



City of Fairhope, Alabama

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

CITY OF FAIRHOPE, ALABAMA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

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CITY OF FAIRHOPE, ALABAMA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017
PREPARED BY:
THE OFFICE OF THE FINANCE DIRECTOR

CITY OF FAIRHOPE, ALABAMA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2017

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INTRODUCTORY SECTION



March 26, 2018

Karin Wilson
Mayor

Council Members

Kevin G. Boone

Robert A. Brown

Jack Burrell, AICMA

Jimmy Conyers

Jay Robinson

Lisa A. Hanks, MMC
City Clerk

Michael V. Hinson, CPA
City Treasurer

To the Council President,
City Council Members, and Citizens of the City of Fairhope
Fairhope, Alabama

The Comprehensive Annual Financial Report (CAFR) of the City of Fairhope, Alabama (the City) for the fiscal year ended September 30, 2017 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.

Warren Averett has issued an unmodified ("clean") opinion on the City's financial statements for the year ended September 30, 2017. 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 auditors' 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 council president who is chosen by the council members and is also a voting member of the council.

The City provides a full range of services including natural gas, electricity, water and waste water services for its citizens, as well as police and fire protection, sanitation and recycling services, maintenance of streets and infrastructure, numerous parks, recreational activities for all ages, a recreation center, a museum, a welcome center, a public golf course, indoor and outdoor swimming pools, a tennis complex, a skate park, a pet park, a marina, 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 statements (see Note 1.A. beginning on page 28 of this report).

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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 the Council prior to starting the requisition process. Except for capital project appropriations that generally span multiple years, budgets for all funds lapse at the end of each fiscal year.

Local Economy

As the current fastest growing City in Baldwin County and in the State of Alabama, the City continued to show economic growth during the year with unprecedented residential and commercial development. 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 growing health services and higher education.

The City continues to benefit from corporate growth in both Baldwin and Mobile counties. Unprecedented residential development has brought young professional families and related retirees to our community because of our proximity to good paying jobs. Our excellent school system and our growing medical facilities and services make Fairhope a desirable place to live for both these demographics. At fiscal year end, according to the Alabama Department of Labor, the unemployment rate for Baldwin County was 3.3% (down from 5.3% last year) while the rate for the state was 3.5% (down from 5.9% last year).

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 2017, the City's median family income was \$61,723 (up from \$61,489 in 2016), while the State median family income was \$42,257 (down from \$43,623 in 2016). According to the U.S. Census Bureau, the City's owner-occupied housing unit's rate was 63.6%.

The City 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 the City, have positively impacted commercial growth and property values in our area. Both businesses have expanded their operations, adding positively to the local economy. The Fairhope Airport Authority, the Baldwin County Public School System, and Coastal Alabama Community College have continued their partnership 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. We are looking to expand on training opportunities at the Fairhope Airport.

Due to its strong and healthy local economy, the City has been able to bypass the public debt market and obtain extremely favorable credit terms for private debt placement with local financial institutions. The favorable credit terms result from the City's strong management with good financial practices, budgetary flexibility, strong liquidity, very favorable debt to governmental funds revenue ratio, and the City's strong local economy and per capita market value.

Daphne-Fairhope-Foley area ranked #8 in 2016 Best Cities for Job Growth according to website, [NewGeography](#). Baldwin County Economic Development Alliance announced that UTC Aerospace Systems chose Baldwin County for new job creation and investment in 2017, with an 80,000 square-foot facility and an increased workforce of 1,000 employees that will serve Baldwin County well and facilitate economic growth throughout our area.

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 \$6,819,862 which represents 25% of total general fund revenues. The Council has committed, by City Ordinance, \$7 million in the General Fund for use in times of emergency. This committed amount is periodically reviewed to ensure the City maintains the financial resources to endure periods of economic stress.

The Mayor, City Council, and City department heads continue to strive to adhere to the City's established goals in planning for continuing growth, and in maintaining the quality of life and the highest level of governmental services to all residents in the City.

The City 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 City is strengthening its focus on improvements to existing infrastructure for drainage, streets and the utilities, along with dependable excellent government service, with maximum efficiency and fiduciary responsibility. In 2017, the City received funding from the Alabama Department of Conservation and Natural Resources (ADCNR), State Lands Division, Coastal Section and NOAA's National Coastal Zone Management Program. This funding allows us to conduct a GIS-based inventory of all storm drain outfalls; purchase metal medallions to be permanently imbedded into the concrete structure of each storm drain; design and produce brochures to educate the public about stormwater pollution; host a "Storm Drain Marking Event" to involve the citizenry in the placing of the stormwater medallions; work with Baldwin County School Board to offer resources for educational opportunities to coordinate with the Alabama Coastal Foundation and the National Estuary Program in this effort. The City also received a grant from the "Gulf of Mexico Alliance" (GOMA) for a project to model stormwater management to create innovative ways to manage/harness fast moving water that will serve as a model for managing all the City's gullies and gain control over stormwater damage to surrounding areas, residences and commercial establishments.

The City continues to increase the number of sidewalks and is actively continuing the Complete Streets program. Additionally, the City is addressing parking issues by securing a grant to address the City's parking deck and alleyway issues and adding a public transportation hub. Improvements such as these will not only make the area safer but will ease parking and traffic congestion. Plans are being designed for "parkettes" in the downtown area to enhance the City's streetscape and provide convenient and attractive rest areas for pedestrians.

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 judgements by management. We believe the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions and the City will continue to implement policies and procedures that improve and strengthen internal controls.

Awards and Acknowledgements

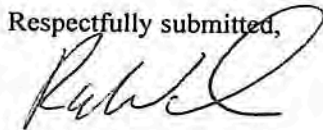
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Fairhope, Alabama for its comprehensive annual financial report for the fiscal year ended September 30, 2016. In order to be awarded 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.

The Certificate of Achievement is an award presented annually based on a submitted financial document for each fiscal year. We believe that this presentation of the City's current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and are submitting it to the GFOA for consideration of a Certificate of Achievement for this report.

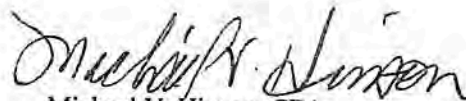
The preparation of this comprehensive annual financial report could not be accomplished without the dedicated services of the Finance Department staff. We express appreciation to each member of the Department and to members of other City departments for their contributions made in the preparation of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



Karin Wilson
Mayor



Michael V. Hinson, 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, 2016

Christopher P. Morill

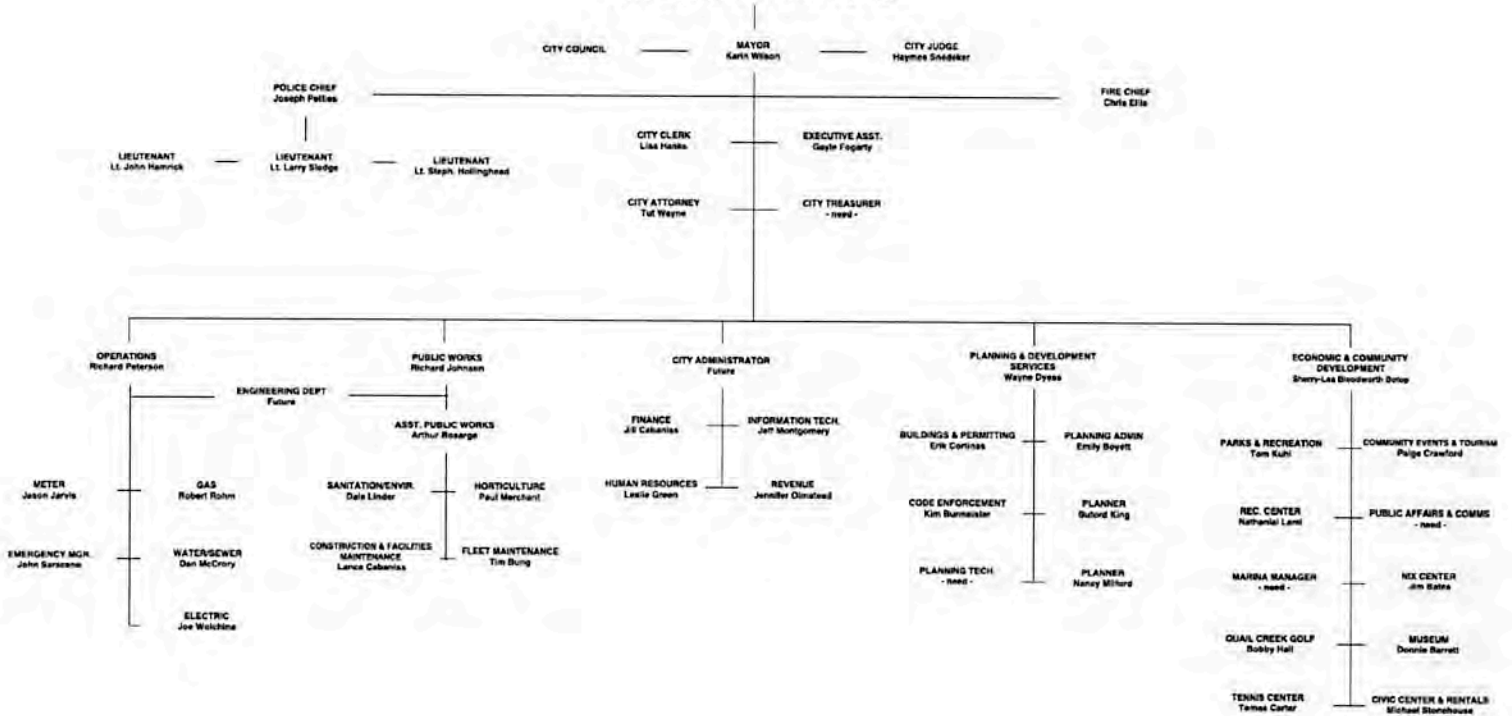
Executive Director/CEO

CITY OF FAIRHOPE, ALABAMA

ORGANIZATIONAL CHART

SEPTEMBER 30, 2017

CITIZENS OF FAIRHOPE



CITY OF FAIRHOPE, ALABAMA
CITY ELECTED AND APPOINTED OFFICIALS
SEPTEMBER 30, 2017

Karin Wilson

Kevin Boone
Jay Robinson
Jack Burrell, CMO
Robert Brown
Jimmy Conyers

Lisa Hanks

Michael Hinson, CPA

Joseph Petties

Marion E. Wynne, Jr.

Honorable Haymes Snedeker

Mayor

Councilmember
Councilmember
Councilmember
Councilmember
Councilmember

City Clerk

City Treasurer

Police Chief

City Attorney

City Judge

FINANCIAL SECTION

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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 (the City) as of and for the year ended September 30, 2017, 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

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 of 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 auditors' 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 financial statement 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of employer contributions, schedules of changes in the net pension liability, and budgetary comparison information on pages 3 through 16 and pages 67 through 73 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, other supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relate 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 combining and individual nonmajor fund financial statements, and budgetary comparison schedule are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2018 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.

Warren Averett, LLC

Montgomery, Alabama
March 26, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Fairhope, Alabama's (the City) financial performance provides a narrative overview of the City's financial activities for the fiscal year ended September 30, 2017. 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 \$155,865,056, a current year increase in adjusted net position of \$12,030,495 (page 17).
- At the close of the fiscal year, the City's combined governmental funds, including General, Capital Projects, and Other Governmental Funds, reported ending fund balances totaling \$21,021,007, an increase of \$5,841,392 from the prior year. The General Fund closed with a fund balance of \$13,967,427, an increase of \$3,337,484. Over half of this increase is related to the refunding of the 2007 General Obligation Warrants in the prior year which decreased debt service requirements. The Capital Projects Fund had an increase in fund balance of \$1,629,123 after capital expenditures of \$1,285,694 and transfers from the General and Impact Fee Funds of \$2,388,204 (page 21). A detailed explanation of these decreases can be viewed on page six and seven of this report.
- City-wide, governmental and business-type funds, cash (including restricted cash) totaled \$37,091,554, an increase of \$8,313,052 from the previous year. Governmental Funds cash totaled \$20,716,490 at September 30, 2017 (page 17). This is an increase of \$5,862,598 from the prior year. As mentioned above, the City refunded the 2007 General Obligation Warrants. As a result, debt payments decreased freeing up cash in the current year. In addition, cash in the Capital Projects Fund increased by \$1,280,979 due to increased transfers in anticipation of projects scheduled for the first part of 2018. In the other Governmental Funds, the increase of \$862,364 was primarily from the increase in Impact Fee cash of \$777,590 due to vast residential and commercial development. The business-type funds cash totaled \$16,375,064 at year end (page 23), an increase of \$2,450,454 from last year. This is a result of the current year change in net position of \$3,801,973.
- Revenues in the governmental funds increased approximately \$2,262,000 from the previous year. Expenses decreased approximately \$10,400,000. During fiscal 2017, revenues from the sales tax totaled \$8,069,350, an increase of approximately \$647,000 over the previous year. At year end, the General Fund's sales tax reserve totaled \$7 million with an additional \$7 million in unreserved.
- The combined governmental funds expended \$2,359,222 for capital projects and purchases, including \$1,285,694 for special projects such as concessions and restrooms at the Soccer Complex, tennis court lighting, the Rock Creek Trail, and City-wide street resurfacing. \$1,073,528 was for vehicles, equipment and other infrastructure additions.
- The business-type activities, (Gas, Electric, Water and Waste Water), ended the year with income before transfers of \$6,521,556, compared to \$7,063,257 for fiscal 2016. Revenues decreased approximately \$162,000. Costs of energy and operating expenses increased about \$253,000. The utilities made transfers to the General Fund of \$2,719,583 from income, which is \$231,500 less than transfers last year. The business-type activities recorded an increase in net position, after transfers, of \$3,801,973 (page 24). Details pertaining to these decreases can be seen on pages eight and nine of this report.

- The City's business-type activities made additions to property, plant and equipment of \$3,024,040. The majority of this increase was due to routine system improvements totaling \$3 million. Funding for these additions was prior debt issues, current income and money set aside for this purpose (pages 25 and 41).
- The City's long term-debt decreased by \$4,055,000 during fiscal year 2017, yielding total outstanding debt of \$22,565,000 compared to the previous year's \$26,620,000. This decrease was due to regularly scheduled debt payments. Governmental activities total debt was \$5,259,498. Business-type activities total debt was \$17,305,502 (pages 44 and 45).

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 28 of this report.

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 71 of this report.

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 67 of this report.

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 deferred outflows of resources and liabilities and deferred inflows of resources, 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 \$155,865,056 at the close of the most recent fiscal year, as shown in Figure 1, as well as page 10 and page 15 of this report. This is an increase of \$12,030,495, of which \$2,542,545 was related to prior period adjustments.

The largest portion of the City's net position, approximately 87% (\$135,650,797), 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 2% (\$3,343,402), represents resources that are subject to restrictions as to how they may be used. Funds restricted for debt service were \$3,221,229 and \$122,173 for road maintenance and construction. Restricted funds decreased approximately \$1,270,000 from the previous year.

The unrestricted net position, approximately 11% (\$16,870,857), may be used to meet the City's ongoing obligations to citizens and creditors. Unrestricted net position increased \$7,158,616 during fiscal 2017 (pages 12 and 17).

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 18, page 64.

Under Government Accounting Standards Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45), the City's Annual Required Contribution (ARC) was actuarially determined to be \$1,040,917. The current year retirement premium was \$373,128. The liability for Other Postemployment Benefits (OPEB) obligation at year end was \$4,310,057. This amount is reported on the Statement of Net Position, page 17, as Postemployment Benefits Other Than Pensions and in Note 13 on page 59 of this report.

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 16, beginning on page 61 of this report, for detailed explanation of these agreements. At year end, the balance of this deferred inflow of resources is \$3,390,304.

Under Government Accounting Standards Statement 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), 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 \$98,569 and pension related items of \$2,594,164. Deferred inflows of resources at year end included pension related items of \$44,949 and unearned revenue of \$306,261. These amounts are reported on the Statement of Net Position on page 17 and Note 10 beginning on page 47 of this report.

Figure 2 on page 13 of this report 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 Statement of Net Position 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 on page 14 of this report, 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, 2017, and the amounts of increases and decreases in relation to prior year revenues and expenditures.

Governmental activities revenues increased \$2,262,460 from the previous fiscal year. Expenditures of Governmental funds decreased \$10,432,126 for the same period. The following significant events, related to revenues and expense, occurred during fiscal 2017 (the figures are rounded):

Related to revenue:

- Local taxes were up \$1,077,000. The majority of this was related to an increase in sales tax collections.
- Licenses and permits increased by \$350,000. This was primarily due to an increase in building permits of 22% over last year, signifying continual growth in the City.
- Intergovernmental revenue increased \$182,000 due mainly to an increase in grants received.
- Charges for services were up \$405,000 due mainly to an increase in impact fee revenue.
- Other revenue increased by \$115,000 due to a reimbursement for street repairs.

Related to expenditures:

- Capital outlay expenditures were approximately \$2,359,222, down \$5,339,000 from the prior year. Expenditures of \$7,698,000 for fiscal 2016 included \$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. Major capital expenditures for fiscal 2017 were: \$1,285,694 for special projects such as concessions and restrooms at the Soccer Complex, tennis court lighting, the Rock Creek Trail, and City-wide street resurfacing. \$1,073,528 was for vehicles, equipment and other infrastructure additions.
- Debt service payments of \$1,685,000, decreased \$5,184,000 from the previous year's \$6,870,000 total. This was due to advance refunding of General Obligation bonds in the amount of \$5,975,000 in the prior year with no refunding or retiring of debt occurring in the current year.
- The City's General Administrative department had a decrease in expenditures of \$2,287,000. The major decreases were due to a shift of medical insurance costs and the required OPEB contribution from the General Administrative department to each individual department within the General Fund.
- The Police, Golf and Sanitation departments had combined increases of \$1,393,000 due to the shift in medical insurance costs and the required OPEB contribution from the General Administrative department. These two items alone represented 89% of the increase.
- Expenditures in the Recreation and Street departments were up \$547,000 and \$286,000, respectively, from the prior year. The main reason for these increases was due to the implementation of a new utility billing system which provided more of an accurate allocation of utilities in each of the General Government departments. This expenditure in the Recreation department totaled \$341,000 and \$143,000 in the Street department. The remaining increase in the Recreation department was due to a rise in employee costs, medical insurance and the required OPEB contribution totaling \$167,000. The remaining variance in the Street department was comprised of an increase in medical insurance and the required OPEB contribution of \$402,000 and decreases in employee costs and street material and landscaping totaling \$265,000.

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 totaled \$21,021,007, an increase of \$5,841,392. This follows a decrease in fund balances of \$2,646,696 the previous year. Approximately 32% (\$6,819,862) constitutes unassigned fund balance, which is available for spending at the City's discretion. Approximately 1% (\$85,490) is not in spendable format. Approximately 3% (\$650,031) is restricted for debt service (\$527,858) and road maintenance (\$122,173). Approximately 64% (\$13,465,624) is committed for items such as Council approved emergencies (\$7,000,000), infrastructure improvements (\$1,567,815), construction and road maintenance (\$2,255,722), debt service (\$62,075) and capital projects (\$2,580,012).

The General Fund had a fund balance of \$13,967,427, an increase of \$3,337,484. The Capital Projects Fund had an increase in fund balance of \$1,629,123 after \$590,473 for park, soccer, golf and recreation projects, \$397,227 for a TAP grant trail project, City-wide street projects such as road resurfacing, construction of a roundabout and drainage improvements totaling \$171,566 additional capital outlay of \$126,428 and transfers from the General and Impact Fee Funds of \$2,388,204.

Debt Service and the Other Governmental Funds had fund balances of \$2,905,753 at year end, including restrictions for Debt Service of \$527,858, an increase of \$11,738 and committed funds reported in special revenue fund (Gas Tax and Impact Fees) of \$2,255,722, an increase of \$776,810 (see pages 17 and 19). Increases and decreases in revenues and expenses are discussed in the Governmental Funds section on page 6 of this report.

The governmental activities' net position at year end was \$95,835,117, an increase of \$8,458,764. Of this amount, \$2,772,787 was a result of prior period adjustments. The Gas, Electric and Water and Waste Water Funds had a net position of \$60,029,939 at year end, an increase of \$3,571,731 (see pages 17 and 24). The increase in the previous year was \$4,112,175, included in this were prior period adjustments of (\$230,242).

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 \$1,584,688. Expenditures for the General Fund were down \$792,637 from the prior year. Transfers from the proprietary funds (Gas, Electric, Water and Waste Water Funds) were \$2,719,583 for the current year, a decrease of \$231,498 from the prior year. After transfers, the fund balance of the General Fund increased by \$3,337,484 during fiscal 2017. The most significant revenue increase of \$1,076,838 was from local taxes, with the majority from sales tax. In addition, \$349,592 was from an increase in licenses and permits. Another factor affecting fund balance of the General Fund was an increase of \$139,460 in charges for services including utility collection fees, administrative services and sanitation collection. The most significant decrease relating to General Fund expenditures was in the General department. Total expenses of \$6,451,497 decreased \$2,286,930 from last year. This was a result of all General Fund medical insurance and required contribution OPEB expensed to the individual General Fund departments as opposed to the General department in the prior year. These amounts totaled \$1,911,024. Due to this departmental shift in expenditures, all other General Fund departments expenses increased \$2,521,142. The remaining difference was due to the decrease in capital outlay of \$940,849.

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 \$162,103 from the prior fiscal year. This represented a 0.43% decrease. However, operating expenses increased by \$253,300, a 0.84% increase. The increase in expenses was due mainly to increases in energy purchases for resale of \$832,350, an increase of 5.9%. Conversely, electric energy furnished to other departments decreased \$637,503 due to a shift in expenses to City-wide departments. Combined, other expenses were up from the prior year, \$58,453. 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. Income for the enterprise funds, before transfers to the General Fund, was \$6,521,556, a decrease of \$541,701. Transfers to the General Fund were \$2,719,583, or 42% of income. For fiscal 2016 the transfers to the General Fund were \$2,951,082, or 42% of income. For fiscal 2015 the transfers were \$1,826,575 or 22%. The change in net position of the three utilities was an increase of \$3,801,973.

General Fund Budgetary Highlights

Although there is no legal requirement to establish a budget, the City prepares an annual budget. The preparation process involves input from the Mayor, City managers, and the City Council budget committee. The procedure for preparing the annual budget is listed on page 72 of this report.

The budgetary comparison schedule for the General Fund is included in the Required Supplementary Information section on page 71 of this report.

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.

For the year ended September 30, 2017, actual revenues were more than budgeted revenues by \$897,000. The primary reasons for the variance are as follows:

- Local taxes revenue exceeded budgeted revenue by \$284,000 or 2%. This was due primarily to an increase in sales tax revenue receipts.
- Licenses and permits revenue exceeded budgeted revenue by \$202,000 or 5%. Of that amount, \$137,000 was from an increase in business licenses and building permits.
- Fines and forfeitures revenues exceeded budgeted revenue by \$55,000 or 23%. This was due to increase in tickets issued.
- Intergovernmental revenue exceeded budgeted revenue by \$166,000 or 91%. This was due primarily to unbudgeted financial institute excise tax revenue from the State totaling \$123,000.
- Golf revenue exceeded budgeted revenue by \$90,000 or 9%. This was due primarily to an increase in pro shop sales as well as food and beverage.
- Other revenue exceeded budgeted revenue by \$63,000 or 36%. This was due mainly to an increase in revenue related to the sale of fixed assets.

For the year ended September 30, 2017, actual expenditures were less than budgeted expenditures by \$897,000. The primary reasons for the variance are as follows:

- General government expenditures were less than budgeted expenditures by \$327,000 or 5%. The primary reason for this is a decrease in employee costs.
- Police expenditures were less than budgeted expenditures by \$588,000 or 10%. This was due primarily to a decrease in salaries and less than anticipated medical insurance costs.

- Fire expenditures were less than budgeted expenditures by \$147,000 or 24%. This was due to a decrease in employee medical insurance, general maintenance, and equipment and vehicle repairs.
- Street expenditures were less than budgeted expenditures by \$178,000 or 6%. This was due a decrease in employee costs.
- Golf expenditures were less than budgeted expenditures by \$176,000 or 11%. This was due to a decrease in employee costs.
- Recreation expenditures were less than budgeted expenditures by \$88,000 or 4%. This was due to a decrease in employee costs.
- Capital outlay expenditures were less than budgeted expenditures by \$1,400,000 or 57%. This was due to a decrease in anticipated capital purchases across all departments.

Capital Assets

As of September 30, 2017, the City's governmental activities had \$92,160,044 invested in capital assets, net of accumulated depreciation. This is an increase of \$1,781,080 from the prior year. The beginning balance of capital assets for governmental activities was increased by \$2,755,913 to correct errors related to the prior period. Additional information related to the prior period adjustments can be found in Note 21 beginning on page 65 of this report.

As of September 30, 2017, The City's business-type activities had \$65,914,706 invested in capital assets, net of accumulated depreciation. This is an increase of \$217,814 from the prior year. The beginning balance of capital assets for business-type activities was increased by \$17,818 to correct errors related to the prior period. Additional information related to the prior period adjustments can be found in Note 21 beginning on page 65 of this report.

Figure 4 on page 15 of this report summarizes the current year changes in capital assets by type. Additional information on the City's capital assets can be found in Note 5 beginning on page 40 of this report.

Debt Administration

As of September 30, 2017, the City had long-term debt of \$22,565,000 (excluding premiums and discounts), including bonds and warrants payable, notes payable, and obligations under capital leases. This is a net decrease, city-wide, of \$4,055,000 from the prior year. Governmental activities' decrease in long-term debt was \$1,573,560. In addition, business-type activities' decrease in long-term debt was \$2,481,440.

In December 2016, the business-type activities paid off the Utilities Revenue Warrants, Series 2009 in the amount of \$510,000. See Notes 5 through 8 in the financial statements for more detail.

Figure 5 on page 16 of this report summarizes the City's long-term debt, including compensated absences. Additional information on the City's long-term debt can be found in Note 6 beginning on page 42 of this report.

Economic Factors and Next Year's Budgets and Rates

The following economic factors currently affect the City and were considered in developing the 2017-2018 fiscal year budget.

- City population has increased approximately 27% since 2010 while the total number of full-time City employees has decreased almost 4%. Due to tremendous growth, new departments have

been created such as Economic and Community Development, Facilities Maintenance, and a City marina, Fairhope Docks.

- An increase in the rates for the City's Recreation, Civic, Senior Center and Golf department's current fee schedules are forecasted.
- Property taxes and sales tax revenues are expected to increase 7% and 5%, respectively.
- The City's new marina, Fairhope Docks, is expected to generate revenue of approximately \$335,000.
- A 1.5% increase in rates for the City's utilities, Gas, Electric, Water and Waste Water, has been set with an overall 3% increase projection in revenues from actual amounts for 2017.
- On the expenditure side, increases are expected in Police, Fire, Economic and Community Development, and Public Works due to the shifting of casualty insurance from the General department to each General Fund department. In addition, capital purchases are expected to increase as well as personnel and benefits to support the rapid growth of the City. In the General Fund, overall expenditures are projected to increase 3%.
- In the utilities, costs of energy and operating expenses in the utilities are projected to decrease by approximately 5% from actual amounts for 2017.

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 Mike Hinson, City Treasurer, at 161 N. Section Street, Fairhope, Alabama, (251) 928-2136.

CITY OF FAIRHOPE, ALABAMA

CONDENSED STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

Figure 1

	GOVERNMENTAL ACTIVITIES			BUSINESS - TYPE ACTIVITIES			TOTAL PRIMARY GOVERNMENT			COMPONENT UNITS		
	9/30/2017	9/30/2016	9/30/2017	9/30/2016	9/30/2017	9/30/2016	9/30/2017	9/30/2016	9/30/2017	9/30/2016	9/30/2017	9/30/2016
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Current and Other Assets	22,121,780	15,962,360	19,640,486	17,814,322	41,762,266	33,776,682	468,241	409,102	669,907	669,907	669,907	475,393
Capital Assets, Net	92,160,044	90,378,963	65,914,706	65,696,892	158,074,750	156,075,855	93,882	78,780	29,432,533	29,432,533	29,432,533	26,929,333
Total Assets	114,281,824	106,341,323	85,555,192	83,511,214	199,837,016	189,852,537	562,123	487,882	30,102,440	30,102,440	30,102,440	27,404,726
Deferred loss on advance refunding	-	-	98,569	105,610	98,569	105,610	-	-	-	-	-	-
Pension related items	2,006,870	1,688,799	587,294	471,527	2,594,164	2,160,326	160,543	63,192	-	-	-	-
Total Deferred Outflows of Resources	2,006,870	1,688,799	685,863	577,137	2,692,733	2,265,936	160,543	63,192	-	-	-	-
Total Assets and Deferred Outflows of Resources	\$ 116,288,694	\$ 108,030,122	\$ 86,241,055	\$ 84,088,351	\$ 202,529,749	\$ 192,118,473	\$ 722,666	\$ 551,074	\$ 30,102,440	\$ 30,102,440	\$ 30,102,440	\$ 27,404,726
Long-Term Debt	6,563,792	6,134,395	17,934,746	18,160,870	24,498,538	24,295,265	-	-	7,283,623	7,283,623	7,283,623	7,140,629
Other Liabilities	13,855,404	14,519,374	7,959,541	9,469,273	21,814,945	23,988,647	469,652	370,410	275,440	275,440	275,440	305,000
Total Liabilities	20,419,196	20,653,769	25,894,287	27,630,143	46,313,483	48,283,912	469,652	370,410	7,559,063	7,559,063	7,559,063	7,445,629
Pension related items	34,381	-	10,568	-	44,949	-	38,673	6,579	-	-	-	-
Service concession arrangement revenue applicable in future years	-	-	-	-	-	-	-	-	3,390,304	3,390,304	3,390,304	3,476,340
Unearned revenue	-	-	306,261	-	306,261	-	-	-	-	-	-	-
Total Deferred Inflows of Resources	34,381	-	316,829	-	351,210	-	38,673	6,579	3,390,304	3,390,304	3,390,304	3,476,340
Net Position:												
Net investment in capital assets	86,900,546	83,545,906	48,750,251	45,962,724	135,650,797	129,508,630	93,882	78,780	22,148,910	22,148,910	22,148,910	19,483,704
Restricted	650,031	1,706,056	2,693,371	2,907,634	3,343,402	4,613,690	288,437	-	-	-	-	261,149
Unrestricted	8,284,540	2,124,391	8,586,317	7,587,850	16,870,857	9,712,241	(167,978)	95,305	(2,995,837)	(2,995,837)	(2,995,837)	(3,262,096)
Total Net Position	95,835,117	87,376,353	60,029,939	56,458,208	155,865,056	143,834,561	214,341	174,085	19,153,073	19,153,073	19,153,073	16,482,757
Total Liabilities and Net Position	\$ 116,288,694	\$ 108,030,122	\$ 86,241,055	\$ 84,088,351	\$ 202,529,749	\$ 192,118,473	\$ 722,666	\$ 551,074	\$ 30,102,440	\$ 30,102,440	\$ 30,102,440	\$ 27,404,726

CITY OF FAIRHOPE, ALABAMA

CONDENSED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL PRIMARY GOVERNMENT		LIBRARY		COMPONENT UNITS	
	9/30/2017	9/30/2016	9/30/2017	9/30/2016	9/30/2017	9/30/2016	9/30/2017	9/30/2016	9/30/2017	9/30/2016
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Program Revenues	11,936,346	11,035,293	37,497,749	37,659,832	49,434,095	48,695,145	120,957	83,168	260,933	304,248
Charges for Services	102,507	-	-	-	102,507	-	831,090	820,317	342,000	1,177,684
Operating Grants and Contributions	1,642,474	1,467,355	-	-	1,642,474	1,467,355	-	-	2,710,264	-
Capital Grants and Contributions	-	-	-	-	-	-	-	-	-	-
General Revenues	14,558,642	13,604,795	-	-	14,558,642	13,604,795	-	-	-	-
Taxes	-	568,566	-	-	568,566	-	-	-	-	-
Intergovernmental	335,106	302,181	23,552	15,162	358,658	317,343	-	-	-	-
Investment Earnings	283,385	147,451	19,276	-	302,661	147,451	-	-	990	901
Other	28,858,460	27,125,641	37,540,577	37,675,014	66,399,037	64,800,655	952,047	903,485	3,314,187	1,482,833
Total Revenues	7,232,746	9,828,668	-	-	7,232,746	9,828,668	-	-	-	-
Expenses	2,163,590	1,912,606	-	-	2,163,590	1,912,606	-	-	-	-
General Government	5,481,678	4,383,113	-	-	5,481,678	4,383,113	-	-	-	-
Sanitation	569,607	489,989	-	-	569,607	489,989	-	-	-	-
Police	342,000	428,000	-	-	342,000	428,000	-	-	-	-
Fire	4,159,622	3,864,689	-	-	4,159,622	3,864,689	-	-	-	-
Airport	1,026,770	756,407	-	-	1,026,770	756,407	-	-	-	-
Street	2,260,009	1,545,115	-	-	2,260,009	1,545,115	-	-	-	-
Adult Recreation	1,609,965	1,263,426	-	-	1,609,965	1,263,426	-	-	-	-
Recreation	1,025,887	1,025,236	-	-	1,025,887	1,025,236	-	-	-	-
Golf	53,853	339,051	-	-	53,853	339,051	-	-	-	-
Public Library Board	17,622,258	17,683,205	17,622,258	17,683,205	17,622,258	17,683,205	-	-	-	-
Interest on Long-term Debt	4,949,991	4,886,415	4,949,991	4,886,415	4,949,991	4,886,415	-	-	-	-
Electric	8,413,111	8,042,137	8,413,111	8,042,137	8,413,111	8,042,137	-	-	-	-
Natural Gas	-	-	-	-	-	-	-	-	-	-
Water and Waste Water	-	-	-	-	-	-	-	-	-	-
Airport Authority	-	-	-	-	-	-	-	-	-	-
Fairhope Public Library	-	-	-	-	-	-	-	-	678,180	644,363
Total Expenses	25,925,727	25,836,300	30,985,360	30,611,757	56,911,087	56,448,057	911,791	860,513	678,180	644,363
Change in Net Position Before Transfers	2,932,733	1,289,341	6,555,217	7,063,257	9,487,950	8,352,598	40,256	42,972	2,636,007	838,470
Transfers	2,753,244	2,951,082	(2,753,244)	(2,951,082)	-	-	-	-	-	-
Change in Net Position	5,685,977	4,240,423	3,801,973	4,112,175	9,487,950	8,352,598	40,256	42,972	2,636,007	838,470
Net Position, Beginning	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
Prior Period Adjustment	2,772,787	-	(230,242)	-	2,542,545	-	-	-	34,309	-
Net Position, Beginning, as Restated	90,149,140	83,135,930	56,227,966	52,346,033	146,377,106	135,481,963	174,085	131,113	16,517,066	15,644,287
Net Position, Ending	95,835,117	87,376,353	60,029,939	56,458,208	155,865,056	143,834,561	214,341	174,085	19,153,073	16,482,757

Figure 2

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF REVENUES AND EXPENDITURES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Figure 3

<u>Revenues</u>	<u>9/30/2017</u> <u>Total</u>	<u>9/30/2016</u> <u>Total</u>	<u>Increase</u> <u>(Decrease)</u>
Local taxes	\$ 14,681,633	\$ 13,604,795	\$ 1,076,838
Licenses and Permits	3,945,641	3,596,049	349,592
Fines and Forfeitures	284,893	236,724	48,169
State of Alabama	336,804	335,881	923
U. S. Government	539,282	357,880	181,402
Interest and Rents	335,106	302,181	32,925
Charges for Services	6,910,066	6,504,860	405,206
Golf Course Revenue	1,190,281	1,127,306	62,975
Recreation Department	466,437	476,772	(10,335)
Other	338,058	223,293	114,765
Totals	<u>\$ 29,028,201</u>	<u>\$ 26,765,741</u>	<u>\$ 2,262,460</u>
<u>Expenditures</u>	<u>9/30/2017</u> <u>Total</u>	<u>9/30/2016</u> <u>Total</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 6,451,497	\$ 8,738,427	\$ (2,286,930)
Sanitation	1,871,147	1,624,642	246,505
Police	4,995,390	4,122,549	872,841
Fire	473,649	396,359	77,290
Airport	342,000	428,000	(86,000)
Street Department	2,779,978	2,493,708	286,270
Adult Recreation	838,819	631,887	206,932
Debt Service:			
Principal	1,573,560	6,478,558	(4,904,998)
Interest	111,633	390,971	(279,338)
Recreation Department	1,816,111	1,269,073	547,038
Golf	1,363,033	1,088,667	274,366
Public Library Board	814,600	814,600	-
Other	115,753	162,736	(46,983)
Capital Outlay	2,359,222	7,698,341	(5,339,119)
Totals	<u>\$ 25,906,392</u>	<u>\$ 36,338,518</u>	<u>\$ (10,432,126)</u>

CITY OF FAIRHOPE, ALABAMA

DEBT ADMINISTRATION

Figure 5

<u>LONG TERM DEBT</u>	<u>GOVERNMENTAL FUNDS</u>	<u>BUSINESS-TYPE ACTIVITIES</u>
General Obligation Warrants, 2011	\$ 2,609,498	\$ 120,502
General Obligation Warrants, 2007	2,650,000	-
Utilities Revenue Warrants, 2011	-	13,445,000
Utilities Revenue Warrants, 2015	-	1,440,000
General Obligation Warrants, 2013	-	2,300,000
Compensated absences	1,304,294	629,244
	<hr/>	<hr/>
TOTALS	<u>\$ 6,563,792</u>	<u>\$ 17,934,746</u>

See Note 6 beginning on page 42 for additional detail.

BASIC FINANCIAL STATEMENTS

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CITY OF FAIRHOPE, ALABAMA

STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	Governmental Fund Types			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash	\$ 20,187,472	\$ 13,681,693	\$ 33,869,165	\$ 855,486
Restricted cash	529,018	2,693,371	3,222,389	-
Receivables, net	1,251,377	2,551,677	3,803,054	261,659
Internal balances	33,498	(33,498)	-	-
Inventories	-	675,734	675,734	-
Prepaid items	85,490	-	85,490	21,003
Other assets	34,925	71,509	106,434	-
Capital assets not being depreciated:				
Land	23,056,496	9,209,695	32,266,191	10,674,228
Construction in progress	524,960	-	524,960	4,554,331
Capital assets net of accumulated depreciation:				
Buildings and improvements	24,870,313	1,303,759	26,174,072	5,264,554
Vehicles and equipment	4,139,903	1,976,721	6,116,624	93,882
Infrastructure	39,568,372	-	39,568,372	-
Distribution and collection systems	-	53,424,531	53,424,531	-
Runways	-	-	-	8,939,420
Total assets	<u>114,281,824</u>	<u>85,555,192</u>	<u>199,837,016</u>	<u>30,664,563</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on advance refunding	-	98,569	98,569	-
Pension related items	2,006,870	587,294	2,594,164	160,543
Total deferred outflows of resources	<u>2,006,870</u>	<u>685,863</u>	<u>2,692,733</u>	<u>160,543</u>
Total assets and deferred outflows of resources	<u>\$ 116,288,694</u>	<u>\$ 86,241,055</u>	<u>\$ 202,529,749</u>	<u>\$ 30,825,106</u>
LIABILITIES				
Accounts payable and accrued expenses	\$ 1,080,643	\$ 2,196,849	\$ 3,277,492	\$ 299,516
Customer deposits	32,065	1,912,401	1,944,466	-
Noncurrent liabilities:				
Due within one year	2,178,494	2,106,405	4,284,899	275,000
Due in more than one year:				
Net pension liability	9,441,815	2,883,594	12,325,409	7,008,623
Postemployment benefits other than pensions	3,300,881	1,009,176	4,310,057	445,576
Other	4,385,298	15,785,862	20,171,160	-
Total liabilities	<u>20,419,196</u>	<u>25,894,287</u>	<u>46,313,483</u>	<u>8,028,715</u>
DEFERRED INFLOWS OF RESOURCES				
Pension related items	34,381	10,568	44,949	38,673
Unearned revenue	-	306,261	306,261	-
Service concession arrangement revenue applicable to future years	-	-	-	3,390,304
Total deferred inflows of resources	<u>34,381</u>	<u>316,829</u>	<u>351,210</u>	<u>3,428,977</u>
NET POSITION				
Net investment in capital assets	86,900,546	48,750,251	135,650,797	22,242,792
Restricted for:				
Debt service	527,858	2,693,371	3,221,229	-
Road maintenance	122,173	-	122,173	-
Library improvements	-	-	-	288,437
Unrestricted	8,284,540	8,586,317	16,870,857	(3,163,815)
Total net position	<u>95,835,117</u>	<u>60,029,939</u>	<u>155,865,056</u>	<u>19,367,414</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 116,288,694</u>	<u>\$ 86,241,055</u>	<u>\$ 202,529,749</u>	<u>\$ 30,825,106</u>

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

CITY OF FAIRHOPE, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Business-type Activities		Component Units
					Governmental Activities	Total	
Primary Government							
Governmental activities:							
General	\$ 7,232,746	\$ 8,676,864	\$ -	\$ -	\$ 1,444,118	\$ -	\$ -
Sanitation	2,163,590	1,594,839	-	-	(568,751)	-	(568,751)
Police	5,481,678	-	-	42,704	(5,438,974)	-	(5,438,974)
Fire	569,607	-	-	235,041	(334,566)	-	(334,566)
Airport Authority	342,000	-	-	-	(342,000)	-	(342,000)
Street	4,159,622	-	102,507	698,578	(3,358,537)	-	(3,358,537)
Adult Recreation	1,026,770	-	-	-	(1,026,770)	-	(1,026,770)
Recreation	2,260,009	504,350	-	666,151	(1,089,508)	-	(1,089,508)
Golf	1,609,965	1,160,293	-	-	(449,672)	-	(449,672)
Public Library Board	1,025,887	-	-	-	(1,025,887)	-	(1,025,887)
Interest on long term debt	53,853	-	-	-	(53,853)	-	(53,853)
Total governmental activities	<u>25,925,727</u>	<u>11,936,346</u>	<u>102,507</u>	<u>1,642,474</u>	<u>(12,244,400)</u>	<u>-</u>	<u>(12,244,400)</u>
Business-type activities							
Electric	17,622,258	19,244,121	-	-	-	1,621,863	1,621,863
Natural gas	4,949,991	6,382,976	-	-	-	1,432,985	1,432,985
Water and Waste water	8,413,111	11,870,652	-	-	-	3,457,541	3,457,541
Total business-type activities	<u>30,985,360</u>	<u>37,497,749</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,512,389</u>	<u>6,512,389</u>
Total primary government	<u>\$ 56,911,087</u>	<u>\$ 49,434,095</u>	<u>\$ 102,507</u>	<u>\$ 1,642,474</u>	<u>(12,244,400)</u>	<u>6,512,389</u>	<u>(5,732,011)</u>
Component Units							
	\$ 1,589,971	\$ 381,890	\$ 1,173,090	\$ 2,710,264			2,675,273
General revenues:							
Property taxes					5,050,643	-	5,050,643
Sales tax					8,069,350	-	8,069,350
Liquor taxes					536,643	-	536,643
Lodging taxes					762,562	-	762,562
Other taxes					139,444	-	139,444
Intergovernmental					-	-	-
Investment earnings					335,106	23,552	358,658
Other					283,385	19,276	302,661
Transfers					2,753,244	(2,753,244)	-
Total general revenues and transfers					<u>17,930,377</u>	<u>(2,710,416)</u>	<u>15,219,961</u>
Change in net position					5,685,977	3,801,973	9,487,950
Net position - beginning					87,376,353	56,458,208	143,834,561
Prior period adjustments					2,772,787	(230,242)	2,542,545
Net position - beginning, as restated					90,149,140	56,227,966	146,377,106
Net position, ending					<u>\$ 95,835,117</u>	<u>\$ 60,029,939</u>	<u>\$ 155,865,056</u>

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

CITY OF FAIRHOPE

**FUND BALANCE SHEETS
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017**

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$13,971,094	\$ 3,847,418	\$ 2,897,978	\$20,716,490
Receivables, net	900,035	317,781	33,561	1,251,377
Prepaid items	85,490	-	-	85,490
Due from other funds	69,663	1,495	-	71,158
Other assets	34,925	-	-	34,925
Total assets	\$15,061,207	\$ 4,166,694	\$ 2,931,539	\$22,159,440
LIABILITIES				
Accounts payable	\$ 940,201	\$ 18,867	\$ 25,786	\$ 984,854
Accrued expenditures and taxes	72,394	-	-	72,394
Customer deposits	32,065	-	-	32,065
Unearned revenue	11,460	-	-	11,460
Due to other funds	37,660	-	-	37,660
Total liabilities	1,093,780	18,867	25,786	1,138,433
FUND BALANCES				
Nonspendable:				
Prepaid items	85,490	-	-	85,490
Restricted:				
Debt service	-	-	527,858	527,858
Road maintenance	-	-	122,173	122,173
Committed:				
Council approved emergencies	7,000,000	-	-	7,000,000
Infrastructure improvements	-	1,567,815	-	1,567,815
Construction and road maintenance	-	-	2,255,722	2,255,722
Debt service	62,075	-	-	62,075
Capital projects	-	2,580,012	-	2,580,012
Unassigned	6,819,862	-	-	6,819,862
Total fund balances	13,967,427	4,147,827	2,905,753	21,021,007
Total liabilities and fund balances	\$15,061,207	\$ 4,166,694	\$ 2,931,539	\$22,159,440

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, 2017

Fund balances as reported on page 19	\$ 21,021,007
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.	147,224,920
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.	(55,064,876)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are unearned revenue in fund financial statements.	11,460
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.	2,006,870
Deferred inflows related to pension are not financial resources and, therefore, are not reported in fund financial statements.	(34,381)
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 payable	(5,259,498)
Net pension liability	(9,441,815)
OPEB obligations	(3,300,881)
Accrued interest on long-term debt is not due and payable in the current-period and, therefore, not included in fund financial statements.	(23,395)
Compensated absences not expected to be paid with current resources as determined under Governmental Accounting Standards are not reported in fund financial statements.	<u>(1,304,294)</u>
Net position of governmental activities as reported on page 17	<u><u>\$ 95,835,117</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, 2017

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Local taxes	\$ 14,681,633	\$ -	\$ -	\$ 14,681,633
Licenses and permits	3,945,641	-	-	3,945,641
Fines and forfeitures	284,893	-	-	284,893
Intergovernmental	349,012	424,567	102,507	876,086
Interest and rents	332,912	-	2,194	335,106
Charges for services	5,692,159	-	1,217,907	6,910,066
Golf course revenue	1,152,403	-	-	1,152,403
Recreation department	504,315	-	-	504,315
Other	236,012	102,046	-	338,058
Total revenues	<u>27,178,980</u>	<u>526,613</u>	<u>1,322,608</u>	<u>29,028,201</u>
EXPENDITURES				
General	6,451,497	-	-	6,451,497
Sanitation	1,871,147	-	-	1,871,147
Police	4,995,390	-	-	4,995,390
Fire	473,649	-	-	473,649
Airport	342,000	-	-	342,000
Street	2,779,978	-	-	2,779,978
Adult recreation	838,819	-	-	838,819
Recreation	1,816,111	-	-	1,816,111
Golf	1,363,033	-	-	1,363,033
Public Library Board	814,600	-	-	814,600
Other	98,900	-	16,853	115,753
Debt service payments:				
Principal	-	-	1,573,560	1,573,560
Interest	-	-	111,633	111,633
Capital outlay	1,073,528	1,285,694	-	2,359,222
Total expenditures	<u>22,918,652</u>	<u>1,285,694</u>	<u>1,702,046</u>	<u>25,906,392</u>
Excess of revenues over (under) expenditures	<u>4,260,328</u>	<u>(759,081)</u>	<u>(379,438)</u>	<u>3,121,809</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	2,732,560	2,388,204	1,697,100	6,817,864
Transfers out	(3,655,404)	-	(442,877)	(4,098,281)
Total other financing sources (uses)	<u>(922,844)</u>	<u>2,388,204</u>	<u>1,254,223</u>	<u>2,719,583</u>
Net change in fund balances	3,337,484	1,629,123	874,785	5,841,392
Fund balances – beginning of year	10,629,943	2,518,704	2,030,968	15,179,615
FUND BALANCES – END OF YEAR	<u>\$ 13,967,427</u>	<u>\$ 4,147,827</u>	<u>\$ 2,905,753</u>	<u>\$ 21,021,007</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, 2017

Net change in fund balances - total governmental funds, page 21 \$ 5,841,392

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	2,467,188
Depreciation expense for the year	(3,427,463)
Loss on assets disposed	(65,094)

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	1,573,560
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Revenues are reported in the funds when there is an established claim to the resources and the resources are available to finance current expenditures. Revenues are reported in the statement of activities when there is an established claim with no availability criterion. The funds report revenue unavailable in prior periods as current year revenue.

	(115,066)
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Transfer of capital assets from business-type activities increase net position in the statement of net position but do not appear in the governmental funds because they are not financial resources.

	33,661
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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.

Compensated absences	36,037
Accrued interest	57,782
Pensions	(241,085)
Postemployment benefit plans other than pensions	(474,935)

Change in net position of governmental activities, page 18

\$ 5,685,977

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 SEPTEMBER 30, 2017

	Business-type Activities			Total
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 5,562,055	\$ 4,024,840	\$ 4,094,798	\$ 13,681,693
Restricted cash held by fiscal agent	174,847	93,667	2,424,857	2,693,371
Receivables, net	1,551,516	252,842	747,319	2,551,677
Inventories	357,608	151,618	166,508	675,734
Prepaid items	21,719	4,481	9,219	35,419
Total current assets	7,667,745	4,527,448	7,442,701	19,637,894
Noncurrent assets				
Due from other funds	32,103	1,364,812	2,171,236	3,568,151
Other assets	12,030	12,030	12,030	36,090
Capital assets				
Land	7,404,341	1,616,172	189,182	9,209,695
Buildings and improvements	1,351,727	765,769	544,966	2,662,462
Vehicles and equipment	4,709,980	3,438,710	3,209,023	11,357,713
Distribution and collection systems	23,357,912	11,810,174	53,371,717	88,539,803
Less accumulated depreciation	(14,638,869)	(7,946,944)	(23,269,154)	(45,854,967)
Total noncurrent assets	22,229,224	11,060,723	36,229,000	69,518,947
Total assets	29,896,969	15,588,171	43,671,701	89,156,841
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on advance refunding	-	-	98,569	98,569
Pension related items	191,497	157,934	237,863	587,294
Total deferred outflows of resources	191,497	157,934	336,432	685,863
Total assets and deferred outflows of resources	\$ 30,088,466	\$ 15,746,105	\$ 44,008,133	\$ 89,842,704
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 1,478,926	\$ 312,889	\$ 405,034	\$ 2,196,849
Unearned revenue	-	-	306,261	306,261
Customer deposits	986,573	550,507	375,321	1,912,401
Warrants, notes and capital leases payable	1,227,426	35,601	733,632	1,996,659
Compensated absences	39,086	25,879	44,781	109,746
Total current liabilities	3,732,011	924,876	1,865,029	6,521,916
Noncurrent liabilities:				
Compensated absences	192,071	146,497	180,929	519,497
Warrants, notes and capital leases payable	1,632,699	374,300	13,259,366	15,266,365
Net pension liability	1,128,257	693,087	1,062,250	2,883,594
Postemployment benefits other than pensions	317,631	284,898	406,647	1,009,176
Due to other funds	3,531,436	550	69,663	3,601,649
Total noncurrent liabilities	6,802,094	1,499,332	14,978,855	23,280,281
Total liabilities	10,534,105	2,424,208	16,843,884	29,802,197
DEFERRED INFLOWS OF RESOURCES				
Pension related items	3,358	2,971	4,239	10,568
Total deferred inflows of resources	3,358	2,971	4,239	10,568
NET POSITION				
Net investment in capital assets	19,324,966	9,273,980	20,151,305	48,750,251
Restricted:				
Debt service	174,847	93,667	2,424,857	2,693,371
Unrestricted	51,190	3,951,279	4,583,848	8,586,317
Total net position	19,551,003	13,318,926	27,160,010	60,029,939
Total liabilities and net position	\$ 30,088,466	\$ 15,746,105	\$ 44,008,133	\$ 89,842,704

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, 2017

	Business-type Activities			Total
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
OPERATING REVENUES				
Sales and services	\$ 18,939,452	\$ 6,350,684	\$ 10,169,787	\$ 35,459,923
Other charges, sales and receipts	304,669	32,292	1,700,865	2,037,826
Total operating revenues	19,244,121	6,382,976	11,870,652	37,497,749
OPERATING EXPENSES				
Energy purchases and cost of goods sold	12,708,130	1,727,280	608,312	15,043,722
Salaries	878,274	485,583	1,072,045	2,435,902
Depreciation	808,584	463,727	1,519,559	2,791,870
Insurance	227,274	137,205	459,910	824,389
Electric energy furnished to other departments	275,208	39,691	169,650	484,549
Maintenance	580,827	125,471	1,543,836	2,250,134
Community development projects	226,464	227,276	228,748	682,488
Other operating expense	1,850,007	1,695,898	2,241,521	5,787,426
Total operating expenses	17,554,768	4,902,131	7,843,581	30,300,480
OPERATING INCOME	1,689,353	1,480,845	4,027,071	7,197,269
NONOPERATING REVENUES (EXPENSES)				
Interest expense	(67,490)	(14,527)	(569,530)	(651,547)
Interest income	7,044	10,029	6,479	23,552
Gain on sale of capital assets	1,280	15,717	2,279	19,276
Transfer of capital assets to governmental activities	-	-	(33,661)	(33,661)
Distribution of joint revenue (expense) – net	-	(33,333)	-	(33,333)
Total nonoperating revenues (expenses)	(59,166)	(22,114)	(594,433)	(675,713)
INCOME BEFORE TRANSFERS AND OTHER ITEMS	1,630,187	1,458,731	3,432,638	6,521,556
TRANSFERS AND OTHER ITEMS				
Transfers out	(1,132,083)	(687,500)	(900,000)	(2,719,583)
Total transfers out	(1,132,083)	(687,500)	(900,000)	(2,719,583)
Change in net position	498,104	771,231	2,532,638	3,801,973
Net position – beginning of year	19,300,959	12,515,280	24,641,969	56,458,208
Prior period adjustments	(248,060)	32,415	(14,597)	(230,242)
Net position – beginning of year, restated	19,052,899	12,547,695	24,627,372	56,227,966
NET POSITION – END OF YEAR	\$ 19,551,003	\$ 13,318,926	\$ 27,160,010	\$ 60,029,939

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, 2017

	Business-type Activities			Total
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
CASH FLOWS FROM OPERATING ACTIVITIES				
Received from customers	\$ 19,568,089	\$ 6,682,786	\$ 11,586,465	\$ 37,837,340
Paid to suppliers for goods and services	(15,878,558)	(3,890,651)	(4,991,730)	(24,760,939)
Paid to personnel for services	(812,182)	(429,279)	(988,085)	(2,229,546)
Net cash provided by operating activities	<u>2,877,349</u>	<u>2,362,856</u>	<u>5,606,650</u>	<u>10,846,855</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Joint revenue	-	(33,333)	-	(33,333)
Interest income and joint revenue (expense)	7,044	10,029	6,479	23,552
Net cash provided by (used in) investing activities	<u>7,044</u>	<u>(23,304)</u>	<u>6,479</u>	<u>(9,781)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Repayment of debt	(1,225,187)	(34,557)	(1,221,881)	(2,481,625)
Interest paid	(60,045)	(12,629)	(573,873)	(646,547)
Proceeds from disposal of capital assets	1,280	15,717	2,279	19,276
Acquisition of capital assets	(1,007,762)	(620,272)	(839,108)	(2,467,142)
Net cash used in capital and related financing activities	<u>(2,291,714)</u>	<u>(651,741)</u>	<u>(2,632,583)</u>	<u>(5,576,038)</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES				
Change in interfund receivable	(32,103)	(651,734)	(216,209)	(900,046)
Change in interfund payable	784,403	(11,203)	35,847	809,047
Transfers out	(1,132,083)	(687,500)	(900,000)	(2,719,583)
Net cash used in noncapital and related financing activities	<u>(379,783)</u>	<u>(1,350,437)</u>	<u>(1,080,362)</u>	<u>(2,810,582)</u>
INCREASE IN CASH	212,896	337,374	1,900,184	2,450,454
CASH - BEGINNING OF YEAR	<u>5,524,006</u>	<u>3,781,133</u>	<u>4,619,471</u>	<u>13,924,610</u>
CASH - END OF YEAR	<u>\$ 5,736,902</u>	<u>\$ 4,118,507</u>	<u>\$ 6,519,655</u>	<u>\$ 16,375,064</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Income from operations	\$ 1,689,353	\$ 1,480,845	\$ 4,027,071	\$ 7,197,269
Adjustments to reconcile income from operations to net cash provided by operating activities:				
Depreciation	808,584	463,727	1,519,559	2,791,870
Change in pension expense as related to GASB 68	(19,968)	(39,632)	(45,599)	(105,199)
Change in assets and liabilities:				
Decrease (increase) in accounts receivable	819,460	(250,697)	(733,699)	(164,936)
Decrease (increase) in inventories	51,752	23,166	1,753	76,671
Decrease (increase) in prepaid expenses	1,608	(1,759)	(2,740)	(2,891)
Increase (decrease) in accounts payable	304,052	40,763	261,234	606,049
Increase (decrease) in customer deposits	(863,552)	550,507	375,321	62,276
Increase (decrease) in net unearned revenue	-	-	74,191	74,191
Increase (decrease) in net pension liability	51,250	45,350	64,696	161,296
Increase (decrease) in compensated absences	(9,650)	15,204	9,592	15,146
Increase (decrease) in net OPEB obligation	44,460	35,382	55,271	135,113
Net cash provided by operating activities	<u>\$ 2,877,349</u>	<u>\$ 2,362,856</u>	<u>\$ 5,606,650</u>	<u>\$ 10,846,855</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
SEPTEMBER 30, 2017

	Governmental Activities		
	Public Library Board	Airport Authority	Total
ASSETS			
Cash	\$ 462,992	\$ 392,494	\$ 855,486
Grants receivable	-	261,659	261,659
Prepaid items	5,249	15,754	21,003
Capital assets not being depreciated:			
Land	-	10,674,228	10,674,228
Construction in progress	-	4,554,331	4,554,331
Capital assets net of accumulated depreciation:			
Buildings and improvements	-	5,264,554	5,264,554
Vehicles and equipment	93,882	-	93,882
Runways	-	8,939,420	8,939,420
Total assets	562,123	30,102,440	30,664,563
DEFERRED OUTFLOWS OF RESOURCES			
Pension related items	160,543	-	160,543
Total deferred outflows of resources	160,543	-	160,543
Total assets and deferred outflows of resources	\$ 722,666	\$ 30,102,440	\$ 30,825,106
LIABILITIES			
Accounts payable and accrued liabilities	\$ 24,076	\$ 275,440	\$ 299,516
Long-term liabilities:			
Due within one year	-	275,000	275,000
Due in more than one year	-	7,008,623	7,008,623
Net pension liability	445,576	-	445,576
Total liabilities	469,652	7,559,063	8,028,715
DEFERRED INFLOWS OF RESOURCES			
Pension related items	38,673	-	38,673
Service concession arrangement revenue applicable to future years	-	3,390,304	3,390,304
Total deferred inflows of resources	38,673	3,390,304	3,428,977
NET POSITION			
Net investment in capital assets	93,882	22,148,910	22,242,792
Restricted:			
Library improvements	288,437	-	288,437
Unrestricted	(167,978)	(2,995,837)	(3,163,815)
Total net position	214,341	19,153,073	19,367,414
Total liabilities, deferred inflows of resources, and net position	\$ 722,666	\$ 30,102,440	\$ 30,825,106

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, 2017

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities		
					Public Library Board	Airport Authority	Total
Airport Authority	\$ 678,180	\$ 260,933	\$ 342,000	\$ 2,710,264	\$ -	\$ 2,635,017	\$ 2,635,017
Public Library Board	911,791	120,957	831,090	-	40,256	-	40,256
	<u>\$ 1,589,971</u>	<u>\$ 381,890</u>	<u>\$ 1,173,090</u>	<u>\$ 2,710,264</u>	<u>40,256</u>	<u>2,635,017</u>	<u>2,675,273</u>
General revenues:							
Investment earnings					-	990	990
Total general revenues					-	990	990
Change in net position					40,256	2,636,007	2,676,263
Net position, as originally stated					174,085	16,482,757	16,656,842
Prior period adjustment					-	34,309	34,309
Net position, beginning, as restated					174,085	16,517,066	16,691,151
Net position, ending					<u>\$ 214,341</u>	<u>\$ 19,153,073</u>	<u>\$ 19,367,414</u>

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

NOTES TO THE FINANCIAL STATEMENTS

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CITY OF FAIRHOPE, ALABAMA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

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, 2017

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.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. BASIS OF PRESENTATION – GOVERNMENT-WIDE AND FUND LEVEL (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 nonoperating income or expenses.

C. 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*.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. 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

E. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

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.

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.

F. RECEIVABLES AND PAYABLES

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the noncurrent portion of inter-fund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. RECEIVABLES AND PAYABLES (CONTINUED)

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 GASB Statement No. 33, revenue is recorded based upon taxes assessed and considered available. Any taxes not considered available are recorded as unearned revenue.

G. INVENTORIES AND PREPAID ITEMS

Inventories are stated at cost using the average cost method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Inventories are summarized as follows:

	Governmental Activities	Business-type Activities	Total
Fuel	\$ -	\$ 25,129	\$ 25,129
Materials and supplies	-	650,605	650,605
Totals	<u>\$ -</u>	<u>\$ 675,734</u>	<u>\$ 675,734</u>

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

H. 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 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.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. CAPITAL ASSETS (CONTINUED)

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 acquisition 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

I. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has several items that qualify for reporting in this category. First is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. In addition, the City also reports deferred outflow items related to the City's pension plan which are described further in Note 10.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has several items that qualify for reporting in this category. The first of which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from long-term receivables issued in exchange for the sale of assets. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In addition, the City also reports deferred inflow items related to the City's pension plan which are described further in Note 10.

(continued)

CITY OF FAIRHOPE, ALABAMA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. 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 and 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).

K. POSTEMPLOYMENT BENEFITS

The City records a liability in the government-wide financial statements for future healthcare benefits for eligible retirees and their spouses. The postemployment benefits other than pension liability at September 30, 2017 totaled \$4,310,057.

L. PENSIONS

The Employees' Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the Plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of GASB. Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. LONG-TERM OBLIGATIONS

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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 supersedes 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 net investment in capital assets. 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.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. NET POSITION AND EQUITY CLASSIFICATIONS (CONTINUED)

Fund Financial Statements

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

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

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

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. 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.

P. 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.

Q. 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.

NOTE 2 DEPOSIT AND INVESTMENT RISK

At September 30, 2017, the City had investments in U. S. Treasury money market mutual funds through its trustee agreement for debt sinking funds. The fair value was \$2,693,371. 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. The City has no investment policy that further limits investment choices. As of September 30, 2017, the City's mutual fund investments principal stability rating was AAAM as reported by Standard & Poor's.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2 DEPOSIT AND INVESTMENT RISK (CONTINUED)

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 3 RECEIVABLES

Receivables as of September 30, 2017, for the government’s individual major and nonmajor funds, and the discretely presented components units, including the applicable allowances for uncollectable accounts, are as follows:

	General	Capital Projects	Nonmajor Governmental Funds	Electric
Taxes	\$ 780,425	\$ -	\$ 8,649	\$ -
Accounts	115,933	-	24,912	2,065,875
Intergovernmental	3,677	317,781	-	-
	<u>900,035</u>	<u>317,781</u>	<u>33,561</u>	<u>2,065,875</u>
Less allowance for uncollectable accounts	-	-	-	(514,359)
Total receivables	<u>\$ 900,035</u>	<u>\$ 317,781</u>	<u>\$ 33,561</u>	<u>\$ 1,551,516</u>

	Natural Gas	Water and Waste Water Fund	Airport Authority	Total
Taxes	\$ -	\$ -	\$ -	\$ 789,074
Accounts	252,842	747,319	-	3,206,881
Intergovernmental	-	-	261,659	583,117
	<u>252,842</u>	<u>747,319</u>	<u>261,659</u>	<u>4,579,072</u>
Less allowance for uncollectable accounts	-	-	-	(514,359)
Total receivables	<u>\$ 252,842</u>	<u>\$ 747,319</u>	<u>\$ 261,659</u>	<u>\$ 4,064,713</u>

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 4 INTERFUND TRANSACTIONS

Interfund balances are generally used to meet cash demands necessary to pay operating expenditures. The amounts reported as due to/from other funds should be repaid during the next fiscal year.

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.

The composition of interfund balances as of September 30, 2017 is shown below.

Due to/from other funds

Receivable Fund	Payable Fund	Amount
General	Water and Waste Water	\$ 69,663
Capital Projects	General	1,495
Electric	General	32,103
Natural Gas	General	4,062
	Electric	1,360,750
Water and Waste Water	Electric	2,170,686
	Natural Gas	550
		<u>550</u>
Total		<u>\$ 3,639,309</u>

Interfund Transfers

Transfer Out	Transfer In			Total
	General	Capital Projects	Nonmajor Governmental Funds	
General	\$ -	\$ 1,958,304	\$ 1,697,100	\$ 3,655,404
Nonmajor Governmental	12,977	429,900	-	442,877
Electric	1,132,083	-	-	1,132,083
Natural Gas	687,500	-	-	687,500
Water and Waste Water	900,000	-	-	900,000
Totals	<u>\$ 2,732,560</u>	<u>\$ 2,388,204</u>	<u>\$ 1,697,100</u>	<u>\$ 6,817,864</u>

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017 was as follows:

	Beginning Balance	Prior Period Adjustment	Adjusted Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities							
Capital assets not subject to depreciation:							
Land	\$ 22,889,052	\$ -	\$ 22,889,052	\$ -	\$ -	\$ 167,444	\$ 23,056,496
Construction in progress	4,784,919	-	4,784,919	524,960	-	(4,784,919)	524,960
Total	27,673,971	-	27,673,971	524,960	-	(4,617,475)	23,581,456
Other capital assets:							
Buildings and improvements	37,914,378	-	37,914,378	601,661	-	(1,736,729)	36,779,310
Vehicles and equipment	13,775,322	-	13,775,322	1,168,746	(639,522)	907,638	15,212,184
Infrastructure	65,909,164	-	65,909,164	171,821	-	5,570,985	71,651,970
Total	117,598,864	-	117,598,864	1,942,228	(639,522)	4,741,894	123,643,464
Less accumulated depreciation for:							
Buildings and improvements	(10,589,634)	-	(10,589,634)	(964,720)	-	(354,643)	(11,908,997)
Vehicles and equipment	(11,038,636)	-	(11,038,636)	(1,022,226)	624,964	363,617	(11,072,281)
Infrastructure	(33,265,601)	2,755,913	(30,509,688)	(1,440,517)	-	(133,393)	(32,083,598)
Total accumulated depreciation	(54,893,871)	2,755,913	(52,137,958)	(3,427,463)	624,964	(124,419)	(55,064,876)
Other capital assets, net	62,704,993	2,755,913	65,460,906	(1,485,235)	(14,558)	4,617,475	68,578,588
Governmental capital assets, net	\$ 90,378,964	\$ 2,755,913	\$ 93,134,877	\$ (960,275)	\$ (14,558)	\$ -	\$ 92,160,044

Depreciation was charged to governmental activities as follows:

General Government	\$ 457,865
Police Department	283,133
Fire Department	86,786
Recreation Department	383,776
Adult Recreation Department	157,756
Street Department	1,400,329
Sanitation Department	238,477
Golf	208,694
Library	210,647
Total	\$ 3,427,463

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 5 CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Prior Period Adjustment	Adjusted Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type Activities							
Capital assets not subject to depreciation:							
Land	\$ 9,750,949	\$ -	\$ 9,750,949	\$ -	\$ -	\$ (541,254)	\$ 9,209,695
Other capital assets:							
Buildings and improvements	1,841,733	113,274	1,955,007	-	-	707,455	2,662,462
Vehicles and equipment	11,565,289	77,080	11,642,369	421,381	(66,480)	(639,557)	11,357,713
Distribution and collection system	85,555,096	-	85,555,096	2,602,659	-	382,048	88,539,803
Total	98,962,118	190,354	99,152,472	3,024,040	(66,480)	449,946	102,559,978
Less accumulated depreciation for:							
Buildings and improvements	(1,300,909)	(104,649)	(1,405,558)	(57,794)	-	104,649	(1,358,703)
Vehicles and equipment	(8,999,160)	(94,199)	(9,093,359)	(558,383)	66,480	204,270	(9,380,992)
Distribution and collection system	(32,716,106)	26,310	(32,689,796)	(2,174,204)	-	(251,272)	(35,115,272)
Total accumulated depreciation	(43,016,175)	(172,538)	(43,188,713)	(2,790,381)	66,480	57,647	(45,854,967)
Other capital assets, net	55,945,943	17,816	55,963,759	233,659	-	507,593	56,705,011
Capital assets, net	\$ 65,696,892	\$ 17,816	\$ 65,714,708	\$ 233,659	\$ -	\$ (33,661)	\$ 65,914,706
Component Unit – Public Library							
Vehicles and equipment	\$ 442,094	\$ -	\$ 442,094	\$ 34,554	\$ -	\$ -	\$ 476,648
Less accumulated depreciation	(363,314)	-	(363,314)	(19,452)	-	-	(382,766)
Capital assets, net	\$ 78,780	\$ -	\$ 78,780	\$ 15,102	\$ -	\$ -	\$ 93,882
Component Unit – Airport Authority							
Capital assets not subject to depreciation:							
Land	\$ 10,674,228	\$ -	\$ 10,674,228	\$ -	\$ -	\$ -	\$ 10,674,228
Construction in progress	1,743,878	-	1,743,878	2,810,453	-	-	4,554,331
Total	12,418,106	-	12,418,106	2,810,453	-	-	15,228,559
Other capital assets:							
Buildings and improvements	7,759,262	-	7,759,262	-	(6,497)	-	7,752,765
Vehicles and equipment	98,885	-	98,885	-	-	-	98,885
Runways	10,641,811	-	10,641,811	-	-	-	10,641,811
Total	18,499,958	-	18,499,958	-	(6,497)	-	18,493,461
Less accumulated depreciation for:							
Buildings and improvements	(2,298,649)	-	(2,298,649)	(189,562)	-	-	(2,488,211)
Vehicles and equipment	(97,348)	-	(97,348)	(1,537)	-	-	(98,885)
Runways	(1,592,734)	-	(1,592,734)	(109,657)	-	-	(1,702,391)
Total accumulated depreciation	(3,988,731)	-	(3,988,731)	(300,756)	-	-	(4,289,487)
Other capital assets, net	14,511,227	-	14,511,227	(300,756)	(6,497)	-	14,203,974
Capital assets, net	\$ 26,929,333	\$ -	\$ 26,929,333	\$ 2,509,697	\$ (6,497)	\$ -	\$ 29,432,533

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 6 LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts due within one year
GOVERNMENTAL ACTIVITIES					
General obligation warrants	\$ 6,833,058	\$ -	\$ (1,573,560)	\$ 5,259,498	\$ 1,578,340
Compensated absences	1,340,331	714,117	(750,154)	1,304,294	600,154
Net pension liability	8,917,041	524,774	-	9,441,815	-
Postemployment benefits other than pensions	2,825,946	741,286	(266,351)	3,300,881	-
Governmental activities long-term liabilities	<u>19,916,376</u>	<u>1,980,177</u>	<u>(2,590,065)</u>	<u>19,306,488</u>	<u>2,178,494</u>
BUSINESS-TYPE ACTIVITIES					
General obligation warrants	3,581,942	-	(1,161,440)	2,420,502	1,161,660
Utilities revenue warrants	16,205,000	-	(1,320,000)	14,885,000	835,000
Add issuance discounts	(52,774)	-	10,296	(42,478)	-
Total general obligation and revenue warrants	19,734,168	-	(2,471,144)	17,263,024	1,996,660
Compensated absences	613,989	326,168	(310,914)	629,243	109,745
Net pension liability	2,722,299	161,295	-	2,883,594	-
Postemployment benefits other than pensions	874,063	241,890	(106,777)	1,009,176	-
Business-type activities long-term liabilities	<u>23,944,519</u>	<u>729,353</u>	<u>(2,888,835)</u>	<u>21,785,037</u>	<u>2,106,405</u>
Total long-term debt	<u>\$ 43,860,895</u>	<u>\$ 2,709,530</u>	<u>\$ (5,478,900)</u>	<u>\$ 41,091,525</u>	<u>\$ 4,284,899</u>

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 6 LONG-TERM DEBT (CONTINUED)

General Obligation Warrants – Governmental Activities

The following is a governmental fund summary of long-term debt at September 30, 2017:

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.	\$ 2,609,498
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>2,650,000</u>
Total general obligation warrants	<u>\$ 5,259,498</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 refinancing, 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.

The following schedule illustrates debt service to maturity for general obligation warrants at September 30, 2017:

Year Ending September 30,	Principal	Interest	Total
2018	\$ 1,578,340	\$ 111,633	\$ 1,689,973
2019	1,587,900	93,582	1,681,482
2020	267,680	73,607	341,287
2021	344,160	53,388	397,548
2022	353,720	46,562	400,282
2023–2025	<u>1,127,698</u>	<u>96,049</u>	<u>1,223,747</u>
TOTALS	<u>\$ 5,259,498</u>	<u>\$ 474,821</u>	<u>\$ 5,734,319</u>

(continued)

CITY OF FAIRHOPE, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 6 LONG-TERM DEBT (CONTINUED)

General Obligation and Revenue Warrants – Business-type Activities

The following is a summary of general obligation and revenue warrants from the proprietary funds as of September 30, 2017:

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.	\$ 13,445,000
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.	120,502
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.	1,440,000
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.	<u>2,300,000</u>
Total general obligation and revenue warrants	<u>\$ 17,305,502</u>

General obligation and revenue warrants from the proprietary funds (2011 and prior) were for the purpose of financing, or refinancing, 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.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 6 LONG-TERM DEBT (CONTINUED)

General Obligation and Revenue Warrants – Business-type Activities (Continued)

The following schedule illustrates debt service to maturity for general obligation and revenue warrants in proprietary funds at September 30, 2017:

Year Ending September 30,	Principal	Interest	Total
2018	\$ 1,996,660	\$ 469,041	\$ 2,465,701
2019	2,022,100	430,308	2,452,408
2020	897,320	398,567	1,295,887
2021	1,070,840	371,525	1,442,365
2022	1,596,280	331,633	1,927,913
2023–2027	7,417,302	881,618	8,298,920
2028–2032	2,305,000	148,129	2,453,129
	<u>\$ 17,305,502</u>	<u>\$ 3,030,821</u>	<u>\$ 20,336,323</u>

Sinking 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 7 BONDS PAYABLE – COMPONENT UNITS

On March 22, 2017, the Airport Authority issued the Series 2017 Airport Improvement Refunding Bonds in the amount of \$7,445,629. The bonds have an interest rate of 2.18%, with annual installments of \$75,000 to \$6,270,629, with a maximum principal of \$6,270,629 in fiscal year 2023.

The proceeds were used to refund the Series 2010 Airport Improvement Refunding Bonds. The reacquisition price equaled the net carrying amount of the new debt. Over the life of the bonds, the City increased its total debt service requirements by \$563,460. The result of this refunding was an economic loss of \$108,005.

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.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 7 BONDS PAYABLE – COMPONENT UNITS (CONTINUED)

The following is a summary of debt service requirements to maturity of long-term debt of the Airport Authority as of September 30, 2017:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 275,000	\$ 147,255	\$ 422,255
2019	200,000	156,240	356,240
2020	200,000	151,836	351,836
2021	200,000	147,432	347,432
2022	225,000	143,028	368,028
2023–2037	<u>6,270,629</u>	<u>138,074</u>	<u>6,408,703</u>
	<u>\$ 7,370,629</u>	<u>\$ 883,865</u>	<u>\$ 8,254,494</u>

NOTE 8 SALARIES – PROPRIETARY FUNDS

The following is a summary of employees' salaries for the business-type activities for the year ended September 30, 2017:

	<u>Electric Fund</u>	<u>Natural Gas Fund</u>	<u>Water and Waste Water Fund</u>
Total salaries	\$ 1,081,363	\$ 726,334	\$ 1,153,043
Less:			
Salaries capitalized for plant additions	<u>203,089</u>	<u>240,751</u>	<u>80,998</u>
Salaries charged to operations	<u>\$ 878,274</u>	<u>\$ 485,583</u>	<u>\$ 1,072,045</u>

(continued)

CITY OF FAIRHOPE, ALABAMA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 9 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 10 PENSION PLAN

Plan Description

The Employees' Retirement System of Alabama (ERS), an agent multiple-employer public employee retirement plan, was established as of October 1, 1945, under the provisions of Act 515 of the Legislature of 1945. The purpose of the ERS is to provide 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. Assets of the ERS are pooled for investment purposes. However, separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of its employees only. The responsibility for the general administration and operation of the ERS is vested in its Board of Control.

The ERS Board of Control consists of 13 trustees as follows:

- 1) The Governor, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Personnel Director, ex officio.
- 4) The State Director of Finance, ex officio.
- 5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
- 6) Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
 - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
 - b. Two vested active state employees.
 - c. Two vested active employees of an employer participating in ERS pursuant to § 36-27-6.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 10 PENSION PLAN (CONTINUED)

Plan Description (Continued)

The ERS membership includes approximately 85,874 participants from approximately 906 local participating employers. As of September 30, 2016, membership consisted of:

	<u>ERS</u>	<u>City</u>	<u>Library</u>
Retirements and beneficiaries currently receiving benefits	23,007	85	4
Terminated employees entitled to but not yet receiving benefits	1,155	7	-
Terminated employees not entitled to a benefit	6,654	16	2
Active Members	54,823	269	17
Post-DROP participants who are still in active service	235	-	-
	<u>85,874</u>	<u>377</u>	<u>23</u>

Pension Benefits

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for Tier 1 ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 1 members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of state police service in computing the formula method.

(continued)

CITY OF FAIRHOPE, ALABAMA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 10 PENSION PLAN (CONTINUED)

Contributions

Tier 1 covered members of the ERS (except State Police and certified law enforcement, correctional officers, and firefighters) contributed 5% of earnable compensation to the TRS and ERS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, Tier 1 covered members of the ERS (except State Police and certified law enforcement, correctional officers, and firefighters) were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, Tier 1 covered members of the ERS (except State Police and certified law enforcement, correctional officers, and firefighters) are required by statute to contribute 7.50% of earnable compensation. Tier 1 certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, Tier 1 certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, Tier 1 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. Tier 1 State Police members of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

Tier 2 covered members of the ERS (except State Police and certified law enforcement, correctional officers, and firefighters) contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. Tier 2 State Police members of the ERS contribute 10% of earnable compensation. These contribution rates are the same for Tier 2 covered members of ERS local participating employers.

The City's contractually required contribution rate for the year ended September 30, 2017, was 9.92% for Tier 1 employees, and 7.48% for Tier 2 employees. The Fairhope Public Library's contractually required contribution rate for the year ended September 30, 2017, was 8.82% for Tier 1 employees, and 5.74% 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, 2015, 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 \$1,128,689 paid by the City and \$41,630 paid by the Fairhope Public Library for the year ended September 30, 2017.

(continued)

CITY OF FAIRHOPE, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 10 PENSION PLAN (CONTINUED)

Contributions (Continued)

The City's and Fairhope Public Library's net pension liabilities were measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015 rolled forward to September 30, 2016 using standard roll-forward techniques as shown in the following table:

	<u>Expected</u>	<u>Actual</u>
(a) Total pension liability for September 30, 2015	\$ 40,132,880	\$ 40,084,438
(b) Entry age normal cost for the period October 1, 2015 to September 30, 2016	997,552	997,552
(c) Transfer among employers	-	(76,441)
(d) Actual benefit payments and refunds for October 1, 2015 to September 30, 2016	<u>(1,969,227)</u>	<u>(1,969,227)</u>
(e) Total Pension Liability as of September 30, 2016 [(a) x 1.08] + (b) + (c) - [(d) x (1.05)]	<u>\$ 42,293,066</u>	<u>\$ 42,164,308</u>
(f) Difference between expected and actual		\$ (128,758)
(g) Less liability transferred for immediate recognition		<u>(76,441)</u>
(i) Experience (gain)/loss		<u>\$ (52,317)</u>

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 10 PENSION PLAN (CONTINUED)

Contributions (Continued)

Fairhope Public Library

	<u>Expected</u>	<u>Actual</u>
(a) Total pension liability for September 30, 2015	\$ 1,073,718	\$ 1,036,374
(b) Entry age normal cost for the period October 1, 2015 to September 30, 2016	37,134	37,134
(c) Actual benefit payments and refunds for October 1, 2015 to September 30, 2016	<u>(58,555)</u>	<u>(58,555)</u>
(d) Total pension liability as of September 30, 2016 [(a) x 1.08] + (b) - [(c) x (1.05)]	<u>\$ 1,135,852</u>	<u>\$ 1,095,521</u>
(e) Difference between expected and actual experience (gain)/loss		<u>\$ (40,331)</u>

Actuarial Assumptions

The total pension liability in the September 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.25% – 5.00%
Investment rate of return *	7.75%

* Net of pension plan investment expense

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 10 PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

Mortality rates were based on the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females at ages on and after age 78. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

The actuarial assumptions used in the September 30, 2015, valuation were based on the results of an actuarial experience study for the period October 1, 2010 through September 30, 2015.

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

	Target Allocation	Long-term Expected Rate of Return *
Fixed Income	17.0%	4.0%
U.S. Large Stocks	32.0%	8.0%
U.S. Mid Stocks	9.0%	10.0%
U.S. Small Stocks	4.0%	11.0%
International Developed Market Stocks	12.0%	9.5%
International Emerging Market Stocks	3.0%	11.0%
Cash Equivalents	10.0%	10.1
Real Estate	10.0%	7.5%
Cash	3.0%	1.5%
	<u>100.0%</u>	

*Includes assumed rate of inflation of 2.5%

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 10 PENSION PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was the long-term rate of return, 7.75%. 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 plan 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.

Changes in Net Pension Liability

	<u>City of Fairhope</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balances at September 30, 2015	\$ 40,132,880	\$ 28,493,539	\$ 11,639,341
Changes for the year:			
Service cost	997,552	-	997,552
Interest	3,131,860	-	3,131,860
Changes in assumptions	1,344,385	-	1,344,385
Differences between expected and actual experience	(52,317)	-	(52,317)
Contributions – employer	-	1,163,477	(1,163,477)
Contributions – employee	-	680,391	(680,391)
Net investment income	-	2,891,544	(2,891,544)
Benefit payments, including refunds of employee contributions	(1,969,227)	(1,969,227)	-
Administrative expense			
Transfers among employers	(76,441)	(76,441)	-
Net Changes	<u>3,375,812</u>	<u>2,689,744</u>	<u>686,068</u>
Balances at September 30, 2016	<u>\$ 43,508,692</u>	<u>\$ 31,183,283</u>	<u>\$ 12,325,409</u>

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 10 PENSION PLAN (CONTINUED)

Changes in Net Pension Liability (Continued)

	<u>Fairhope Public Library</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balances at September 30, 2015	\$ 1,073,718	\$ 707,665	\$ 366,053
Changes for the year:			
Service cost	37,134	-	37,134
Interest	83,555	-	83,555
Changes in assumptions	132,947	-	132,947
Differences between expected and actual experience	(40,331)	-	(40,331)
Contributions – employer	-	39,583	(39,583)
Contributions – employee	-	21,976	(21,976)
Net investment income	-	72,223	(72,223)
Benefit payments, including refunds of employee contributions	(58,555)	(58,555)	-
Administrative expense			
Transfers among employers	-	-	-
Net Changes	<u>154,750</u>	<u>75,227</u>	<u>79,523</u>
Balances at September 30, 2016	<u>\$ 1,228,468</u>	<u>\$ 782,892</u>	<u>\$ 445,576</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 7.75%, 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% lower (6.75%) or 1% higher (8.75%) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Net pension liability, City	\$ 17,500,503	\$ 12,325,410	\$ 7,966,617
Net pension liability, Fairhope Public Library	\$ 551,199	\$ 445,576	\$ 354,328

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 10 PENSION PLAN (CONTINUED)

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, 2016. The supporting actuarial information is included in the GASB Statement No. 68 Report for the RSA prepared as of September 30, 2016. The auditor's report dated September 18, 2017 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.

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

For the year ended September 30, 2017, the City recognized pension expense of \$1,428,156 while the Fairhope Public Library recognized pension expense of \$55,998. At September 30, 2017, 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
Governmental Activities:		
Differences between expected and actual experience	\$ 44,652	\$ 34,381
Changes of assumption	883,486	-
Net difference between projected and actual earnings on plan investments	192,803	-
Employer contributions subsequent to measurement date	885,929	-
	<hr/>	<hr/>
Governmental activities pension related items	2,006,870	34,381
	<hr/>	<hr/>
Business-type Activities:		
Differences between expected and actual experience	13,725	10,568
Changes of assumption	271,549	-
Net difference between projected and actual earnings on plan investments	59,260	-
Employer contributions subsequent to measurement date	242,760	-
	<hr/>	<hr/>
Business-type activities pension related items	587,294	10,568
	<hr/>	<hr/>
	\$ 2,594,164	\$ 44,949
	<hr/>	<hr/>

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 10 PENSION PLAN (CONTINUED)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

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,	
2018	\$ 1,379,233
2019	250,544
2020	458,202
2021	70,376
2022	190,678
Thereafter	200,182
	<u>\$ 2,549,215</u>

Fairhope Public Library

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 38,673
Changes of assumption	112,174	-
Net difference between projected and actual earnings on plan investments	6,740	-
Employer contributions subsequent to measurement date	41,629	-
Total	<u>\$ 160,543</u>	<u>\$ 38,673</u>

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 10 PENSION PLAN (CONTINUED)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

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

Year Ending September 30,		
2018	\$	55,647
2019		14,016
2020		20,573
2021		11,373
2022		14,471
Thereafter		<u>5,790</u>
	\$	<u>121,870</u>

NOTE 11 COMMITMENTS

The City has various contractual commitments outstanding at year end. The commitments under these contracts totaled \$318,684, all of which are funded from governmental activities.

NOTE 12 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.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 13 POSTEMPLOYMENT 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 GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment 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 healthcare premiums paid outright. During the year ended September 30, 2017, the City's portion of healthcare funding cost for retired employees (retiree premiums) totaled \$610,048.

Contribution Rates

Eligible retirees are subject to employer contributions for medical benefits equal to 90% of the premium. At September 30, 2017, 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 postemployment 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 to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 13 POSTEMPLOYMENT HEALTH BENEFITS (CONTINUED)

Annual Required Contribution (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	\$ 1,040,917
Interest on net OPEB obligation	148,000
Adjustment to ARC	<u>(205,741)</u>
Annual OPEB cost	983,176
Contributions made	<u>(373,128)</u>
Increase in net OPEB obligation	610,048
Net OPEB obligation – beginning of year	<u>3,700,009</u>
Net OPEB obligation – end of year	<u>\$ 4,310,057</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</u>
9/30/2017	\$ 983,175	38.0%	\$ 4,310,057
9/30/2016	756,492	50.2%	3,700,009
9/30/2015	814,358	73.6%	3,320,014

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 13 POSTEMPLOYMENT HEALTH BENEFITS (CONTINUED)

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, 2016. There were no assets accumulated in the Plan, however, market value will be used to value such assets. At September 30, 2017, the Actuarial Accrued Liability (AAL) was \$10,416,302, 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 postemployment plan benefits and expenses which is not provided by normal cost. The funded ratio is developed below.

Fiscal Year Ended	<u>Schedule of Funding Progress</u>						
	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)* - Entry Age (b)	Unfunded (AAL) (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c	
9/30/2016	\$ -	\$ 10,416,302	\$ 10,416,302	0.0%	\$ 13,010,034	80.1%	
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%	11,740,415	71.6%	

*GASB 45 permits the AAL determined at September 30, 2016 to be used for two consecutive years

Actuarial Methods and Assumptions

The actuarial calculations are based on the types of benefits provided under the terms of the substantive plan (the plan as understood by the employer and the plan members) at the time of the valuation and on the pattern of sharing costs between the City and its plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the City and plan members in the future. Consistent with the long-term perspective of actuarial calculations, the actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial liabilities and the actuarial value of assets.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The following assumptions were made:

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

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

Healthcare 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.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 13 POSTEMPLOYMENT HEALTH BENEFITS (CONTINUED)

Actuarial Methods and Assumptions (Continued)

Mortality Rate – Life expectancies were based on the RP-2000 Blue Collar Mortality Table projected with Scale BB to 2020 for males and 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 14 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 15 LEASE EXPENSE

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

NOTE 16 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 \$2,430,000 at September 30, 2017.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 16 SERVICE CONCESSION ARRANGEMENT (CONTINUED)

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 \$960,304 at September 30, 2017.

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 \$- at September 30, 2017.

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 \$- at September 30, 2017.

NOTE 17 SUBSEQUENT EVENTS

The City has evaluated subsequent events through March 26, 2018, the date which the financial statements were available to be issued. There were no material subsequent events which require disclosure at September 30, 2017.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 18 FAIR VALUE DISCLOSURES

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. Recurring fair value measurements are those that 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, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Treasury portfolio	\$ 2,693,371	\$ -	\$ -	\$ 2,693,371
AMIC Insurance	-	-	36,090	36,090
Total	<u>\$ 2,693,371</u>	<u>\$ -</u>	<u>\$ 36,090</u>	<u>\$ 2,729,461</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.

NOTE 19 ECONOMIC DEVELOPMENT INCENTIVE OBLIGATIONS – TAX ABATEMENTS

The City, in conjunction with the Industrial Development Board of the City of Fairhope and Baldwin County, enters into economic development incentive agreements with entities that propose to locate businesses within the City, or expand businesses within the City, which are expected to provide stimulus to the City's economy. These agreements provide for full or partial abatement of sales, use and/or property taxes. Property taxes are abated through reductions of assessed values. Sales and use taxes are abated through exemptions granted on purchases for specified construction or equipment-purchase purposes. The agreements have limited terms, typically ad-valorem taxes are abated for ten years.

The total property tax abated for the year ended September 30, 2017 totaled \$21,335.

The City does not collect property taxes. The Revenue Commissioner of Baldwin County is responsible for such collection.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 20 EFFECT OF NEW PRONOUNCEMENTS

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the City.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the current GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement requires governments to report a liability on the face of the financial statements for the OPEB that they provide and requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities. Requirements for this Statement are effective for financial statements whose fiscal year begins after June 15, 2017.

GASB 81, *Irrevocable Split-Interest Agreements*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. Requirements for this Statement are effective for financial statements whose fiscal year begins after December 15, 2016.

GASB 83, *Certain Asset Retirement Obligations*. This Statement establishes guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflow of resources related to such obligations. Requirements for this Statement are effective for financial statements whose fiscal year begins after June 15, 2018.

GASB 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments and clarifies whether and how business-type activities should report their fiduciary activities. Requirements for this Statement are effective for financial statements whose fiscal year begins after December 15, 2018.

GASB 85, *Omnibus 2017*. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). Requirements for this Statement are effective for financial statements whose fiscal year begins after June 15, 2017.

GASB 86, *Certain Debt Extinguishments*. This Statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. Requirements for this Statement are effective for financial statements whose fiscal year begins after June 15, 2017.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 20 EFFECT OF NEW PRONOUNCEMENTS (CONTINUED)

GASB 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Requirements for this Statement are effective for financial statements whose fiscal year begins after December 15, 2019.

NOTE 21 PRIOR PERIOD ADJUSTMENTS

The beginning net position of the government-wide financial statements were adjusted for the following errors related to the prior period.

	Government-Wide Financial Statements		
	Net Position		
	Governmental Activities	Business-type Activities	Component Units
Understatement of cash	\$ -	\$ -	\$ 59,424
Overstatement of accounts receivable	-	(248,060)	-
Understatement of capital assets	2,772,787	17,818	-
Understatement of unearned revenue	-	-	(25,115)
Total prior period adjustments	<u>\$ 2,772,787</u>	<u>\$ (230,242)</u>	<u>\$ 34,309</u>

The beginning net position of the proprietary funds were adjusted for the following errors related to the prior period.

	Fund Financial Statements		
	Net Position		
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund
Overstatement of accounts receivable	\$ (248,060)	\$ -	\$ -
(Overstatement) understatement of capital assets	-	32,415	(14,597)
Total prior period adjustments	<u>\$ (248,060)</u>	<u>\$ 32,415</u>	<u>\$ (14,597)</u>

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 21 PRIOR PERIOD ADJUSTMENTS (CONTINUED)

The beginning fund balance of the Fairhope Airport Authority was adjusted for the following errors related to the prior period.

	<u>Fund Balance</u> <u>Fairhope</u> <u>Airport</u> <u>Authority</u>
Understatement of cash	\$ 59,424
Understatement of unearned revenue	<u>(25,115)</u>
Total prior period adjustments	<u>\$ 34,309</u>

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

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CITY OF FAIRHOPE, ALABAMA

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

	<u>City of Fairhope</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 1,128,689	\$ 1,161,190	\$ 1,033,161
Contributions in relation to the actuarially determined contribution	<u>1,128,689</u>	<u>1,161,190</u>	<u>1,033,161</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 13,010,034	\$ 12,686,870	\$ 11,740,415
Contributions as a percentage of covered payroll	9%	9%	9%

Notes to Schedule

Actuarially determined contribution rates were calculated as of September 30, 2016, one year prior to the end of the fiscal year in which contributions were reported. Contributions for fiscal year 2017 were based on the September 30, 2016 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level Dollar closed
Remaining amortization period	30 years
ARC adjustment factor	17.9837
Medical cost trend rate	7.75 – 5.00%
Year of Ultimate trend rate	2022
Asset valuation method	Market Value of Assets
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 2017 through 2015.

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA

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

Fairhope Public Library

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 41,630	\$ 39,481	\$ 43,472
Contributions in relation to the actuarially determined contribution	<u>41,630</u>	<u>39,481</u>	<u>43,472</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 455,696	\$ 426,252	\$ 397,846
Contributions as a percentage of covered payroll	9%	9%	11%

Notes to Schedule

Actuarially determined contribution rates were calculated as of September 30, 2016, one year prior to the end of the fiscal year in which contributions were reported. Contributions for fiscal year 2017 were based on the September 30, 2016 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level Dollar closed
Remaining amortization period	30 years
ARC adjustment factor	17.9837
Medical cost trend rate	7.75 – 5.00%
Year of Ultimate trend rate	2022
Asset valuation method	Market Value of Assets
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 2017 through 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>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability			
Service cost	\$ 997,552	\$ 975,740	\$ 944,066
Interest	3,131,860	2,977,603	2,852,227
Differences between expected and actual experience	(52,317)	83,217	-
Changes in assumptions	1,344,385	-	-
Benefit payments, including refunds of employee contributions	(1,969,227)	(2,247,432)	(2,210,748)
Transfer among employers	(76,441)	-	-
Net change in total pension liability	<u>3,375,812</u>	<u>1,789,128</u>	<u>1,585,545</u>
Total pension liability – beginning	<u>40,132,880</u>	<u>38,343,752</u>	<u>36,758,207</u>
Total pension liability – ending (a)	<u><u>\$ 43,508,692</u></u>	<u><u>\$ 40,132,880</u></u>	<u><u>\$ 38,343,752</u></u>
Plan fiduciary net position			
Contributions – employer	\$ 1,163,477	\$ 1,035,070	\$ 1,011,234
Contributions – member	680,391	621,817	599,215
Net investment income	2,891,544	337,639	3,115,563
Benefit payments, including refunds of employee contributions	(1,969,227)	(2,247,432)	(2,210,748)
Transfers among employers	(76,441)	(16,923)	(36,268)
Net change in plan fiduciary net position	<u>2,689,744</u>	<u>(269,829)</u>	<u>2,478,996</u>
Plan net position – beginning	<u>28,493,539</u>	<u>28,763,368</u>	<u>26,284,372</u>
Plan net position – ending (b)	<u><u>\$ 31,183,283</u></u>	<u><u>\$ 28,493,539</u></u>	<u><u>\$ 28,763,368</u></u>
Net pension liability (asset) – ending (a)-(b)	\$ 12,325,409	\$ 11,639,341	\$ 9,580,384
Plan fiduciary net position as a percentage of the total pension liability	71.67%	71.00%	75.01%
Covered payroll	\$ 13,010,034	\$ 12,686,870	\$ 11,740,415
Net pension liability (asset) as a percentage of covered payroll	95%	92%	82%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, currently, information is only available for 2016 through 2014.

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA

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

	<u>Fairhope Public Library</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability			
Service cost	\$ 37,134	\$ 37,305	\$ 38,648
Interest	83,555	82,203	79,859
Differences between expected and actual experience	(40,331)	(8,514)	-
Changes in assumptions	132,947	-	-
Benefit payments, including refunds of employee contributions	(58,555)	(129,622)	(48,791)
Net change in total pension liability	154,750	(18,628)	69,716
Total pension liability – beginning	1,073,718	1,092,346	1,022,630
Total pension liability – ending (a)	<u>\$ 1,228,468</u>	<u>\$ 1,073,718</u>	<u>\$ 1,092,346</u>
Plan fiduciary net position			
Contributions – employer	\$ 39,583	\$ 43,472	\$ 43,802
Contributions – member	21,976	20,166	19,155
Net investment income	72,223	8,684	81,118
Benefit payments, including refunds of employee contributions	(58,555)	(129,622)	(48,791)
Net change in plan fiduciary net position	75,227	(57,300)	95,284
Plan net position – beginning	707,665	764,965	669,681
Plan net position – ending (b)	<u>\$ 782,892</u>	<u>\$ 707,665</u>	<u>\$ 764,965</u>
Net pension liability (asset) – ending (a)-(b)	\$ 445,576	\$ 366,053	\$ 327,381
Plan fiduciary net position as a percentage of the total pension liability	63.73%	65.91%	70.03%
Covered payroll	\$ 455,696	\$ 426,252	\$ 455,696
Net pension liability (asset) as a percentage of covered payroll	98%	86%	71.8%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, currently, information is only available for 2016 through 2014.

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Local taxes	\$ 14,398,100	\$ 14,398,100	\$ 14,681,633	\$ 283,533
Licenses and permits	3,743,500	3,743,500	3,945,641	202,141
Fine and forfeitures	230,000	230,000	284,893	54,893
Intergovernmental	182,700	182,700	349,012	166,312
Interest and rents	313,500	313,500	332,912	19,412
Charges for services	5,655,000	5,655,000	5,692,159	37,159
Golf course revenue	1,062,000	1,062,000	1,152,403	90,403
Recreation department	524,000	524,000	504,315	(19,685)
Other	172,800	172,800	236,012	63,212
Total revenues	<u>26,281,600</u>	<u>26,281,600</u>	<u>27,178,980</u>	<u>897,380</u>
EXPENDITURES				
General	6,778,460	6,778,460	6,451,497	326,963
Sanitation	1,831,237	1,831,237	1,871,147	(39,910)
Police	5,583,205	5,583,205	4,995,390	587,815
Fire	620,431	620,431	473,649	146,782
Airport	362,000	362,000	342,000	20,000
Street	2,958,460	2,958,460	2,779,978	178,482
Adult recreation	884,219	884,219	838,819	45,400
Recreation	1,903,934	1,903,934	1,816,111	87,823
Golf	1,538,802	1,538,802	1,363,033	175,769
Public Library Board	818,477	818,477	814,600	3,877
Other	89,000	89,000	98,900	(9,900)
Capital outlay	2,472,836	2,472,836	1,073,528	1,399,308
Total expenditures	<u>25,841,061</u>	<u>25,841,061</u>	<u>22,918,652</u>	<u>2,922,409</u>
Excess of revenues over (under) expenditures	<u>440,539</u>	<u>440,539</u>	<u>4,260,328</u>	<u>3,819,789</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	3,170,000	3,170,000	2,732,560	(437,440)
Transfers out	(3,587,693)	(3,587,693)	(3,655,404)	(67,711)
Total other financing sources (uses)	<u>(417,693)</u>	<u>(417,693)</u>	<u>(922,844)</u>	<u>(505,151)</u>
Net change in fund balances	<u>\$ 22,846</u>	<u>\$ 22,846</u>	<u>3,337,484</u>	<u>\$ 3,314,638</u>
Fund balances – beginning of year			<u>10,629,943</u>	
FUND BALANCES – END OF YEAR			<u>\$ 13,967,427</u>	

CITY OF FAIRHOPE, ALABAMA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2017**

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, 2017

NOTE 2 EXCESS EXPENDITURES

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

	<u>Excess Expenditures</u>		<u>Excess Expenditures</u>		<u>Excess Expenditures</u>
General Government		Adult Recreation Department		Golf Grounds	
Salaries – Mayor	\$ 1,646	Employee retirement expense	\$ 3,994	Employee retirement expense	\$ 2,566
Salaries – beach labor	2,453	Professional services	160	Professional services	180
Salaries – revenue dept	59,150	Computer	98	Postage	13
Employee retirement expense	274	Postage	330	Telephone	177
Legal fees	144,951	Telephone	774	Utilities	1,396
Professional services	54,644	General maintenance	8,391		
Building fees	21,832	Special programs	4	Other	
Office supplies	11,158	Dance expense	560	Baldwin Co. Transit Hub	9,900
Postage	2,412	Utilities	1,126		
General supplies	4,834			Transfers	
Library building maintenance	93,909	Street Department		Transfers – Debt Service Fund	11,907
Cash over/short	93	Health insurance	11,241	Transfers – Capital Projects Fund	55,804
Uniforms	1,778	Employee retirement expense	3,709		
Credit card processing fees	8,222	Training	302		
Bank fees	1,835	Professional services	2,908		
Election expense	11,590	Computer	98		
General maintenance	462	General supplies	14,029		
Greeno Road Program	31,559	General maintenance	43,295		
		Gasoline and oil	1,342		
Police Department		Equipment and vehicle repair	19,459		
Employee retirement expense	8,528	Street materials and landscaping	15,085		
Professional services	34,676	Utilities	9,984		
Computer	9,842				
Postage	10	Sanitation Department			
Telephone	27,186	Health insurance	31,916		
Dues	350	Employee retirement expense	1,194		
Gasoline and oil	7,211	Training	1,080		
Equipment and vehicle repair	10,587	Professional services	2,838		
Court expense	12	General supplies	9,097		
Utilities	2,268	Telephone	129		
		Gasoline and Oil	22,991		
Fire Department		Landfill charges	25,470		
Fire call payments	23,710	Landfill maintenance	2,611		
Professional services	361	Garbage cans	1,523		
Telephone	158	Utilities	231		
Uniforms	31				
Utilities	107	Golf Department			
		Health insurance	31,047		
Recreation Department		Employee retirement expense	1,586		
Training	1,053	Professional services	580		
Professional services	2,740	Postage	26		
General supplies	18,528	Supplies – clubhouse	2,761		
Equipment and vehicle repair	5,101	General maintenance	1,914		
Telephone	946	Dues	6,315		
Gasoline and oil	2,141	Utilities	1,341		
Tennis expense	8,562	Purchases – beer, wine	10,113		
Utilities	31,083	Supplies – grill	7,247		
		Pro Shop custom orders	8,920		
		Cost – Pro Shop Sales	7,224		

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OTHER SUPPLEMENTARY INFORMATION

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**COMBINING FINANCIAL STATEMENTS
NONMAJOR GOVERNMENTAL FUNDS**

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CITY OF FAIRHOPE, ALABAMA
COMBINING BALANCE SHEETS
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	Special Revenue Fund Impact Fees	Special Revenue Fund Gas Tax	Debt Service	Total Nonmajor Governmental Funds
ASSETS				
Cash	\$ 2,255,267	\$ 113,693	\$ 529,018	\$ 2,897,978
Receivables	455	8,649	24,457	33,561
Total assets	<u>\$ 2,255,722</u>	<u>\$ 122,342</u>	<u>\$ 553,475</u>	<u>\$ 2,931,539</u>
LIABILITIES				
Accounts payable	<u>\$ -</u>	<u>\$ 169</u>	<u>\$ 25,617</u>	<u>\$ 25,786</u>
Total liabilities	<u>-</u>	<u>169</u>	<u>25,617</u>	<u>25,786</u>
FUND BALANCES				
Restricted:				
Debt service	-	-	527,858	527,858
Road maintenance	-	122,173	-	122,173
Committed:				
Construction and road maintenance	<u>2,255,722</u>	<u>-</u>	<u>-</u>	<u>2,255,722</u>
Total fund balances	<u>2,255,722</u>	<u>122,173</u>	<u>527,858</u>	<u>2,905,753</u>
Total liabilities and fund balances	<u>\$ 2,255,722</u>	<u>\$ 122,342</u>	<u>\$ 553,475</u>	<u>\$ 2,931,539</u>

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CITY OF FAIRHOPE, ALABAMA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Special Revenue Fund Impact Fees	Special Revenue Fund Gas Tax	Debt Service	Total Nonmajor Governmental Funds
REVENUES				
Intergovernmental	\$ -	\$ 102,507	\$ -	\$ 102,507
Charges for services	1,217,907	-	-	1,217,907
Interest and rents	1,847	-	347	2,194
Total revenues	<u>1,219,754</u>	<u>102,507</u>	<u>347</u>	<u>1,322,608</u>
EXPENDITURES				
Other	67	16,270	516	16,853
Debt service				
Principal	-	-	1,573,560	1,573,560
Interest	-	-	111,633	111,633
Capital outlay	-	-	-	-
Total expenditures	<u>67</u>	<u>16,270</u>	<u>1,685,709</u>	<u>1,702,046</u>
Excess of revenues over (under) expenditures	<u>1,219,687</u>	<u>86,237</u>	<u>(1,685,362)</u>	<u>(379,438)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	1,697,100	1,697,100
Transfers out	(442,877)	-	-	(442,877)
Total other financing sources (uses)	<u>(442,877)</u>	<u>-</u>	<u>1,697,100</u>	<u>1,254,223</u>
Net change in fund balances	776,810	86,237	11,738	874,785
Fund balances – beginning of year	<u>1,478,912</u>	<u>35,936</u>	<u>516,120</u>	<u>2,030,968</u>
FUND BALANCES – END OF YEAR	<u>\$ 2,255,722</u>	<u>\$ 122,173</u>	<u>\$ 527,858</u>	<u>\$ 2,905,753</u>

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

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CITY OF FAIRHOPE, ALABAMA
FUND BALANCE SHEET
FAIRHOPE PUBLIC LIBRARY BOARD
SEPTEMBER 30, 2017

ASSETS

Cash and cash equivalents	\$ 462,992
Prepaid items	5,249
	<hr/>
Total assets	\$ 468,241
	<hr/> <hr/>

LIABILITIES

Accounts payable and accrued liabilities	\$ 24,076
	<hr/>

FUND BALANCES

Nonspendable:	
Prepaid items	5,249
Restricted:	
Library improvements	288,437
Unassigned	150,479
Total fund balances	<hr/> 444,165 <hr/>
	<hr/> <hr/>
Total liabilities and fund balances	\$ 468,241
	<hr/> <hr/>

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, 2017

Fund balances as reported on page 76	\$	444,165
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.		476,648
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.		(382,766)
Other assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Employment retirement contributions		160,543
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		(445,576)
Deferred inflows of resources		(38,673)
Net position of governmental activities as reported on page 26	\$	<u>214,341</u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FAIRHOPE PUBLIC LIBRARY BOARD
FOR THE YEAR ENDED SEPTEMBER 30, 2017

REVENUES

Fines and lost books	\$ 17,032
Donations, gifts, memorials and bequests	86,239
State aid	16,490
Lease income	1,500
Payments from City of Fairhope	814,600
Miscellaneous	16,186
Total revenues	<u>952,047</u>

EXPENDITURES

Salaries	518,521
Payroll taxes	37,517
Insurance	10,819
Employees' retirement	41,630
Books, periodicals, audio visual	110,426
Supplies	14,231
Janitorial service	24,120
Professional fees	8,352
Telecommunications	672
Capital outlay	18,567
Maintenance	37,407
Miscellaneous	90,365
Total expenditures	<u>912,627</u>

Net change in fund balances 39,420

Fund balances – beginning of year 404,745

FUND BALANCES – END OF YEAR \$ 444,165

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, 2017

Net change in fund balances - total governmental funds, page 78 \$ 39,420

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	34,554
Depreciation expense for the year	(19,452)

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>(14,266)</u>
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Change in net position of governmental activities, page 27 \$ 40,256

CITY OF FAIRHOPE, ALABAMA
FUND BALANCE SHEET
FAIRHOPE AIRPORT AUTHORITY
SEPTEMBER 30, 2017

ASSETS

Cash and cash equivalents	\$ 392,494
Grants receivable	261,659
Prepaid items	<u>15,754</u>
Total assets	<u>\$ 669,907</u>

LIABILITIES

Accounts payable and accrued liabilities	\$ 275,440
Unearned rent	<u>2,430,000</u>
Total liabilities	<u>2,705,440</u>

FUND BALANCES

Nonspendable:	
Prepaid items	15,754
Unassigned	<u>(2,051,287)</u>
Total fund balances	<u>(2,035,533)</u>
Total liabilities and fund balances	<u>\$ 669,907</u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
FAIRHOPE AIRPORT AUTHORITY
SEPTEMBER 30, 2017

Fund balances as reported on page 80	\$ (2,035,533)
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.	33,722,020
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.	(4,289,487)
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.	(7,283,623)
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>(960,304)</u>
Net position of governmental activities as reported on page 26	<u><u>\$ 19,153,073</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, 2017

REVENUES

Fuel sales and rentals	\$ 192,684
Interest income	990
Federal grant revenue	2,666,613
Revenue from service concession arrangement	67,500
Payments from City of Fairhope	342,000
Other	749
Total revenues	<u>3,270,536</u>

EXPENDITURES

Insurance	18,914
Legal and professional	49,909
Maintenance	61,354
Capital outlay	2,810,453
Other	18,666
Debt service payments	
Principal	162,006
Interest	167,484
Debt issuance cost	54,600
Total expenditures	<u>3,343,386</u>
Excess of revenues over (under) expenditures	<u>(72,850)</u>

OTHER FINANCING SOURCES (USES)

Issuance of refunding bonds	7,445,629
Payment to refunded bond escrow agent	<u>(7,445,629)</u>
Total other financing sources (uses)	<u>-</u>

Net change in fund balances	<u>(72,850)</u>
Fund balances – beginning of year	(1,996,992)
Prior period adjustment	34,309
Fund balances – beginning of year, restated	<u>(1,962,683)</u>
FUND BALANCES – END OF YEAR	<u><u>\$ (2,035,533)</u></u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FAIRHOPE AIRPORT AUTHORITY
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Net change in fund balances – total governmental funds, page 82	\$ (72,850)
Amounts reported for governmental activities in the statement of activities are different from the statement 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.	
Refunding bond proceeds	(7,445,629)
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	162,006
Payment to escrow agent for refunding	7,445,629
The net effect of transactions involving the sale, disposal and transfer of capital assets is to decrease net position in the statement of net position.	(6,497)
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	2,810,453
Depreciation expense for the year	(300,756)
Unearned revenue as related to service concession arrangement derived from the acquisition of capital assets	<u>43,651</u>
Change in net position of governmental activities, page 27	<u><u>\$ 2,636,007</u></u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA

SCHEDULE OF CAPITAL PROJECTS EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Manley Road Soccer	\$ 412,693
TAP-Rock Creek Trail	397,227
Tennis Courts 2017	147,867
City Wide Street Improvements 2017	147,722
Fly Creek Marina Seawall	100,448
Pier Seawall	24,216
Golf Club House Repairs	20,364
Drainage Improvements 2017	18,836
Pool Building Façade	5,413
Golf Paths	4,136
Street Repair Project 2017	3,500
North Beach Upgrades	1,764
Roundabout at Gayfer and 13	1,508
Total	<u>\$ 1,285,694</u>

The above items are only from the capital projects fund.

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA

SCHEDULE OF INFORMATION REQUIRED BY BOND INDENTURES
SEPTEMBER 30, 2017

	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
A. Utility customers at September 30, 2017 were as follows:				
Number of customers	6,904	10,741	18,434	
Number of metered customers	6,904	10,741	18,434	
Number of unmetered customers	-	-	-	
Number of waste water customers	-	-	10,528	
B. Annual Net Income of Utility Operations				
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	Total
Income from operations	\$ 1,689,353	\$ 1,480,845	\$ 4,027,071	\$ 7,197,269
Add:				
Depreciation and amortization	808,584	463,727	1,519,559	2,791,870
Interest income	7,044	10,029	6,479	23,552
Annual net income as prescribed by debt covenants	<u>\$ 2,504,981</u>	<u>\$ 1,954,601</u>	<u>\$ 5,553,109</u>	<u>\$ 10,012,691</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, buildings and facilities. The City of Fairhope, Alabama is the named insured on all policies.

Comprehensive general liability – expires January 2018	\$ 5,000,000
Buildings and facilities – expires January 2018	101,269,509
Equipment – expires January 2018	7,917,193
Automobile – expires January 2018	
Liability	1,000,000
Uninsured motorist	50,000
Public officials errors and omissions liability – expires January 2018	5,000,000
Police liability – expires January 2018	
Aggregate	5,000,000
Per occurrence	2,000,000
Excess liability policy for general liability, police and public official – expires January 2018	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, 2017

	1996		2009		2011	
	Capital Improvement		Warrant Fund		Warrant Fund	
Balance October 1, 2016	\$ 50,000	\$ 106,556	\$ 125,003	\$ 537,831		
Deposits	-	-	-	909,250		
Disbursements	-	(106,556)	(125,003)	(900,920)		
Balance September 30, 2017	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 546,161</u>		
	2011		2015		2015	
	Reserve Fund		Reserve Fund		Warrant Fund	
Balance October 1, 2016	\$ 1,415,679	\$ 376,701	\$ 295,863	\$ 380,354		
Deposits	3,639	968	380,354	(373,971)		
Disbursements	(1,598)	(425)				
Balance September 30, 2017	<u>\$ 1,417,720</u>	<u>\$ 377,244</u>	<u>\$ 302,246</u>	<u>\$ 302,246</u>		

See independent auditors' report.

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STATISTICAL SECTION

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STATISTICAL SECTION

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

Contents	Page
Financial Trends <i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	87-92
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>	93-98
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>	99-102
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>	103-104
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>	105-107

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

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

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities										
Net investment in capital assets	\$ 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	\$ 86,900,546
Restricted	847,580	960,498	840,781	1,193,604	1,015,592	2,007,967	1,557,163	2,308,667	1,706,056	650,031
Unrestricted	(84,709)	666,961	4,506,443	5,064,845	7,056,984	8,586,709	9,513,008	4,619,015	2,124,391	8,284,540
Total governmental activities net positions	\$ 68,100,936	\$ 67,922,838	\$ 71,310,549	\$ 73,104,138	\$ 74,088,588	\$ 76,265,948	\$ 85,874,638	\$ 83,135,930	\$ 87,376,353	\$ 95,835,117
Business-type activities										
Net investment in capital assets	\$ 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	\$ 48,750,251
Restricted	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	2,693,371
Unrestricted	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	8,586,317
Total business-type activities net positions	\$ 28,088,327	\$ 29,784,906	\$ 33,043,193	\$ 38,055,728	\$ 40,375,729	\$ 43,867,679	\$ 48,017,655	\$ 52,346,033	\$ 56,458,208	\$ 60,029,939
Primary government										
Net investment in capital assets	\$ 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	\$ 135,650,797
Restricted	2,939,734	2,844,266	2,489,887	2,852,235	13,352,639	5,706,856	5,275,451	4,927,918	4,613,690	3,343,402
Unrestricted	1,338,263	4,358,017	11,202,923	15,674,968	17,104,720	18,783,993	11,786,613	9,857,475	9,712,241	16,870,857
Total primary government net position	\$ 96,189,263	\$ 97,707,744	\$ 104,353,742	\$ 111,159,866	\$ 114,464,317	\$ 120,133,627	\$ 133,892,293	\$ 135,481,963	\$ 143,834,561	\$ 155,865,056

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

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses										
Governmental activities:										
General	\$ 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	\$ 7,232,746
Public safety	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	5,481,678
Police	843,469	878,148	1,017,184	483,670	461,865	407,361	431,955	424,789	489,989	569,607
Public works	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	2,163,590
Sanitation	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	4,159,622
Street	771,373	760,174	772,539	798,997	810,636	840,636	886,028	924,736	1,025,236	1,025,887
Public Library Board	545,000	242,090	249,856	225,843	281,124	443,000	443,000	412,632	428,000	342,000
Airport	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	2,260,009
Recreation	459,961	438,442	601,232	654,736	613,614	640,917	663,982	665,804	756,407	1,026,770
Adult Recreation	-	1,292,200	1,102,861	1,106,624	932,284	987,869	978,819	1,060,643	1,263,426	1,609,965
Golf	743,451	878,534	694,083	633,161	589,174	507,982	472,222	344,808	339,051	53,853
Interest on long-term debt	19,903,137	22,113,317	23,803,538	22,549,986	25,210,634	22,823,710	24,383,033	23,845,901	25,836,300	25,925,727
Total governmental activities expenses	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	4,949,991
Business-type activities:	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	17,622,258
Natural gas	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	8,413,111
Water and waste water	1,713,486	-	-	-	-	-	-	-	-	-
Golf	30,932,058	27,692,923	27,955,621	28,564,189	28,448,514	29,694,467	31,073,954	30,369,895	30,611,757	30,985,360
Total business-type activities expenses	\$ 50,835,195	\$ 49,808,240	\$ 51,759,159	\$ 51,114,175	\$ 53,659,148	\$ 52,518,177	\$ 55,456,987	\$ 54,215,796	\$ 56,448,037	\$ 56,911,087
Total primary government expenses	\$ 59,522,299	\$ 51,140,160	\$ 52,249,279	\$ 53,883,822	\$ 63,012,007	\$ 60,524,993	\$ 62,225,471	\$ 58,585,456	\$ 78,337,796	\$ 8,676,864
Program Revenues										
Governmental activities:										
Charges for services:	252,838	224,022	261,070	241,104	289,432	291,749	285,573	-	-	-
General	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	1,594,839
Police	83,919	130,740	366,683	369,135	368,493	391,024	436,453	444,410	476,772	504,350
Sanitation	32,791	36,316	45,889	46,261	41,018	39,977	49,241	41,459	45,737	-
Recreation	-	847,016	776,173	944,858	1,001,627	1,113,277	1,067,593	1,137,114	1,127,306	1,160,293
Adult Recreation	206,012	87,416	22,267	24,402	-	9,144	-	-	-	102,507
Golf	7,310,387	384,358	1,389,592	302,963	1,317,475	438,033	8,416,283	1,319,753	1,467,355	1,642,474
Operating grants and contributions	15,169,863	8,218,684	9,491,191	8,704,267	10,727,431	9,758,436	17,952,001	11,258,837	12,502,648	13,681,327
Capital grants and contributions	-	-	-	-	-	-	-	-	-	-
Total governmental activities program revenues	\$ 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	\$ 6,382,976
Business-type activities:	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	19,244,121
Charges for services:	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	11,870,652
Natural gas	1,487,811	-	-	-	-	-	-	-	-	-
Electric	35,273,711	35,337,263	36,087,627	38,345,349	34,921,900	36,397,400	39,090,981	38,741,246	37,659,852	37,497,749
Water and waste water	50,443,574	43,555,947	45,578,818	47,049,616	45,649,331	46,155,836	57,042,982	50,000,083	50,162,500	51,179,076
Golf course	-	-	-	-	-	-	-	-	-	-
Total business-type activities program revenues	\$ 50,443,574	\$ 43,555,947	\$ 45,578,818	\$ 47,049,616	\$ 45,649,331	\$ 46,155,836	\$ 57,042,982	\$ 50,000,083	\$ 50,162,500	\$ 51,179,076
Total primary government program revenues	\$ 58,363,827	\$ 51,886,802	\$ 54,218,753	\$ 55,268,463	\$ 51,841,317	\$ 52,928,085	\$ 65,066,453	\$ 57,355,163	\$ 56,438,914	\$ 57,861,922

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

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net (expense)/revenue										
Governmental activities	\$ (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)	\$ (12,244,400)
Business-type activities	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	6,512,389
Total primary government net expense	\$ (391,621)	\$ (6,252,293)	\$ (6,180,341)	\$ (4,064,559)	\$ (8,009,817)	\$ (6,362,341)	\$ 1,585,995	\$ (4,215,713)	\$ (6,285,557)	\$ (5,732,011)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes	\$ 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	\$ 5,050,643
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	8,069,350
Liquor taxes	396,196	385,411	392,255	393,123	425,888	425,816	445,132	451,719	482,755	536,643
Lodging taxes	495,850	474,852	483,271	495,870	569,142	643,495	614,278	681,419	696,379	762,562
Other taxes	145,836	134,413	131,135	120,518	124,234	139,666	138,204	138,382	133,057	139,444
Intergovernmental	293,007	436,472	424,359	248,011	314,525	596,816	389,561	1,695,688	568,566	-
Investment earnings	340,530	225,860	239,256	249,489	226,642	251,512	239,205	228,670	302,181	335,106
Gain (loss) on sale of assets	-	-	-	-	-	-	(261,340)	-	-	-
Other	294,469	109,958	1,293,419	124,161	143,319	213,169	147,672	705,142	147,452	283,385
Transfer of Golf Fund to Governmental Activities	-	913,729	-	-	-	-	-	-	-	-
Transfers in/(out)	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	2,753,244
Total government activities	10,255,732	13,718,535	17,146,490	15,639,308	15,467,653	15,242,634	16,173,980	17,076,118	17,574,075	17,930,377
Business-type activities:										
Investment earnings	115,648	60,104	23,385	58,522	20,417	25,268	30,815	18,440	15,162	23,552
Other	-	-	-	-	-	-	-	-	-	19,276
Transfer of Golf Fund to Governmental Activities	-	(913,729)	-	-	-	-	-	-	-	-
Transfers in/(out)	(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)	(2,753,244)
Total business-type activities	(3,542,720)	(5,947,761)	(4,873,719)	(4,768,625)	(4,153,385)	(3,210,983)	(3,581,667)	(1,808,135)	(2,935,920)	(2,710,416)
Total primary government	\$ 6,713,012	\$ 7,770,774	\$ 12,272,771	\$ 10,870,683	\$ 11,314,268	\$ 12,031,651	\$ 12,592,313	\$ 15,267,983	\$ 14,638,155	\$ 15,219,961
Change in Net Position										
Governmental activities	\$ 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	\$ 5,685,977
Business-type activities	798,933	1,696,579	3,258,287	5,012,555	2,320,001	3,491,950	4,435,360	6,563,216	4,112,175	3,801,973
Total primary government	\$ 6,321,391	\$ 1,518,481	\$ 6,092,430	\$ 6,806,144	\$ 3,304,451	\$ 5,669,310	\$ 14,178,308	\$ 11,052,270	\$ 8,352,598	\$ 9,487,950

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

Fiscal Year	Sales Tax	Ad Valorem Tax	Automobile Tax	Beer, Wine and Liquor Tax	Cigarette Tax	Lodging Tax	Dog Tax	Total
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	10,190,499
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	12,620,042
2016	7,422,726	4,218,538	651,339	482,755	132,957	696,379	100	13,604,794
2017	8,069,350	4,310,029	740,614	536,643	139,380	762,562	64	14,558,642

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

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General fund										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 85,490
Committed	-	501,932	2,723,595	5,014,205	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000	7,062,075
Unassigned	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	6,819,862
Total general fund	\$ 1,083,383	\$ 2,076,675	\$ 4,709,509	\$ 7,160,155	\$ 10,295,547	\$ 10,447,451	\$ 10,449,523	\$ 10,992,803	\$ 10,629,943	\$ 13,967,427
All other governmental funds										
Restricted:										
Debt service - other governmental funds	\$ 470,671	\$ 350,987	\$ 351,008	\$ 350,020	\$ 325,214	\$ 339,308	\$ 357,156	\$ 348,720	\$ 516,120	\$ 527,858
Road maintenance - other governmental funds	-	-	-	-	-	274,746	46,007	105,947	35,936	122,173
Committed, reported in:										
Other governmental funds	66,907	59,142	127,419	167,786	1,029,075	1,252,213	851,448	826,435	1,478,912	2,255,722
Capital projects fund	2,070,337	550,369	362,354	675,799	-	58,625	1,956,986	4,398,406	1,564,704	4,147,827
Unassigned:										
Capital projects fund	-	-	-	-	(1,069,424)	181,085	-	-	-	-
Total all other governmental funds	\$ 2,607,915	\$ 960,498	\$ 840,781	\$ 1,193,605	\$ 284,865	\$ 2,105,977	\$ 3,211,597	\$ 5,679,508	\$ 3,395,672	\$ 7,053,580

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

Fiscal Year

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
REVENUES										
Local taxes	\$ 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	\$ 14,681,633
Licenses and permits	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	3,945,641
Fines and forfeitures	252,838	224,022	261,070	241,104	289,432	291,749	283,573	278,837	284,893	284,893
Intergovernmental	1,826,517	837,246	547,556	345,966	667,344	1,022,649	991,614	639,523	693,761	876,086
Contribution from Public Library Board	208,931	71,000	65,000	183,285	1,000	1,500	-	-	-	-
Interest and rents	340,530	225,861	239,256	249,489	226,748	253,003	239,205	228,669	302,181	335,106
Charges for services	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	6,910,066
Assessments	-	-	-	-	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	1,190,281
Recreation Department	-	-	-	369,135	368,493	391,024	436,453	444,410	476,772	466,437
BP settlement proceeds	-	-	-	-	-	-	-	1,361,255	-	-
Legal settlement	-	-	-	-	-	-	-	598,640	-	-
Other	411,179	277,015	1,705,991	170,422	184,411	253,146	196,913	180,644	223,293	338,058
Total revenues	16,048,869	16,042,070	20,598,979	19,545,695	21,061,464	22,320,254	23,429,714	26,191,042	26,765,741	29,028,201
EXPENDITURES										
General government	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	6,451,497
Sanitation	1,405,774	1,475,035	1,758,543	1,745,785	1,607,918	1,643,715	1,672,938	1,598,404	1,624,642	1,871,147
Police	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	4,995,390
Fire	707,513	765,645	837,597	395,224	339,080	312,647	339,623	338,547	396,359	473,649
Airport	545,000	242,090	249,856	225,843	281,124	443,000	443,000	412,632	428,000	342,000
Street	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	2,779,978
Recreation	785,425	867,174	1,050,957	969,025	989,463	1,062,174	1,095,526	1,095,605	1,269,073	1,816,111
Adult recreation	431,481	400,494	553,125	577,015	525,212	543,109	566,000	581,338	631,887	838,819
Golf	-	-	1,094,604	1,113,178	863,593	907,216	901,085	1,088,667	1,088,667	1,363,033
Capital outlay	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	2,359,222
Debt service:										
Principal	2,424,796	863,329	1,047,483	831,483	4,804,960	1,485,545	2,894,540	483,780	6,478,558	1,573,560
Interest	802,140	809,715	704,043	666,652	616,221	508,483	465,409	374,479	390,971	111,633
Public Library Board	504,560	530,000	565,000	565,000	600,000	630,000	674,100	714,100	814,600	814,600
Other	60,000	60,000	75,000	89,620	160,888	89,133	89,785	93,436	162,756	115,753
Total expenditures	23,680,589	21,667,335	22,982,966	21,569,372	27,023,814	22,429,286	25,934,503	25,006,426	36,338,518	25,906,392
Excess (deficiency) of revenues over expenditures	(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)	3,121,809
OTHER FINANCING SOURCES (USES)										
Transfers in	5,228,182	9,542,134	6,541,730	6,557,708	10,779,818	7,236,241	9,640,199	7,272,735	8,568,025	6,817,864
Proceeds from issuance of debt	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)	-	-	-	-	-	-	-	-
Transfers out	(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)	(4,098,281)
Total other financing sources (uses)	4,958,368	4,971,140	4,897,104	4,827,147	8,189,002	3,236,251	3,612,481	1,826,575	6,926,081	2,719,583
Net change in fund balance	(2,672,352)	(654,125)	2,513,117	2,803,470	2,226,652	3,127,219	1,107,692	3,011,191	(2,646,696)	5,841,392
Debt service as a percentage of noncapital expenditures	15.8%	8.4%	8.2%	7.5%	20.6%	9.5%	14.0%	4.1%	24.0%	7.2%

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

Fiscal Year Ended September 30	Residential Property	Commercial Property	Industrial Property	Less: Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value
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
2017	204,961,080	379,420	207,388,960	65,103,500	347,625,960	15	5,214,389,400

Source: Baldwin County Revenue Commissioner

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

Fiscal Year	City					County					Overlapping Rates					Total Direct and Overlapping Rates	
	General Millage		School Millage		Total City Millage	General Millage		Road/Bridge Millage		Fire Millage	School Millage		Health Care Authority Millage		Total County Millage		
	General Millage	School Millage	General Millage	Road/Bridge Millage		Fire Millage	School Millage	School Millage	Health Care Authority Millage		General Millage	School Millage	Soldier Millage	Total State Millage			
2008	5.0	5.0	5.0	5.0	15.0	5.0	2.5	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	5.0	15.0	5.0	2.5	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	5.0	15.0	5.0	2.5	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	5.0	15.0	5.0	2.5	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	5.0	15.0	5.0	2.5	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	5.0	15.0	5.0	2.5	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	5.0	15.0	5.0	2.5	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	5.0	15.0	5.0	2.5	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	5.0	15.0	5.0	2.5	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0
2017	5.0	5.0	5.0	5.0	15.0	5.0	2.5	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0

Source: Baldwin County Commission

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

Taxpayer	2017			2008		
	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, LP	\$ 2,863,140	1	0.8%	\$ -	-	0.0%
Arbor Gates Apartments, LLC	2,422,060	2	0.7%	3,210,840	2	1.0%
FST Mississippi Baldwin Square, LLC	2,179,780	3	0.6%	2,362,820	3	0.0%
PSM Alabama Holdings, LLC	2,050,600	4	0.6%	-	-	0.0%
Fairhope Ridge, LLC	1,476,400	5	0.4%	-	-	0.0%
A 1 Corte Jr Family Limited Partnership	1,448,700	6	0.4%	1,670,800	7	0.0%
FST Fairhope Hospitality Group, LLC	1,412,700	7	0.4%	-	-	0.0%
Truland Homes, LLC	1,345,200	8	0.4%	-	-	0.0%
Bones Set Too, LLC	1,311,400	9	0.4%	-	-	0.0%
Mediacom Communications Corporation	1,192,880	10	0.3%	-	-	0.0%
CHS Properties, Inc	-	-	0.0%	4,003,640	1	1.2%
Olde Church Street Properties, Inc.	-	-	0.0%	1,879,740	4	0.6%
The Sanctuary, LLC	-	-	0.0%	1,781,000	5	0.5%
Huntington Lots, LLC	-	-	0.0%	1,675,420	6	0.5%
Belle South Tele, Inc dba AT&T	-	-	0.0%	1,219,600	8	0.4%
Pelican Properties	-	-	0.0%	1,112,640	9	0.3%
Fairhope Commercial Investments, LLC	-	-	0.0%	999,060	10	0.3%
	<u>\$ 17,702,860</u>		<u>5.1%</u>	<u>\$ 19,915,560</u>		<u>4.8%</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		Collections in Subsequent Years	Total Collections to Date	
		Fiscal Year of the Levy Amount	Percentage of Levy		Amount	Percentage of Levy
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%
2017	4,908,058	4,540,127	92.50%	7,296	4,547,423	92.65%

Source: Baldwin County Revenue Commissioner.

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

Fiscal Year	City Direct Rate	Baldwin County	State of Alabama
2014	2.00%	3.00%	4.00%
2015	2.00%	3.00%	4.00%
2016	2.00%	3.00%	4.00%
2017	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**

Fiscal Year	Top 25 Taxpayers (approximate)	Total Tax	% of Total Tax
2012	\$ 2,525,722	\$ 4,855,972	52%
2013	2,641,175	5,437,863	49%
2014	3,673,425	6,518,249	56%
2015	3,624,562	6,733,115	54%
2016	3,788,930	7,232,073	52%
2017	4,059,864	7,865,989	52%

Source: City Treasurer's Office and Alabama Department 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		Capital		Utilities		Leases				
	Obligation Debt	Notes Payable	Obligation Debt	Capital Leases	Revenue Debt	Notes Payable	Revenue Debt	Capital Leases			
2008	\$ 17,474,232	\$ 81,604	\$ 413,404	\$ 91,092	\$ 16,865,000	\$ 170,145	\$ 7,387	\$ 35,102,864	7.26%	\$ 2,204	
2009	16,768,901	30,364	271,397	69,942	16,235,000	86,035	-	33,461,639	6.65%	2,067	
2010	15,773,979	-	256,962	47,745	15,610,000	24,681	-	31,713,367	6.43%	1,933	
2011	14,965,792	-	241,993	24,449	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	
2017	5,259,498	-	2,420,502	-	14,842,522	-	-	22,522,522	3.18%	1,160	

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

Fiscal Year	General Obligation Debt	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value of Property	Per Capita
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
2017	7,680,000	527,858	7,152,142	1.01%	368

**CITY OF FAIRHOPE, ALABAMA
COMPUTATION OF OVERLAPPING DEBT
SEPTEMBER 30, 2017**

	<u>Outstanding Debt</u>	<u>Percentage of debt Applicable to the City of Fairhope (1)</u>	<u>Amount of debt Applicable to the City of Fairhope</u>
Direct debt of the City	\$ 5,259,498	100.00%	\$ 5,259,498
Overlapping Debt (Supported by ad valorem tax)			
Baldwin County	\$ 102,959,812	8.80% ⁽¹⁾	<u>9,060,463</u>
			<u>\$ 14,319,961</u>

(1) Percentage of net assessed value of property in City (\$347,625,960) to net assessed value of property in Baldwin County (\$3,970,249,940) on October 1, 2017.

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

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Debt limit	\$ 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	\$ 69,525,192
Total net debt applicable to limit	17,555,836	17,070,662	16,030,941	15,207,785	14,426,741	12,924,616	15,724,616	14,079,616	10,415,000	7,680,000
Legal debt margin	\$ 48,024,952	\$ 49,044,774	\$ 47,594,467	\$ 43,136,095	\$ 43,457,379	\$ 40,840,724	\$ 39,318,944	\$ 46,657,916	\$ 54,935,300	\$ 61,845,192
Total net debt applicable to limit as a percentage of debt limit	26.77%	25.82%	25.20%	26.07%	24.92%	24.04%	28.57%	23.18%	15.94%	11.05%

Legal Debt Margin Calculation for Fiscal Year 2017

Total assessed value	<u>\$ 347,625,960</u>
Debt limit (20% of total assessed value)	<u>69,525,192</u>
Debt applicable to limit:	
General obligation warrants	7,680,000
Legal debt margin	<u>\$ 61,845,192</u>

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

<u>Fiscal Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>	<u>School Enrollment</u>	<u>Unemployment Rate</u>
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%
2017	19,421	708,905,342	36,502	5,416	4.7%

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**

<u>Employer</u>	<u>2017</u>			<u>2008</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Thomas Hospital	1,000	1	13.1%	1,200	1	18.2%
Grand Hotel	750	2	9.8%	540	2	8.2%
City of Fairhope	446	3	5.8%	353	4	5.4%
Wal-Mart	291	4	3.8%	380	3	5.8%
Publix	150	5	2.0%	-	-	0.0%
Segers Aero	125	6	1.6%	-	-	0.0%
Winn-Dixie	100	7	1.3%	118	6	1.8%
Piggly Wiggly	74	8	1.0%	-	-	0.0%
Print Xcel	40	9	0.5%	165	5	2.5%
Rock Creek Golf Club	40	10	0.5%	-	-	0.0%
Bruno's	-	-	0.0%	82	7	1.2%
Fokkert AIR Inc	-	-	0.0%	68	8	1.0%
Balloons Everywhere	-	-	0.0%	55	9	0.8%
Food World	-	-	0.0%	40	10	0.6%
	<u>3,016</u>		<u>39.4%</u>	<u>3,001</u>		<u>44.9%</u>

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

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

2008: 6,583 2017: 7,647

**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,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Government	62	54	55	53	53	48	48	49	49	49
Public Safety:										
Police	42	51	48	48	44	48	46	46	45	49
Fire										
Firefighters and Dispatch	14	13	13	17	18	17	18	17	14	15
Highways and Streets:										
Public Works	28	37	37	35	36	39	39	41	46	42
Sanitation	20	21	20	20	19	17	21	22	20	19
Culture and Recreation:										
Recreation	9	18	18	19	19	24	23	25	26	29
Adult Recreation	6	10	13	14	14	9	10	11	12	11
Gas Department	19	18	18	18	18	17	15	15	15	16
Electric Department	19	17	17	17	18	17	22	21	19	19
Water/Waste Water Department	25	23	23	24	26	24	23	23	22	26
Golf Department	13	19	19	16	14	15	16	18	20	19
Total	257	281	281	281	279	275	281	288	288	294

Source: City of Fairhope Human Resources Department

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

Function	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Police:										
Physical arrests	1,131	993	833	1,134	603	759	750	1,423	983	1,350
Parking violations	71	285	201	163	128	22	49	121	240	359
Traffic violations	996	1,004	1,245	1,419	2,215	1,379	887	633	1,726	2,490
Fire:										
Number of calls answered	432	427	658	801	657	690	853	836	865	1,025
Inspections	196	382	291	143	101	85	35	161	147	73
Highways and streets:										
Street resurfacing (miles)	-	1.5	-	-	8.1	-	-	-	13.2	-
Potholes repaired**	414	384	400	425	450	1,345	1,480	1,620	2,933	2,300
Sanitation:										
Garbage collected (tons/year)	7,520	7,782	8,627	9,100	8,711	7,564	8,509	8,236	8,654	9,222
Trash collected (tons/year)	5,915	5,744	7,385	6,487	5,767	5,513	6,292	5,545	5,902	8,228
Recyclables collected (tons/year)	1,989	1,297	1,281	1,495	1,508	1,512	1,714	1,779	1,855	1,843
Culture and recreation:										
Golf course rounds @ 9 hole rounds	88,475	53,755	62,720	61,283	65,500	62,266	59,261	57,405	56,613	58,416
Pavilion/park parties	88	84	80	64	56	58	61	59	44	28
Waste water:										
Average daily sewage treatment (millions of gallons)	1.7	1.7	1.8	1.8	1.8	1.8	1.8	2.0	2.2	2.4

Sources: Various government departments

** The City changed the calculation method for potholes for fiscal year 2016 resulting in an increase.

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

Function	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Public safety										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	36	40	45	45	43	37	38	39	44	44
Fire stations	3	3	3	3	3	3	4	4	4	4
Highways and streets										
Streets (miles)	98.1	98.1	98.1	98.1	99.1	103.84	106.54	108.64	111.14	111.14
Culture and recreation										
Parks acreage	208	208	248	248	248	356	504	504	504	504
Parks	50	50	51	51	51	52	54	54	54	54
Swimming pools	3	3	3	3	3	3	3	3	3	3
Tennis courts	6	6	6	6	6	6	6	12	12	12
Community center	1	3	3	3	3	3	3	3	3	3
Sewer										
Sanitary sewers (miles)	121	121	125	125	126	126	130	135	175	175
Storm sewers (miles)	16.75	16.75	16.75	16.75	17.25	19.17	20.57	22.77	25.77	25.77
Maximum daily treatment capacity (millions of gallons)	4	4	4	4	4	4	4	4.2	4	4

Sources: Various government departments

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