



**City of Fairhope, Alabama**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**CITY OF FAIRHOPE, ALABAMA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**  
**PREPARED BY:**  
**THE OFFICE OF THE FINANCE DIRECTOR**

**CITY OF FAIRHOPE, ALABAMA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**SEPTEMBER 30, 2016**

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## **INTRODUCTORY SECTION**



January 31, 2017

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

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*

The Comprehensive Annual Financial Report (CAFR) of the City of Fairhope, Alabama (the City) for the fiscal year ended September 30, 2016 is hereby transmitted.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Hartmann, Blackmon & Kilgore, P.C. has issued an unqualified (“clean”) opinion on the City’s financial statements for the year ended September 30, 2016. The independent auditors’ report is located at the front of the financial section of this report.

Management’s discussion and analysis (MD&A) immediately follows the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

### **Profile of the Government**

The City of Fairhope was incorporated in 1908 and currently services an estimated population of 18,730, and occupies approximately 12 square miles. The City is governed by a strong council-weak mayor form of government, with each 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

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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 5.3%, while the rate for the state as a whole was 5.9%.

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 2015, the City's median family income was \$61,489, while the State's was \$43,623. According to the U.S. Census Bureau, as of 2015, the median value of the City's owner-occupied housing units was \$238,800.



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. Airbus USA opened its \$600 million facility at the Mobile Aeroplex at Brookley in Mobile and made its first deliveries in 2016. Austal Shipbuilding is Mobile's largest manufacturing employer, and now employs over 4,000 people. The Fairhope Airport Authority, the Baldwin County Public School System, and Faulkner State Community College have partnered together to offer high school students and adults courses in Aviation, Industrial Maintenance and Welding. The Academy at the Fairhope Airport will provide critical training to supply local business and industry.

Due to its strong and healthy local economy, the City has maintained a credit rating of AA+ from Standard & Poors since 2014. The rating 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-america-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](http://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 4<sup>th</sup> in the Top 10 states for doing business. (Baldwin Insider Quarterly, Vol. 1V, 2014).

### **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 \$3,629,943 which represents 14% 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 can 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 named by Coastal Living magazine as the 4th happiest seaside town in America for 2016. To choose the 2016 winners, Coastal Living editors reviewed more than 300 locations and selected each town's rank based on the Gallup-Healthways Well-Being Index, percentage of sunny days, air quality, healthiness of beaches, commute times, crime ratings, walkability, standard of living, and financial well-being of the locals, and geographic diversity.

The Fairhope Water Resource Recovery Facility was featured in the Water & Waste Digest magazine for winning the Top Project of the Year award for 2016. In addition, in 2016, the Facility was given special recognition from the Partners for Environmental Program for the \$11.8 million project which upgraded the facility. These upgrades not only addressed the current needs of the city, but also looked forward to the future to address nutrient removal and enhance effluent quality through filtration.

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. Improvements expected to be completed in the next year include library building repairs, new sidewalks, drainage improvements, completion of the new soccer complex and its restroom facilities, and lighting at the new tennis courts.

### **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.

### **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, 2015. 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**

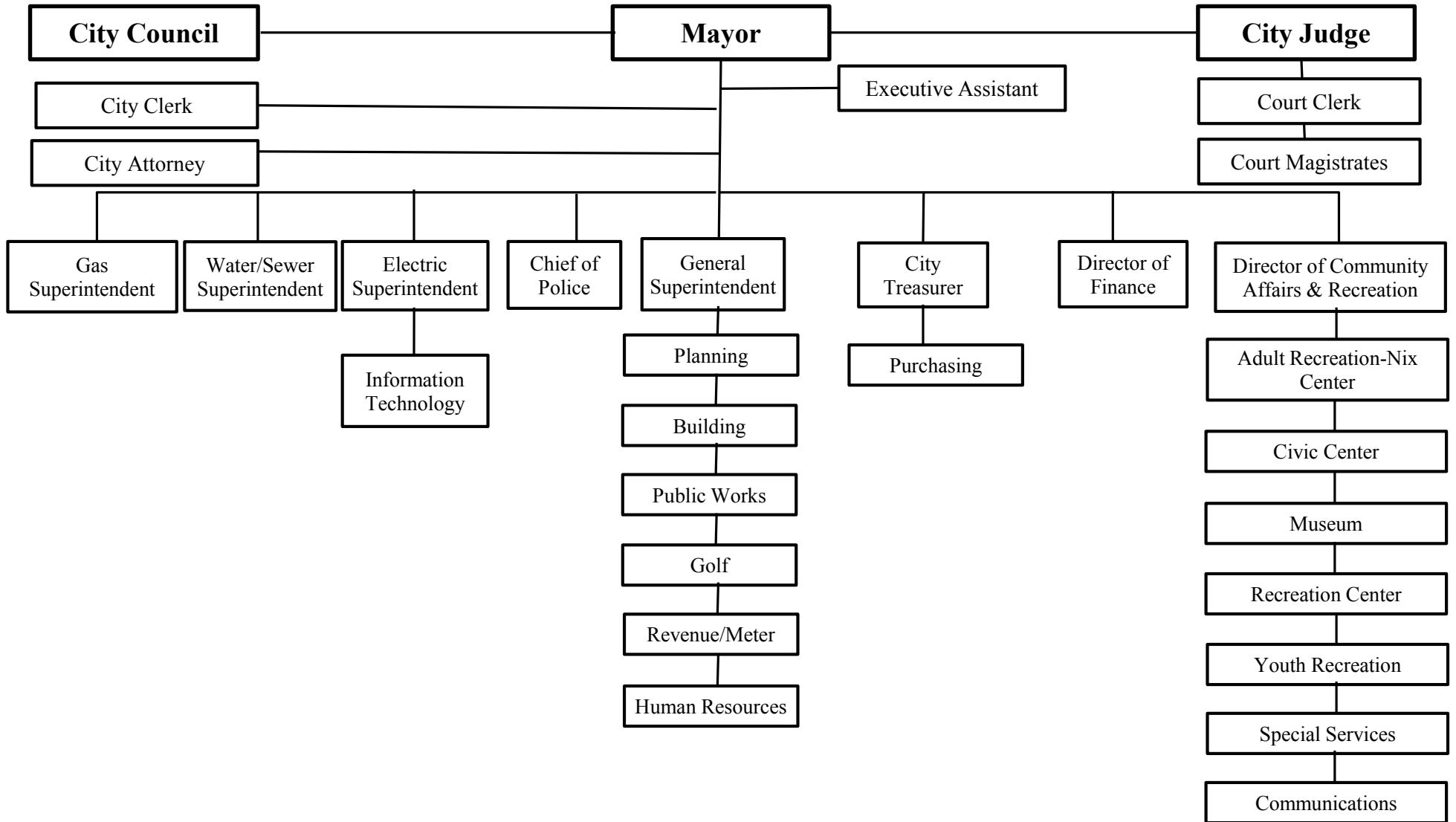
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**September 30, 2015**

A handwritten signature in black ink, which appears to read "Jeffrey R. Egan". The signature is written in a cursive, flowing style.

Executive Director/CEO

CITY OF FAIRHOPE, ALABAMA  
ORGANIZATIONAL CHART  
SEPTEMBER 30, 2016



**CITY OF FAIRHOPE, ALABAMA**  
**CITY ELECTED AND APPOINTED OFFICIALS**  
**SEPTEMBER 30, 2016**

Timothy M. Kant, ACOMO	Mayor
Michael A. Ford, ACOMO	Councilmember
Kevin Boone	Councilmember
Diana J. Brewer	Councilmember
Jack Burrell, CMO	Councilmember
Rich Mueller	Councilmember
Lisa Hanks	City Clerk
Deborah A. Smith, CPA	City Treasurer
Joseph Petties	Police Chief
Marion E. Wynne, Jr.	City Attorney
Honorable Haymes Snedeker	City Judge

## **FINANCIAL SECTION**

## SHAREHOLDERS

J. Earl Blackmon, Jr., CPA  
B. Vance Kilgore, CPA  
Dennis E. Sherrin, CPA  
G. Allen Cave, Jr., CPA  
Rachel M. Godwin, CPA



**Hartmann, Blackmon & Kilgore, P.C.**

Certified Public Accountants & Consultants

## OF COUNSEL

Xavier A. Hartmann, III, CPA  
Rucker T. Taylor, III, CPA  
Sally S. Wagner, CPA  
Jerry Gibbons, CPA

## INDEPENDENT AUDITORS' REPORT

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, 2016, 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, 2016, 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, Schedules of employer contributions, schedules of changes in the net pension liability, and analysis and budgetary comparison information



on pages 3-14 and 57-63 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 information in accordance with auditing standards generally accepted in the United States of America, which consisted 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 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.

**Other Reporting Required by Governmental Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2017, 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 31, 2017  
Fairhope, Alabama

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Fairhope, Alabama's (the "City") financial performance provides a narrative overview of the City's financial activities for the fiscal year ended September 30, 2016. 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 \$143,834,561, a current year increase in adjusted net position of \$8,352,598 (pages 15 and 16).
- At the close of the fiscal year, the City's combined governmental funds, including General, Capital Projects, Debt Service and Other Governmental Funds, reported ending fund balances totaling \$15,179,615, a decrease of \$2,646,696 from the prior year. The General Fund closed with a fund balance of \$10,629,943, a decrease of \$362,860. The reason for the decrease is from an additional principal debt payment paid during the year, as discussed below, as well as greater than anticipated transfers into Capital Projects for projects scheduled for the first part of fiscal year 2017. The Capital Projects Fund had a decrease in fund balance of \$3,033,702 after capital expenditures of \$5,683,964 and transfers from the General, Gas Tax, and Impact Fee Funds of \$2,525,068 (page 19). A detailed explanation of these decreases can be viewed on page six and seven of this MD&A.
- City wide, governmental and business type funds, cash (including restricted cash) totaled \$28,778,502, a decrease of \$999,204 from the previous year. Governmental Funds cash totaled \$14,853,892 at September 30, 2016 (page 15). This is a decrease of \$2,775,614 from the prior year. Most of the decrease was from a settlement related to the BP oil spill and past litigation totaling \$2 million received in the prior year that was not received in the current year. An increase in capital expenditures also contributed to this increase. The business type funds cash totaled \$13,924,610 at year end (page 21), an increase of \$1,776,410 from last year. Payments completed on sewer plant upgrades in the previous year provided more cash in the current year.
- Revenues in the governmental funds increased approximately \$575,000 from the previous year. Expenses increased approximately \$11 million. During fiscal 2016, revenues from the sales tax totaled \$7,422,726, an increase of approximately \$625,000 over the previous year. At year end, the General Fund's sales tax reserve totaled \$7 million with an additional \$3.6 million in unreserved.
- The combined governmental funds expended \$7,698,341 for capital projects and purchases, including \$5,683,964 for special projects, such as the Manley Road Soccer Complex as well as City wide street resurfacing, and \$2,014,377 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 \$7,063,257, compared to \$8,389,791 for fiscal 2015. Revenues decreased approximately \$1.1 million. Costs of energy and operating expenses increased about \$460,000. The utilities made transfers to the General Fund of \$2,951,082 from income, which is \$1,124,507 more than transfers last year. The business-type activities recorded an increase in net position, after transfers, of \$4,112,175 (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 \$14,438,391. The main factor contributing to this increase was the completion of the wastewater treatment plant upgrades totaling approximately \$12.2 million. The remaining increase was due to routine system improvements totaling \$1.5 million and vehicles and equipment of \$627,000. 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 \$4,239,616 during fiscal year 2016, yielding total outstanding debt of \$26,620,000 compared to the previous year's \$30,859,616. In fiscal year 2016, \$2 million was used for retiring and refunding of the 2007 General Obligation Warrants. Governmental activities total debt was \$6,833,058. Business-type activities total debt was \$19,786,942 (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 61.

Government Accounting Standards Statement 68, *Accounting and Financial Reporting for Pensions* (GASB 68), as discussed below, requires two additional schedules be presented starting on page 57.

### 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 \$143,834,561 at the close of the most recent fiscal year, as shown in **Figure 1**, page 10 and page 15. This is an increase of \$8,352,598.

The major factor contributing to this increase is the change in net position before transfers and investment earnings.

The largest portion of the City's net position, approximately 90 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 8.1 percent, represents resources that are subject to restrictions as to how they may be used. Funds restricted for debt service were \$3,423,754; for capital projects, \$1,154,000; for road maintenance and construction, \$35,936; for City Council determined emergencies, \$7,000,000. Restricted funds increased approximately \$386,000 from the previous year.

The unrestricted net position, approximately 1.9 percent, may be used to meet the City's ongoing obligations to citizens and creditors. Unrestricted net position, \$2,712,241, decreased \$845,234 during fiscal 2016 (pages 10 and 15).

Effective for year ended September 30, 2016, the City implemented Government Accounting Standards Statement 72, *Fair Value Measurement and Application* (GASB 72) and is discussed in detail in Note 23, page 56.

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 \$804,943. The current year retirement premium was \$376,496. The liability for OPEB obligation at year end was \$3,700,009. This amount is reported on the Statement of Net Position, page 15, as Net OPEB Obligation and on page 53, Note 18.

Under Government Accounting Standards Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), a service concession arrangement exists between the Airport Authority and the Baldwin County Board of Education (BCBOE) and three private companies. See Note 21, page 55 for detailed explanation of these agreements. At year end, the balance of this deferred inflow of resources is \$3,501,455.

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 loss on advance refunding of \$105,610, differences between expected and actual experiences of \$70,796, the net difference between projected and actual earnings on plan investments of \$928,340 and employer retirement contributions of \$1,161,190. There were no deferred inflows of resources at year end. These amounts are reported on the Statement of Net Position, page 15 and on page 49, Note 14.

Under 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.

**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, 2016, and the amounts of increases and decreases in relation to prior year revenues and expenditures.

Governmental activities revenues increased \$574,699 from the previous fiscal year. Expenditures of Governmental funds also increased \$11,332,092 for the same period. The following significant events, related to revenues and expense, occurred during fiscal 2016 (the figures are rounded):

#### Related to revenue:

- Taxes, property and local, were up \$985,000, with the majority of the increase from sales tax.
- Licenses and permits increased by \$289,000. This was primarily due to an increase in building permits of 23% over last year, signifying continual growth in the City.
- Intergovernmental increased \$54,000 due mainly to FEMA grant revenue that wasn't received in the prior year
- Interests and rents increased \$74,000 over last year due mainly to more rents received
- Charges for services were up \$1,110,000 due to an increase in utility collection fees, administrative services and impact fee revenue.
- Settlements from BP and for past litigation totaling \$2 million were received in the prior year that were not received this year
- Fines and forfeitures decreased \$42,000 from the prior year

#### Related to expenditure:

- Capital outlay expenditures were approximately \$7,698,000, up \$3,857,000 from the prior year. Expenditures of \$3,841,000 for fiscal 2015 included \$2,460,000 for special projects, including the Manley Road Soccer Complex and the Golf Course irrigation system, \$86,000 for impact fees fire projects and \$1,295,000 for vehicles, equipment and other infrastructure additions. Major capital expenditures for fiscal 2016 were: \$5,683,000 for special projects, including the Manley Road Soccer Complex and City wide street resurfacing, and \$2,014,000 for vehicles, equipment and other infrastructure additions.
- Expenditures in the General Department were \$449,000 more than last year due to an increase in salaries of \$188,000, medical insurance of \$87,000, and \$171,000 in required contribution OPEB.
- The Police Department had increases of \$309,000 due to a rise in salaries of \$311,000. This increase was a result of filled vacancies and the creation of two new positions.
- The Street Department's expenditures were up \$111,000 due to an increase in salaries of \$100,000. Filled vacancies and the creation of one additional position contributed to this increase.
- Expenditures in the Recreation Department were up \$173,000 from the prior year due to an increase in employee costs of \$133,000 and equipment and vehicle repair of \$38,000. Similar to the Police and Street Departments,

the increase in employee costs was due to filled vacancies and the creation of three new positions.

- The Golf Department's expenditures increased \$101,000 due to the hiring of two additional employees and an employee transfer from another department.
- The City's annual appropriation to the Fairhope Library was \$101,000 more than last year.
- Debt service payments, \$6,870,000, increased \$6 million from the previous year's \$858,000 total. This was due to advance refunding of the 2007 General Obligation Warrant in the amount of \$5,975,000.

### **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, Debt Service, and Other Governmental Funds totaled \$15,179,615, a decrease of \$2,646,696. This follows an increase in fund balances of \$3,011,191 the previous year. The General Fund had a fund balance of \$10,629,943, a decrease of \$362,860. The Capital Projects Fund had a decrease in fund balance of \$3,033,702 after \$3,217,692 for park, soccer, and recreation projects, \$229,548 for NRCS projects, City wide street projects such as road resurfacing, construction of a roundabout and drainage improvements totaling \$2,103,910, additional capital outlay of \$131,437 and transfers from the General, Gas Tax, and Impact Fee Funds of \$2,525,068.

Debt Service and the Other Governmental Funds had fund balances of \$2,030,968 at year end, including restrictions for Debt Service of \$516,120, an increase of \$167,400 and assigned funds reported in special revenue fund (Gas Tax and Impact Fees) of \$1,478,912, an increase of \$652,477 (see pages 17 and 19). 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 \$87,376,353, an increase of \$4,240,423. The Gas, Electric and Water and Waste Water Funds had a net position of \$56,458,208 at year end, an increase of \$4,112,175 (see pages 16 and 22). The increase in the previous year was \$4,328,378. The total increase of \$8,352,598 from last year to this year is due to an increase in the change in net position before transfers and investment earnings.

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 \$463,601. Expenditures for the General Fund were up \$2,143,463 from the prior year. Transfers from the proprietary funds (Gas, Electric, Water and Waste Water Funds) were \$2,951,081 for the current year, an increase of \$1,124,506 from the prior year. After transfers, the fund balance of the General Fund decreased by \$362,860 during fiscal 2016. The most significant revenue increase of \$984,752 was from local taxes, with the majority from sales tax. In addition, \$822,054 was from charges for services including utility collection fees, administrative services and sanitation collection. Another factor affecting fund balance of the General Fund was an increase in licenses and permits of \$289,429. Intergovernmental revenue increased \$230,700 over the prior year. Interest and rents increased \$73,471. Although revenue increases totaled approximately \$2.4 million, settlements from BP and past litigation totaling \$2 million were received in the prior year that were not received in the current year. The most significant increase related to General Fund expenditures was in capital outlay. This increase totaled \$719,152. In the General department, expenditures increased \$449,081 due to the rise in employee costs. The Police, Street, and Recreation departments all had increases due to filled vacancies and the creation of new positions. Increases were \$308,968, \$141,617, and \$173,468, respectively. Golf expenditures were up \$100,710 from the hiring of two additional employees and an employee transfer from another department. The annual appropriation to the Library was up \$100,500 from the prior year. The remaining difference was due to modest increases 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 \$1,081,394 from the prior fiscal year. This represented a 2.8% decrease. However, operating expenses increased by \$459,873, a 1.6% increase. Except for energy purchases for resale, which decreased \$1,674,221, all other operating expenses combined were up \$2,134,094 from the prior year. This increase was comprised of salaries of \$298,256, depreciation of \$455,463, insurance of \$430,632, electric energy furnished to other departments of \$30,735, maintenance of \$251,095, community development projects of \$11,388



and other operating expenses of \$656,525. 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 \$7,063,257, a decrease of \$1,326,534. Transfers to the General Fund were \$2,951,082, or 42% of income. For fiscal 2015 the transfers to the General Fund were \$1,826,575, or 22% of income. For fiscal 2014 the transfers were \$3,612,482 or 45%. The change in net position of the three utilities was an increase of \$4,112,175.

### **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 62 of this report lists the procedure for preparing the annual budgets. During the year, two amendments were made to the budget under expenditures affecting General government, streets, capital outlay, and transfers out. (page 61)

On page 61, 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 \$1,459,000 for fiscal 2016. Local taxes were \$635,000 over budget due primarily to greater than expected sales tax revenue. Licenses and permits were \$454,000 over budget. Of that amount, \$322,000 was from business licenses and building permits. Intergovernmental was \$294,000 over budget due primarily to greater than anticipated grant revenue. Recreation department revenue was \$59,000 over budget due primarily to an increase in memberships.

At year end, expenditures were \$918,000 over budget. General government was \$788,000 over budget due mainly to greater than anticipated medical insurance costs of \$665,000. The street department had an unfavorable variance of \$213,000 due to an increase in street materials and landscaping and equipment and vehicle repairs. The unfavorable variance in capital outlay of \$226,000 was mainly due to an unbudgeted purchase of land. In contrast, the sanitation department had a favorable variance of \$58,000 due to a budgeted purchase of recycle bins that did not occur. The favorable variance in police of \$186,000 was due to a decrease in salaries, general supplies, and less than anticipated gas and oil costs.

### **Capital Assets**

As of September 30, 2016, the City's governmental activities had \$90,378,964 invested in capital assets, net of depreciation. This is an increase of \$4,863,356 from the prior year. The business-type activities had invested capital assets, net of depreciation of \$65,696,892, a decrease of \$109,099 (see Note 3, Capital Assets, pages 36 and 37).

The City's governmental activities capital assets, at cost, were \$145,272,835 at September 30, 2016, an increase of \$7,910,844 from the prior year. The business-type activities, the Gas, Electric and Water and Waste Water Funds, had capital assets, at cost, of \$108,713,067, an increase of \$2.5 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, 2016, the City had long-term debt of \$26,620,000 (excluding premiums and discounts), including bonds and warrants payable, notes payable, and obligations under capital leases. This is a net decrease, city wide, of \$4,239,616 from the prior year. Governmental activities' decrease in long-term debt was \$2,503,558. In addition, business-type activities' decrease in long-term debt was \$1,736,058.

In June 2016, the City issued, at a favorable interest rate, General Obligation Warrants Series 2016 in the amount of \$3,975,000. The proceeds were used to advance refund the General Obligation Warrants Series 2007, dated June 1, 2007 in the amount of \$5,975,000. 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 \$2,424,000. 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 anticipates an increase in revenue for fiscal 2017 of \$1 million. Property taxes, local taxes, licenses and permits, and charges and services are expected to increase \$1,494,000. Transfers from the Impact Fee fund are expected to increase \$485,000 while transfers from the utilities are predicted to decrease \$992,000.

In addition, the General Fund has a \$3 million increase in expenses for fiscal 2017, compared to fiscal 2016. Half of the departments are expected to increase while the other half are expected to decrease. The department with the largest increase, \$903,000, is General Administrative. The major factor contributing to this increase is employee medical insurance of \$865,000, representing 96% of the increase. Secondly, transfers to debt service is expected to increase \$788,000 due to the scheduled payments on the 2016 General Obligation bonds as discussed above under debt administration. Several departments are anticipated to increase due mainly to the purchases of vehicles and equipment including Street, Sanitation, and Fire. Combined, all three departments show increases of \$1,475,000. Of this increase, \$1,353,000 is for purchases of vehicles and equipment.

Gas Fund, Electric Fund and Water and Waste Water Fund operations revenues are expected to increase 4% from actual amounts for 2016. Costs of energy and operating expenses in the three utilities are projected to also increase by approximately 4% from actual amounts for 2016.

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 \$7,498,836 for fiscal 2017, compared to actual \$7,175,543 for fiscal 2016. This represents a projected increase of 5%. Transfers to the General Fund for fiscal 2017 are projected to be \$2,425,789, compared to \$2,951,081 for 2016. This represents an 18% decrease. 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 9/30/2016**

**COMPONENT UNITS**

	GOVERNMENTAL ACTIVITIES		BUSINESS - TYPE ACTIVITIES		TOTAL PRIMARY GOVERNMENT		LIBRARY		AIRPORT AUTHORITY	
	9/30/2016	9/30/2015	9/30/2016	9/30/2015	9/30/2016	9/30/2015	9/30/2016	9/30/2015	9/30/2016	9/30/2015
Current & Other Assets	\$ 15,962,360	\$ 18,828,818	\$ 17,814,322	\$ 15,925,388	\$ 33,776,682	\$ 34,754,206	\$ 409,102	\$ 352,791	\$ 475,393	\$ 685,834
Capital Assets, net	90,378,964	85,515,608	65,696,892	65,805,991	156,075,856	151,321,599	78,780	90,103	26,929,333	26,304,654
<b>Total Assets</b>	<b>\$ 106,341,324</b>	<b>\$ 104,344,426</b>	<b>\$ 83,511,214</b>	<b>\$ 81,731,379</b>	<b>\$ 189,852,538</b>	<b>\$ 186,075,805</b>	<b>\$ 487,882</b>	<b>\$ 442,894</b>	<b>\$ 27,404,726</b>	<b>\$ 26,990,488</b>
Deferred loss on advance refunding	\$ -	\$ -	\$ 105,610	\$ -	\$ 105,610	\$ -	\$ -	\$ -	\$ -	\$ -
Differences between expected and actual experiences	\$ 55,084	\$ -	\$ 15,712	\$ -	\$ 70,796	\$ -	\$ -	\$ -	\$ -	\$ -
Net difference between projected and actual earnings on plan investments	\$ 731,750	\$ -	\$ 196,590	\$ -	\$ 928,340	\$ -	\$ -	\$ -	\$ -	\$ -
Employer retirement contributions:	\$ 901,965	\$ 789,153	\$ 259,225	\$ 244,008	\$ 1,161,190	\$ 1,033,161	\$ 63,192	\$ 43,472	\$ -	\$ -
<b>Total Deferred Outflows of Resources</b>	<b>\$ 1,688,799</b>	<b>\$ 789,153</b>	<b>\$ 577,137</b>	<b>\$ 244,008</b>	<b>\$ 2,265,936</b>	<b>\$ 1,033,161</b>	<b>\$ 63,192</b>	<b>\$ 43,472</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 108,030,123</b>	<b>\$ 105,133,579</b>	<b>\$ 84,088,351</b>	<b>\$ 81,975,387</b>	<b>\$ 192,118,474</b>	<b>\$ 187,108,966</b>	<b>\$ 551,074</b>	<b>\$ 486,366</b>	<b>\$ 27,404,726</b>	<b>\$ 26,990,488</b>
Long-Term Debt	\$ 6,134,395	\$ 9,509,538	\$ 18,160,870	\$ 20,052,497	\$ 24,295,265	\$ 29,562,035	\$ -	\$ -	\$ 7,140,629	\$ 7,730,629
Other Liabilities	14,519,374	11,853,663	9,469,273	9,380,684	23,988,647	21,234,347	370,410	333,671	305,000	2,968
<b>Total Liabilities</b>	<b>\$ 20,653,769</b>	<b>\$ 21,363,201</b>	<b>\$ 27,630,143</b>	<b>\$ 29,433,181</b>	<b>\$ 48,283,912</b>	<b>\$ 50,796,382</b>	<b>\$ 370,410</b>	<b>\$ 333,671</b>	<b>\$ 7,445,629</b>	<b>\$ 7,733,597</b>
Net difference between projected and actual earnings on plan investments	\$ -	\$ 634,448	\$ -	\$ 196,173	\$ -	\$ 830,621	\$ 6,579	\$ 21,582	\$ -	\$ -
Service concession arrangement revenue applicable in future years	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,476,340	\$ 3,612,604
<b>Total Deferred Inflows of Resources</b>	<b>\$ -</b>	<b>\$ 634,448</b>	<b>\$ -</b>	<b>\$ 196,173</b>	<b>\$ -</b>	<b>\$ 830,621</b>	<b>\$ 6,579</b>	<b>\$ 21,582</b>	<b>\$ 3,476,340</b>	<b>\$ 3,612,604</b>
Net Position:										
Invested in Capital Assets, net of related debt	\$ 83,545,906	\$ 76,208,248	\$ 45,962,724	\$ 44,488,322	\$ 129,508,630	\$ 120,696,570	\$ 78,780	\$ 90,103	\$ 19,483,704	\$ 18,574,024
Restricted	8,706,056	8,608,667	2,907,634	2,619,251	11,613,690	11,227,918	-	-	261,149	364,946
Unrestricted	(4,875,609)	(1,680,985)	7,587,850	5,238,460	2,712,241	3,557,475	95,305	41,010	(3,262,096)	(3,294,683)
<b>Total Net Position</b>	<b>87,376,353</b>	<b>83,135,930</b>	<b>56,458,208</b>	<b>52,346,033</b>	<b>143,834,561</b>	<b>135,481,963</b>	<b>174,085</b>	<b>131,113</b>	<b>16,482,757</b>	<b>15,644,287</b>
<b>Total Liabilities &amp; Net Position</b>	<b>\$ 108,030,122</b>	<b>\$ 105,133,579</b>	<b>\$ 84,088,351</b>	<b>\$ 81,975,387</b>	<b>\$ 192,118,473</b>	<b>\$ 187,108,966</b>	<b>\$ 551,074</b>	<b>\$ 486,366</b>	<b>\$ 27,404,726</b>	<b>\$ 26,990,488</b>

Figure 2

**CITY OF FAIRHOPE**  
**CONDENSED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED 9/30/2016**

**COMPONENT UNITS**

	GOVERNMENTAL ACTIVITIES		BUSINESS - TYPE ACTIVITIES		TOTAL PRIMARY GOVERNMENT		LIBRARY		AIRPORT AUTHORITY	
	9/30/2016	9/30/2015	9/30/2016	9/30/2015	9/30/2016	9/30/2015	9/30/2016	9/30/2015	9/30/2016	9/30/2015
Program Revenues										
Charges for Services	\$ 11,035,293	\$ 9,939,084	\$ 37,659,852	\$ 38,741,246	\$ 48,695,145	\$ 48,680,330	83,168	232,715	304,248	274,163
Operating Grants & Contributions							820,317	724,355	1,177,684	1,554,730
Capital Grants & Contributions	1,467,355	1,319,753			1,467,355	1,319,753				
General Revenues										
Taxes	13,604,794	12,620,043			13,604,794	12,620,043				
Intergovernmental	568,566	334,433			568,566	334,433				
BP settlement proceeds		1,361,255			0	0				
Legal settlement		598,640			0	0				
Investment Earnings	302,181	228,670	15,162	18,440	317,343	247,110			901	353
Gain (loss) on sale of Assets										
Other	147,452	106,502			147,452	106,502				
Total Revenues	\$ 27,125,641	\$ 26,508,380	\$ 37,675,014	\$ 38,759,686	\$ 64,800,655	\$ 63,308,171	\$ 903,485	\$ 957,070	\$ 1,482,833	\$ 1,829,246
Expenses										
General Government	\$ 9,828,668	\$ 8,890,052			\$ 9,828,668	\$ 8,890,052				
Sanitation	1,912,606	1,790,554			1,912,606	1,790,554				
Police	4,383,113	3,945,496			4,383,113	3,945,496				
Fire	489,989	424,789			489,989	424,789				
Airport	428,000	412,632			428,000	412,632				
Street	3,864,689	4,057,713			3,864,689	4,057,713				
Adult Recreation	756,407	665,804			756,407	665,804				
Recreation	1,545,115	1,328,674			1,545,115	1,328,674				
Golf	1,263,426	1,060,643			1,263,426	1,060,643				
Public Library Board	1,025,236	924,736			1,025,236	924,736				
Interest on Long Term Debt	339,051	344,808			339,051	344,808				
Electric			17,683,205	18,227,563	17,683,205	18,227,563				
Natural Gas			4,886,415	5,056,618	4,886,415	5,056,618				
Water and Wastewater			8,042,137	7,085,714	8,042,137	7,085,714				
Golf										
Airport Authority									644,363	653,258
Fairhope Public Library							860,513	737,178		
Total Expenses	\$ 25,836,300	\$ 23,845,901	\$ 30,611,757	\$ 30,369,895	\$ 56,448,057	\$ 54,215,796	\$ 860,513	\$ 737,178	\$ 644,363	\$ 653,258
Change in Net Position before transfers	1,289,341	2,662,479	7,063,257	8,389,791	8,352,598	11,052,270	42,972	219,892	838,470	1,175,988
Special Item - Trans of Golf to Governmental Activities										
Transfers	2,951,082	1,826,575	(2,951,082)	(1,826,575)						
Change in Net Position	4,240,423	4,489,054	4,112,175	6,563,216	8,352,598	11,052,270	42,972	219,892	838,470	1,175,988
Net Position, beginning, as adjusted	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
Prior period adjustment	-	(7,227,762.0)	-	(2,234,838)	-	(9,462,600)	-	(309,147)	-	-
Net Position, ending	\$ 87,376,353	\$ 83,135,930	\$ 56,458,208	\$ 52,346,033	\$ 143,834,561	\$ 135,481,963	\$ 174,085	\$ 131,113	\$ 16,482,757	\$ 15,644,287

Figure 3

**Statement of Revenues and Expenditures  
Governmental Funds  
For the Year Ended September 30, 2016**

<u>Revenues</u>	<u>9/30/2016 Total</u>	<u>9/30/2015 Total</u>	<u>Increase (Decrease)</u>
Local taxes	\$ 13,604,795	\$ 12,620,043	\$ 984,752
Licenses & Permits	3,596,049	3,306,620	289,429
Fines & Forfeitures	236,724	278,837	(42,113)
State of Alabama	335,881	254,608	81,273
U. S. Government	357,880	384,915	(27,035)
Contribution from Public Library Board	-	-	-
Interests and Rents	302,181	228,669	73,512
Charges for Service	6,504,860	5,395,287	1,109,573
Golf Course Revenue	1,127,306	1,137,114	(9,808)
Recreation Department	476,772	444,410	32,362
BP Settlement Proceeds	-	1,361,255	(1,361,255)
Legal Settlement	-	598,640	(598,640)
Other	223,293	180,644	42,649
Totals	<u>\$ 26,765,741</u>	<u>\$ 26,191,042</u>	<u>\$ 574,699</u>
<u>Expenditures</u>	<u>Total</u>	<u>Total</u>	<u>Increase (Decrease)</u>
General	\$ 8,738,427	\$ 8,289,346	\$ 449,081
Sanitation	1,624,642	1,598,404	26,238
Police	4,122,549	3,813,581	308,968
Fire	396,359	338,547	57,812
Airport	428,000	412,632	15,368
Street Department	2,493,708	2,382,418	111,290
Adult Recreation	631,887	581,338	50,549
Debt Service			
Principal	6,478,558	483,780	5,994,778
Interest	390,971	374,479	16,492
Recreation Department	1,269,073	1,095,605	173,468
Golf	1,088,667	987,957	100,710
Public Library Board	814,600	714,100	100,500
Other	162,736	93,436	69,300
Capital Outlay	7,698,341	3,840,803	3,857,538
Totals	<u>\$ 36,338,518</u>	<u>\$ 25,006,426</u>	<u>\$ 11,332,092</u>

Figure 4

**City of Fairhope  
Capital Assets**

<b><u>Governmental Activities</u></b>	<b>Balance @ 10/1/2015</b>	<b>Additions</b>	<b>Reclassifications/ Retirements</b>	<b>Balance @ 9/30/16</b>
Land	\$ 22,311,824	\$ 577,228	\$ -	\$ 22,889,052
Construction in Progress	-	4,784,919	-	4,784,919
Buildings & Structures	37,201,708	712,670	-	37,914,378
Vehicles and equipment	12,188,320	1,764,499	(177,497)	13,775,322
Infrastructure	65,660,139	249,025	-	65,909,164
<b>Total Capital Assets</b>	<b>\$ 137,361,991</b>	<b>\$ 8,088,341</b>	<b>\$ (177,497)</b>	<b>\$ 145,272,835</b>

<b><u>Business-type activities</u></b>	<b>Electric Fund</b>	<b>Natural Gas Fund</b>	<b>Water/Wastewater Fund</b>
Balance @ 10/01/15	\$ 35,097,600	\$ 16,202,350	\$ 54,877,182
Additions to Plant	652,834	428,533	12,711,304
Addition to land, buildings, vehicles and equipment	87,062	247,653	311,004
Completed Construction in Progress	-	-	(11,902,456)
Disposals	-	-	-
<b>Total Capital Assets @ 9/30/2016</b>	<b>\$ 35,837,496</b>	<b>\$ 16,878,536</b>	<b>\$ 55,997,035</b>

**Figure 5**

**City of Fairhope  
Debt Administration**

<u>LONG TERM DEBT</u>	<u>GOVERNMENTAL FUNDS</u>	<u>BUSINESS-TYPE ACTIVITIES</u>
General Obligation Warrants, 2011	\$ 2,858,058	\$ 131,942
General Obligation Warrants, 2007	3,975,000	-
Obligations under capital leases	-	-
Utilities Revenue Warrants, 2011	-	13,915,000
Utilities Revenue Warrants, 2015	-	1,780,000
Utilities Revenue Warrants, 2009	-	510,000
General Obligation Warrant, 2013	-	3,450,000
Compensated absences	<u>1,340,331</u>	<u>613,989</u>
TOTALS	\$ <u><u>8,173,389</u></u>	\$ <u><u>20,400,931</u></u>

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

## **BASIC FINANCIAL STATEMENTS**



**CITY OF FAIRHOPE, ALABAMA**

**STATEMENT OF NET POSITION  
SEPTEMBER 30, 2016**

	Governmental Fund Types			
	Governmental Activities	Business-type Activities	Total	Component Units
<b>ASSETS</b>				
Cash	\$ 14,337,772	\$ 11,016,976	\$ 25,354,748	\$ 739,286
Restricted cash	516,120	2,907,634	3,423,754	-
Receivables, net	949,045	2,634,801	3,583,846	145,209
Internal balances	124,497	(124,497)	-	-
Inventories	-	752,405	752,405	-
Other assets	34,926	627,003	661,929	-
Land and construction in progress	27,673,971	9,750,949	37,424,920	12,418,106
Capital assets, net	62,704,993	55,945,943	118,650,936	14,590,007
Total assets	<u>106,341,324</u>	<u>83,511,214</u>	<u>189,852,538</u>	<u>27,892,608</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred loss on advance refunding	-	105,610	105,610	-
Differences between expected and actual experiences	55,084	15,712	70,796	-
Net difference between projected and actual earnings on plan investments	731,750	196,590	928,340	23,712
Employer retirement contributions	901,965	259,225	1,161,190	39,480
Total deferred outflows of resources	<u>1,688,799</u>	<u>577,137</u>	<u>2,265,936</u>	<u>63,192</u>
Total assets and deferred outflows of resources	<u>\$ 108,030,123</u>	<u>\$ 84,088,351</u>	<u>\$ 192,118,474</u>	<u>\$ 27,955,800</u>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	\$ 737,393	\$ 1,699,276	\$ 2,436,669	\$ 4,357
Customer deposits	-	2,082,195	2,082,195	-
Long-term liabilities				
Due within one year	2,038,994	2,091,440	4,130,434	305,000
Due in more than one year	6,134,395	18,160,870	24,295,265	7,140,629
Net pension liability	8,917,041	2,722,299	11,639,340	366,053
Net OPEB obligation	2,825,946	874,063	3,700,009	-
Total liabilities	<u>20,653,769</u>	<u>27,630,143</u>	<u>48,283,912</u>	<u>7,816,039</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Net difference between projected and actual earnings on plan investments	-	-	-	6,579
Service concession arrangement revenue applicable to future years	-	-	-	3,476,340
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,482,919</u>
<b>NET POSITION</b>				
Net investment in capital assets	83,545,906	45,962,724	129,508,630	19,562,484
Restricted for:				
Debt service	516,120	2,907,634	3,423,754	-
Capital projects	1,154,000	-	1,154,000	261,149
Road maintenance and construction	35,936	-	35,936	-
Council approved emergencies	7,000,000	-	7,000,000	-
Unrestricted	(4,875,609)	7,587,850	2,712,241	(3,166,791)
Total net position	<u>87,376,353</u>	<u>56,458,208</u>	<u>143,834,561</u>	<u>16,656,842</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 108,030,122</u>	<u>\$ 84,088,351</u>	<u>\$ 192,118,473</u>	<u>\$ 27,955,800</u>

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

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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	Primary Government			
					Governmental Activities	Business-type Activities	Total	
<b>Primary Government</b>								
Governmental activities:								
General	\$ 9,828,668	\$ 7,837,796	\$ -	\$ -	\$ (1,990,872)		\$ (1,990,872)	
Sanitation	1,912,606	1,547,682	-	-	(364,924)		(364,924)	
Police	4,383,113	-	-	33,326	(4,349,787)		(4,349,787)	
Fire	489,989	-	-	183,767	(306,222)		(306,222)	
Airport Authority	428,000	-	-	-	(428,000)		(428,000)	
Street	3,864,689	-	-	729,430	(3,135,259)		(3,135,259)	
Adult Recreation	756,407	45,737	-	-	(710,670)		(710,670)	
Recreation	1,545,115	476,772	-	520,832	(547,511)		(547,511)	
Golf	1,263,426	1,127,306	-	-	(136,120)		(136,120)	
Public Library Board	1,025,236	-	-	-	(1,025,236)		(1,025,236)	
Interest on long term debt	339,051	-	-	-	(339,051)		(339,051)	
Total governmental activities	<u>25,836,300</u>	<u>11,035,293</u>	<u>-</u>	<u>1,467,355</u>	<u>(13,333,652)</u>		<u>(13,333,652)</u>	
Business-type activities								
Electric	17,683,205	20,218,941	-	-	-	\$ 2,535,736	2,535,736	
Natural gas	4,886,415	6,276,414	-	-	-	1,389,999	1,389,999	
Water and Waste water	8,042,137	11,164,497	-	-	-	3,122,360	3,122,360	
Total business-type activities	<u>30,611,757</u>	<u>37,659,852</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,048,095</u>	<u>7,048,095</u>	
Total primary government	<u>\$ 56,448,057</u>	<u>\$ 48,695,145</u>	<u>\$ -</u>	<u>\$ 1,467,355</u>	<u>(13,333,652)</u>	<u>7,048,095</u>	<u>(6,285,557)</u>	
Component Units	<u>\$ 1,504,876</u>	<u>\$ 387,416</u>	<u>\$ 1,998,001</u>	<u>\$ -</u>				<u>\$ 880,541</u>
General revenues:								
Property taxes					4,869,877	-	4,869,877	-
Sales tax					7,422,726	-	7,422,726	-
Liquor taxes					482,755	-	482,755	-
Lodging taxes					696,379	-	696,379	-
Other taxes					133,057	-	133,057	-
Intergovernmental					568,566	-	568,566	-
Investment earnings					302,181	15,162	317,343	901
Other					147,452	-	147,452	-
Transfers					2,951,082	(2,951,082)	-	-
Total general revenues and transfers					<u>17,574,075</u>	<u>(2,935,920)</u>	<u>14,638,155</u>	<u>901</u>
Change in net position					4,240,423	4,112,175	8,352,598	881,442
Net position, beginning					83,135,930	52,346,033	135,481,963	15,775,400
Net position, ending					<u>\$ 87,376,353</u>	<u>\$ 56,458,208</u>	<u>\$ 143,834,561</u>	<u>\$ 16,656,842</u>

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

**CITY OF FAIRHOPE**

**FUND BALANCE SHEETS  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2016**

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash	\$ 10,251,839	\$ 2,566,439	\$ 516,120	\$ 1,519,494	\$ 14,853,892
Receivables, net	923,193	-	25,617	235	949,045
Due from other funds	124,497	-	-	-	124,497
Other assets	34,926	-	-	-	34,926
Total assets	<u>\$ 11,334,455</u>	<u>\$ 2,566,439</u>	<u>\$ 541,737</u>	<u>\$ 1,519,729</u>	<u>\$ 15,962,360</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 613,009	\$ 47,735	\$ 25,617	\$ -	\$ 686,361
Accrued expenditures and taxes	69,153	-	-	-	69,153
Deferred revenue	22,349	-	-	-	22,349
Due to other funds	-	-	-	4,881	4,881
Total liabilities	<u>704,511</u>	<u>47,735</u>	<u>25,617</u>	<u>4,881</u>	<u>782,744</u>
<b>FUND BALANCES</b>					
Restricted for:					
Debt service	-	-	516,120	-	516,120
Council approved emergencies	7,000,000	-	-	-	7,000,000
Construction	-	1,154,000	-	-	1,154,000
Road maintenance and construction	-	-	-	35,936	35,936
Assigned to:					
Construction and road maintenance	-	1,364,704	-	1,478,912	2,843,616
Unassigned	3,629,943	-	-	-	3,629,943
Total fund balances	<u>10,629,943</u>	<u>2,518,704</u>	<u>516,120</u>	<u>1,514,848</u>	<u>15,179,615</u>
Total liabilities and fund balances	<u>\$ 11,334,454</u>	<u>\$ 2,566,439</u>	<u>\$ 541,737</u>	<u>\$ 1,519,729</u>	<u>\$ 15,962,359</u>

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

CITY OF FAIRHOPE, ALABAMA

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
SEPTEMBER 30, 2016

<b>Fund balances as reported on page 17</b>	\$ 15,179,615
Net position reported for governmental activities in the statement of net position is 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.	145,272,835
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.	(54,893,871)
Other long-term assets are not available to pay for current-period expenditures and therefore are unearned revenue in fund financial statements.	126,526
Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	
Deferred Outflow of Resources as related to Net Pension Liability and GASB Statement No. 68	1,688,799
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	(6,833,058)
Net Pension Liability	(8,917,041)
OPEB obligations	(2,825,946)
Deferred inflows of resources	-
Accrued interest on long-term debt is not due and payable in the current-period and therefore not included in fund financial statements.	(81,175)
Compensated absences not expected to be paid with current resources as determined under Governmental Accounting Standards are not reported in fund financial statements.	<u>(1,340,331)</u>
<b>Net position of governmental activities as reported on page 15</b>	<u><u>\$ 87,376,353</u></u>

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

**CITY OF FAIRHOPE, ALABAMA**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	General	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Local taxes	\$ 13,604,795	\$ -	\$ -	\$ -	\$ 13,604,795
Licenses and permits	3,596,049	-	-	-	3,596,049
Fines and forfeitures	236,724	-	-	-	236,724
Intergovernmental	474,866	125,194	-	93,701	693,761
Interest and rents	301,788	-	77	316	302,181
Charges for services	5,552,699	-	-	952,161	6,504,860
Golf course revenue	1,127,306	-	-	-	1,127,306
Recreation department	476,772	-	-	-	476,772
Other	223,293	-	-	-	223,293
Total revenues	<u>25,594,292</u>	<u>125,194</u>	<u>77</u>	<u>1,046,178</u>	<u>26,765,741</u>
<b>EXPENDITURES</b>					
General	8,738,427	-	-	-	8,738,427
Sanitation	1,624,642	-	-	-	1,624,642
Police	4,122,549	-	-	-	4,122,549
Fire	396,359	-	-	-	396,359
Airport	428,000	-	-	-	428,000
Street	2,493,708	-	-	-	2,493,708
Adult recreation	631,887	-	-	-	631,887
Recreation	1,269,073	-	-	-	1,269,073
Golf	1,088,667	-	-	-	1,088,667
Public Library Board	814,600	-	-	-	814,600
Other	89,000	-	30,024	43,712	162,736
Debt service payments					
Principal	-	-	6,478,558	-	6,478,558
Interest	-	-	390,971	-	390,971
Capital outlay	<u>2,014,377</u>	<u>5,683,964</u>	<u>-</u>	<u>-</u>	<u>7,698,341</u>
Total expenditures	<u>23,711,289</u>	<u>5,683,964</u>	<u>6,899,553</u>	<u>43,712</u>	<u>36,338,518</u>
Excess of Revenues over (under) Expenditures	1,883,003	(5,558,770)	(6,899,476)	1,002,466	(9,572,777)
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from issuance of debt	-	-	3,975,000	-	3,975,000
Transfers in	2,951,081	2,525,068	3,091,876	-	8,568,025
Transfers out	<u>(5,196,944)</u>	<u>-</u>	<u>-</u>	<u>(420,000)</u>	<u>(5,616,944)</u>
Total other financing sources (uses)	<u>(2,245,863)</u>	<u>2,525,068</u>	<u>7,066,876</u>	<u>(420,000)</u>	<u>6,926,081</u>
Net change in fund balances	(362,860)	(3,033,702)	167,400	582,466	(2,646,696)
Fund balances - beginning of year	<u>10,992,803</u>	<u>5,552,406</u>	<u>348,720</u>	<u>932,382</u>	<u>17,826,311</u>
<b>FUND BALANCES-END OF YEAR</b>	<u>\$ 10,629,943</u>	<u>\$ 2,518,704</u>	<u>\$ 516,120</u>	<u>\$ 1,514,848</u>	<u>\$ 15,179,615</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, 2016

Net change in fund balances - total governmental funds, page 19 \$ (2,646,696)

Amounts reported for governmental activities in the statement of activities are different from the statements of revenues, expenditures and changes in fund balances - governmental funds because:

Amortization of bond costs and discounts is not recorded in fund level statements. (22,606)

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

Capital outlays for the year	7,698,341
Depreciation expense for the year	(3,194,881)
Loss on assets disposed	(30,104)

Bond and other debt 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.

Principal payments on long term debt	6,478,558
Proceeds from the issuance of long term debt	(3,975,000)

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

Capital contributions for the year	390,000
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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

Change in deferred outflows - employer retirement contributions	899,646
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Some expenses reported in the statement of activities do not require the use of current resources and therefore are not reported as expenditures in governmental funds.

Decrease in compensated absences liability	(175,505)
Decrease in accrued interest payable	81,175
Change in net pension liability and deferred inflows of resources	(964,866)
Increase in OPEB liability	(297,639)

Change in net position of governmental activities, page 16 \$ 4,240,423

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

**CITY OF FAIRHOPE, ALABAMA**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2016**

	Major Funds			Total
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 5,350,797	\$ 3,688,294	\$ 1,977,885	\$ 11,016,976
Restricted cash for debt service	173,209	92,839	2,641,586	2,907,634
Receivables, net	2,619,036	2,145	13,620	2,634,801
Inventories	409,360	174,784	168,261	752,405
Prepaid expenses	23,327	2,722	6,479	32,528
Total current assets	<u>8,575,729</u>	<u>3,960,784</u>	<u>4,807,831</u>	<u>17,344,344</u>
Noncurrent assets				
Unamortized expense	-	-	558,385	558,385
Due from other funds	-	713,078	1,955,027	2,668,105
Other assets	12,030	12,030	12,030	36,090
Capital assets				
Distribution and collection systems	22,188,022	11,307,811	52,059,263	85,555,096
Buildings, vehicles and equipment	5,703,878	3,954,553	3,748,591	13,407,022
Land and construction in progress	7,945,595	1,616,172	189,182	9,750,949
Less accumulated depreciation	(13,851,582)	(7,383,615)	(21,780,978)	(43,016,175)
Total noncurrent assets	<u>21,997,943</u>	<u>10,220,029</u>	<u>36,741,500</u>	<u>68,959,472</u>
Total assets	<u>30,573,672</u>	<u>14,180,813</u>	<u>41,549,331</u>	<u>86,303,816</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred loss on advance refunding	-	-	105,610	105,610
Differences between expected and actual experience	322	4,210	11,180	15,712
Net difference between projected and actual earnings on plan investments	72,026	48,292	76,272	196,590
Employer retirement contributions	95,823	62,829	100,573	259,225
Total deferred outflows of resources	<u>168,171</u>	<u>115,331</u>	<u>293,635</u>	<u>577,137</u>
Total assets and deferred outflows of outflows of resources	<u>\$ 30,741,843</u>	<u>\$ 14,296,144</u>	<u>\$ 41,842,966</u>	<u>\$ 86,880,953</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable and accrued liabilities	\$ 1,209,130	\$ 291,777	\$ 198,369	\$ 1,699,276
Customer deposits	1,850,125	-	232,070	2,082,195
Warrants, notes and capital leases payable	1,225,187	34,557	831,696	2,091,440
Total current liabilities	<u>4,284,442</u>	<u>326,334</u>	<u>1,262,135</u>	<u>5,872,911</u>
Noncurrent liabilities				
Compensated absences	207,142	137,891	173,109	518,142
Warrants, notes and capital leases payable	2,852,089	407,632	14,383,007	17,642,728
Net pension liability	1,077,007	647,738	997,554	2,722,299
Net OPEB obligation	273,171	249,516	351,376	874,063
Due to other funds	2,747,033	11,753	33,816	2,792,602
Total noncurrent liabilities	<u>7,156,442</u>	<u>1,454,530</u>	<u>15,938,862</u>	<u>24,549,834</u>
Total liabilities	<u>11,440,884</u>	<u>1,780,864</u>	<u>17,200,997</u>	<u>30,422,745</u>
<b>NET POSITION</b>				
Net investment in capital assets net of related debt	17,908,637	9,052,732	19,001,355	45,962,724
Restricted for debt service	173,209	92,839	2,641,586	2,907,634
Unrestricted	1,219,113	3,369,709	2,999,028	7,587,850
Total net position	<u>19,300,959</u>	<u>12,515,280</u>	<u>24,641,969</u>	<u>56,458,208</u>
Total liabilities and net position	<u>\$ 30,741,843</u>	<u>\$ 14,296,144</u>	<u>\$ 41,842,966</u>	<u>\$ 86,880,953</u>

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, 2016

	Business Type Activities			
	Major Funds			Total
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
<b>OPERATING REVENUES</b>				
Sales and services	\$ 19,843,950	\$ 6,262,778	\$ 9,870,899	\$ 35,977,627
Other charges, sales and receipts	374,991	13,636	1,293,598	1,682,225
Total operating revenues	<u>20,218,941</u>	<u>6,276,414</u>	<u>11,164,497</u>	<u>37,659,852</u>
<b>OPERATING EXPENSES</b>				
Energy purchases and cost of goods sold	12,084,585	1,371,853	754,934	14,211,372
Salaries	881,096	517,770	1,103,769	2,502,635
Depreciation	799,601	456,800	1,388,632	2,645,033
Insurance	231,923	224,222	284,502	740,647
Electric energy furnished to other departments	1,122,052	-	-	1,122,052
Maintenance	635,344	149,154	1,529,665	2,314,163
Community development projects	81,430	488,554	282,616	852,600
Other operating expense	1,766,130	1,616,772	2,275,776	5,658,678
Total operating expenses	<u>17,602,161</u>	<u>4,825,125</u>	<u>7,619,894</u>	<u>30,047,180</u>
<b>OPERATING INCOME</b>	<u>2,616,780</u>	<u>1,451,289</u>	<u>3,544,603</u>	<u>7,612,672</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest expense	(81,044)	(16,290)	(422,243)	(519,577)
Interest income	5,339	9,147	676	15,162
Distribution of joint revenue (expense) – net	-	(45,000)	-	(45,000)
Total nonoperating revenues (expenses)	<u>(75,705)</u>	<u>(52,143)</u>	<u>(421,567)</u>	<u>(549,415)</u>
<b>INCOME BEFORE TRANSFERS AND OTHER ITEMS</b>	<u>2,541,075</u>	<u>1,399,146</u>	<u>3,123,036</u>	<u>7,063,257</u>
<b>TRANSFERS AND OTHER ITEMS</b>				
Transfers out	<u>(1,050,908)</u>	<u>(770,119)</u>	<u>(1,130,055)</u>	<u>(2,951,082)</u>
Total transfers (out)	<u>(1,050,908)</u>	<u>(770,119)</u>	<u>(1,130,055)</u>	<u>(2,951,082)</u>
Change in net position	1,490,167	629,027	1,992,981	4,112,175
NET POSITION – BEGINNING OF YEAR	<u>17,810,792</u>	<u>11,886,253</u>	<u>22,648,988</u>	<u>52,346,033</u>
<b>NET POSITION – END OF YEAR</b>	<u>\$ 19,300,959</u>	<u>\$ 12,515,280</u>	<u>\$ 24,641,969</u>	<u>\$ 56,458,208</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, 2016

	Business Type Activities			
	Major Funds			Total
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Received from customers	\$ 20,000,190	\$ 6,275,384	\$ 11,266,247	\$ 37,541,821
Paid to suppliers for goods and services	(16,318,644)	(3,976,136)	(5,233,745)	(25,528,525)
Paid to personnel for services	(881,096)	(517,770)	(1,103,769)	(2,502,635)
Net cash provided (used) by operating activities	<u>2,800,450</u>	<u>1,781,478</u>	<u>4,928,733</u>	<u>9,510,661</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Joint revenue	-	(45,000)	-	(45,000)
Interest income and joint revenue (expense)	5,339	9,147	676	15,162
Net cash provided (used) by investing activities	<u>5,339</u>	<u>(35,853)</u>	<u>676</u>	<u>(29,838)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Repayment of debt	(1,155,464)	(7,926)	(572,668)	(1,736,058)
Interest paid	(81,041)	(16,288)	(422,245)	(519,574)
Acquisition of capital assets	(739,898)	(676,186)	(1,119,851)	(2,535,935)
Net cash provided (used) by capital and related financing activities	<u>(1,976,403)</u>	<u>(700,400)</u>	<u>(2,114,764)</u>	<u>(4,791,567)</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Change in interfund receivable	-	(420,075)	(1,120,929)	(1,541,004)
Change in interfund payable	1,545,874	9,959	23,407	1,579,240
Transfers out	(1,050,908)	(770,119)	(1,130,055)	(2,951,082)
Net cash provided (used) by noncapital financing activities	<u>494,966</u>	<u>(1,180,235)</u>	<u>(2,227,577)</u>	<u>(2,912,846)</u>
INCREASE (DECREASE) IN CASH	1,324,352	(135,010)	587,068	1,776,410
Cash – beginning of year	<u>4,199,654</u>	<u>3,916,143</u>	<u>4,032,403</u>	<u>12,148,200</u>
CASH – END OF YEAR	<u>\$ 5,524,006</u>	<u>\$ 3,781,133</u>	<u>\$ 4,619,471</u>	<u>\$ 13,924,610</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>				
Income (loss) from operations	\$ 2,616,780	\$ 1,451,289	\$ 3,544,603	\$ 7,612,672
Adjustments to reconcile income from operations to net cash provided (used) by operating activities				
Depreciation	799,601	456,800	1,388,632	2,645,033
Amortization	-	-	37,744	37,744
Change in pension expense as related to GASB 68	(148,994)	(103,994)	(132,116)	(385,104)
Change in assets and liabilities				
Decrease (increase) in accounts receivable	(218,751)	(1,030)	101,752	(118,029)
Decrease (increase) in inventories	(63,875)	(8,495)	(4,200)	(76,570)
Decrease (increase) in prepaid expenses	12,114	1,111	1,227	14,452
Increase (decrease) in accounts payable	(455,236)	(153,509)	(303,571)	(912,316)
Increase (decrease) in customer deposits	29,387	-	74,520	103,907
Increase (decrease) in net pension liability	169,908	111,404	178,331	459,643
Increase (decrease) in compensated absences	30,619	7,674	8,580	46,873
Increase (decrease) in net OPEB obligation	28,897	20,228	33,231	82,356
Net cash provided (used) by operating activities	<u>\$ 2,800,450</u>	<u>\$ 1,781,478</u>	<u>\$ 4,928,733</u>	<u>\$ 9,510,661</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, 2016

	Governmental Activities		
	Public Library Board	Airport Authority	Total
<b>ASSETS</b>			
Cash	\$ 409,102	\$ 330,184	\$ 739,286
Grants receivable	-	145,209	145,209
Land and construction in progress	-	12,418,106	12,418,106
Capital assets, net	78,780	14,511,227	14,590,007
Total assets	487,882	27,404,726	27,892,608
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Employer retirement contributions	63,192	-	63,192
Total deferred inflows of resources	63,192	-	63,192
Total assets and deferred outflows of resources	\$ 551,074	\$ 27,404,726	\$ 27,955,800
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 4,357	\$ -	\$ 4,357
Long-term liabilities			
Due within one year	-	305,000	305,000
Due in more than one year	-	7,140,629	7,140,629
Net pension liability	366,053	-	366,053
Total liabilities	370,410	7,445,629	7,816,039
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Net difference between projected and actual earnings on plan investments	6,579	-	6,579
Service concession arrangement revenue applicable to future years	-	3,476,340	3,476,340
Total deferred inflows of resources	6,579	3,476,340	3,482,919
<b>NET POSITION</b>			
Net investment in capital assets	78,780	19,483,704	19,562,484
Restricted for:			
Capital projects	-	261,149	261,149
Unrestricted	95,305	(3,262,096)	(3,166,791)
Total net position	174,085	16,482,757	16,656,842
Total liabilities, deferred inflows of resources, and net position	\$ 551,074	\$ 27,404,726	\$ 27,955,800

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, 2016

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	\$ 644,363	\$ 304,248	\$ 1,177,684	\$ -	\$ -	\$ 837,569	\$ 837,569
Public Library Board	860,513	83,168	820,317	-	42,972	-	42,972
	<u>\$ 1,504,876</u>	<u>\$ 387,416</u>	<u>\$ 1,998,001</u>	<u>\$ -</u>	<u>42,972</u>	<u>837,569</u>	<u>880,541</u>
General revenues:							
Investment earnings					-	901	901
Total general revenues					-	901	901
Change in net position					42,972	838,470	881,442
Net position, beginning					131,113	15,644,287	15,775,400
Net position, ending					<u>\$ 174,085</u>	<u>\$ 16,482,757</u>	<u>\$ 16,656,842</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, 2016**

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, 2016**

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, 2016**

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 utilities are provided to residents in and around the City of Fairhope. Enterprise Funds are used to account for operations which are financed or operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered through user charges and fees. Operating revenues, shown for proprietary operations, generally result from producing or providing goods and services. Operating expenses include all costs related to providing services or products. All other revenues or expenses not meeting these criteria are reported as 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	75 years

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

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, 2016.

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, 2016, 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, 2016.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

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 position by the City that are applicable to a future reporting period.

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

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

*Inflows of resources* are acquisitions of net position 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 for more information.

During the year ended September 30, 2016, the City implemented 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. See Note 23 for more information.

During the year ended September 30, 2016, the City implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement No. 68* which 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 adoption of GASB Statement No. 73 did not have any impact on the City's consolidated financial statements for the year ended September 30, 2016.

During the year ended September 30, 2016, the City implemented 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

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB Statement No. 76 were applied retroactively resulting in no significant impact to the financial statements.

Recently Issued Accounting Principles

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. 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.

GASB Statement No. 82, *Pension Issues- an amendment of GASB Statements No. 67, No. 68, and No. 73*, was issued to address pension issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of GASB Statement No. 82 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.

**CITY OF FAIRHOPE, ALABAMA**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. Unearned 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.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

**CITY OF FAIRHOPE, ALABAMA**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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 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
- Debt Service 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 2016, the General Fund transferred to the Debt Service Fund \$3,091,876 in support of long-term debt service.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

NOTE 2 INTERFUND TRANSACTIONS (continued)

The utility operations transfer a portion of their earnings to the General Fund each year to support general government operations. In fiscal year 2016, the following amounts were transferred from the utility funds noted to the General Fund.

Electric Fund	\$ 1,050,908
Water and Sewer Fund	1,130,055
Natural Gas Fund	<u>770,119</u>
Total	\$ <u>2,951,082</u>

In fiscal year 2016, the City transferred \$428,000 to the Airport Authority and \$814,600 to the Public Library Board, both discretely presented component units.

Interfund receivables and payables at September 30, 2016 are:

	<u>Due from</u>	<u>Due to</u>
<b>General Fund</b>		
Electric	\$ 79,303	\$ -
Water and Waste Water	33,440	-
Natural Gas	11,753	-
<b>Electric Fund</b>		
General	-	79,303
Water and Waste Water	-	1,955,027
Natural Gas	-	712,702
<b>Natural Gas Fund</b>		
General	-	11,753
Electric	712,702	-
Water and Waste Water	376	-
<b>Water and Waste Water Fund</b>		
Electric	1,955,027	-
Natural Gas	-	376
General	-	33,440
	<u>\$ 2,792,601</u>	<u>\$ 2,792,601</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, 2016

NOTE 3 CAPITAL ASSETS

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

	Balance 10/01/15	Increases	Decreases	Balance 09/30/16
<u>Governmental Activities</u>				
Capital assets not subject to depreciation				
Land	\$ 22,311,824	\$ 577,228	\$ -	\$ 22,889,052
Construction in progress	-	4,784,919	-	4,784,919
Total	<u>22,311,824</u>	<u>5,362,147</u>	<u>-</u>	<u>27,673,971</u>
Other capital assets				
Buildings and structures	37,201,708	712,670	-	37,914,378
Vehicles and equipment	12,188,320	1,764,499	(177,497)	13,775,322
Infrastructure	65,660,139	249,025	-	65,909,164
Total	<u>115,050,167</u>	<u>2,726,194</u>	<u>(177,497)</u>	<u>117,598,864</u>
Less accumulated depreciation for				
Buildings and structures	(9,743,886)	(845,748)	-	(10,589,634)
Vehicles and equipment	(10,498,424)	(687,605)	147,393	(11,038,636)
Infrastructure	(31,604,073)	(1,661,528)	-	(33,265,601)
Total accumulated depreciation	<u>(51,846,383)</u>	<u>(3,194,881)</u>	<u>147,393</u>	<u>(54,893,871)</u>
Other capital assets, net	<u>63,203,784</u>	<u>(468,687)</u>	<u>(30,104)</u>	<u>62,704,993</u>
Governmental capital assets, net	<u>\$ 85,515,608</u>	<u>\$ 4,893,460</u>	<u>\$ (30,104)</u>	<u>\$ 90,378,964</u>

Depreciation was charged to governmental activities as follows:

General Government	\$ 723,246
Police Department	208,091
Fire Department	91,268
Recreation Department	262,020
Adult Recreation Department	102,186
Street Department	1,357,841
Sanitation Department	283,208
Golf Department	167,021
Total	<u>\$ 3,194,881</u>

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

NOTE 3 CAPITAL ASSETS (CONTINUED)

	Balance 10/01/15	Increases	Decreases	Balance 09/30/16
<u>Business Type Activities</u>				
Capital assets not subject to depreciation				
Land	\$ 9,665,728	\$ 85,221	\$ -	\$ 9,750,949
Construction in progress	11,902,456	-	(11,902,456)	-
Total	<u>21,568,184</u>	<u>85,221</u>	<u>(11,902,456)</u>	<u>9,750,949</u>
Other capital assets				
Distribution and collection system	71,762,426	13,792,670	-	85,555,096
Buildings, vehicles and equipment	12,846,522	560,500	-	13,407,022
Total	<u>84,608,948</u>	<u>14,353,170</u>	<u>-</u>	<u>98,962,118</u>
Less accumulated depreciation for				
Distribution and collection system	(30,777,766)	(1,938,340)	-	(32,716,106)
Buildings, vehicles and equipment	(9,593,375)	(706,694)	-	(10,300,069)
Total accumulated depreciation	<u>(40,371,141)</u>	<u>(2,645,034)</u>	<u>-</u>	<u>(43,016,175)</u>
Other capital assets, net	44,237,807	11,708,136	-	55,945,943
Capital assets, net	<u>\$ 65,805,991</u>	<u>\$ 11,793,357</u>	<u>\$ (11,902,456)</u>	<u>\$ 65,696,892</u>
<u>Component Unit - Public Library</u>				
Equipment	\$ 437,018	\$ 5,076	\$ -	\$ 442,094
Less accumulated depreciation	(346,915)	(16,399)	-	(363,314)
Capital assets, net	<u>\$ 90,103</u>	<u>\$ (11,323)</u>	<u>\$ -</u>	<u>\$ 78,780</u>
<u>Component Unit - Airport Authority</u>				
Capital assets not subject to depreciation				
Land	\$ 10,674,228	\$ -	\$ -	\$ 10,674,228
Construction in progress	789,201	954,677	-	1,743,878
Total	<u>11,463,429</u>	<u>954,677</u>	<u>-</u>	<u>12,418,106</u>
Other capital assets				
Runways	10,641,811	-	-	10,641,811
Buildings and improvements	7,759,262	-	-	7,759,262
Equipment	98,885	-	-	98,885
Total	<u>18,499,958</u>	<u>-</u>	<u>-</u>	<u>18,499,958</u>
Less accumulated depreciation for				
Runways	(1,412,779)	(179,955)	-	(1,592,734)
Buildings and improvements	(2,148,835)	(149,814)	-	(2,298,649)
Equipment	(97,120)	(228)	-	(97,348)
Total accumulated depreciation	<u>(3,658,734)</u>	<u>(329,997)</u>	<u>-</u>	<u>(3,988,731)</u>
Other capital assets, net	14,841,224	(329,997)	-	14,511,227
Capital assets, net	<u>\$ 26,304,653</u>	<u>\$ 624,680</u>	<u>\$ -</u>	<u>\$ 26,929,333</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

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, 2016:

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.	\$13,915,000
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.	131,942
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.	3,450,000
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>510,000</u>
TOTAL	<u>\$19,786,942</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, 2016

NOTE 6 NOTE AND WARRANTS PAYABLE – GOVERNMENTAL ACTIVITIES

The following is a governmental fund summary of long term debt at September 30, 2016:

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.	\$ 2,858,058
General Obligation Warrants, Series 2016 dated June 17, 2016, original debt obligation of \$3,975,000, interest rate 1.02%, payable semi-annually, principal payable annually through June 1, 2019.	<u>3,975,000</u>
TOTAL	\$ <u>6,833,058</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 June 17, 2016, the City of Fairhope issued 2016 general obligation bonds in the amount of \$3,975,000. The proceeds were used to advance refund the 2007 general obligation bonds. The refunded bond had a balance of \$5,975,000. \$6,009,535 was deposited into an irrevocable trust with an escrow agent to provide debt service payments on the 2007 bonds until they are called. This amount included the proceeds of the 2016 bond, \$3,975,000, and additional cash provided by the City of Fairhope in the amount of \$2,034,535. The advance refunding met the requirements of an in-substance debt defeasance and the 2007 general obligation bonds were removed from the City's Governmental Activities financial statements.

As a result of the advanced refunding, the City's total debt service requirements decreased by \$2,423,532, which resulted in an economic gain of \$1,909,489. 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, 2016

NOTE 8 CHANGES IN LONG TERM DEBT

	Balance 10/1/2015	Additions	Reductions	Balance 9/30/2016	Amounts due within one year
<b>GOVERNMENTAL ACTIVITIES</b>					
Warrants and notes payable					
General obligation warrants	\$ 9,336,616	\$ 3,975,000	\$ (6,478,558)	\$ 6,833,058	\$ 1,573,560
Total warrants and notes payable	9,336,616	3,975,000	(6,478,558)	6,833,058	1,573,560
Warrant discount	(29,256)	-	29,256	-	-
	9,307,360	3,975,000	(6,449,302)	6,833,058	1,573,560
Other liabilities					
Compensated absences	1,164,826	788,533	(613,028)	1,340,331	465,434
Governmental activities long-term liabilities	\$ 10,472,186	\$ 4,763,533	\$ (7,062,330)	\$ 8,173,389	\$ 2,038,994

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 10/1/2015	Additions	Reductions	Balance 9/30/2016	Amounts due within one year
<b>BUSINESS-TYPE ACTIVITIES</b>					
Warrants and notes payable					
General obligation warrants	\$ 4,743,000	\$ -	\$ (1,161,058)	\$ 3,581,942	\$ 1,161,440
Utilities revenue warrants	16,780,000	-	(575,000)	16,205,000	930,000
Total warrants and notes payable	21,523,000	-	(1,736,058)	19,786,942	2,091,440
Warrant discounts	(61,133)	-	8,359	(52,774)	-
	21,461,867	-	(1,727,699)	19,734,168	2,091,440
Other liabilities					
Compensated absences	569,041	224,098	(179,150)	613,989	95,847
Business-type activities long-term liabilities	\$ 22,030,908	\$ 224,098	\$ (1,906,849)	\$ 20,348,157	\$ 2,187,287
Compensated absences due within one year included in accrued liabilities					\$ 95,847
Compensated absences due in more than one year included in noncurrent liabilities					518,142
Total compensated absences liability					\$ 613,989

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

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, 2016, including interest payments:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,573,560	\$ 111,633	\$ 1,685,193
2018	1,578,340	93,582	1,671,922
2019	1,587,900	73,607	1,661,507
2020	267,680	53,388	321,068
2021	344,160	46,562	390,722
2022-2026	<u>1,481,418</u>	<u>96,049</u>	<u>1,577,467</u>
TOTALS	<u>\$ 6,833,058</u>	<u>\$ 474,821</u>	<u>\$ 7,307,879</u>

The following is a summary of debt service requirements to maturity of long term debt of the Proprietary Funds as of September 30, 2016, 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>
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	1,070,840	371,211	1,442,051
2022-2026	8,483,582	1,130,153	9,613,735
2027-2031	<u>2,835,000</u>	<u>229,084</u>	<u>3,064,084</u>
	<u>\$ 19,786,942</u>	<u>\$ 3,574,470</u>	<u>\$ 23,361,412</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

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, 2016, including interest payments:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,573,560	\$ 111,633	\$ 1,685,193
2018	1,578,340	93,582	1,671,922
2019	1,587,900	73,607	1,661,507
2020	267,680	53,388	321,068
2021	344,160	46,562	390,722
2022-2026	<u>1,481,418</u>	<u>96,049</u>	<u>1,577,467</u>
TOTALS	<u>\$ 6,833,058</u>	<u>\$ 474,821</u>	<u>\$ 7,307,879</u>

The following is a summary of debt service requirements to maturity of long term debt of the Proprietary Funds as of September 30, 2016, 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>
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	1,070,840	371,211	1,442,051
2022-2026	8,483,582	1,130,153	9,613,735
2027-2031	<u>2,835,000</u>	<u>229,084</u>	<u>3,064,084</u>
	<u>\$ 19,786,942</u>	<u>\$ 3,574,470</u>	<u>\$ 23,361,412</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

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, 2016, was 1.877%.

The following is a summary of debt service requirements to maturity of long term debt of the Airport Authority as of September 30, 2016, including estimated interest payments at 1.877% and excluding discounts related to bonds:

Year Ending Sept. 30,	Principal	Interest	Total
2017	\$ 305,000	\$ 134,405	\$ 439,405
2018	320,000	128,680	448,680
2019	340,000	122,674	462,674
2020	6,480,629	20,274	6,500,903
	<u>\$ 7,445,629</u>	<u>\$ 406,033</u>	<u>\$ 7,851,662</u>

NOTE 11 SALARIES – PROPRIETARY FUNDS

The following is a summary of employees' salaries by Utility Fund for the year ended September 30, 2016:

	Electric Fund	Natural Gas Fund	Water and Waste Water Fund
Total salaries	\$ 1,089,613	\$ 715,501	\$ 1,166,391
Less:			
Salaries capitalized for plant additions	<u>208,517</u>	<u>197,731</u>	<u>62,622</u>
Amount of salaries charged to operations	<u>\$ 881,096</u>	<u>\$ 517,770</u>	<u>\$ 1,103,769</u>



CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

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, 2016**

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](http://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 multiplied times years of credited service. 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 City's contractually required contribution rate for the year ended September 30, 2016, was 9.49% for Tier 1 employees, and 7.05% for Tier 2 employees. The Fairhope Public Library's contractually required contribution rate for the year ended September 30, 2016, was 9.89% for Tier 1 employees, and 8.39% 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, 2013, 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 \$1,161,190 paid by the City and \$39,481 paid by the Fairhope Public Library for the year ended September 30, 2016.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

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>Expected</u>	<u>Actual</u>
<b><u>City of Fairhope</u></b>		
(a) Total Pension Liability for September 30, 2014	\$ 38,343,752	\$ 38,420,805
(b) Entry Age Normal Cost for the period October 1, 2014 to September 30, 2015	975,740.00	975,740.00
(c) Actual Benefit Payments & Refunds for October 1, 2014 to September 30, 2015	<u>(2,247,432)</u>	<u>(2,247,432)</u>
(d) Total Pension Liability as of September 20, 2015 [(a) x 1.08] + (b) - [(c) x (1.04)]	<u>\$ 40,132,880</u>	<u>\$ 40,132,880</u>
(e) Difference between Expected and Actual Experience (Gain)/Loss		<u>\$ 83,217</u>
<b><u>Fairhope Public Library</u></b>		
(a) Total Pension Liability for September 30, 2014	\$ 1,092,346	\$ 1,084,463
(b) Entry Age Normal Cost for the period October 1, 2014 to September 30, 2015	37,305	37,305
(c) Actual Benefit Payments & Refunds for October 1, 2014 to September 30, 2015	<u>(129,622)</u>	<u>(129,622)</u>
(d) Total Pension Liability as of September 30, 2015 [(a) x 1.08] + (b) - [(c) x (1.04)]	<u>\$ 1,082,232</u>	<u>\$ 1,073,718</u>
(e) Difference between Expected and Actual Experience (Gain)/Loss		<u>\$ (8,514)</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

NOTE 14 PENSION PLAN (CONTINUED)

Actuarial Assumptions - The total pension liability in the September 30, 2014, 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 AA to 2016 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, 2014, 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:

	<u>Target Allocation</u>	<u>Long Term Expected Rate of Return *</u>
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, 2016

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, 2014	\$ 38,343,751	\$ 28,763,368	\$ 9,580,383
Changes for the year:			
Service cost	975,740	-	975,740
Interest	2,977,603	-	2,977,603
Differences between expected and actual experience	83,217	-	83,217
Contributions - employer	-	1,035,070	(1,035,070)
Contributions - employee	-	621,817	(621,817)
Net investment income	-	337,639	(337,639)
Benefit payments, including refunds of employee contributions	(2,247,432)	(2,247,432)	-
Administrative expense			
Transfers among employers	-	(16,923)	16,923
Net Changes	<u>1,789,128</u>	<u>(269,829)</u>	<u>2,058,957</u>
Balances at September 30, 2015	<u>\$ 40,132,879</u>	<u>\$ 28,493,539</u>	<u>\$ 11,639,340</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

NOTE 14 PENSION PLAN (CONTINUED)

Changes in Net Pension Liability

	<b><u>Fairhope Public Library</u></b>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balances at September 30, 2014	\$ 1,092,346	\$ 764,965	\$ 327,381
Changes for the year:			
Service cost	37,305	-	37,305
Interest	82,203	-	82,203
Differences between expected and actual experience	(8,514)	-	(8,514)
Contributions - employer	-	43,472	(43,472)
Contributions - employee	-	20,166	(20,166)
Net investment income	-	8,684	(8,684)
Benefit payments, including refunds of employee contributions	(129,622)	(129,622)	-
Administrative expense			
Transfers among employers	-	-	-
Net Changes	<u>(18,628)</u>	<u>(57,300)</u>	<u>38,672</u>
Balances at September 30, 2015	<u>\$ 1,073,718</u>	<u>\$ 707,665</u>	<u>\$ 366,053</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	\$ 16,336,254	\$ 11,639,340	\$ 7,671,084
Net pension liability, Fairhope Public Library	\$ 471,695	\$ 366,053	\$ 274,244

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, 2015. The supporting actuarial information is included in the GASB Statement No. 68 Report for the RSA prepared as of September 30, 2015. The auditor's report dated January 15, 2016 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](http://www.rsa-al.gov).

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

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, 2016, the City recognized pension expense of \$1,310,287 while the Fairhope Public Library recognized pension expense of \$48,591. At September 30, 2016, 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	\$	70,796	\$ -
Changes of assumption		-	-
Net difference between projected and actual earnings on plan investments		928,340	-
Employer contributions subsequent to measurement date		1,161,190	-
Total	\$	<u>2,160,326</u>	<u>\$ -</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,		
2017	\$	1,353,781
2018		192,591
2019		192,590
2020		400,248
2021		12,420
Thereafter		8,696
	\$	<u>2,160,326</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

NOTE 14 PENSION PLAN (CONTINUED)

	<u>Fairhope Public Library</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	-	\$ 6,579
Changes of assumption		-	-
Net difference between projected and actual earnings on plan investments		23,712	-
Employer contributions subsequent to measurement date		39,480	-
Total	\$	<u>63,192</u>	<u>\$ 6,579</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,	
2017	\$ 42,125
2018	2,645
2019	2,643
2020	9,200
	<u>\$ 56,613</u>



**CITY OF FAIRHOPE, ALABAMA**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

NOTE 15 DEPOSIT AND INVESTMENT RISK

At September 30, 2016, the City had investments in U. S. Treasury money market mutual funds through its trustee agreement for debt sinking funds. The fair value was \$2,907,634. 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, 2016, 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 \$138,069. The commitments funded from governmental activities will be \$118,347 and from business-type activities will be \$19,722.

**CITY OF FAIRHOPE, ALABAMA**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**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, 2016, the City's portion of health care funding cost for retired employees (retiree premiums) totaled \$379,996.

Contribution Rates – Eligible retirees are subject to employer contributions for medical benefits equal to 90% of the premium. At September 30, 2016, 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, 2016, was 30 years.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

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	\$ 804,943
Interest on net OPEB obligation	124,186
Adjustment to ARC	<u>(172,638)</u>
Annual OPEB cost (expense)	756,492
Current year retiree premium	<u>(376,496)</u>
Change in net OPEB obligation	379,995
Net OPEB obligation – beginning of year	<u>3,320,014</u>
Net OPEB obligation – end of year	<u>\$ 3,700,009</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>
9/30/16	\$ 756,492	50.2%	\$ 3,700,009
9/30/15	814,358	73.6%	3,320,014
9/30/14	951,222	33.2%	3,104,675

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.

Schedule of Funding Progress

<u>Actuarial Valuation Dated</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL)* - Entry Age (b)</u>	<u>Unfunded (AAL) (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/c</u>
9/30/2015	\$ -	\$ 8,408,943	\$ (8,408,943)	0.0%	\$ 12,686,870	66.3%
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%

\*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, 2016

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.

NOTE 19 OPERATING LEASES

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

NOTE 20 LEASE EXPENSE

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

**CITY OF FAIRHOPE, ALABAMA**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**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 balance of the deferred inflow of resources is \$2,497,500 at September 30, 2016.

In fiscal year 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 \$1,003,953 at September 30, 2016.

In fiscal year 2016, 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 30 years. The private company's lease agreement with the City is such that the company remits monthly rent in the amount of \$6,150 to the Airport Authority and required to invest in capital improvements on the premises during the first 15 months of the lease. The total value of the capital improvements, is expected to be approximately \$700,000 which will be considered a deferred inflow of resources and rent revenue will be recognized over the life of the term of the lease beginning at the completion date. The City will report the capital improvements as a capital asset and will depreciate in accordance with the City's depreciation policy upon completion. The balance of the deferred inflow of resources is \$-0- at September 30, 2016.

In fiscal year 2016, 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 30 years. The private company's lease agreement with the City is such that the company remits monthly rent in the amount of \$5,412 to the Airport Authority and required to invest in capital improvements on the premises during the first 18 months of the lease. The total value of the capital improvements, is expected to be approximately \$1,400,000 which will be considered a deferred inflow of resources and rent revenue will be recognized over the life of the term of the lease beginning at the completion date. The City will report the capital improvements as a capital asset and will depreciate in accordance with the City's depreciation policy upon completion. The balance of the deferred inflow of resources is \$-0- at September 30, 2016.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

NOTE 22 SUBSEQUENT EVENTS

The City has evaluated subsequent events through January 31, 2017, the date which the financial statements were available to be issued. There were no material subsequent events which require disclosure at September 30, 2016.

NOTE 23 FAIR VALUE DISCLOSURES

Investments including derivative instruments that are not hedging derivatives, are measured at fair value in a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value.

- Level 1 inputs are quoted prices in active markets for identical assets.
- Level 2 inputs are significant other observable inputs
- Level 3 inputs are significant unobservable inputs

Investments' fair value measurements are as follows at September 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Treasury portfolio	\$ 2,907,634	\$ -	\$ -	\$ 2,907,634
AMIC Insurance	-	-	36,090	36,090
Total	<u>\$ 2,907,634</u>	<u>\$ -</u>	<u>\$ 36,090</u>	<u>\$ 2,943,724</u>

Debt securities categorized as Level 1 are based on prices quoted in active markets for those securities. Debt securities categorized as Level 2 are valued using a matrix pricing technique that values securities based on their relationship to benchmark quoted prices. The investment in AMIC is quoted as a Level 3 input. There is no active market for this investment but an initial investment was required to participate in AMIC. Fair value of the investment approximates cost.

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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>City of Fairhope</u>	
	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 1,161,190	\$ 1,033,161
Contributions in relations to the actuarially determined contribution	<u>1,161,190</u>	<u>1,033,161</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 12,686,870	\$ 11,740,415
Contributions as a percentage of covered-employee payroll	9%	9%

Notes to Schedule

Actuarially determined contribution rates were calculated as of September 30, 2014, two years prior to the end of the fiscal year in which contributions were reported. Contributions for fiscal year 2016 were based on the September 30, 2014 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 2016 and 2015.

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA

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

	<u>Fairhope Public Library</u>	
	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 39,481	\$ 43,472
Contributions in relations to the actuarially determined contribution	<u>39,481</u>	<u>43,472</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 426,252	\$ 397,846
Contributions as a percentage of covered-employee payroll	9%	11%

Notes to Schedule

Actuarially determined contribution rates were calculated as of September 30, 2014, two years prior to the end of the fiscal year in which contributions were reported. Contributions for fiscal year 2016 were based on the September 30, 2014 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 2016 and 2015.

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA

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

	<u>City of Fairhope</u>	
	<u>2015</u>	<u>2014</u>
<b>Total pension liability</b>		
Service Cost	\$ 975,740	\$ 944,066
Interest	2,977,603	2,852,227
Chages in benefit terms	-	-
Differences between expected and actual experience	83,217	-
Changes in assumptions	-	-
Benefit payments, including refunds of employee contributions	(2,247,432)	(2,210,748)
<b>Net change in total pension liability</b>	1,789,128	1,585,545
<b>Total pension liability - beginning</b>	<u>38,343,751</u>	<u>36,758,206</u>
<b>Total pension liability - ending (a)</b>	<u>\$ 40,132,879</u>	<u>\$ 38,343,751</u>
 <b>Plan fiduciary net position</b>		
Contributions - employer	\$ 1,035,070	\$ 1,011,234
Contributions - member	621,817	599,215
Net investment income	337,639	3,115,563
Benefit payments, including refunds of employee contributions	(2,247,432)	(2,210,748)
Transfers among employers	<u>(16,923)</u>	<u>(36,268)</u>
<b>Net change in plan fiduciary net position</b>	(269,829)	2,478,996
<b>Plan net position - beginning</b>	<u>28,763,368</u>	<u>26,284,372</u>
<b>Plan net position - ending (b)</b>	<u>\$ 28,493,539</u>	<u>\$ 28,763,368</u>
<b>Net pension liability (asset) - ending (a)-(b)</b>	\$ 11,639,341	\$ 9,580,384
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	71%	75.01%
<b>Covered-employee payroll</b>	\$ 12,686,870	\$ 11,740,415
<b>Net pension liability (asset) as a percentage of covered-employee payroll</b>	92%	82%

\*This schedule is presented to illustrate the requirement to show information for 10 years. However, currently, information is only available for 2015 and 2014.

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA

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

	<u>Fairhope Public Library</u>	
	2015	2014
<b>Total pension liability</b>		
Service Cost	\$ 37,305	\$ 38,648
Interest	82,203	79,859
Chages in benefit terms	-	-
Differences between expected and actual experience	(8,514)	-
Changes in assumptions	-	-
Benefit payments, including refunds of employee contributions	(129,622)	(48,791)
<b>Net change in total pension liability</b>	<b>(18,628)</b>	<b>69,716</b>
<b>Total pension liability - beginning</b>	<b>1,092,346</b>	<b>1,022,630</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 1,073,718</b>	<b>\$ 1,092,346</b>
<b>Plan fiduciary net position</b>		
Contributions - employer	\$ 43,472	\$ 43,802
Contributions - member	20,166	19,155
Net investment income	8,684	81,118
Benefit payments, including refunds of employee contributions	(129,622)	(48,791)
Transfers among employers	-	-
<b>Net change in plan fiduciary net position</b>	<b>(57,300)</b>	<b>95,284</b>
<b>Plan net position - beginning</b>	<b>764,965</b>	<b>669,681</b>
<b>Plan net position - ending (b)</b>	<b>\$ 707,665</b>	<b>\$ 764,965</b>
<b>Net pension liability (asset) - ending (a)-(b)</b>	<b>\$ 366,053</b>	<b>\$ 327,381</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>66.00%</b>	<b>70.03%</b>
<b>Covered-employee payroll</b>	<b>426,252</b>	<b>\$ 426,252</b>
<b>Net pension liability (asset) as a percentage of covered-employee payroll</b>	<b>86%</b>	<b>76.8%</b>

\*This schedule is presented to illustrate the requirement to show information for 10 years. However, currently, information is only available for 2015 and 2014.

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Local taxes	\$ 12,970,100	\$ 12,970,100	\$ 13,604,795	\$ 634,695
Licenses and permits	3,142,500	3,142,500	3,596,049	453,549
Fine and forfeitures	280,000	280,000	236,724	(43,276)
Intergovernmental	181,000	181,000	474,866	293,866
Interest and rents	295,500	295,500	301,788	6,288
Charges for services	5,513,000	5,513,000	5,552,699	39,699
Golf course revenue	1,121,000	1,121,000	1,127,306	6,306
Recreation department	418,000	418,000	476,772	58,772
Other revenue	214,300	214,300	223,293	8,993
Total revenues	<u>24,135,400</u>	<u>24,135,400</u>	<u>25,594,292</u>	<u>1,458,892</u>
<b>EXPENDITURES</b>				
General government	8,008,005	7,950,005	8,738,427	(788,422)
Sanitation	1,682,252	1,682,252	1,624,642	57,610
Police	4,308,810	4,308,810	4,122,549	186,261
Fire	395,679	395,679	396,359	(680)
Airport Authority	428,000	428,000	428,000	-
Streets	2,332,954	2,280,444	2,493,708	(213,264)
Adult recreation	664,615	664,615	631,887	32,728
Recreation	1,282,025	1,282,025	1,269,073	12,952
Golf	1,109,981	1,109,981	1,088,667	21,314
Public Library Board	814,600	814,600	814,600	-
Other	89,000	89,000	89,000	-
Capital outlay	1,483,395	1,787,895	2,014,377	(226,482)
Total expenditures	<u>22,599,316</u>	<u>22,793,306</u>	<u>23,711,289</u>	<u>(917,983)</u>
Excess of Revenues over (under) Expenditures	<u>1,536,084</u>	<u>1,342,094</u>	<u>1,883,003</u>	<u>540,909</u>
Other financing sources (uses)				
Transfers in	3,417,969	3,417,969	2,951,081	(466,888)
Transfers out	(4,910,060)	(4,716,070)	(5,196,944)	(480,874)
Total other financing sources (uses)	<u>(1,492,091)</u>	<u>(1,298,101)</u>	<u>(2,245,863)</u>	<u>(947,762)</u>
NET CHANGE IN FUND BALANCES	<u>\$ 43,993</u>	<u>\$ 43,993</u>	<u>(362,860)</u>	<u>\$ (406,853)</u>
FUND BALANCES - BEGINNING OF YEAR			<u>10,992,803</u>	
<b>FUND BALANCES - END OF YEAR</b>			<u>\$ 10,629,943</u>	

See independent auditors' report and notes to the required supplementary information.

**CITY OF FAIRHOPE, ALABAMA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2016**

**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, 2016

NOTE 2 EXCESS EXPENDITURES

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

	Excess <u>Expenditures</u>		Excess <u>Expenditures</u>
<b>General Government</b>		<b>Adult Recreation Department</b>	
Salaries - administrative	\$ 40,508	Salaries	\$ 1,193
Salaries - judge and court clerk	6,941	Employee retirement expense	685
Salaries - beach labor	1,507	Special programs	64
Salaries - building and zoning	58,634	Dance expense	312
Salaries - revenue dept	9,938		
Employee payroll taxes	18,103	<b>Street Department</b>	
Employee retirement expense	7,963	Salaries	39,025
Employee medical insurance	664,940	Employee payroll taxes	146
Training/school/travel	13,721	Employee retirement expense	2,699
Audit and accounting	1,692	General supplies	16,463
Professional services	180,163	Equipment and vehicle repair	29,205
Office supplies	3,844	Street material and landscaping	184,743
General supplies	19,765		
Uniforms	4,016	<b>Sanitation Department</b>	
Purchase of vehicles	290,865	Employee retirement expense	137
Credit card processing fees	12,818	General supplies	7,199
Recording fees paid	12	Equipment and vehicle repair	115,055
Publications newspapers	10,952	Purchase of vehicles and equipment	32,106
COF book and sidewalk brick	782	Landfill charges	32,020
County prisoner expense	264	Landfill maintenance	7,000
Beach repairs and maintenance	20,695		
Fishermans Wharf Maintenance	1,000	<b>Golf Department</b>	
Sales tax collection fees	9,081	Employee retirement expense	207
		Supplies- clubhouse	7,656
<b>Police Department</b>		Purchases - beer, wine	7,208
Employee retirement expense	1,104	Purchases - food	828
Equipment and vehicle repair	6,204	Supplies - grill	504
DEA Funds purchases	4,316	Cost - Pro Shop Sales	2,905
		Pro Shop custom orders	7,357
<b>Fire Department</b>			
Salaries	4,795	<b>Golf Grounds</b>	
Fire call payments	12,600	Salaries-grounds	15,712
Employee payroll taxes	289	Employee Payroll Taxes	710
Employee retirement expense	381	Employee Retirement Exp	543
Equipment and vehicle repair	21,631	General Maintenance	11,913
		Uniforms	197
<b>Recreation Department</b>		Purchases Vehicles & Equipment	14,268
General supplies	2,943		
Equipment and vehicle repair	43,656		
Tennis expense	2,924		
<b>Transfers</b>			
Transfers-Debt Svc Fund	231,816		
Transfers-Cap Proj Fund	249,058		

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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, 2016**

	Special Revenue Fund Impact Fees	Special Revenue Fund Gas Tax	Total Nonmajor Governmental Funds
<b>ASSETS</b>			
Cash	\$ 1,478,677	\$ 40,817	\$ 1,519,494
Receivables	235	-	235
Total assets	<u>\$ 1,478,912</u>	<u>\$ 40,817</u>	<u>\$ 1,519,729</u>
<b>LIABILITIES</b>			
Accounts payable – trade	\$ -	\$ -	\$ -
Due to other funds	-	4,881	4,881
Total liabilities	<u>-</u>	<u>4,881</u>	<u>4,881</u>
<b>FUND BALANCES</b>			
Restricted for:			
Debt service	-	-	-
Road maintenance and construction	-	35,936	35,936
Assigned to:			
Construction and road maintenance	<u>1,478,912</u>	<u>-</u>	<u>1,478,912</u>
Total fund balances	<u>1,478,912</u>	<u>35,936</u>	<u>1,514,848</u>
Total liabilities and fund balances	<u>\$ 1,478,912</u>	<u>\$ 40,817</u>	<u>\$ 1,519,729</u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Special Revenue Fund Impact Fees	Special Revenue Fund Gas Tax	Total Nonmajor Governmental Funds
<b>REVENUES</b>			
Intergovernmental	\$ -	\$ 93,701	\$ 93,701
Charges for services	952,161	-	952,161
Interest and rents	316	-	316
Total revenues	<u>952,477</u>	<u>93,701</u>	<u>1,046,178</u>
<b>EXPENDITURES</b>			
Street department	-	-	-
Recreation	-	-	-
Other	-	43,712	43,712
Debt service			
Principal	-	-	-
Interest	-	-	-
Capital outlay	-	-	-
Total expenditures	<u>-</u>	<u>43,712</u>	<u>43,712</u>
Excess of revenues over (under) expenditures	<u>952,477</u>	<u>49,989</u>	<u>1,002,466</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from the issuance of debt	-	-	-
Transfers in	-	-	-
Transfers out	<u>(300,000)</u>	<u>(120,000)</u>	<u>(420,000)</u>
Total other financing sources (uses)	<u>(300,000)</u>	<u>(120,000)</u>	<u>(420,000)</u>
Net change in fund balances	652,477	(70,011)	582,466
Fund balances – beginning of year	<u>826,435</u>	<u>105,947</u>	<u>932,382</u>
FUND BALANCES – END OF YEAR	<u>\$ 1,478,912</u>	<u>\$ 35,936</u>	<u>\$ 1,514,848</u>

See independent auditors' report.

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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, 2016**

**ASSETS**

Cash and cash equivalents	\$ <u>409,102</u>
Total assets	\$ <u><u>409,102</u></u>

**LIABILITIES**

Accounts payable and accrued expenses	\$ <u>4,357</u>
---------------------------------------	-----------------

**FUND BALANCES**

Unassigned	<u>404,745</u>
Total fund balances	<u><u>404,745</u></u>
Total liabilities and fund balances	\$ <u><u>409,102</u></u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
FAIRHOPE PUBLIC LIBRARY BOARD  
SEPTEMBER 30, 2016

<b>Fund balances as reported on page 66</b>	\$	404,745
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.		442,094
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.		(363,314)
Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Employment retirement contributions		63,192
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		(366,053)
Deferred inflows of resources		(6,579)
		<hr/>
<b>Net position of governmental activities as reported on page 24</b>	\$	<u>174,085</u>



CITY OF FAIRHOPE, ALABAMA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FAIRHOPE PUBLIC LIBRARY BOARD  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

**REVENUES**

Fines and lost books	\$	18,102
Donations, gifts, memorials and bequests		46,196
State aid		14,092
Lease income		1,500
Payments from City of Fairhope		806,225
Miscellaneous		17,370
Total revenues		<u>903,485</u>

**EXPENDITURES**

Salaries		505,805
Payroll taxes		38,022
Insurance		12,694
Employees' retirement		44,642
Books, periodicals, audio visual		96,114
Supplies		17,056
Janitorial service		24,778
Professional fees		8,892
Telecommunications		636
Capital outlay		5,076
Maintenance		32,126
Miscellaneous		59,400
Total expenditures		<u>845,241</u>

Net change in fund balances 58,244

Fund balances – beginning of year 346,501

FUND BALANCES - END OF YEAR \$ 404,745

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
FAIRHOPE PUBLIC LIBRARY BOARD  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

**Net change in fund balances - total governmental funds, page 68** \$ 58,244

Amounts reported for governmental activities in the statement of activities are different from the statements of revenues, expenditures and changes in fund balances - governmental funds because:

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

Capital outlays for the year	5,076
Depreciation expense for the year	(16,399)

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.

Change in net pension liability and deferred inflows of resources	<u>(3,949)</u>
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**Change in net position of governmental activities, page 25** \$ 42,972

**CITY OF FAIRHOPE, ALABAMA**  
**FUND BALANCE SHEET**  
**FAIRHOPE AIRPORT AUTHORITY**  
**SEPTEMBER 30, 2016**

**ASSETS**

Cash and cash equivalents	\$ 330,184
Grants receivable	<u>145,209</u>
Total assets	<u>\$ 475,393</u>

**LIABILITIES**

Unearned rent	\$ <u>2,472,385</u>
Total liabilities	<u>2,472,385</u>

**FUND BALANCES**

Restricted for:	
Capital projects	261,149
Unassigned	<u>(2,258,141)</u>
Total fund balances	<u>(1,996,992)</u>

Total liabilities and fund balances	<u>\$ 475,393</u>
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CITY OF FAIRHOPE, ALABAMA

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
FAIRHOPE AIRPORT AUTHORITY  
SEPTEMBER 30, 2016

<b>Fund balances as reported on page 70</b>	\$	(1,996,992)
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		30,918,064
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.		(3,988,731)
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		(7,445,629)
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>(1,003,955)</u>
<b>Net position of governmental activities as reported on page 24</b>	\$	<u><u>16,482,757</u></u>

See independent auditors' report.

**CITY OF FAIRHOPE, ALABAMA**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FAIRHOPE AIRPORT AUTHORITY  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**REVENUES**

Fuel sales and rentals	\$ 193,098
Interest income	901
Federal grant revenue	749,684
Revenue from service concession arrangement	67,500
Payments from City of Fairhope	428,000
Total revenues	<u>1,439,183</u>

**EXPENDITURES**

Insurance	39,059
Legal and professional	33,487
Maintenance	91,317
Capital outlay	954,677
Debt service payments	
Principal	285,000
Interest	130,194
Other	20,307
Total expenditures	<u>1,554,041</u>

Net change in fund balances (114,858)

Fund balances – beginning of year (1,882,134)

FUND BALANCES - END OF YEAR \$ (1,996,992)

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
FAIRHOPE AIRPORT AUTHORITY  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Net change in fund balances - total governmental funds, page 72 \$ (114,858)

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.

Principal payments on long-term debt 285,000

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

Capital outlays for the year 954,677  
Depreciation expense for the year (329,997)

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

43,648

Change in net position of governmental activities, page 25 \$ 838,470

**CITY OF FAIRHOPE, ALABAMA**

**SCHEDULE OF CAPITAL PROJECTS EXPENDITURES  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

NRCS Grant -Woodlands	\$	133,724
NRCS Grant - WWTP		95,824
Community Park Project		95,882
ATRIP Roundabout 13 & 48		199,957
ATRIP Fairhope Ave 181 to Bancroft		573,994
North Beach Upgrades		40,962
Manley Road Soccer		2,700,739
Tennis Courts 2015 and 2016		417,161
Quail Creek Sidewalks		6,206
Drainage Improvements 2015		62,544
Major's Field Pressbox		3,910
Golf Course Irrigation System		9,456
City wide street resurf/misc		1,267,415
Golf Paths		29,340
TAP-Rock Creek Trail		2,769
Boys & Girls Club		32,000
Fly Creek Marina Seawall		10,704
Total	\$	<u><u>5,682,587</u></u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA

SCHEDULE OF INFORMATION REQUIRED BY BOND INDENTURES  
SEPTEMBER 30, 2016

	<u>Electric Fund</u>	<u>Natural Gas Fund</u>	<u>Water and Waste Water Fund</u>	
A. Utility customers at September 30, 2016 were as follows:				
Number of customers	6,757	10,346	17,910	
Number of metered customers	6,757	10,346	17,910	
Number of unmetered customers	-	-	-	
Number of waste water customers	-	-	10,289	
B. Annual Net Income of Utility Operations				
	<u>Electric Fund</u>	<u>Natural Gas Fund</u>	<u>Water and Waste Water Fund</u>	<u>Total</u>
Income from operations	\$2,616,780	\$1,451,289	\$ 3,544,603	\$ 7,612,672
Add:				
Depreciation and amortization	799,601	456,800	1,388,632	2,645,033
Interest income	<u>5,339</u>	<u>9,147</u>	<u>676</u>	<u>15,162</u>
Annual net income as prescribed by debt covenants	<u>\$3,421,720</u>	<u>\$1,917,236</u>	<u>\$ 4,933,911</u>	<u>\$10,272,867</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 2017				\$ 6,000,000
Buildings and facilities – expires January 2017				101,269,509
Automobile – expires January 2017				
Liability				1,000,000
Uninsured motorist				50,000
Public officials errors and omissions liability – expires January 2017				6,000,000
Police liability – expires January 2017				6,000,000
Aggregate				2,000,000
Per occurrence				
Excess liability policy for general liability, police and public official – expires January 2017				6,000,000
D. The City has complied with all requirements of the respective bond indentures.				
See independent auditors' report.				



CITY OF FAIRHOPE, ALABAMA

SUMMARY OF DEPOSITS, WITHDRAWALS AND BALANCES OF SELECTED TRUST ACCOUNTS AS  
REQUIRED UNDER CERTAIN TRUST INDENTURES  
SEPTEMBER 30, 2016

	1996 Capital Improvement	2007 Warrant Fund	2009 Warrant Fund	2009 Reserve Fund
Balance 10/01/15	\$ 50,000	\$ 177,443	\$ 108,089	\$ 125,003
Deposits	4	6,364,383	140,411	13
Disbursements	(4)	(6,541,826)	(141,944)	(13)
Balance 9/30/16	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ 106,556</u>	<u>\$ 125,003</u>

	2011 Warrant Fund	2011 Reserve Fund	2015 Reserve Fund	2015 Warrant Fund
Balance 10/01/15	\$ 530,076	\$ 1,415,679	\$ 376,700	\$ 13,702
Deposits	908,245	142	38	321,493
Disbursements	(900,490)	(142)	(37)	(39,332)
Balance 9/30/16	<u>\$ 537,831</u>	<u>\$ 1,415,679</u>	<u>\$ 376,701</u>	<u>\$ 295,863</u>

See independent auditors' report.

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## **STATISTICAL SECTION**

# STATISTICAL SECTION

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

<b>Contents</b>	<b>Page</b>
Financial Trends <i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	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>	83-88
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>	89-92
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>	93-94
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>	95-97

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									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Governmental activities</b>										
Invested in capital assets, net of related debt	\$ 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	\$ 83,545,906
Restricted	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	8,706,056
Unrestricted	54,300	(84,709)	165,029	1,782,848	50,640	56,984	1,586,709	2,513,008	4,619,015	(4,875,609)
<b>Total governmental activities net positions</b>	<b>\$ 62,578,478</b>	<b>\$ 68,100,936</b>	<b>\$ 67,922,838</b>	<b>\$ 71,310,549</b>	<b>\$ 73,104,138</b>	<b>\$ 74,088,588</b>	<b>\$ 76,265,948</b>	<b>\$ 85,874,638</b>	<b>\$ 83,135,930</b>	<b>\$ 87,376,353</b>
<b>Business-type activities</b>										
Invested in capital assets, net of related debt	\$ 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	\$ 45,962,724
Restricted	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	2,907,634
Unrestricted	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	7,587,850
<b>Total business-type activities net positions</b>	<b>\$ 27,289,394</b>	<b>\$ 28,088,327</b>	<b>\$ 29,784,906</b>	<b>\$ 33,043,193</b>	<b>\$ 38,055,728</b>	<b>\$ 40,375,729</b>	<b>\$ 43,867,679</b>	<b>\$ 48,017,655</b>	<b>\$ 52,346,033</b>	<b>\$ 56,458,208</b>
<b>Primary government</b>										
Invested in capital assets, net of related debt	\$ 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	\$ 129,508,630
Restricted	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	11,613,690
Unrestricted	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	2,712,241
<b>Total primary government net position</b>	<b>\$ 89,867,872</b>	<b>\$ 96,189,263</b>	<b>\$ 97,707,744</b>	<b>\$ 104,353,742</b>	<b>\$ 111,159,866</b>	<b>\$ 114,464,317</b>	<b>\$ 120,133,627</b>	<b>\$ 133,892,293</b>	<b>\$ 135,481,963</b>	<b>\$ 143,834,561</b>

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Expenses</b>										
Governmental activities:										
General	\$ 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	\$ 9,828,668
Public safety										
Police	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	4,383,113
Fire	781,696	843,469	878,148	1,017,184	483,670	461,865	407,361	431,955	424,789	489,989
Public works										
Sanitation	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	1,912,606
Street	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	3,864,689
Public Library Board	594,378	771,373	760,174	772,539	798,997	810,636	840,636	886,028	924,736	1,025,236
Airport	397,183	545,000	242,090	249,856	225,843	281,124	443,000	443,000	412,632	428,000
Recreation	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	1,545,115
Adult Recreation	390,125	459,961	438,442	601,232	654,736	613,614	640,917	663,982	665,804	756,407
Golf	-	-	1,292,200	1,102,861	1,106,624	932,284	987,869	978,819	1,060,643	1,263,426
Interest on long-term debt	624,883	743,451	878,534	694,083	633,161	589,174	507,982	472,222	344,808	339,051
Total governmental activities expenses	<u>18,174,420</u>	<u>19,903,137</u>	<u>22,115,317</u>	<u>23,803,538</u>	<u>22,549,986</u>	<u>25,210,634</u>	<u>22,823,710</u>	<u>24,383,033</u>	<u>23,845,901</u>	<u>25,836,300</u>
Business-type activities:										
Natural gas	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	4,886,415
Electric	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	17,683,205
Water and wastewater	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	8,042,137
Golf	1,544,528	1,713,486	-	-	-	-	-	-	-	-
Total business-type activities expenses	<u>27,910,386</u>	<u>30,932,058</u>	<u>27,692,923</u>	<u>27,955,621</u>	<u>28,564,189</u>	<u>28,448,514</u>	<u>29,694,467</u>	<u>31,073,954</u>	<u>30,369,895</u>	<u>30,611,757</u>
Total primary government expenses	<u>\$ 46,084,806</u>	<u>\$ 50,835,195</u>	<u>\$ 49,808,240</u>	<u>\$ 51,759,159</u>	<u>\$ 51,114,175</u>	<u>\$ 53,659,148</u>	<u>\$ 52,518,177</u>	<u>\$ 55,456,987</u>	<u>\$ 54,215,796</u>	<u>\$ 56,448,057</u>
<b>Program Revenues</b>										
Governmental activities:										
Charges for services:										
General	\$ 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	\$ 7,837,796
Police	362,441	252,838	224,022	261,070	241,104	289,432	291,749	285,573	-	-
Sanitation	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	1,547,682
Recreation	75,592	83,919	130,740	366,683	369,135	368,493	391,024	436,453	444,410	476,772
Adult Recreation	34,534	32,791	36,316	45,889	46,261	41,018	39,977	49,241	41,459	45,737
Golf			847,016	776,173	944,858	1,001,627	1,113,277	1,067,593	1,137,114	1,127,306
Operating grants and contributions	631,133	206,012	87,416	22,267	24,402	-	-	9,144	-	-
Capital grants and contributions	8,526,591	7,310,387	384,358	1,389,592	302,963	1,317,475	438,033	8,416,283	1,319,753	1,467,355
Total governmental activities program revenues	<u>16,786,442</u>	<u>15,169,863</u>	<u>8,218,684</u>	<u>9,491,191</u>	<u>8,704,267</u>	<u>10,727,431</u>	<u>9,758,436</u>	<u>17,952,001</u>	<u>11,258,837</u>	<u>12,502,648</u>
Business-type activities:										
Charges for services:										
Gas	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	6,276,414
Electric	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	20,218,941
Water and wastewater	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	11,164,497
Golf course	1,505,211	1,487,811	-	-	-	-	-	-	-	-
Total business-type activities program revenues	<u>34,221,963</u>	<u>35,273,711</u>	<u>35,337,263</u>	<u>36,087,627</u>	<u>38,345,349</u>	<u>34,921,900</u>	<u>36,397,400</u>	<u>39,090,981</u>	<u>38,741,246</u>	<u>37,659,852</u>
Total primary government program revenues	<u>\$ 51,008,405</u>	<u>\$ 50,443,574</u>	<u>\$ 43,555,947</u>	<u>\$ 45,578,818</u>	<u>\$ 47,049,616</u>	<u>\$ 45,649,331</u>	<u>\$ 46,155,836</u>	<u>\$ 57,042,982</u>	<u>\$ 50,000,083</u>	<u>\$ 50,162,500</u>

(continued)

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net (expense)/revenue										
Governmental activities	\$ (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)	\$ (13,333,652)
Business-type activities	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	7,048,095
Total primary government net expense	<u>\$ 4,923,599</u>	<u>\$ (391,621)</u>	<u>\$ (6,252,293)</u>	<u>\$ (6,180,341)</u>	<u>\$ (4,064,559)</u>	<u>\$ (8,009,817)</u>	<u>\$ (6,362,341)</u>	<u>\$ 1,585,995</u>	<u>\$ (4,215,713)</u>	<u>\$ (6,285,557)</u>
<b>General Revenues and Other Changes in Net Position</b>										
Governmental activities:										
Taxes										
Property taxes	\$ 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	\$ 4,869,877
Sales tax	-	-	1,003,864	4,443,325	4,590,149	4,898,362	5,437,863	6,518,249	6,797,757	7,422,726
Liquor taxes	373,794	396,196	385,411	392,255	393,123	425,888	425,816	445,132	451,719	482,755
Lodging taxes	420,024	495,850	474,852	483,271	495,870	569,142	643,495	614,278	681,419	696,379
Other taxes	138,857	145,836	134,413	131,135	120,518	124,234	139,666	138,204	138,382	133,057
Intergovernmental	472,667	293,007	436,472	424,359	248,011	314,525	596,816	389,561	1,695,688	568,566
Investment earnings	508,558	340,530	225,860	239,256	249,489	226,642	251,512	239,205	228,670	302,181
Gain (loss) on sale of assets	-	-	-	-	-	-	-	(261,340)	-	-
Other	251,476	294,469	109,958	1,293,419	124,161	143,319	213,169	147,672	705,142	147,452
Transfer of Golf Fund to Governmental Activities	-	-	913,729	-	-	-	-	-	-	-
Transfers in/(out)	(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	2,951,082
Total government activities	<u>(4,562,247)</u>	<u>10,255,732</u>	<u>13,718,535</u>	<u>17,146,490</u>	<u>15,639,308</u>	<u>15,467,653</u>	<u>15,242,634</u>	<u>16,173,980</u>	<u>17,076,118</u>	<u>17,574,075</u>
Business-type activities:										
Investment earnings	266,888	115,648	60,104	23,385	58,522	20,417	25,268	30,815	18,440	15,162
Transfer of Golf Fund to Governmental Activities	-	-	(913,729)	-	-	-	-	-	-	-
Transfers in/(out)	(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)	(2,951,082)
Total business-type activities	<u>(3,753,158)</u>	<u>(3,542,720)</u>	<u>(5,947,761)</u>	<u>(4,873,719)</u>	<u>(4,768,625)</u>	<u>(4,153,385)</u>	<u>(3,210,983)</u>	<u>(3,581,667)</u>	<u>(1,808,135)</u>	<u>(2,935,920)</u>
Total primary government	<u>\$ (8,315,405)</u>	<u>\$ 6,713,012</u>	<u>\$ 7,770,774</u>	<u>\$ 12,272,771</u>	<u>\$ 10,870,683</u>	<u>\$ 11,314,268</u>	<u>\$ 12,031,651</u>	<u>\$ 12,592,313</u>	<u>\$ 15,267,983</u>	<u>\$ 14,638,155</u>
<b>Change in Net Position</b>										
Governmental activities	\$ (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	\$ 4,240,423
Business-type activities	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	4,112,175
Total primary government	<u>\$ (3,391,806)</u>	<u>\$ 6,321,391</u>	<u>\$ 1,518,481</u>	<u>\$ 6,092,430</u>	<u>\$ 6,806,124</u>	<u>\$ 3,304,451</u>	<u>\$ 5,669,310</u>	<u>\$ 14,178,308</u>	<u>\$ 11,052,270</u>	<u>\$ 8,352,598</u>

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

<b>Fiscal Year</b>	<b>Sales Tax</b>	<b>Ad Valorem Tax</b>	<b>Automobile Tax</b>	<b>Beer, Wine and Liquor Tax</b>	<b>Cigarette Tax</b>	<b>Lodging Tax</b>	<b>Dog Tax</b>	<b>Total</b>
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
2016	7,422,726	4,218,538	651,339	482,755	132,957	696,379	100	13,604,795



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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General fund										
Restricted	\$ -	\$ -	\$ 501,932	\$ 2,723,595	\$ 5,014,205	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000
Unassigned	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	3,629,943
<b>Total general fund</b>	<b><u>\$ 1,703,619</u></b>	<b><u>\$ 1,083,383</u></b>	<b><u>\$ 2,076,675</u></b>	<b><u>\$ 4,709,509</u></b>	<b><u>\$ 7,160,155</u></b>	<b><u>\$ 10,295,547</u></b>	<b><u>\$ 10,447,451</u></b>	<b><u>\$ 10,449,523</u></b>	<b><u>\$ 10,992,803</u></b>	<b><u>\$ 10,629,943</u></b>
All other governmental funds										
Restricted										
Debt Service - Other Gov. Funds	\$ 456,957	\$ 470,671	\$ 350,987	\$ 351,008	\$ 350,020	\$ 325,214	\$ 339,308	\$ 357,156	\$ 348,720	\$ 516,120
Road Maint & Const. - Other Gov. Funds	-	-	-	-	-	-	274,746	46,007	105,947	35,936
Construction - Capital Projects	-	-	-	-	-	-	1,154,000	1,154,000	1,154,000	1,154,000
Assigned, reported in:										
Other Governmental Funds	311,553	66,907	59,142	127,419	167,786	1,029,075	1,252,213	851,448	826,435	1,478,912
Capital Projects Funds	3,892,524	2,070,337	550,369	362,354	675,799	-	58,625	1,956,986	4,398,406	1,364,704
Unassigned										
Capital projects funds	-	-	-	-	-	(1,069,424)	181,085	-	-	-
<b>Total all other governmental funds</b>	<b><u>\$ 4,661,034</u></b>	<b><u>\$ 2,607,915</u></b>	<b><u>\$ 960,498</u></b>	<b><u>\$ 840,781</u></b>	<b><u>\$ 1,193,605</u></b>	<b><u>\$ 284,865</u></b>	<b><u>\$ 3,259,977</u></b>	<b><u>\$ 4,365,597</u></b>	<b><u>\$ 6,833,508</u></b>	<b><u>\$ 4,549,672</u></b>

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									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>REVENUES</b>										
Local taxes	\$ 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	\$ 13,604,795
Licenses and permits	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	3,596,049
Fines and forfeitures	362,441	252,838	224,022	261,070	241,104	289,432	291,749	285,573	278,837	236,724
Intergovernmental	3,167,141	1,826,517	837,246	547,556	345,966	667,344	1,022,649	991,614	639,523	693,761
Contribution from Public Library Bd	685,003	208,931	71,000	65,000	183,285	1,000	1,500	-	-	-
Interest and rents	377,743	340,530	225,861	239,256	249,489	226,748	253,003	239,205	228,669	302,181
Charges for services	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	6,504,860
Assessments	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	1,127,306
Recreation Department	-	-	-	-	369,135	368,493	391,024	436,453	444,410	476,772
BP settlement proceeds	-	-	-	-	-	-	-	-	1,361,255	-
Legal settlement	-	-	-	-	-	-	-	-	598,640	-
Other	492,419	411,179	277,015	1,705,991	170,422	184,411	253,146	196,913	180,644	223,293
<b>Total revenues</b>	<b>16,754,860</b>	<b>16,048,869</b>	<b>16,042,070</b>	<b>20,598,979</b>	<b>19,545,695</b>	<b>21,061,464</b>	<b>22,320,254</b>	<b>23,429,714</b>	<b>26,191,042</b>	<b>26,765,741</b>
<b>EXPENDITURES</b>										
General government	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	8,738,427
Sanitation	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	1,624,642
Police	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	4,122,549
Fire	619,434	707,513	765,645	837,597	395,224	339,080	312,647	339,623	338,547	396,359
Airport	397,183	545,000	242,090	249,856	225,843	281,124	443,000	443,000	412,632	428,000
Street	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	2,493,708
Recreation	658,837	785,425	867,174	1,050,957	969,025	989,463	1,062,174	1,024,526	1,095,605	1,269,073
Adult recreation	328,744	431,481	400,494	553,125	577,015	525,212	543,109	566,000	581,338	631,887
Golf	-	-	1,303,135	1,094,604	1,113,178	863,593	907,216	901,085	987,957	1,088,667
Capital outlay	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	7,698,341
Debt service:										
Principal	4,412,690	2,424,796	863,329	1,047,483	831,483	4,804,960	1,485,545	2,894,540	483,780	6,478,558
Interest	532,687	802,140	809,715	704,043	666,652	616,221	508,483	465,409	374,479	390,971
Bond issuance costs	138,476	-	-	-	-	-	-	-	-	-
Public Library Board	396,000	504,560	530,000	565,000	565,000	600,000	630,000	674,100	714,100	814,600
Other	60,000	60,000	60,000	75,000	89,620	160,888	89,133	89,785	93,436	162,736
<b>Total expenditures</b>	<b>25,902,367</b>	<b>23,680,589</b>	<b>21,667,335</b>	<b>22,982,966</b>	<b>21,569,372</b>	<b>27,023,814</b>	<b>22,429,286</b>	<b>25,934,503</b>	<b>25,006,426</b>	<b>36,338,518</b>
Excess (deficiency) of revenues over expenditures	(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	(9,572,777)
<b>OTHER FINANCING SOURCES (USES)</b>										
Transfers in	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	8,568,025
Proceeds from issuance of debt	9,692,000	1,300,000	3,368,260	-	-	4,015,200	-	-	-	3,975,000
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	(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)	(5,616,944)
<b>Total other financing sources (uses)</b>	<b>13,668,090</b>	<b>4,958,368</b>	<b>4,971,140</b>	<b>4,897,104</b>	<b>4,827,147</b>	<b>8,189,002</b>	<b>3,236,251</b>	<b>3,612,481</b>	<b>1,826,575</b>	<b>6,926,081</b>
<b>Net change in fund balance</b>	<b>\$ 4,520,583</b>	<b>\$ (2,673,352)</b>	<b>\$ (654,125)</b>	<b>\$ 2,513,117</b>	<b>\$ 2,803,470</b>	<b>\$ 2,226,652</b>	<b>\$ 3,127,219</b>	<b>\$ 1,107,692</b>	<b>\$ 3,011,191</b>	<b>\$ (2,646,696)</b>
Debt service as a percentage of noncapital expenditures	24.9%	15.8%	8.4%	8.2%	7.5%	20.6%	9.5%	14.0%	4.1%	24.0%

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

<b>Fiscal Year Ended September 30</b>	<b>Residential Property</b>	<b>Commercial Property</b>	<b>Industrial Property</b>	<b>Less: Tax Exempt Real Property</b>	<b>Total Taxable Assessed Value</b>	<b>Total Direct Tax Rate</b>	<b>Estimated Actual Taxable Value</b>
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
2016	188,693,940	1,246,280	201,141,240	64,329,960	326,751,500	15	4,901,272,500

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			
	City				County				State						
	General Millage	School Millage	Bond Tax Millage	Total City Millage	General Millage	Road/Bridge Millage	Fire Millage	School Millage	Health Care Authority Millage	Total County Millage	General Millage		School Millage	Soldier Millage	Total State Millage
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
2016	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	2016			2007		
	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	\$ 3,135,180	1	1.0%			
Arbor Gates LLC	2,228,020	2	0.7%	\$ 2,901,920	3	1.3%
Fairhope LLC	1,880,840	3	0.6%			
FST Mississippi Baldwin Square	1,742,440	4	0.5%			
Truland Homes LLC	1,551,960	5	0.5%			
Fairhope Ridge LLC	1,404,940	6	0.4%			
A 1 Corte Jr Family Limited Partnership	1,383,520	7	0.4%	1,934,460	4	
FST Fairhope Hospitality Group LLC	1,363,960	8	0.4%			
Bones Set Too LLC	1,323,640	9	0.4%			
Health Care Reit Inc	1,178,060	10	0.4%			
CHS Properties, Inc				3,305,100	1	1.5%
FST E&A Southeast Limited Partnership				3,270,220	2	1.5%
Fairhope Commerical Investments LLC				1,368,600	5	0.6%
Bellsouth Telecommunications Inc				1,253,300	6	0.6%
The Sanctuary, LLC				1,117,360	7	0.5%
FST Eastern Shores Shopping Center				1,039,340	8	0.5%
FST Central Bank of the South				898,000	9	0.4%
FST Wilcox Holdings Ltd of AL LLC				826,920	10	0.4%
	<u>\$ 17,192,560</u>		<u>5.3%</u>	<u>\$ 17,915,220</u>		<u>7.1%</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
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%
2016	\$ 4,911,340	\$ 4,751,476	96.75%	\$ -	\$ 4,751,476	96.75%

Source: Baldwin County Revenue Commissioner.

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

<b>Fiscal Year</b>	<b>City Direct Rate</b>	<b>Baldwin County</b>	<b>State of Alabama</b>
2013	2.00%	3.00%	4.00%
2014	2.00%	3.00%	4.00%
2015	2.00%	3.00%	4.00%
2016	2.00%	3.00%	4.00%

Source: City Clerk's Office

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

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

	<b>Top 25 Taxpayers (approximate)</b>	<b>Total Tax</b>	<b>% of Total Tax</b>
<b>2011</b>	\$ 2,502,259	\$ 4,591,088	55%
<b>2012</b>	\$ 2,525,722	\$ 4,855,972	52%
<b>2013</b>	\$ 2,641,175	\$ 5,437,863	49%
<b>2014</b>	\$ 3,673,425	\$ 6,518,249	56%
<b>2015</b>	\$ 3,624,562	\$ 6,733,115	54%
<b>2016</b>	\$ 3,788,930	\$ 7,232,073	52%

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			
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
2016	6,833,058	-	-	3,581,942	16,152,226	-	-	26,567,226	3.92%	1,418

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>
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
2016	10,415,000	516,120	9,898,880	1.46%	529

CITY OF FAIRHOPE, ALABAMA  
COMPUTATION OF OVERLAPPING DEBT  
SEPTEMBER 30, 2016

	<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	\$ 6,833,058	100.00%	\$ 6,833,058
Overlapping Debt (Supported by ad valorem tax)			
Baldwin County	\$ 111,391,714	8.23% <sup>(1)</sup>	<u>9,167,538</u>
			<u>\$ 16,000,596</u>

(1) Percentage of net assessed value of property in City (\$326,751,500) to net assessed value of property in Baldwin County (\$3,970,249,940) on 10/1/2016.

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Debt limit	\$ 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	\$ 65,350,300
Total net debt applicable to limit	<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>	<u>10,415,000</u>
Legal debt margin	<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>	<u>\$ 54,935,300</u>
Total net debt applicable to limit as a percentage of debt limit	41.61%	26.77%	25.82%	25.20%	26.07%	24.92%	24.04%	28.57%	23.18%	15.94%

**Legal Debt Margin Calculation for Fiscal Year 2016**

Total assessed value	\$ <u>326,751,500</u>
Debt limit (20% of total assessed value)	<u>65,350,300</u>
Debt applicable to limit:	
General obligation warrants	10,415,000
Notes payable	<u>-</u>
Total net debt applicable to limit	<u>10,415,000</u>
Legal debt margin	<u>\$ 54,935,300</u>

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

<b>Fiscal Year</b>	<b>Population</b>	<b>Personal Income</b>	<b>Per Capita Personal Income</b>	<b>School Enrollment</b>	<b>Unemployment Rate</b>
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%
2016	18,730	677,183,150	36,155	5,333	5.3%

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	2016			2007		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Thomas Hospital	1,200	1	16.4%	1,210	1	21.8%
Grand Hotel	700	2	9.6%	650	2	11.7%
City of Fairhope	435	3	5.9%	289	4	5.2%
Wal-Mart	340	4	4.6%	400	3	
Segers Aero Corporation	130	5	1.8%			
Publix	115	6	1.6%			
Winn-Dixie	90	7	1.2%	85	6	1.5%
Piggly Wiggly	65	8	0.9%			
Balloons Everywhere	60	9	0.8%	50	8	0.9%
Print Xcel (formerly Poser Business Forms)	45	10	0.6%	138	5	
Bruno's				71	7	1.3%
Air Inc				59	9	1.1%
Food World				60	10	
	3,180		43.5%	3,012		43.4%

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

*NOTE: Total city employment number represents people residing in COF that are employed (place of residence) rather than employment for COF businesses*  
 2007: 5,562    2016: 7,315

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, 2016									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Government	61	62	54	55	53	53	48	48	49	49
Public Safety										
Police	41	42	51	48	48	44	48	46	46	45
Fire										
Firefighters and Dispatch	9	14	13	13	17	18	17	18	17	14
Highways and Streets										
Public Works	29	28	37	37	35	36	39	39	41	46
Sanitation	22	20	21	20	20	19	17	21	22	20
Culture and Recreation										
Recreation	8	9	18	18	19	19	24	23	25	26
Adult Recreation	3	6	10	13	14	14	9	10	11	12
Gas Department	16	19	18	18	18	18	17	15	15	15
Electric Department	20	19	17	17	17	18	17	22	21	19
Water/Waste Water Department	24	25	23	23	24	26	24	23	23	22
Golf Department	13	13	19	19	16	14	15	16	18	20
<b>Total</b>	<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>	<u>288</u>

Source: City of Fairhope Human Resources Department

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

Function	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Police</b>										
Physical arrests	1,710	1,131	993	833	1,134	603	759	750	1,423	983
Parking violations	13	71	285	201	163	128	22	49	121	240
Traffic violations	1,516	996	1,004	1,245	1,419	2,215	1,379	887	633	1,726
<b>Fire</b>										
Number of calls answered	339	432	427	658	801	657	690	853	836	865
Inspections	282	196	382	291	143	101	85	35	161	147
<b>Highways and streets</b>										
Street resurfacing (miles)	-	-	1.5	-	-	8.1	-	-	-	13.2
Potholes repaired**	312	414	384	400	425	450	1,345	1,480	1,620	2,933
<b>Sanitation</b>										
Garbage collected (tons/year)	8,246	7,520	7,782	8,627	9,100	8,711	7,564	8,509	8,236	8,654
Trash collected (tons/year)	5,213	5,915	5,744	7,385	6,487	5,767	5,513	6,292	5,545	5,902
Recyclables collected (tons/year)	2,131	1,989	1,297	1,281	1,495	1,508	1,512	1,714	1,779	1,855
<b>Culture and recreation</b>										
Golf course rounds @ 9 hole rounds	92,702	88,475	53,755	62,720	61,283	65,500	62,266	59,261	57,405	56,613
Pavilion/park parties	74	88	84	80	64	56	58	61	59	44
<b>Waste water</b>										
Average daily sewage treatment (millions of gallons)	1.7	1.7	1.7	1.8	1.8	1.8	1.8	1.8	2.0	2.2

Sources: Various government departments

\*\* The City changed the calculation method for potholes for FY 2016 resulting in a larger increase.



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

<b>Function</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Public safety										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	35	36	40	45	45	45	43	37	38	39
Fire stations	3	3	3	3	3	3	3	3	4	4
Highways and streets										
Streets (miles)	89.7	98.1	98.1	98.1	98.1	99.1	99.1	103.84	106.54	108.64
Culture and recreation										
Parks acreage	208	208	208	248	248	248	248	356	504	504
Parks	50	50	50	51	51	51	51	52	54	54
Swimming pools	3	3	3	3	3	3	3	3	3	3
Tennis courts	6	6	6	6	6	6	6	6	6	12
Community center	2	1	3	3	3	3	3	3	3	3
Sewer										
Sanitary sewers (miles)	120	121	121	125	125	125	126	126	130	135
Storm sewers (miles)	15.55	16.75	16.75	16.75	16.75	17.25	17.25	19.17	20.57	22.77
Maximum daily treatment capacity (millions of gallons)	4	4	4	4	4	4	4	4	4	4.2

Sources: Various government departments

## **COMPLIANCE SECTION**

SHAREHOLDERS

J. Earl Blackmon, Jr., CPA  
B. Vance Kilgore, CPA  
Dennis E. Sherrin, CPA  
G. Allen Cave, Jr., CPA  
Rachel M. Godwin, CPA



Hartmann, Blackmon & Kilgore, P.C.

Certified Public Accountants & Consultants

OF COUNSEL

Xavier A. Hartmann, III, CPA  
Rucker T. Taylor, III, CPA  
Sally S. Wagner, CPA  
Jerry Gibbons, CPA

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 September 30, 2016, 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 31, 2017.

**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.

*Hartmann, Blochman & Kufner, P.L.L.C.*  
Certified Public Accountants

January 31, 2017  
Fairhope, Alabama

## SHAREHOLDERS

J. Earl Blackmon, Jr., CPA  
B. Vance Kilgore, CPA  
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Rachel M. Godwin, CPA



**Hartmann, Blackmon & Kilgore, P.C.**

Certified Public Accountants & Consultants

## OF COUNSEL

Xavier A. Hartmann, III, CPA  
Rucker T. Taylor, III, CPA  
Sally S. Wagner, CPA  
Jerry Gibbons, CPA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

### **Report on Compliance for Each Major Federal Program**

We have audited the City of Fairhope, Alabama's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Fairhope, Alabama's major federal programs for the year ended September 30, 2016. The City of Fairhope, Alabama's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City of Fairhope, Alabama's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Fairhope, Alabama's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Fairhope, Alabama's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the City of Fairhope, Alabama complied, in all material respects, with the types of 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, 2016.

**Report on Internal Control over Compliance**

Management of the City of Fairhope, Alabama, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Fairhope, Alabama's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 of Fairhope, Alabama'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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Hartmann, Bleckman & Kufner, P.C.*  
Certified Public Accountants

January 31, 2017  
Fairhope, Alabama

CITY OF FAIRHOPE, ALABAMA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Identification Number	Expenditures
<b>Department of Homeland Security</b>		
Hazard Mitigation Grant	97.039	\$ 140,421
<b>Department of Commerce</b>		
Coastal Zone Management Administration Awards	11.419	12,484
<b>Department of Agriculture</b>		
Emergency Watershed Protection Program	10.923	125,194
<b>Department of Transportation</b>		
Airport Improvement Program	20.106	<u>715,271</u>
		<u><u>\$ 993,370</u></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 Uniform Guidance, 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, 2016

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

***Financial Statements***

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

Internal control over financial reporting:

Are any material weaknesses identified?	___ Yes	__X__ No
Are any significant deficiencies identified not considered to be material weaknesses?	___ Yes	X None Reported
Is any noncompliance material to financial statements noted?	___ Yes	__X__ No

***Federal Awards***

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

Internal control over major program compliance:

Are any material weaknesses identified?	___ Yes	__X__ No
Are any significant deficiencies identified not considered to be material weaknesses?	___ Yes	X None Reported
Are any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	___ Yes	__X__ No

Identification of major programs:

Environmental Protection Agency Airport Improvement Program	CFDA Number 20.106
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CITY OF FAIRHOPE, ALABAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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

Enter the dollar threshold used to distinguish between Type A and Type B programs:	\$750,000	
Is the auditee qualified as a low risk auditee?	<input checked="" type="checkbox"/> Yes	<input 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.