and perform the compliance audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. A compliance audit includes examining, on a test basis, evidence about The City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our compliance audit provides a reasonable basis for our opinion. Our compliance audit does not provide a legal determination on the City's compliance with those requirements.

Opinion

In our opinion, the City of Fairhope, Alabama complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our compliance audit, we considered The City's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing our compliance auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

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

Restricted Use

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

Hartmann, Bladman & Kilgus, P.C.
Certified Public Accountants

January 15, 2016
Fairhope, Alabama

CITY OF FAIRHOPE, ALABAMA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Identification Number	Expenditures
Department of Homeland Security		
Distaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 341,546
Department of Agriculture		
Emergency Watershed Protection Program	10.923	295,748
Department of Transportation		
Airport Improvement Program	20.106	<u>877,725</u>
		<u>\$ 1,515,019</u>

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures and federal awards includes the federal grant activity of the City of Fairhope, Alabama and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of the general purpose financial statements.

CITY OF FAIRHOPE, ALABAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Section I: Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: ***unqualified***

Internal control over financial reporting:

Are any material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Is any noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Federal Awards

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

Internal control over major program compliance:

Are any material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Are any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, Section .510(a)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Identification of major programs:

Environmental Protection Agency Airport Improvement Program	CFDA Number 20.106
--	--------------------

CITY OF FAIRHOPE, ALABAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Section I: Summary of Auditor's Results (continued)

Enter the dollar threshold used to distinguish between Type A and Type B programs:	\$300,000	
Is the auditee qualified as a low risk auditee?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Section II: Financial Statement Findings

There are no such findings in the current year.

Section III: Federal Awards Findings

There are no such findings or questioned costs in the current year.