



**City of Fairhope, Alabama**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009**

*CITY OF FAIRHOPE, ALABAMA*  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009**

**PREPARED BY:  
THE OFFICE OF THE MANAGER OF FINANCIAL REPORTING**

CITY OF FAIRHOPE, ALABAMA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2009

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**INTRODUCTORY SECTION**



January 15, 2010

The Honorable Timothy M. Kant  
Members of the City Council  
Citizens of Fairhope, Alabama

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

Lisa A. Hanks  
*City Clerk*

Nancy K. Wilson, CPA  
*City Treasurer*

*Council Members*

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

Rick Klingrea

Lonnie L. Mixon

Debbie W. Quinn, A.C.M.O.

Daniel R. Stankoski, C.M.O.

The Comprehensive Annual Financial Report (CAFR) of the City of Fairhope, Alabama (the "City") for the Fiscal Year ending September 30, 2009 is hereby submitted. Responsibility for both the accuracy of the data and the completeness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

## REPORTING ENTITY

The City of Fairhope, incorporated in 1908, 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, and has an estimated population of 17,000.

The financial reporting entity includes all funds of the primary government as well as its component units, the Fairhope Public Library and the Fairhope Airport Authority. Component units are legally separate entities for which the primary government is financially accountable. The component units are reported in separate columns in the financial statements to emphasize the legal separation from the primary government, as well as to differentiate the financial positions, results of operations and cash flows from those of the primary government.

In addition to the Public Library and Airport Authority, the government provides natural gas, electricity, and 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 public golf course, a skate park, and many cultural events.

## ECONOMIC CONDITION AND OUTLOOK

The City of Fairhope, as a whole, maintained a stable economic atmosphere, moderately affected by the financial downturn within the State of Alabama and across the nation. Nevertheless, new construction and the issuance of building permits within the City continue to be affected by the sluggish economy, and

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revenues from those two sources were, once again, lower than projected. However, land and home values remained stable, even though market adjustments were felt in real estate sales. "Based on recent U.S. Census data and federal unemployment statistics, Forbes.com named Baldwin County's Eastern Shore as the fourth best place to live in the U.S. in the event of an economic recession. Families in Fairhope...(and the surrounding cities) were far more likely than most to have relatively low mortgage debt, higher-than-average income and a high level of education." (Ruiz, R., *Forbes.com*; Henderson, Russ, *Press Register* October 28, 2008)

Fairhope enjoys a strong sense of community ownership and responsibility among city officials and local citizens, resulting in active community participation and involvement in all current city projects and issues. Clean industry within the City supports health services and higher education. In addition, Fairhope gains strong economic stability from the significant industrial and commercial development in surrounding Baldwin County cities. These factors, along with continued growth, citizen involvement in planning, and strong city management provide strength and promise for continued economic good health for the City of Fairhope.

## **MAJOR INITIATIVES**

For the Year:

A historic change occurred in the City in April – by ordinance of the City Council, the very first sales tax by the City of Fairhope was levied, effective July 1, 2009. The decision to implement a sales tax came only after lengthy public discussions by City Council, citizens, community leaders and local vendors. The objective for the historic decision was to build up reserves in governmental funds, which had become drastically low after three years of hurricane and rainstorm repairs and capital improvement projects, with no additional borrowing. In addition, the sales tax would allow a decrease in funds transferred from the utilities into the General fund, thus building up utility reserves. The new ordinance required that one half of the sales tax receipts be set aside monthly in a sales tax reserve account, and held for emergency spending, as authorized by the City Council.

As part of the discussion of utilizing the new sales tax, the City Council formed a Strategic Planning Steering Committee, to work with all City managers to analyze and prioritize needs and critical issues within the City. Documentation from their work will go toward creating a three-year strategic plan for spending, which should come to fruition during the current fiscal year.

The City Council restructured the budget process for the City to increase input, accountability and ownership of managers in their department's financial performance. As part of the restructuring process, the Financial Advisory Committee was formed. This new committee was charged with overseeing the budget discussions and recommendations, reviewing all funding requests prior to presentation to the City Council, reviewing and modifying cash and financial



reports, and evaluating debt and future needs for debt. In constructing the new budget, the committee adhered to the City's established goals in planning for the continuing growth, as well as continuing to maintain the quality of life and the highest level of governmental services to all residents in the City.

The newly constructed Fairhope Recreation Center opened in August, offering a full range of exercise and recreation activities. Membership continues to grow, as the Center becomes a major outlet for the community to enjoy. The Pet Park has achieved full citizen funding for completion, and should be available to Fairhope pets in the near future.

The Fairhope Museum of History was recognized in June, as it was added to the Alabama Register of Landmarks and Heritage.

The City's horticulturist and landscape department continued to keep the City in beautiful bloom year-round. Their work was enjoyed by all citizens and by a continuous flow of tourists from across the nation into the City. In September, Money Magazine named Fairhope to its list of Top 25 Places to Retire.

The Finance Department was once again awarded the Certificate of Achievement for Excellence in Financial Reporting for its CAFR for the fiscal year 2008, by the Government Finance Officers Association (GFOA) of the United States and Canada. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to be considered for another certificate.

For fiscal year 2009, Fairhope implemented GASB 45, Accounting and Financial Reporting for Other Post-Employment Benefits (OPEB). The primary 'other' benefit after retirement is health insurance. Due to the continually rising cost of health insurance for all employers, the Government Accounting Standards Board now requires that this growing liability be actuarially measured and accrued on the financial statements of all governmental entities. The actuarial accrued liability for post-employment health insurance coverage for the City is \$6.7 million, with an Annual Required Contribution (ARC) toward this liability of \$611,853. This annual amount appears in the Statement of Net Assets.

Fairhope joined Baldwin County to create an intergovernmental funding agreement for a County transit hub. This bus system will provide much needed transportation between Fairhope and outlying shopping and commercial centers.

Quail Creek Golf Course was transferred into the General Fund beginning with this fiscal year. The course was closed for three months for remodeling and re-grassing of the greens. Attendance and play at the course is strong and promises to continue. The Grill at the golf course was leased to a private restaurant, 'A Taste of New Orleans' and has become a popular addition to the Clubhouse.

### For The Future:

The City continues its focus on improvements to existing infrastructure for drainage, streets and the utilities, along with dependable excellent government services. Budgetary goals for capital improvements and capital equipment will be considered within the parameters of the new Strategic Plan, with maximum efficiency, and fiduciary responsibility.

### **ENTERPRISE FUNDS HIGHLIGHTS**

The City's enterprise funds, made up of Natural Gas, Electric, and Water and Waste Water, recorded a combined increase in net assets of \$2,335,757 for the year, in addition to transferring \$5.1 million to support the General fund. Transfers to support the General fund represented 66% of the enterprise funds' operating income. Cash and cash equivalents of the enterprise funds increased by \$972,954 over the prior year. A rate study was conducted on the Water and Waste Water departments which indicated a need for a waste water rate increase in fiscal years 2009 and 2010. No new long-term debt was incurred by the utilities and total long-term debt decreased by \$863,504. Utility Revenue Warrants issued in 1999 were refinanced, resulting in a savings of \$74,968 in debt service for the water and waste water fund. The City utilizes a short-term line of credit each year for use in funding the seasonally high electric power costs during the summer months. The balance of \$1,750,000 in the line of credit at the beginning of the fiscal year was paid in full. Separate recordings of revenue and expenses of the water operations and the waste water operations began at the close of the 2009 fiscal year. Gas line infrastructure was extended into growing areas and major electrical upgrades and improvements were completed. Plans have begun for a new Waste Water treatment plant.

### **GENERAL FUND HIGHLIGHTS**

The General Fund supports the General Administration, Police and Fire, Adult and Youth Recreation, Quail Creek Golf Course, Streets, Sanitation, and other department budgets providing City service. The General Fund experienced a surplus of \$993,292 for the fiscal year, including receipt of \$5.1 million in transfers from the utilities during the year. The Fund Balance at year-end was \$2,076,675. Total long-term debt of the General Fund decreased by \$777,721 during the year. General Obligation Warrants issued in 1999 were refinanced, resulting in a savings of \$218,631 in transfers to debt service. The Line of Credit balance of \$900,000 from the prior year was paid in full, with no additional borrowing. The initial three months of sales tax revenue totaled \$1,003,864 for the General Fund.

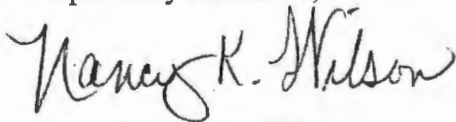
## INDEPENDENT AUDIT

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

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

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

Respectfully submitted,

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

Nancy K. Wilson, CPA  
City Treasurer

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fairhope  
Alabama

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2008

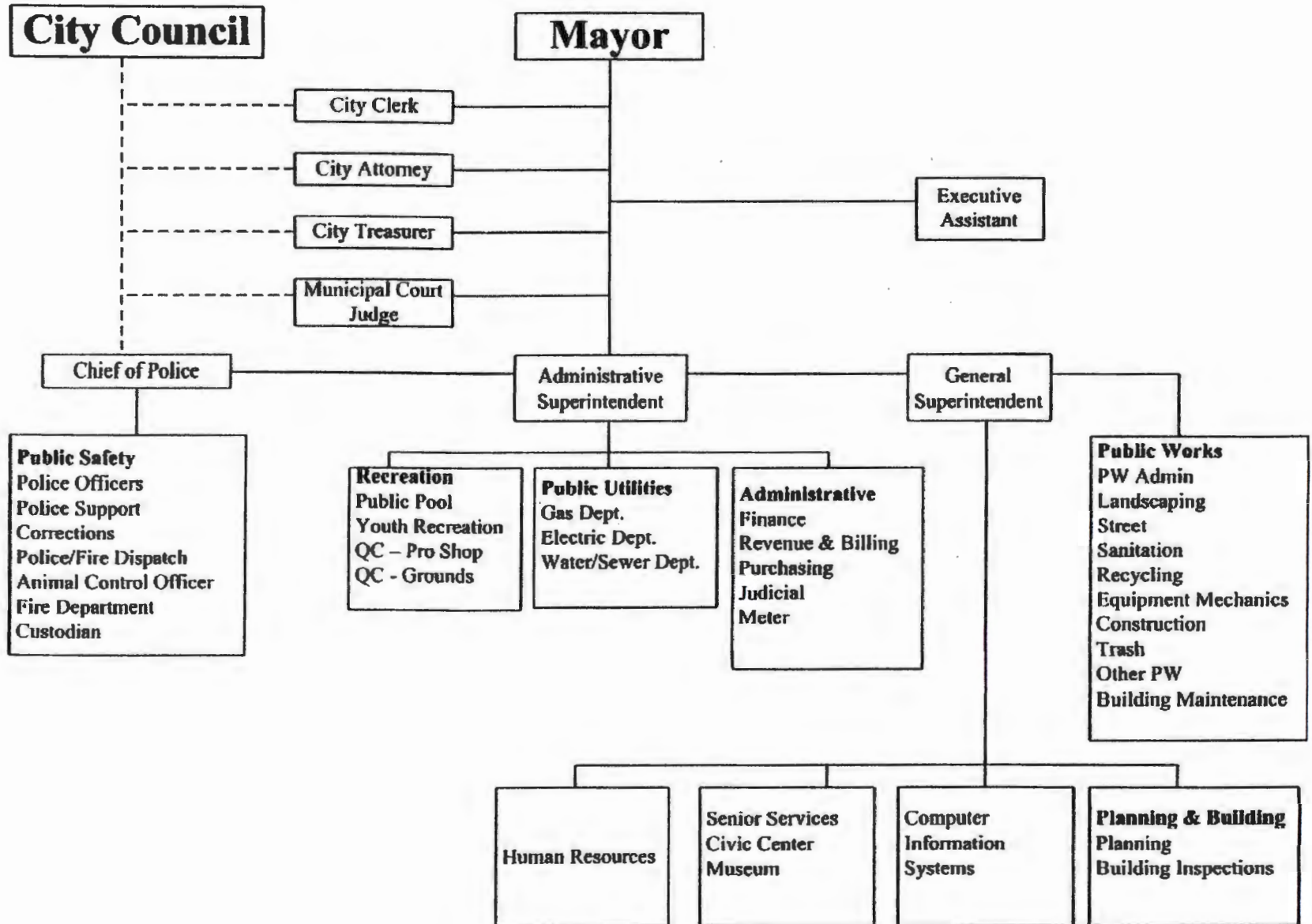
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

x  
 CITY OF FAIRHOPE, ALABAMA  
 ORGANIZATION CHART  
 AS OF SEPTEMBER 30, 2009



CITY OF FAIRHOPE, ALABAMA

CITY ELECTED AND APPOINTED OFFICIALS

SEPTEMBER 30, 2009

Timothy M. Kant, ACOMO

Mayor/Superintendent of Utilities

Michael A. Ford, ACOMO

Councilmember

Rick Kingrea

Councilmember

Lonnie L. Mixon

Councilmember

Debbie W. Quinn, ACOMO

Councilmember

Daniel R. Stankoski, CMO

Councilmember

Gregg Mims

City Administrator

Lisa Hanks

City Clerk

Nancy K. Wilson, CPA

City Treasurer

Bill D. Press

Police Chief

Marion E. Wynne, Jr.

City Attorney

**FINANCIAL SECTION**



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

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

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fairhope, Alabama, as of September 30, 2009, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fairhope, Alabama's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fairhope, Alabama, as of September 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have issued a report dated January 14, 2010 on our consideration of the City of Fairhope, Alabama's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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Management's Discussion and Analysis on pages 3 - 13 and the required supplementary information on pages 50 - 53 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairhope, Alabama's basic financial statements. The introductory section, other supplementary information and the statistical information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Hentmann, Bladsman & Kilgus, P.C.*  
Certified Public Accountants

January 14, 2010  
Fairhope, Alabama

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Fairhope's financial performance provides a narrative overview of the City's financial activities for the fiscal year ended September 30, 2009. The intent of this Management Discussion and Analysis (MD&A) is to review the City's financial performance as a whole. Please read it in conjunction with the City's financial reports, including the transmittal letter and financial statements.

### FINANCIAL HIGHLIGHTS

- Assets of the City exceeded its liabilities at the close of the fiscal year by \$97,707,744 an increase of \$1,518,481 (pages 14 and 15).
- At the close of the fiscal year, the City's combined governmental funds, including General, Capital Projects, Debt Service and Gas Tax Funds, reported ending fund balances totaling \$3,037,173 a decrease of \$654,125 from the prior year. The General Fund closed with a fund balance of \$2,076,675, an increase of \$993,292. The Capital Projects Fund had a decrease in fund balance of \$1,519,968 after capital expenditures of \$1,510,801. The Gas Tax Fund expended \$95,711 on road repair projects (page 18).
- The combined governmental funds expended \$1,775,834 for capital projects and purchases, including \$1,439,049 on recreation projects, \$71,752 on drainage and road projects and \$293,947 for vehicles, equipment and other infrastructure additions.
- The business-type activities, Gas, Electric, Water and Waste Water activities, ended the year with income before transfers of \$7,704,444, compared to \$4,680,193 for fiscal 2008. Of that amount, the utilities made transfers to the General Fund of \$5,094,136. For fiscal 2009 the amount of income transferred from the utilities to the General Fund was 66%, compared to 78% for fiscal 2008. The business-type activities recorded an increase in net assets, after transfers, of \$2,335,757 (page 21).
- The City's business-type activities made additions to property, plant and equipment of \$1.7 million, while incurring no new long-term debt. Funding for these additions was prior debt issues, current income and money set aside for this purpose.
- For the first time in the City's history, the City Council implemented a city sales tax of 2%. The tax went into effect on July 1, 2009. For the last three months of the fiscal year, revenues from this tax totaled \$1,003,864. Fifty percent of sales tax revenues have been designated by the City Council to be reserved for approved emergencies. The amount of reserved funds at September 30, 2009 was \$501,932.
- Effective October 1, 2008, the City transferred the assets and liabilities of the Golf Fund into the General Fund. Governmental activities' capital assets increased \$1,092,179 net of accumulated depreciation of \$1,836,016 and non-current liabilities increased \$178,450, resulting in a residual transfer of assets of \$913,729. In connection with this transfer, the Electric Fund forgave \$274,551 in debt owed it by the Golf Fund (page 21; page 31, note 2).
- Effective October 1, 2008 the City implemented Government Accounting Standards Statement 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions (GASB 45). The City's annual required contribution was \$611,853. The current year retiree premium was \$205,208. The net OPEB obligation at year end was \$406,645 (page 14; page 47, note 18). This is the first fiscal year that this liability is being reported.

### USING THIS ANNUAL REPORT

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

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

For governmental activities, the fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements start on page 25.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's general fund budget. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with the budget on page 50.

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

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

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

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

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

Net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$97,707,744 at the close of the most recent fiscal year, as shown in **Figure 1**, page 9 and page 14. This is an increase of \$1,518,481 from the prior year.

The largest portion of the City's net assets, approximately 92.6 percent, reflects its investment in capital assets (e.g. land, streets, sidewalks, buildings, infrastructure, equipment, etc.), less any related debt still outstanding used to acquire those assets. The City uses these capital assets to provide services and utilities to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, approximately 3.4 percent, represents resources that are subject to restrictions as to how they may be used. The remaining unrestricted net assets, approximately four percent, may be used to meet the City's ongoing obligations to citizens and creditors. The unrestricted net assets, \$3,856,085, increased \$2,517,822 during fiscal 2009.

Effective October 1, 2008 the City implemented Government Accounting Standards Statement 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions (GASB 45). The City's Annual Required Contribution (ARC) was actuarially determined to be \$611,853. The current year retirement premium was \$205,208. The liability for OPEB obligation at year end was \$406,645. This amount is reported on the Statement of Net Assets, page 14, as Net OPEB Obligation.

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

### Fund Financial Statements

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

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

### Governmental Funds

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

Figure 3, page 11, presents summaries of the governmental funds (General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds) revenues and expenditures, by function, for the fiscal year ended September 30, 2009, and the amounts of increases and decreases in relation to prior year revenues and expenditures.

Revenues from Governmental funds decreased \$6,799 from the previous fiscal year. Expenditures in Governmental funds decreased approximately \$2 million for the same period. The following significant events, related to revenues and expense, occurred during fiscal 2009 (the figures are rounded):

#### Related to revenue:

- Taxes, property and local, were up by \$1.3 million, due to increased property values and the City's first sales tax, which went into effect July 1, 2009.
- Licenses and Permits were down by \$670,000. Fees, licenses and permits related to real estate development and construction continued the downward trend begun in fiscal 2008.
- Intergovernmental revenues (federal and state funds), were down by \$1 million, due to completion of grant funded projects.
- Contributions from the Library Board for construction costs were down \$138,000.
- Income from the City's golf course, approximately \$960,000, was recorded for the first time in governmental operations.
- Impact fees, again, related to the down turn in real estate development, were down approximately \$400,000.

#### Related to expense:

- Capital outlay expenditures were down \$1.5 million from the prior year. Expenditures of \$3.2 for fiscal 2008 included \$1.8 million for recreation and park facilities, \$530,000 for road and sidewalk improvements,

\$230,000 for the library project and \$640,000 for other equipment and infrastructure additions. For fiscal 2009 capital expenditures were reduced to \$1.8 million. Some major projects were completed or near completion, resulting in less cost and some originally budgeted capital expenditures were delayed. Major expenditures for 2009 were \$1.3 million for parks and recreation facilities, \$29,000 on the library project, \$72,000 on road and drainage projects and \$107,000 on renovations at the Quail Creek Golf Course. An additional \$265,000 was spent on other capital additions and equipment.

- The Airport Authority appropriation was reduced by \$303,000 due to reduced interest payments due on the Airport debt.
- Debt service payments were down \$1.6 million from fiscal 2008. A \$1.3 million "bridge loan", to be paid from pledges to the Library Board, was secured during fiscal 2007 and repaid during 2008 from permanent financing borrowed for that purpose.
- The Golf Fund operations were transferred to the General Fund effective October 1, 2008. Expenses for those operations were \$1.3 million for fiscal 2009.

### Fund Balances

When reviewing the City's finances it is important to ask if the City as a whole is in better financial condition when compared with the prior year. An indicator of the City's financial health is whether the fund balances of the governmental and net assets of the proprietary funds increased or decreased as a result of operating activities. Fund balances for all governmental funds, including General Fund, Capital Projects Fund, Gas Tax Revenue Fund and Debt Service Fund, decreased by \$654,125. The General Fund had an increase in Fund Balance of \$993,292; the Capital Projects Fund had a decrease in fund balance of \$1,519,968 after capital outlay of \$1,510,801 from grants and warrant funds borrowed for that purpose; the Debt Service fund balance had a decrease of \$119,685; and the Gas Tax Fund had a decrease of \$7,764, after expenditures of \$95,711 for road repair and maintenance (see pages 16 and 18).

The Gas, Electric and Water and Waste Water Funds had increases in net assets of \$2,335,757. The Golf Fund had a decrease in net assets of \$639,178 when the residual transfer of net assets to the governmental fund became effective, October 1, 2008 (see pages 15 and 21).

General Fund and enterprise operations fund balances are discussed below.

General Fund Balance: Revenues in the General Fund were virtually flat from the prior fiscal year, a decrease of \$6,799. Expenditures for the General Fund were down \$2,013,254 from the prior year. After net transfers, the fund balance of the General Fund increased by \$993,292 during fiscal 2009. The downturn in construction and real estate development continued to have a negative effect on licenses and permits related to construction and impact fees. Those revenues were down \$1 million. Income from intergovernmental sources, state and federal grants, were also down \$1 million. Most other revenue categories were down due to the troubled economy in 2009. However, property taxes were up \$308,000 and the new city sales tax, which went into effect July 1, 2009, generated revenues of \$1 million. Additionally, revenues from the operations of the Quail Creek Golf Course, \$960,000 were reported in the General Fund for the first time after the transfer of operations, effective October 1, 2008. On the expense side, the most notable differences from fiscal 2008 to 2009 were: grant project expenses were down \$430,000; the appropriation to the Airport Authority for debt service was down \$302,910, due to reduced interest rates; debt service payments were down \$1.5 million, of that amount, \$1.3 million was the 2008 refunding of a short term loan secured by the City at the request of the Library Board.

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 increased by \$1,551,363 over the prior fiscal year. Operating expenses decreased by \$1,470,024. The reduced expenses were due to decreases in energy purchases for resale. Income for the enterprise funds, before transfers to the General Fund, was \$7,704,444. This was an increase of \$3 million over the prior year. The transfers to the General Fund were \$5,094,136, or 66% of income. For fiscal 2008 the income for the three utilities before transfers was \$4,680,193. The transfers to the General Fund were \$3,658,368, or 78% of income. The change in net assets of the three utilities was an increase of \$2,335,757.

## General Fund Budgetary Highlights

During the year, the City Council revised the General Fund budget (see page 50). Revenue budget amounts were decreased by \$1.6 million. The most notable budget adjustments were decreases in permit fees, licenses and fees related to construction and real estate development, \$1 million, due to the down turn in the real estate and other markets; and a reduction of \$760,000 in revenue to the City's municipal golf course due to a three month closure for renovations and refurbishment. At year end, revenues were \$946,402 over the revised budget figures. Approximately \$1 million of unbudgeted income was from the new 2% sales tax that went into effect July 1, 2009.

The City Council also revised the General Fund expenditures budget for 2009. The final expenditure budget decreased by \$718,201 from the original budget amount. At year end, expenditures were \$798,545 over the revised budget figures, \$80,344 over the original budget. Higher than anticipated legal fees and insurance costs were major factors in the revised budget unfavorable variances.

## Capital Assets

As of September 30, 2009, the City's governmental activities had \$83,124,747 invested in capital assets, net of depreciation. This is a decrease of \$58,308 from the prior year. The business-type activities had invested capital assets, net of depreciation of \$40,126,350, a decrease of \$1,166,141 (see Note 3, Fixed Assets, pages 33 and 34).

The City's governmental activities capital assets, at cost, were \$119,784,395 at September 30, 2009, an increase of \$4.6 million from the prior year. The business-type activities, the Gas, Electric and Water and Waste Water Funds, had capital assets, at cost, of \$68,962,675, an increase of \$1.7 million. The Golf Fund activities were transferred to the General Fund, governmental activities, at October 1, 2008. The capital assets, at cost, of the Golf Fund were \$2,928,195. Figure 4, page 12, summarizes capital assets by asset type, at cost, and changes in fixed assets during the year.

## Debt Administration

As of September 30, 2009, the City had long-term debt of \$33,461,639 (excluding premiums and discounts), including bonds and warrants payable, notes payable, and obligations under capital leases. This is a net decrease, city wide, of \$1,641,225 from the prior year. Governmental activities' decrease in long-term debt was \$777,721. Business-type activities' reduction in long-term debt was \$863,504. The General Obligation Warrant Series 2009 was issued for the purpose of refunding the City's General Obligation Warrant Series dated June 1, 1999. The Utilities Revenue Warrant Series 2009 was issued for the purpose of refunding the Utilities Warrant Series 1999 dated June 1, 1999. See notes 5 through 10 in the financial statements for more detail.

Figure 5, page 13, summarizes the City's long-term debt, including compensated absences.

## ECONOMIC FACTORS

The City's management continued to see revenues related to real estate development and construction fall during fiscal 2009. Those revenues, permits, subdivision and impact fees were down \$1 million. In the utility operations, connection fees for newly constructed homes and businesses have also been affected by this reduction in construction and development. For fiscal 2009, connection fee revenues were down \$900,000.

The City Council passed the City's first sales tax during fiscal 2009. The 2% tax went into effect on July 1, 2009. The revenues for the last quarter of the year were \$1 million. For fiscal 2010, revenues for this tax were budgeted at \$3.8 million. Through the enabling ordinance, the City Council directed that the Treasurer deposit one-half of each month's sales tax receipts into a Special Tax Reserve Account. Funds in this reserve account are to be used for emergencies as approved by vote of the City Council.

A significant change in financial reporting during fiscal 2009 was the movement of the municipal golf course operations to the General Fund as a recreational activity of the City. The revenues and expenses of the golf course had been reported as a business-type activity prior to October 1, 2008. The golf course had not been able to be self-supporting for the last several years and this new reporting model is thought to be a more accurate representation of the relationship of the operation to the City as a whole. The Quail Creek Golf Course closed for approximately three months of fiscal 2009

for refurbishing and renovation. Revenues from the operations were down \$500,000 from the previous year because of this closure. For fiscal 2010, revenues of the golf course are budgeted to increase \$250,000 and it is hoped that the golf course project will result in increased play and increased revenues in the future.

The City's newly completed recreation facility opened at the end of fiscal 2009. Budgeted revenues for 2010 are \$225,000 more than the amounts recorded for 2009. The projected additional income will come from memberships at the new facilities. For the first three months of fiscal 2010, membership projections appear to be on target to meet budgeted amounts.

The General Fund budgeted increases in expenses for fiscal 2010 of \$2.8 million. Of that amount, \$2.7 million is for capital purchases of vehicles and equipment and infrastructure additions. Sensitive to economic conditions in fiscal 2009, the City's management postponed many capital purchases and improvements.

In the Gas Fund and Electric Fund operations, revenues and expenses are projected to be relatively flat for fiscal 2010. In the Water and Waste Water Fund operations, while the expenses should be flat, the revenues are budgeted to increase \$800,000, the result of a waste water rate increase. A rate study was completed in 2009 that indicated the necessity to increase waste water rates to cover the cost of those operations. The budget for fiscal 2010 separated the revenues and expenses for the water operations and the waste water operations into separate departments of the Water and Waste Water Fund.

For the business-type activities, reported as Gas Fund, Electric Fund and Water and Waste Water Fund, a projected excess of revenues over expenditures, after budgeted transfers, is \$3,101,916 for fiscal 2010, compared to \$2,335,757 for fiscal 2009.

#### **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 Rose Fogarty, Financial Reporting Manager, or Nancy Wilson, City Treasurer, at 161 N. Section Street, Fairhope, Alabama, (251) 928-2136.



Figure 1

**CITY OF FAIRHOPE  
CONDENSED STATEMENT OF NET ASSETS FOR THE YEAR ENDED 9/30/2009**

	COMPONENT UNITS									
	GOVERNMENTAL ACTIVITIES		BUSINESS - TYPE ACTIVITIES		TOTAL PRIMARY GOVERNMENT		LIBRARY		AIRPORT AUTHORITY	
	9/30/2009	9/30/2008	9/30/2009	9/30/2008	9/30/2009	9/30/2008	9/30/2009	9/30/2008	9/30/2009	9/30/2008
Current & Other Assets	\$ 3,785,576	\$ 5,886,915	\$ 9,987,005	\$ 9,907,318	\$ 13,772,581	\$ 15,794,233	\$ 124,057	\$ 131,286	\$ 754,754	\$ 583,024
Capital Assets, net	83,124,747	83,183,055	40,126,350	41,292,491	123,251,097	124,475,546	131,660	135,007	22,109,988	22,314,780
<b>Total Assets</b>	<b>\$ 86,910,323</b>	<b>\$ 89,069,970</b>	<b>\$ 50,113,355</b>	<b>\$ 51,199,809</b>	<b>\$ 137,023,678</b>	<b>\$ 140,269,779</b>	<b>\$ 255,717</b>	<b>\$ 266,293</b>	<b>\$ 22,864,742</b>	<b>\$ 22,897,804</b>
Long-Term Debt	\$ 16,308,034	\$ 17,712,254	\$ 15,722,772	\$ 16,482,021	\$ 32,030,806	\$ 34,194,275	\$ -	\$ -	\$ 8,785,517	\$ 8,782,863
Other Liabilities	2,679,451	3,256,780	4,605,677	6,629,461	7,285,128	9,886,241	3,275	1,860	-	-
<b>Total Liabilities</b>	<b>\$ 18,987,485</b>	<b>\$ 20,969,034</b>	<b>\$ 20,328,449</b>	<b>\$ 23,111,482</b>	<b>\$ 39,315,934</b>	<b>\$ 44,080,516</b>	<b>\$ 3,275</b>	<b>\$ 1,860</b>	<b>\$ 8,785,517</b>	<b>\$ 8,782,863</b>
Net Assets:										
Invested in Capital Assets, net of related debt	\$ 66,295,379	\$ 67,338,065	\$ 24,210,082	\$ 24,573,181	\$ 90,505,461	\$ 91,911,246	\$ 131,660	\$ 135,007	\$ 13,264,988	\$ 13,469,780
Restricted	1,462,430	847,580	1,883,768	2,092,174	3,346,198	2,939,754	-	-	247,600	50,099
Unrestricted	165,029	(84,709)	3,691,056	1,422,972	3,856,085	1,338,263	120,782	129,426	566,637	595,062
<b>Total Net Assets</b>	<b>67,922,838</b>	<b>68,100,936</b>	<b>29,784,906</b>	<b>28,088,327</b>	<b>97,707,744</b>	<b>96,189,263</b>	<b>252,442</b>	<b>264,433</b>	<b>14,079,225</b>	<b>14,114,941</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$ 86,910,323</b>	<b>\$ 89,069,970</b>	<b>\$ 50,113,355</b>	<b>\$ 51,199,809</b>	<b>\$ 137,023,678</b>	<b>\$ 140,269,779</b>	<b>\$ 255,717</b>	<b>\$ 266,293</b>	<b>\$ 22,864,742</b>	<b>\$ 22,897,804</b>

Figure 2

**CITY OF FAIRHOPE  
CONDENSED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED 9/30/2009**

COMPONENT UNITS

	GOVERNMENTAL ACTIVITIES		BUSINESS - TYPE ACTIVITIES		TOTAL PRIMARY GOVERNMENT		LIBRARY		AIRPORT AUTHORITY	
	9/30/2009	9/30/2008	9/30/2009	9/30/2008	9/30/2009	9/30/2008	9/30/2009	9/30/2008	9/30/2009	9/30/2008
<b>Program Revenues</b>										
Charges for Services	\$ 7,746,910	\$ 7,653,464	\$ 35,337,263	\$ 35,273,711	\$ 43,084,173	\$ 42,927,175	42,647	52,323	141,228	256,658
Operating Grants & Contributions	87,416	206,012			87,416	206,012	691,169	713,074	407,582	900,266
Capital Grants & Contributions	384,358	7,310,387			384,358	7,310,387				
<b>General Revenues</b>										
Taxes	6,938,380	5,669,358			6,938,380	5,669,358				
Intergovernmental	436,472	293,007			436,472	293,007				
Investment Earnings	225,860	340,530	60,104	115,648	285,964	456,178			11,102	4,015
Other	109,958	294,469			109,958	294,469				
<b>Total Revenues</b>	<b>\$ 15,929,354</b>	<b>\$ 21,767,227</b>	<b>\$ 35,397,367</b>	<b>\$ 35,389,359</b>	<b>\$ 51,326,721</b>	<b>\$ 57,156,586</b>	<b>\$ 733,816</b>	<b>\$ 765,397</b>	<b>\$ 559,912</b>	<b>\$ 1,160,939</b>
<b>Expenses</b>										
General Government	\$ 6,536,802	\$ 6,392,335			\$ 6,536,802	\$ 6,392,335				
Sanitation	1,657,615	1,564,126			1,657,615	1,564,126				
Police	4,090,851	4,011,091			4,090,851	4,011,091				
Fire	878,148	843,469			878,148	843,469				
Airport	242,090	545,000			242,090	545,000				
Street	4,308,575	3,671,572			4,308,575	3,671,572				
Adult Recreation	438,442	459,961			438,442	459,961				
Recreation	1,031,886	900,759			1,031,886	900,759				
Golf	1,292,200				1,292,200					
Public Library Board	760,174	771,373			760,174	771,373				
Interest on Long Term Debt	878,534	743,451			878,534	743,451				
Electric			15,540,148	16,006,139	15,540,148	16,006,139				
Natural Gas			5,349,209	6,709,491	5,349,209	6,709,491				
Water and Wastewater			6,803,566	6,502,942	6,803,566	6,502,942				
Golf				1,713,486		1,713,486				
Airport Authority									595,629	784,959
Fairhope Public Library							745,807	733,091		
<b>Total Expenses</b>	<b>\$ 22,115,317</b>	<b>\$ 19,903,137</b>	<b>\$ 27,692,923</b>	<b>\$ 30,932,058</b>	<b>\$ 49,808,240</b>	<b>\$ 50,835,195</b>	<b>\$ 745,807</b>	<b>\$ 733,091</b>	<b>\$ 595,629</b>	<b>\$ 784,959</b>
Change in net assets before transfers	(6,185,963)	1,864,090	7,704,444	4,457,301	1,518,481	6,321,391	(11,991)	32,306	(35,717)	375,980
Special Item - Trans of Golf to Governmental Activities	913,729		(913,729)		913,729					
Transfers	5,094,136	3,658,368	(5,094,136)	(3,658,368)						
<b>Change in net assets</b>	<b>(178,098)</b>	<b>5,522,458</b>	<b>1,696,579</b>	<b>798,933</b>	<b>1,518,481</b>	<b>6,321,391</b>	<b>(11,991)</b>	<b>32,306</b>	<b>(35,717)</b>	<b>375,980</b>
Net Assets, beginning	68,100,936	62,578,478	28,088,327	27,289,394	96,189,263	89,867,872	264,433	232,127	14,114,942	13,738,961
<b>Net Assets, ending</b>	<b>\$ 67,922,838</b>	<b>\$ 68,100,936</b>	<b>\$ 29,784,906</b>	<b>\$ 28,088,327</b>	<b>\$ 97,707,744</b>	<b>\$ 96,189,263</b>	<b>\$ 252,442</b>	<b>\$ 264,433</b>	<b>\$ 14,079,225</b>	<b>\$ 14,114,941</b>

Figure 3

**Statement of Revenues and Expenditures  
Governmental Funds  
For the Year Ended September 30, 2009**

<b>Revenues</b>	<b>9/30/2009 Total</b>	<b>9/30/2008 Total</b>	<b>Increase (Decrease)</b>
Taxes	\$ 6,938,380	\$ 5,669,358	\$ 1,269,022
Licenses & Permits	2,058,105	2,729,209	(671,104)
Fines & Forfeitures	224,022	252,838	(28,816)
State of Alabama	368,626	410,636	(42,010)
U. S. Government	468,620	1,415,881	(947,261)
Contribution from Public Library Board	71,000	208,931	(137,931)
Interests and Rents	225,861	340,530	(114,669)
Charges for Service	4,450,711	4,610,307	(159,596)
Golf Course Revenue	959,730	-	959,730
Other	277,015	411,179	(134,164)
<b>Totals</b>	<b>\$ 16,042,070</b>	<b>\$ 16,048,869</b>	<b>\$ (6,799)</b>
<b>Expenditures</b>	<b>Total</b>	<b>Total</b>	<b>Increase (Decrease)</b>
General	\$ 5,948,479	\$ 6,318,322	\$ (369,843)
Sanitation	1,475,035	1,405,774	69,261
Police	3,922,163	3,913,015	9,148
Fire	765,645	707,513	58,132
Airport	242,090	545,000	(302,910)
Street Department	2,704,242	2,554,959	149,283
Adult Recreation	400,494	431,481	(30,987)
Debt Service			
Principal	863,329	2,424,796	(1,561,467)
Interest	809,715	802,140	7,575
Recreation Department	867,174	785,425	81,749
Golf	1,303,135	-	1,303,135
Public Library Board	530,000	504,560	25,440
The Haven	60,000	60,000	
Capital Outlay	1,775,834	3,227,604	(1,451,770)
<b>Totals</b>	<b>\$ 21,667,335</b>	<b>\$ 23,680,589</b>	<b>\$ (2,013,254)</b>

Figure 4

**City of Fairhope  
Capital Assets**

<u>Governmental Activities</u>	<u>Balance @ 10/1/08</u>	<u>Additions</u>	<u>Reclassifications/ Retirements</u>	<u>Balance @ 9/30/09</u>
Land	\$ 18,691,219	\$ 260,373.00	\$ -	\$ 18,951,592
Buildings & Structures	28,309,967	3,622,852	-	31,932,819
Vehicles and equipment	7,633,673	2,165,708	(84,464)	9,714,917
Infrastructure	59,113,316	71,751	-	59,185,067
Construction in progress	1,416,658	-	(1,416,658)	-
<b>Total Capital Assets</b>	<b>\$ 115,164,833</b>	<b>\$ 6,120,684</b>	<b>\$ (1,501,122)</b>	<b>\$ 119,784,395</b>

<u>Business-type activities</u>	<u>Electric Fund</u>	<u>Natural Gas Fund</u>	<u>Water/Wastewater Fund</u>	<u>Golf Fund</u>
Balance @ 10/01/08	\$ 19,225,015	\$ 11,046,710	\$ 36,962,083	\$ 2,928,195
Additions to Plant	843,359	390,656	373,945	-
Addition to land, buildings, vehicles and equipment	30,010	80,118	4,833	-
Transfer to Governmental Activities	-	-	-	(2,928,195)
Construction in Progress	-	-	5,946	-
<b>Total Capital Assets @ 9/30/2009</b>	<b>\$ 20,098,384</b>	<b>\$ 11,517,484</b>	<b>\$ 37,346,807</b>	<b>\$ -</b>

Figure 5

**City of Fairhope  
Debt Administration**

<u>LONG TERM DEBT</u>	<u>GOVERNMENTAL FUNDS</u>	<u>BUSINESS-TYPE ACTIVITIES</u>
General Obligation Warrants, 2002	\$ 4,505,668	
General Obligation Warrants, 2008	1,131,000	
General Obligation Warrants, 2007	7,530,000	
General Obligation Warrants, 2006	233,973	
General Obligation Refunding Warrant, 2009	3,368,260	
Obligations under capital leases	69,942	
Notes Payable	30,364	\$ 86,035
Utilities Revenue Warrants, 2005		7,985,000
Utilities Revenue Warrants, 2002		6,720,000
Utilities Revenue Warrants, 2003		280,000
Utilities Revenue Warrants, 2009		1,250,000
General Obligation Refunding Warrant, 2009		61,740
General Obligation Warrants, 2002		209,657
Obligations under capital leases		-
Compensated absences	<u>1,045,097</u>	<u>604,933</u>
 TOTALS	 <u>\$ 17,914,304</u>	 <u>\$ 17,197,365</u>

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

**BASIC FINANCIAL STATEMENTS**

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2009

	Governmental Fund Types			
	Governmental Activities	Business-type Activities	Total	Component Units
<b>ASSETS</b>				
Cash	\$ 3,347,618	\$ 4,538,560	\$ 7,886,178	\$ 668,587
Restricted cash	321,738	1,883,768	2,205,506	-
Receivables, net	469,991	1,962,818	2,432,809	25,031
Internal balances	(514,236)	514,236	-	-
Inventories	-	767,798	767,798	-
Other assets	160,465	319,825	480,290	185,193
Land and construction in progress	18,951,592	375,226	19,326,818	10,934,228
Capital assets, net	64,173,155	39,751,124	103,924,279	11,307,420
<b>Total assets</b>	<b>\$ 86,910,323</b>	<b>\$ 50,113,355</b>	<b>\$ 137,023,678</b>	<b>\$ 23,120,459</b>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	\$ 799,185	\$ 1,829,919	\$ 2,629,104	\$ 3,275
Deferred revenue	2,127	-	2,127	-
Customer deposits	-	1,980,032	1,980,032	-
Long-term liabilities				
Due within one year	1,566,431	700,789	2,267,220	-
Due in more than one year	16,308,034	15,722,772	32,030,806	8,785,517
Net OPEB obligation	311,708	94,937	406,645	-
<b>Total liabilities</b>	<b>18,987,485</b>	<b>20,328,449</b>	<b>39,315,934</b>	<b>8,788,792</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	66,295,379	24,210,082	90,505,461	13,396,648
Restricted for:				
Debt service	350,987	1,883,768	2,234,755	-
Capital projects	550,369	-	550,369	247,600
Road maintenance and construction	59,142	-	59,142	-
Council approved emergencies	501,932	-	501,932	-
Unrestricted	165,029	3,691,056	3,856,085	687,419
<b>Total net assets</b>	<b>67,922,838</b>	<b>29,784,906</b>	<b>97,707,744</b>	<b>14,331,667</b>
<b>Total liabilities and net assets</b>	<b>\$ 86,910,323</b>	<b>\$ 50,113,355</b>	<b>\$ 137,023,678</b>	<b>\$ 23,120,459</b>

City of Fairhope, Alabama  
Statement of Activities  
September 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
<b>Primary Government</b>								
Governmental activities:								
General	\$ 6,536,802	\$ 5,140,160	\$ 20,000	\$ -	\$ (1,376,642)		\$ (1,376,642)	
Sanitation	1,657,615	1,368,656	-	-	(288,959)		(288,959)	
Police	4,090,851	224,022	67,416	-	(3,799,413)		(3,799,413)	
Fire	878,148	-	-	-	(878,148)		(878,148)	
Airport Authority	242,090	-	-	-	(242,090)		(242,090)	
Street	4,308,575	-	-	313,358	(3,995,217)		(3,995,217)	
Adult Recreation	438,442	36,316	-	-	(402,126)		(402,126)	
Recreation	1,031,886	130,740	-	-	(901,146)		(901,146)	
Golf	1,292,200	847,016	-	-	(445,184)		(445,184)	
Public Library Board	760,174	-	-	71,000	(689,174)		(689,174)	
Interest on long term debt	878,534	-	-	-	(878,534)		(878,534)	
Total governmental activities	<u>22,115,317</u>	<u>7,746,910</u>	<u>87,416</u>	<u>384,358</u>	<u>(13,896,633)</u>		<u>(13,896,633)</u>	
Business-type activities								
Electric	15,540,148	18,800,459	-	-	-	\$ 3,260,311	3,260,311	
Natural gas	5,349,209	8,341,855	-	-	-	2,992,646	2,992,646	
Water and Wastewater	6,803,566	8,194,949	-	-	-	1,391,383	1,391,383	
Golf	-	-	-	-	-	-	-	
Total business-type activities	<u>27,692,923</u>	<u>35,337,263</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,644,340</u>	<u>7,644,340</u>	
Total primary government	<u>\$ 49,808,240</u>	<u>\$ 43,084,173</u>	<u>\$ 87,416</u>	<u>\$ 384,358</u>	<u>(13,896,633)</u>	<u>7,644,340</u>	<u>(6,252,293)</u>	
Component Units	<u>\$ 1,341,436</u>	<u>\$ 183,875</u>	<u>\$ 1,098,751</u>	<u>\$ -</u>				<u>\$ (58,810)</u>
General revenues:								
Property taxes					4,939,840	-	4,939,840	-
Sales tax					1,003,864	-	1,003,864	-
Liquor taxes					385,411	-	385,411	-
Lodging taxes					474,852	-	474,852	-
Other taxes					134,413	-	134,413	-
Intergovernmental					436,472	-	436,472	-
Investment earnings					225,860	60,104	285,964	11,102
Other					109,958	-	109,958	-
Special item, transfer of Golf Fund to Governmental Activities					913,729	(913,729)	-	-
Transfers					5,094,136	(5,094,136)	-	-
Total general revenues, special item and transfers					<u>13,718,535</u>	<u>(5,947,761)</u>	<u>7,770,774</u>	<u>11,102</u>
Change in net assets					(178,098)	1,696,579	1,518,481	(47,708)
Net assets, beginning					<u>68,100,936</u>	<u>28,088,327</u>	<u>96,189,263</u>	<u>14,379,375</u>
Net assets, ending					<u>\$ 67,922,838</u>	<u>\$ 29,784,906</u>	<u>\$ 97,707,744</u>	<u>\$ 14,331,667</u>

See independent auditors' report and notes to the financial statements



CITY OF FAIRHOPE, ALABAMA

FUND BALANCE SHEETS  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2009

	Major Funds			Nonmajor Fund	Total Governmental Funds
	General	Capital Projects	Debt Service	Special Revenue Fund Gas Tax	
<b>ASSETS</b>					
Cash	\$ 2,713,107	\$ 544,369	\$ 30,409	\$ 59,733	\$ 3,347,618
Restricted cash for debt service	-	-	321,738	-	321,738
Receivables, net	440,715	-	29,276	-	469,991
Due from other funds	366	130,387	-	-	130,753
Other assets	34,925	-	-	-	34,925
<b>Total assets</b>	<b>\$ 3,189,113</b>	<b>\$ 674,756</b>	<b>\$ 381,423</b>	<b>\$ 59,733</b>	<b>\$ 4,305,025</b>
<b>LIABILITIES</b>					
Accounts payable	\$ 261,500	\$ 124,387	\$ 1,160	\$ 591	\$ 387,638
Accrued expenses and taxes	183,822	-	-	-	183,822
Line of credit payable	-	-	-	-	-
Due to other funds	644,989	-	-	-	644,989
Deferred revenue	22,127	-	29,276	-	51,403
<b>Total liabilities</b>	<b>1,112,438</b>	<b>124,387</b>	<b>30,436</b>	<b>591</b>	<b>1,267,852</b>
<b>FUND BALANCES</b>					
Reserved for:					
Debt service	-	-	350,987	-	350,987
Council approved emergencies	501,932	-	-	-	501,932
Unreserved, reported in:					
General fund	1,574,743	-	-	-	1,574,743
Capital projects fund	-	550,369	-	-	550,369
Special revenue fund	-	-	-	59,142	59,142
<b>Total fund balances</b>	<b>2,076,675</b>	<b>550,369</b>	<b>350,987</b>	<b>59,142</b>	<b>3,037,173</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,189,113</b>	<b>\$ 674,756</b>	<b>\$ 381,423</b>	<b>\$ 59,733</b>	<b>\$ 4,305,025</b>

CITY OF FAIRHOPE, ALABAMA

RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
SEPTEMBER 30, 2009

<b>Fund balance as reported on page 16</b>	<b>\$ 3,037,173</b>
Net Assets reported for governmental activities in the Statement of Net Assets are different from Fund Balance for governmental activities because:	
Capital assets used in governmental activities are financial resources and therefore are not reported in fund financial statements	119,784,395
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.	(36,659,648)
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred revenue in fund financial statements.	49,276
Cost associated with warrant issuance are expensed in the current period in Fund Financial Statements	
Warrant Issuance costs, net	125,540
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 of discounts \$39,839)	(17,141,076)
Accrued interest on long-term debt is not due and payable in the current-period and therefore not included in fund financial statements.	(274,159)
Compensated absences not expected to be paid with current resources as determined under Governmental Accounting Standards are not reported in fund financial statements.	<u>(998,663)</u>
<b>Net Assets of Governmental Activities as reported on page 14</b>	<b>\$ <u><u>67,922,838</u></u></b>

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, 2009

	Major Funds			Nonmajor Fund	Total Governmental Funds
	General	Capital Projects	Debt Service	Special Revenue Fund Gas Tax	
<b>REVENUES</b>					
Local taxes	\$ 6,938,380 ✓	\$ -	\$ -	\$ -	\$ 6,938,380
Licenses and permits	2,058,105 ✓	-	-	-	2,058,105
Fines and forfeitures	224,022 ✓	-	-	-	224,022
Intergovernmental	749,400 ✓	-	-	87,846	837,246
Contribution from Public Library Board	71,000 ✓	-	-	-	71,000
Interest and rents	207,939 ✓	16,585	1,236	101	225,861
Charges for services	4,450,711 ✓	-	-	-	4,450,711
Golf course revenue	959,730 ✓	-	-	-	959,730
Other	277,015 ✓	-	-	-	277,015
<b>Total revenues</b>	<b>15,936,302</b>	<b>16,585</b>	<b>1,236</b>	<b>87,947</b>	<b>16,042,070</b>
<b>EXPENDITURES</b>					
General	5,920,151	28,328	-	-	5,948,479
Sanitation	1,475,035	-	-	-	1,475,035
Police	3,922,163	-	-	-	3,922,163
Fire	765,645	-	-	-	765,645
Airport	242,090	-	-	-	242,090
Street	2,608,531	-	-	95,711	2,704,242
Adult Recreation	400,494	-	-	-	400,494
Recreation	867,174	-	-	-	867,174
Golf	1,303,135	-	-	-	1,303,135
Public Library Board	530,000	-	-	-	530,000
Other	60,000	-	-	-	60,000
Debt service payments					
Principal	463,841	-	399,488	-	863,329
Interest	55,752	-	753,963	-	809,715
Capital Outlay	265,033	1,510,801	-	-	1,775,834
<b>Total expenditures</b>	<b>18,879,044</b>	<b>1,539,129</b>	<b>1,153,451</b>	<b>95,711</b>	<b>21,667,335</b>
<b>Excess of Revenues over (under) Expenditures</b>	<b>(2,942,742)</b>	<b>(1,522,544)</b>	<b>(1,152,215)</b>	<b>(7,764)</b>	<b>(5,625,265)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from issuance of debt	3,368,260	-	-	-	3,368,260
Cost from issuance of debt	(78,364)	-	-	-	(78,364)
Payment to Defeased Warrants Escrow Agent	-	-	(3,412,892)	-	(3,412,892)
Transfer to Debt Service Fund to defease warrants	(3,289,896)	-	-	-	(3,289,896)
Transfers in	5,094,136	2,576	4,445,422	-	9,542,134
Transfers out	(1,158,102)	-	-	-	(1,158,102)
<b>Total other financing sources (uses)</b>	<b>3,936,034</b>	<b>2,576</b>	<b>1,032,530</b>	<b>-</b>	<b>4,971,140</b>
<b>Net change in fund balances</b>	<b>993,292</b>	<b>(1,519,968)</b>	<b>(119,685)</b>	<b>(7,764)</b>	<b>(654,125)</b>
<b>Fund balances - beginning of year</b>	<b>1,083,383</b>	<b>2,070,337</b>	<b>470,672</b>	<b>66,906</b>	<b>3,691,298</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 2,076,675</b>	<b>\$ 550,369</b>	<b>\$ 350,987</b>	<b>\$ 59,142</b>	<b>\$ 3,037,173</b>

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

CITY OF FAIRHOPE, ALABAMA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

**Net change in fund balances - total governmental funds, page 18** \$ (654,125)

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

Amortization of bond costs and discounts is not recorded in fund level statements (7,308)

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	1,775,834
Transfer of Golf Fund capital assets to governmental activities	2,928,195
Accumulated depreciation of Golf Fund capital assets	(1,836,016)
Depreciation expense for the year	(2,925,901)
Loss on assets disposed	(417)

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

Proceeds from issuance of debt	(3,368,260)
Cost associated with warrant issuance	78,364
Principal payments on long term debt	4,276,221
Transfer of Golf Fund long term liabilities to governmental activities	(178,450)

Some expenses reported in the statement of activities do not require the use of current resources and therefore are not reported as expenditures in governmental funds.

Decrease in compensated absences liability	120,997
Increase in accrued interest payable	(75,524)
Increase in OPEB liability	(311,708)

**Change in Net Assets of Governmental Activities, page 15** \$ (178,098)

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

CITY OF FAIRHOPE, ALABAMA

FUND BALANCE SHEETS  
 PROPRIETARY FUNDS  
 SEPTEMBER 30, 2009

	Business Type Activities				Total
	Major Funds			Nonmajor Fund	
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	Golf Fund	
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 2,306,244	\$ 833,703	\$ 1,398,613	\$ -	\$ 4,538,560
Restricted cash for debt service	100,601	62,050	1,721,117	-	1,883,768
Receivables, net	1,915,011	6,965	40,842	-	1,962,818
Inventories	247,796	143,105	376,897	-	767,798
Prepaid expenses	22,671	10,971	24,130	-	57,772
<b>Total current assets</b>	<u>4,592,323</u>	<u>1,056,794</u>	<u>3,561,599</u>	<u>-</u>	<u>9,210,716</u>
<b>Noncurrent assets</b>					
Unamortized expense	28,059	11,003	186,901	-	225,963
Due from other funds	599,257	313,565	-	-	912,822
Other assets	12,030	12,030	12,030	-	36,090
<b>Capital assets</b>					
Distribution and collection systems	15,819,785	8,820,545	34,347,128	-	58,987,458
Buildings, vehicles and equipment	4,148,353	2,621,447	2,830,191	-	9,599,991
Land and construction in progress	130,246	75,492	169,488	-	375,226
Less accumulated depreciation	(9,130,258)	(5,006,543)	(14,699,524)	-	(28,836,325)
<b>Total noncurrent assets</b>	<u>11,607,472</u>	<u>6,847,539</u>	<u>22,846,214</u>	<u>-</u>	<u>41,301,225</u>
<b>Total assets</b>	<u>\$ 16,199,795</u>	<u>\$ 7,904,333</u>	<u>\$ 26,407,813</u>	<u>\$ -</u>	<u>\$ 50,511,941</u>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Accounts payable and accrued liabilities	\$ 1,208,878	\$ 267,744	\$ 353,297	\$ -	\$ 1,829,919
Customer deposits	1,912,807	-	67,225	-	1,980,032
Warrants, notes and capital leases payable	67,371	31,121	602,297	-	700,789
<b>Total current liabilities</b>	<u>3,189,056</u>	<u>298,865</u>	<u>1,022,819</u>	<u>-</u>	<u>4,510,740</u>
<b>Noncurrent liabilities</b>					
Compensated absences	102,578	184,035	220,680	-	507,293
Warrants, notes and capital leases payable	1,734,404	881,799	12,599,276	-	15,215,479
Net OPEB Obligation	26,899	28,481	39,557	-	94,937
Due to other funds	313,565	-	85,021	-	398,586
<b>Total noncurrent liabilities</b>	<u>2,177,446</u>	<u>1,094,315</u>	<u>12,944,534</u>	<u>-</u>	<u>16,216,295</u>
<b>Total liabilities</b>	<u>5,366,502</u>	<u>1,393,180</u>	<u>13,967,353</u>	<u>-</u>	<u>20,727,035</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	9,166,351	5,598,021	9,445,710	-	24,210,082
Restricted for debt service	100,601	62,050	1,721,117	-	1,883,768
Unrestricted	1,566,341	851,082	1,273,633	-	3,691,056
<b>Total net assets</b>	<u>10,833,293</u>	<u>6,511,153</u>	<u>12,440,460</u>	<u>-</u>	<u>29,784,906</u>
	<u>\$ 16,199,795</u>	<u>\$ 7,904,333</u>	<u>\$ 26,407,813</u>	<u>\$ -</u>	<u>\$ 50,511,941</u>

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

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Business Type Activities				Total
	Major Funds			Nonmajor Fund	
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	Golf Fund	
<b>OPERATING REVENUES</b>					
Sales and services	\$ 18,344,460	\$ 8,333,165	\$ 7,648,608	\$ -	\$ 34,326,233
Other charges, sales and receipts	455,999	8,690	546,341	-	1,011,030
Total operating revenues	<u>18,800,459</u>	<u>8,341,855</u>	<u>8,194,949</u>	<u>-</u>	<u>35,337,263</u>
<b>OPERATING EXPENSES</b>					
Energy purchases and cost of goods sold	10,962,746	2,648,556	719,642	-	14,330,944
Salaries	737,927	634,735	1,111,884	-	2,484,546
Depreciation	558,915	282,950	960,968	-	1,802,833
Insurance	310,838	240,646	411,865	-	963,349
Electric energy furnished to other departments	1,059,684	-	-	-	1,059,684
Maintenance	440,834	182,868	1,262,996	-	1,886,698
Community development projects	70,994	71,113	47,018	-	189,125
Other operating expense	1,299,749	1,243,887	1,630,528	-	4,174,164
Total operating expenses	<u>15,441,687</u>	<u>5,304,755</u>	<u>6,144,901</u>	<u>-</u>	<u>26,891,343</u>
<b>OPERATING INCOME</b>	<u>3,358,772</u>	<u>3,037,100</u>	<u>2,050,048</u>	<u>-</u>	<u>8,445,920</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Interest expense	(98,461)	(44,454)	(658,665)	-	(801,580)
Interest income	22,572	10,272	27,260	-	60,104
Total nonoperating revenues (expenses)	<u>(75,889)</u>	<u>(34,182)</u>	<u>(631,405)</u>	<u>-</u>	<u>(741,476)</u>
<b>INCOME (LOSS) BEFORE TRANSFERS AND OTHER ITEMS</b>	<u>3,282,883</u>	<u>3,002,918</u>	<u>1,418,643</u>	<u>-</u>	<u>7,704,444</u>
<b>TRANSFERS AND OTHER ITEMS</b>					
Transfers out	(2,080,187)	(2,021,702)	(992,247)	-	(5,094,136)
Forgiveness of due to (from) obligation	(274,551)	-	-	274,551	-
Residual transfer of assets to governmental fund	-	-	-	(913,729)	(913,729)
Total transfers (out) in	<u>(2,354,738)</u>	<u>(2,021,702)</u>	<u>(992,247)</u>	<u>(639,178)</u>	<u>(6,007,865)</u>
<b>Change in net assets</b>	928,145	981,216	426,396	(639,178)	1,696,579
<b>NET ASSETS – BEGINNING OF YEAR</b>	<u>9,905,148</u>	<u>5,529,937</u>	<u>12,014,064</u>	<u>639,178</u>	<u>28,088,327</u>
<b>NET ASSETS – END OF YEAR</b>	<u>\$ 10,833,293</u>	<u>\$ 6,511,153</u>	<u>\$ 12,440,460</u>	<u>\$ -</u>	<u>\$ 29,784,906</u>

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

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Business Type Activities				Total
	Major Funds			Nonmajor Fund	
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	Golf Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Received from customers	\$ 18,640,373	\$ 8,357,131	\$ 8,167,787	\$ -	\$ 35,165,291
Paid to suppliers for goods and services	(14,367,819)	(4,396,022)	(3,702,644)	-	(22,466,485)
Paid to personnel for services	(737,927)	(634,735)	(1,111,884)	-	(2,484,546)
Net cash provided (used) by operating activities	<u>3,534,627</u>	<u>3,326,374</u>	<u>3,353,259</u>	<u>-</u>	<u>10,214,260</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest income and joint revenue (expense)	<u>22,572</u>	<u>10,272</u>	<u>27,260</u>	<u>-</u>	<u>60,104</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Proceeds from borrowings	500,000	-	1,311,740	-	1,811,740
Repayment of debt	(2,287,184)	(30,248)	(1,966,572)	-	(4,284,004)
Interest paid	(98,622)	(41,991)	(621,590)	-	(762,203)
Purchase of property, plant and equipment	(873,372)	(470,774)	(384,725)	-	(1,728,871)
Net cash provided (used) by capital and related financing activities	<u>(2,759,178)</u>	<u>(543,013)</u>	<u>(1,661,147)</u>	<u>-</u>	<u>(4,963,338)</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Change in interfund receivable/payable	1,809,660	(187,643)	(1,069,853)	-	552,164
Transfers in (out)	(2,080,187)	(2,021,702)	(992,247)	(113,766)	(5,207,902)
Net cash provided (used) by noncapital financing activities	<u>(270,527)</u>	<u>(2,209,345)</u>	<u>(2,062,100)</u>	<u>(113,766)</u>	<u>(4,655,738)</u>
<b>INCREASE (DECREASE) IN CASH</b>	<u>527,494</u>	<u>584,288</u>	<u>(342,728)</u>	<u>(113,766)</u>	<u>655,288</u>
Cash - beginning of year	<u>1,879,351</u>	<u>311,465</u>	<u>3,462,458</u>	<u>113,766</u>	<u>5,767,040</u>
<b>CASH - END OF YEAR</b>	<u>\$ 2,406,845</u>	<u>\$ 895,753</u>	<u>\$ 3,119,730</u>	<u>\$ -</u>	<u>\$ 6,422,328</u>

Noncash operating, investment, capital, noncapital and financing activities:

As discussed in Note 2, effective October 1, 2008, the assets and liabilities of the Golf Fund were transferred into the General Fund. In connection with this transfer, the Electric Fund forgave \$274,551 of debt owed from the Golf Fund.

**Reconciliation of operating income to net cash provided (used) by operating activities**

Income (loss) from operations	\$ 3,358,772	\$ 3,037,100	\$ 2,050,048	\$ -	\$ 8,445,920
Adjustments to reconcile income from operations to net cash provided (used) by operating activities					
Depreciation	558,915	282,950	960,968	-	1,802,833
Amortization	2,336	912	(8,053)	-	(4,805)
Change in assets and liabilities					
Decrease (increase) in accounts receivable	(160,087)	15,276	(27,162)	-	(171,973)
Decrease (increase) in inventories	(68,643)	20,986	169,264	-	121,607
Decrease (increase) in prepaid expenses	19,109	(3,906)	32,959	-	48,162
Increase (decrease) in accounts payable	(268,904)	(116,148)	82,351	-	(302,701)
Increase (decrease) in customer deposits	111,538	-	10,344	-	121,882
Increase (decrease) in compensated absences	(45,308)	60,723	42,983	-	58,398
Increase (decrease) in net OPEB obligation	26,899	28,481	39,557	-	94,937
Net cash provided (used) by operating activities	<u>\$ 3,534,627</u>	<u>\$ 3,326,374</u>	<u>\$ 3,353,259</u>	<u>\$ -</u>	<u>\$ 10,214,260</u>

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CITY OF FAIRHOPE, ALABAMA  
 COMBINING STATEMENT OF NET ASSETS  
 DISCRETELY PRESENTED COMPONENT UNITS  
 SEPTEMBER 30, 2009

	Governmental Activities		
	Public Library Board	Airport Authority	Total
<b>ASSETS</b>			
Cash	\$ 79,890	\$ 588,697	\$ 668,587
Other assets	44,167	166,057	210,224
Land	-	10,934,228	10,934,228
Capital assets, net	131,660	11,175,760	11,307,420
Total assets	\$ 255,717	\$ 22,864,742	\$ 23,120,459
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 3,275	\$ -	\$ 3,275
Long-term liabilities			
Due within one year	-	-	-
Due in more than one year	-	8,785,517	8,785,517
Total liabilities	3,275	8,785,517	8,788,792
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	131,660	13,264,988	13,396,648
Restricted for:			
Capital projects	-	247,600	247,600
Unrestricted	120,782	566,637	687,419
Total net assets	252,442	14,079,225	14,331,667
Total liabilities and net assets	\$ 255,717	\$ 22,864,742	\$ 23,120,459

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

CITY OF FAIRHOPE, ALABAMA  
 COMBINING STATEMENT OF ACTIVITIES  
 DISCRETELY PRESENTED COMPONENT UNITS  
 SEPTEMBER 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities		
					Airport Authority	Public Library Board	Total
Airport Authority	\$ 595,629	\$ 141,228	\$ 407,582	\$ -	\$ (46,819)	\$ -	\$ (46,819)
Public Library Board	745,807	42,647	691,169	-	-	(11,991)	(11,991)
	<u>\$ 1,341,436</u>	<u>\$ 183,875</u>	<u>\$ 1,098,751</u>	<u>\$ -</u>	<u>(46,819)</u>	<u>(11,991)</u>	<u>(58,810)</u>
General revenues:							
Investment earnings					11,102	-	11,102
Total General Revenues and Special Item					<u>11,102</u>	<u>-</u>	<u>11,102</u>
Change in net assets					(35,717)	(11,991)	(47,708)
Net assets, beginning					<u>14,114,942</u>	<u>264,433</u>	<u>14,379,375</u>
Net assets, ending					<u>\$ 14,079,225</u>	<u>\$ 252,442</u>	<u>\$ 14,331,667</u>

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

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CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

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 generally accepted accounting principles 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 as specified by the Governmental Accounting Standards Board (GASB).

These financial statements present the primary government (the City) and its discretely presented component units, an entity 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 significantly portion of the annual operating funds support to the Airport. The Airport's other sources of revenue come from the Festival of Flight, T Hanger and Office rentals and fuel sales. The Airport Authority does not issue separate financial statements.

These financial statements do not include the following:

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

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

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Government-wide

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

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

Fund Level

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

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

**General Fund** – The General Fund is used to account for all revenues and expenditures applicable to the general operations of city government which are not properly accounted for in another fund. All general operating revenues which are not restricted or designated as to use by outside sources are recorded in the General Fund.

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

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Enterprise Funds:

The Electric Fund, Natural Gas Fund, and Water and Waste Water Fund are Enterprise Funds, which are used to account for the operations of the utilities. Utilities are provided to residents in and around the City of Fairhope. Enterprise Funds are used to account for operations which are financed or operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered through user charges and fees. Operating revenues, shown for proprietary operations, generally result from producing or providing goods and services. Operating expenses include all costs related to providing services or products. All other revenues or expenses not meeting these criteria are reported as nonoperating income or expenses. Effective October 1, 2008, the City transferred the operations of the Golf Fund into the General Fund. See Note 2 for additional information.

C. CAPITAL ASSETS

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

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

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

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

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

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

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING

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

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

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

E. CASH

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

F. RECEIVABLES FROM UTILITY CUSTOMERS

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

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. INVENTORIES

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

H. PROPERTY TAX

All ad valorem taxes levied by the state, county and any municipality in Baldwin County are assessed and collected by the Revenue Commissioner of Baldwin County. The Baldwin County property tax calendar requires the Revenue Commissioner to assess and attach taxes as enforceable liens on property as of September 30, and taxes are due October 1 through December 31. Property taxes not paid by January 1 are considered as delinquent. Tax collections received by the County Revenue Commissioner are remitted to the City monthly. In accordance with the implementation of Governmental Accounting Standard (GASB) Number 33, revenue is recorded based upon taxes assessed and considered available. Any taxes not considered available are recorded as deferred revenue.

I. DEBT ISSUE COST

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

J. DEFERRED REVENUE

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



CITY OF FAIRHOPE, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. CASH AND CASH EQUIVALENTS

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

L. USE OF ESTIMATES

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

M. NET ASSET AND EQUITY CLASSIFICATIONS

Government-wide Financial Statements

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

- Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) the City's own laws through its enabling legislation and other provisions of its laws and regulations.
- Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements

The fund equity of the governmental fund financial statements is classified as fund balance. Fund balance is further classified as reserved and unreserved. The fund equity of the proprietary fund financial statements is classified in the same manner as the government-wide financial statements.

N. 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

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 2 INTERFUND TRANSACTIONS

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

In fiscal year 2009, the General Fund transferred to the Debt Service Fund \$1,155,526 in support of long term debt service and \$3,289,896 for payment to the escrow agent of the defeased warrants.

The utility operations transfer a portion of their earnings to the General Fund each year to support general government operations. In fiscal year 2009, the following amounts were transferred from the utility funds noted to the General Fund.

Electric Fund	\$ 2,080,187
Natural Gas Fund	2,021,702
Water and Waste Water Fund	<u>992,247</u>
Total	\$ <u>5,094,136</u>

In fiscal year 2009, the City transferred \$242,090 to the Airport Authority and \$530,000 to the Public Library Board both discretely presented component units.

Effective October 1, 2008, the City transferred the assets and liabilities of the Golf Fund into the General Fund. In connection with this transfer, the Electric Fund forgave \$274,551 of debt owed from the Golf Fund. The following assets were transferred and liabilities assumed by the General Fund:

Cash	\$ 113,766
Restricted Cash for Debt Service	4,506
Other Current Assets	<u>96,333</u>
Total Assets Transferred	\$ <u>214,605</u>
Due to the Electric Fund	\$ 70,393
Other Liabilities	<u>144,212</u>
Total Liabilities Transferred	\$ <u>214,605</u>

Governmental activities' capital assets increased \$1,092,179 net of accumulated depreciation of \$1,836,016 and noncurrent liabilities increased by \$178,450 resulting in a special item in the Statement of Activities of \$913,729.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 2 INTERFUND TRANSACTIONS (continued)

Interfund receivables and payables at September 30, 2009 are:

	<u>Due from</u>	<u>Due to</u>
<b>General Fund</b>		
Water and Waste Water	\$ 366	
Electric	-	514,602
Capital Projects	-	130,387
<b>Capital Projects Fund</b>		
General	130,387	-
<b>Electric Fund</b>		
General	514,602	-
Water and Waste Water	84,655	-
Natural Gas		313,565
<b>Natural Gas Fund</b>		
Electric	313,565	-
<b>Water and Wastewater Fund</b>		
General	-	366
Electric	-	84,655
	<u>\$ 1,043,575</u>	<u>\$ 1,043,575</u>

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

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 3 CAPITAL ASSETS

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

	Balance 10/01/08	Increases	Decreases	Balance 09/30/09
<u>Governmental Activities</u>				
Capital assets not subject to depreciation				
Land	\$ 18,691,219	\$ 260,373	\$ -	\$ 18,951,592
Construction in progress	1,416,658	-	(1,416,658)	-
Total	<u>20,107,877</u>	<u>260,373</u>	<u>(1,416,658)</u>	<u>18,951,592</u>
Other capital assets				
Buildings and structures	28,309,967	3,622,852	-	31,932,819
Vehicles and equipment	7,633,673	2,165,708	(84,464)	9,714,917
Infrastructure	59,113,316	71,751	-	59,185,067
Total	<u>95,056,956</u>	<u>5,860,311</u>	<u>(84,464)</u>	<u>100,832,803</u>
Less accumulated depreciation for				
Buildings and structures	(4,582,993)	(709,536)	-	(5,292,529)
Vehicles and equipment	(7,052,529)	(2,478,031)	84,047	(9,446,513)
Infrastructure	(20,346,256)	(1,574,350)	-	(21,920,606)
Total accumulated depreciation	<u>(31,981,778)</u>	<u>(4,761,917)</u>	<u>84,047</u>	<u>(36,659,648)</u>
Other capital assets, net	<u>63,075,178</u>	<u>1,098,394</u>	<u>(417)</u>	<u>64,173,155</u>
Governmental capital assets, net	<u>\$ 83,183,055</u>	<u>\$ 1,358,767</u>	<u>\$ (1,417,075)</u>	<u>\$ 83,124,747</u>

Depreciation was charged to governmental activities as follows:

General	\$ 209,378
Sanitation	194,720
Police	215,159
Fire	120,354
Public Library	230,174
Street	1,625,939
Adult Recreation	43,081
Recreation	174,382
Golf	112,714
Total	<u>\$ 2,925,901</u>

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 3 CAPITAL ASSETS - CONTINUED

	Balance 10/01/08	Increases	Decreases	Balance 09/30/09
<u>Business Type Activities</u>				
Capital assets not subject to depreciation				
Land	\$ 629,653	\$ -	\$ (260,373)	\$ 369,280
Construction in progress	-	5,946	-	5,946
Total	<u>629,653</u>	<u>5,946</u>	<u>(260,373)</u>	<u>375,226</u>
Other capital assets				
Distribution and collection system	57,379,498	1,607,960	-	58,987,458
Buildings, vehicles and equipment	12,152,848	114,965	(2,667,822)	9,599,991
Total	<u>69,532,346</u>	<u>1,722,925</u>	<u>(2,667,822)</u>	<u>68,587,449</u>
Less accumulated depreciation for				
Distribution and collection system	(20,087,562)	(1,396,277)	-	(21,483,839)
Buildings, vehicles and equipment	(8,781,946)	(406,556)	1,836,016	(7,352,486)
Total accumulated depreciation	<u>(28,869,508)</u>	<u>(1,802,833)</u>	<u>1,836,016</u>	<u>(28,836,325)</u>
Other capital assets, net	40,662,838	(79,908)	(831,806)	39,751,124
Capital assets, net	<u>\$ 41,292,491</u>	<u>\$ (73,962)</u>	<u>\$ (1,092,179)</u>	<u>\$ 40,126,350</u>

	Balance 10/01/08	Increases	Decreases	Balance 09/30/09
<u>Component Unit - Public Library</u>				
Equipment	\$ 309,587	\$ 23,351	\$ -	\$ 332,938
Less accumulated depreciation	(173,580)	(27,698)	-	(201,278)
Net	<u>\$ 136,007</u>	<u>\$ (4,347)</u>	<u>\$ -</u>	<u>\$ 131,660</u>

	Balance 10/01/08	Increases	Decreases	Balance 09/30/09
<u>Component Unit - Airport Authority</u>				
Capital assets not subject to depreciation				
Land	\$ 10,934,228	\$ -	\$ -	\$ 10,934,228
Other capital assets				
Runways	9,309,815	-	-	9,309,815
Buildings and improvements	3,968,177	-	-	3,968,177
Equipment	76,733	21,984	-	98,717
Total	<u>13,354,725</u>	<u>21,984</u>	<u>-</u>	<u>13,376,709</u>
Less accumulated depreciation for				
Runways	(538,032)	(124,132)	-	(662,164)
Buildings and improvements	(1,359,407)	(99,504)	-	(1,458,911)
Equipment	(76,733)	(3,141)	-	(79,874)
Total accumulated depreciation	<u>(1,974,172)</u>	<u>(226,777)</u>	<u>-</u>	<u>(2,200,949)</u>
Other capital assets, net	11,380,553	(204,793)	-	11,175,760
Capital assets, net	<u>\$ 22,314,781</u>	<u>\$ (204,793)</u>	<u>\$ -</u>	<u>\$ 22,109,988</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 4 SINKING FUNDS – PROPRIETARY FUNDS

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

NOTE 5 NOTES AND WARRANTS PAYABLE – BUSINESS-TYPE ACTIVITIES

The following is a summary of revenue bonds, notes and warrants payable from the proprietary funds as of September 30, 2009:

Utilities Revenue Warrants, Series 2005 dated March 1, 2005, interest rate 2.20% to 4.25%, payable semi-annually, principal payable December 1, 2005 through December 1, 2020.	\$ 7,985,000
Unsecured note payable dated April 13, 2005, interest rate 3.50%, monthly payments of \$5,143 including interest, due April 2010.	35,155
Utilities Revenue Warrants, Series 2003 dated September 1, 2003, interest rate 1.00% to 3.50%, payable semi-annually, principal payable 2003 through 2009.	280,000
Utilities Revenue Warrants, Series 2002 dated September 1, 2002, interest rate 4.75% to 5.00%, payable semi-annually, principal payable 2020 through 2025.	6,720,000
Note payable at an interest rate of 5.84%, annual payments \$29,000 including interest, secured by real property.	50,880
General Obligation Warrants, Series 2002 dated September 1, 2002, interest rate 1.60% to 5.00%, payable semi-annually, principal payable 2003 through 2025.	209,657
Utilities Revenue Warrants, Series 2009 dated April 2, 2009, interest rate 3.85%, payable semi-annually, principal payable 2009 through 2019.	1,250,000
General Obligation Refunding Warrant, Series 2009, dated April 2, 2009, interest rate 3.62%, payable semi-annually, principal payable 2010 through 2020.	<u>61,740</u>
TOTAL	<u>\$16,592,432</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

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

On April 2, 2009, the City issued utilities revenue warrants with a par amount of \$1,250,000 with an original issue discount of \$0 and an underwriter's discount of \$0, at a 3.85% interest rate. This issue together with the sum of \$205,226 on deposit in escrow was used to refund the City's Utilities Revenue Warrants, Series 1999, dated June 1, 1999, with an outstanding value of \$1,260,000. The Utilities Revenue Warrants, Series 2009 mature on December 1, 2019. The sum of \$1,313,069 was deposited in an irrevocable trust with an escrow agent to provide debt service payments until the warrants were called on May 5, 2009.

As a result of the refunding, the City reduced its total debt service requirements by \$97,165 which resulted in an economic gain (difference between the present value of the debt service payments on the old debt and the new debt) of \$74,968.

Revenue bonds, notes, and warrants payable from the proprietary funds issued prior to 2009 were for the purpose of financing, or re-financing, new water tanks, new water wells, UV Sewer System, new booster pump, radio system, support tower, phone system, construction of warehouse building and mechanics shop, and extensions to the City's water and sewer lines.

NOTE 6 NOTE AND WARRANTS PAYABLE – GOVERNMENTAL ACTIVITIES

The following is a governmental fund summary of long term debt at September 30, 2009:

General Obligation Warrants, Series 2002 dated September 1, 2002, interest rate 1.60% to 5.00%, payable semi-annually, principal payable 2003 through 2025.	\$4,505,668
Unsecured note payable dated April 13, 2005, interest rate 3.30% monthly payments of \$4,440 including interest, due April 2010.	30,364
General Obligation Warrant, Series 2008, dated March 6, 2008, interest at 2.91%, payable semi-annually, \$130,000 annual principal payments are due on April 1 from 2009 to 2018.	1,131,000
General Obligation Warrants, Series 2007 dated June 1, 2007, interest rate 4.00% to 5.00%, payable semi-annually, principal payable June 1, 2008 through June 1, 2032.	7,530,000
General Obligation Warrant, dated March 31, 2006, interest rate 3.99%, minimum annual payments of \$240,678 including interest, due April 2011.	233,973
General Obligation Refunding Warrant, Series 2009, dated April 2, 2009, interest rate 3.62%, payable semi-annually, principal payable 2010 through 2020.	<u>3,368,260</u>

TOTAL

\$16,799,265

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

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

On April 2, 2009, the City issued general obligation warrants with a par amount of \$3,430,000 with an original issue discount of \$0 and an underwriter's discount of \$0, at a 3.62% interest rate. This issue together with the sum of \$202,975 on deposit in escrow was used to refund the City's General Obligation Warrants, Series 1999, dated June 1, 1999, with an outstanding value of \$3,460,000. The General Obligation Warrants, Series 2009 mature on June 1, 2020. The sum of \$3,615,956 was deposited in an irrevocable trust with an escrow agent to provide debt service payments until the warrants were called on June 1, 2009.

As a result of the refunding, the City reduced its total debt service requirements by \$256,699 which resulted in an economic gain (difference between the present value of the debt service payments on the old debt and the new debt) of \$218,631.

The General Obligation Warrant Series 2008 related to construction costs on the new Library. The Public Library Board requested the City secure a warrant as a "bridge loan" until pledges from outside donors are collected and remitted to the City. In 2008, the City refunded the original short term note with a general obligation warrant to be paid over 10 years. The Library Board committed to pay costs of the Library project in excess of \$3,000,000. Excluding interest on related long-term debt, the Library project costs, to date, are \$8,070,288. As of September 30, 2009, the Library Board has provided funding of \$3,263,461 from donations and grants.

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



CITY OF FAIRHOPE, ALABAMA  
 NOTES TO THE FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2009

NOTE 7 CHANGES IN LONG TERM DEBT

	Balance 10/01/08	Additions	Reductions	Balance 09/30/09	Amounts due within one year
<b>GOVERNMENTAL ACTIVITIES</b>					
Warrants and notes payable					
General obligation warrants	\$ 17,474,232	\$ 3,498,500	\$ (4,203,831)	\$ 16,768,901	\$ 991,892
Notes payable	81,604	-	(51,240)	30,364	30,364
Total warrants and notes payable	17,555,836	3,498,500	(4,255,071)	16,799,265	1,022,256
Warrant discount	(41,603)	-	1,764	(39,839)	-
	17,514,233	3,498,500	(4,253,307)	16,759,426	1,022,256
Other liabilities					
Obligations under capital leases	91,092	-	(21,150)	69,942	22,197
Compensated absences	1,166,094	561,141	(682,138)	1,045,097	521,978
Governmental activities long-term liabilities	<u>\$ 18,771,419</u>	<u>\$ 4,059,641</u>	<u>\$ (4,956,595)</u>	<u>\$ 17,874,465</u>	<u>\$ 1,566,431</u>

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

	Balance 10/01/08	Additions	Reductions	Balance 09/30/09	Amounts due within one year
<b>BUSINESS-TYPE ACTIVITIES</b>					
Warrants and notes payable					
General obligation warrants	\$ 413,404	\$ 61,740	\$ (203,747)	\$ 271,397	\$ 14,435
Utilities revenue warrants	16,865,000	1,250,000	(1,880,000)	16,235,000	625,000
Notes payable	170,145	-	(84,110)	86,035	61,354
Total warrants and notes payable	17,448,549	1,311,740	(2,167,857)	16,592,432	700,789
Warrant premiums	6,765	-	(5,411)	1,354	-
Deferred amount on refunding	(480,260)	-	59,208	(421,052)	-
Warrant discounts	(263,098)	82,385	(75,753)	(256,466)	-
	16,711,956	1,394,125	(2,189,813)	15,916,268	700,789
Other liabilities					
Obligations under capital leases	7,387	-	(7,387)	-	-
Compensated absences	613,688	227,616	(236,371)	604,933	97,640
Business-type activities long-term liabilities	<u>\$ 17,333,031</u>	<u>\$ 1,621,741</u>	<u>\$ (2,433,571)</u>	<u>\$ 16,521,201</u>	<u>\$ 798,429</u>
Compensated absences due within one year included in accrued liabilities					\$ 97,640
Compensated absences due in more than one year included in noncurrent liabilities					<u>507,293</u>
Total compensated absences liability					<u>\$ 604,933</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 8 SUMMARY OF DEBT SERVICE REQUIREMENTS TO MATURITY

GOVERNMENTAL ACTIVITIES

The following is a summary of debt service requirements to maturity of long term debt of the Governmental Funds as of September 30, 2009, including interest payments:

Year Ending September 30,	Principal	Interest	Total
2010	\$ 1,022,256	\$ 703,170	\$ 1,725,426
2011	788,061	665,366	1,453,427
2012	809,407	636,899	1,446,306
2013	850,319	607,401	1,457,720
2014	874,785	576,158	1,450,943
2015 - 2019	4,753,713	2,328,601	7,082,314
2020 - 2024	3,815,089	1,405,462	5,220,551
2025 - 2029	2,469,934	631,682	3,101,616
2030 - 2032	1,415,701	132,750	1,548,451
<b>TOTALS</b>	<b>\$ 16,799,265</b>	<b>\$ 7,687,489</b>	<b>\$ 24,486,754</b>

The City Governmental funds have entered into capital lease arrangements for vehicles and equipment. Future payments under these lease agreements are as follows:

Year Ending September 30,	Minimum Future Lease Payments	Amount Representing Interest	Present Value of Minimum Lease Payments
2010	25,659	3,462	22,197
2011	25,659	2,363	23,296
2012	25,659	1,210	24,449
<b>TOTALS</b>	<b>\$ 76,977</b>	<b>\$ 7,035</b>	<b>\$ 69,942</b>

Capital assets under capital lease had original costs of \$141,458 and accumulated depreciation of \$141,458 at September 30, 2009 in the governmental activities.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 8 SUMMARY OF DEBT SERVICE REQUIREMENTS TO MATURITY (continued)

BUSINESS-TYPE ACTIVITIES

The following is a summary of debt service requirements to maturity of long term debt of the Proprietary Funds as of September 30, 2009, including interest payments and excluding discounts and premiums related to warrant issuance:

Year Ending Sept. 30,	Principal	Interest	Total
2010	\$ 700,789	698,410	\$ 1,399,199
2011	724,650	675,843	1,400,493
2012	720,593	651,194	1,371,787
2013	749,681	625,425	1,375,106
2014	770,215	597,602	1,367,817
2015 - 2019	4,311,287	2,672,696	6,983,983
2020 - 2024	5,814,911	1,702,292	7,517,203
2025 - 2026	2,800,306	314,816	3,115,122
	<u>\$ 16,592,432</u>	<u>\$ 7,938,278</u>	<u>\$ 24,530,710</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 9 BONDS PAYABLE - COMPONENT UNITS

The Airport Authority issued bonds totaling \$8,845,000. The Airport Improvement Bonds, Series 2007 are dated March 15, 2007. The Bonds bear interest at a variable rate. The bonds are repriced weekly, by the remarketing agent, at a rate to maintain market value of 100% of principal. The bonds mature March 1, 2032, but have mandatory redemption requirements as presented below. The bonds are limited obligations of the Airport Authority, payable solely out of money received by the trustee from the letter of credit, provided by Allied Irish Banks, PLC, or amounts appropriated to the Authority by the City of Fairhope, Alabama. The appropriation agreement between the Authority and the City expires annually on September 30 and is renewable at the City's option. The bond rate at September 30, 2009 was 1.310%. A letter of credit fee of .70% of the principal balance and a remarketing fee of .125% of principal balance is assessed in addition to the variable interest rate on the bonds.

The following is a summary of debt service requirements to maturity of long term debt of the Airport Authority as of September 30, 2009, including estimated interest payments at 2.135% and excluding discounts related to bonds:

Year Ending Sept. 30,	Principal	Interest	Total
2010	\$ -	\$ 188,841	\$ 188,841
2011	-	188,841	188,841
2012	-	188,841	188,841
2013	240,000	183,717	423,717
2014	255,000	178,273	433,273
2015 - 2018	1,520,000	797,743	2,317,743
2019 - 2023	2,035,000	603,778	2,638,778
2024 - 2028	2,730,000	343,628	3,073,628
2029 - 2032	2,065,000	45,796	2,110,796
	<u>\$ 8,845,000</u>	<u>\$ 2,719,458</u>	<u>\$ 11,564,458</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 10 LINE OF CREDIT PAYABLE

The City has unsecured open lines of credit.

The Electric Fund has a revolving line of credit with a \$2,000,000 limit. The line of credit, dated July 20, 2009, bears interest at a variable rate of 65% of the One Month LIBOR Rate plus 1.63%, to be adjusted monthly with an interest rate floor of 2.28% per annum and matures July, 2010. This line of credit is available for use by the City utility operations.

The City had revolving line of credit with a \$2,000,000 limit that expired without renewal June, 2009. The line of credit, bore interest at 2.5% per annum and was available for use in the governmental activities.

Following is the summary of activity for fiscal year 2009:

	<u>Electric Fund</u>	<u>General Fund</u>
Beginning balance	\$ 1,750,000	\$ 900,000
Advances	500,000	-
Payments	<u>(2,250,000)</u>	<u>(900,000)</u>
Balance at September 30, 2009	\$ <u>-</u>	\$ <u>-</u>

NOTE 11 SALARIES – PROPRIETARY FUNDS

The following is a summary of employees' salaries by Utility Fund for the year ended September 30, 2009:

	<u>Electric Fund</u>	<u>Natural Gas Fund</u>	<u>Water and Waste Water Fund</u>
Total salaries	\$ 989,238	\$ 825,071	\$1,164,571
Less:			
Salaries capitalized for plant additions	<u>251,311</u>	<u>190,336</u>	<u>52,687</u>
Amount of salaries charged to operations	\$ <u>737,927</u>	\$ <u>634,735</u>	\$ <u>1,111,884</u>

NOTE 12 RISK MANAGEMENT AND CONTINGENCIES

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

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 12 RISK MANAGEMENT AND CONTINGENCIES (continued)

The City is a defendant in a case regarding the territorial right to provide electric service within areas annexed in recent years. The litigation stems from a dispute with the service providers regarding who may provide electrical service to these recently annexed areas under the Service Territories for Electric Suppliers Act of 1985. The parties mediated the case on October 22, 2009, at which time they reached a settlement agreement concerning their electric service territories. This settlement agreement is embodied in a written memorandum of understanding, and is subject to certain conditions including approval by the parties' respective governing bodies. The settlement agreement does not require either party to pay the other party any money. Upon consummation of the settlement agreement, the lawsuit will be dismissed, with prejudice.

The City has been named as a defendant in several cases involving the improper connection of sewer lines to the City water system by another utility company. The City intends to vigorously defend its position and believes any claims will not be material and mitigated by insurance.

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

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

NOTE 13 COMPENSATED ABSENCES

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

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

CITY OF FAIRHOPE, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009

NOTE 14 PENSION PLAN

Plan Description

The City's defined benefit pension plan provides retirement and disability benefits, cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is affiliated with the Employees Retirement System of Alabama (RSA), an agent multiple-employer pension plan. At September 30, 2008, RSA had a total of 1,058 participating units.

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

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

The RSA was established as of October 1, 1945, under the provisions of Act 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for state employees, State police, and on an elective basis to all cities, counties, towns and quasi public organizations. The responsibility for general administration and operation of the RSA is vested in the Board of Control. Benefit provisions are established by the Code of Alabama 1975, Sections 36-27-1 through 36-27-103, as amended, Sections 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the City authority to accept or reject various cost-of-living adjustments granted to retirees.

Funding Policy

All full-time employees are required to contribute 5% of their annual covered salary, except law enforcement personnel who must contribute 6% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 8.92 % of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by RSA. The Schedule of Funding Progress – Employee Retirement System has been included on page 51 of the Required Supplementary Information.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 14 PENSION PLAN (continued)

Annual Pension Cost

For 2009, the City's annual pension cost of \$1,091,972 was equal to the City's required and actual contributions. The required contribution was determined as part of an actuarial valuation (dated September 2008) using the entry age actuarial cost method. Amortization is determined using the level open percent method over a remaining amortization period of 19 years. The actuarial assumptions included (a) 8.0% investment rate of return, (b) projected salary increases ranging from 4.61% to 7.75% per year, and (c) no cost-of-living adjustments. Both (a) and (b) included an inflation component of 4.5%. The actuarial value of the City of Fairhope's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 5-year period.

Trend Information

<u>Fiscal Year Funding</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/09	\$ 1,091,972	100%	-
9/30/08	\$ 985,276	100%	-
9/30/07	\$ 804,930	100%	-
9/30/06	\$ 660,444	100%	-

NOTE 15 DEPOSIT AND INVESTMENT RISK

At September 30, 2009, the City had investments in U. S. Treasury money market mutual funds through its trustee agreement for debt sinking funds. The fair value was \$2,205,506 (\$321,738 in governmental activities and \$1,883,768 in business-type activities). The average maturity of the portfolio was 33.05 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, SEC registered mutual funds holding like securities. The City has no investment policy that further limits investment choices. As of September 30, 2009, the City's mutual fund investments principal stability rating was AAAM as reported by Standard & Poor's.

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



CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 16 COMMITMENTS

The City has various contractual commitments outstanding at year-end. The commitments under these contracts totaled \$456,764. The commitments funding from governmental activities will be \$54,500 and from business-type activities will be \$402,264.

NOTE 17 DEFERRED COMPENSATION PLAN

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

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

NOTE 18 POST EMPLOYMENT HEALTH BENEFITS

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

Effective with the Fiscal Year beginning October 1, 2008, the City implemented Government Accounting Standards City Statement Number 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions* (GASB 45), for its financial disclosure and reporting purposes. The City intends to fund the OPEB Obligation pursuant to GASB 45 to the extent the funding requirement is not met by the retiree health care premiums paid outright. During the year ended September 30, 2009, the City's portion of health care funding cost for retired employees (retiree premiums) totaled \$205,208.

Contribution Rates – Eligible retirees are subject to employer contributions for medical benefits equal to 90% of the premium. At September 30, 2008, the valuation date, 24 participants were receiving benefits under various provisions of the Plan. Complete plan provisions are included in the official plan documents.

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

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 18 POST EMPLOYMENT HEALTH BENEFITS (continued)

Annual Required Contribution – The City’s Annual Required Contribution (ARC) is an amount actuarially determined using the Projected Unit Credit Method in accordance with GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a level percentage of pay, open amortization period of thirty years. The remaining amortization period at September 30, 2009, was 29 years. The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation to the Plan:

Annual required contribution	\$ 611,853
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost (expense)	<u>611,853</u>
Current year retiree premium	<u>(205,208)</u>
Change in net OPEB obligation	406,645
Net OPEB obligation – beginning of year	-
Net OPEB obligation – end of year	<u>\$ 406,645</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for the year ended September 30, 2009 is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
9/30/09	\$ 611,853	33.5%	\$ 406,645

Funded Status and Funding Progress – The first and most recent actuarial valuation under GASB 45 was as of September 30, 2008. There were no assets accumulated in the Plan, however, market value will be used to value such assets. At September 30, 2008, the Actuarial Accrued Liability (AAL) was \$6,740,895, which is defined as that portion, as determined by a particular actuarial cost method (the City uses the Projected Unit Credit Method), of the actuarial present value of post employment plan benefits and expenses which is not provided by normal cost. The funded ratio is developed below.

Schedule of Funding Progress

<u>Actuarial Valuation Dated</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded (AAL) (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/c</u>
9/30/08	\$ -	\$6,740,895	\$(6,740,895)	0.0%	\$ 11,189,043	60.2%

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 18 POST EMPLOYMENT HEALTH BENEFITS (continued)

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

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

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

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

*Health Care Cost Trend Rate* - The expected rate of increase in medical cost is based on an 11% projected increase for 2008 graduated down to an ultimate annual rate of 5% for 2016 and beyond.

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

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

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

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

NOTE 19 OPERATING LEASES

The City holds various leases with entities for use of City property. Most of these leases are monthly and insignificant. One lease for a portion of the new library is leased to a local college at \$2,000 per month until December 2009. In addition, the City rents certain facilities to groups for events and activities on a per use basis.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 20 LEASE EXPENSE

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

NOTE 21 UPCOMING ACCOUNTING STANDARD IMPLEMENTATION

The City intends to implement the guidance of Governmental Accounting Standard Number 54 "Fund Balance Reporting and Governmental Fund Type Definitions" effective October 1, 2010. The Standard is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This hierarchy will consist of five categories of fund balance: nonspendable, restricted, committed, assigned and unassigned.

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

REQUIRED SUPPLEMENTARY INFORMATION  
CITY OF FAIRHOPE, ALABAMA  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Local taxes	\$ 6,054,100	\$ 6,104,100	\$ 6,938,380	\$ 834,280
Licenses and permits	2,833,500	2,106,500	2,058,105	(48,395)
Fine and forfeitures	310,000	225,000	224,022	(978)
Intergovernmental	304,200	675,900	749,400	73,500
Interest and rents	236,000	209,500	207,939	(1,561)
Charges for services	4,728,000	4,428,000	4,450,711	22,711
Golf course revenue	1,720,105	964,500	959,730	(4,770)
Contributions from Public Library Board	-	71,000	71,000	-
Other revenue	365,300	205,400	277,015	71,615
<b>Total revenues</b>	<u>16,551,205</u>	<u>14,989,900</u>	<u>15,936,302</u>	<u>946,402</u>
<b>EXPENDITURES</b>				
General government	5,130,100	5,526,030	5,920,151	(394,121)
Sanitation	1,606,400	1,411,760	1,475,035	(63,275)
Police	3,809,400	3,786,401	3,922,163	(135,762)
Fire	798,000	753,287	765,645	(12,358)
Airport Authority	429,800	254,800	242,090	12,710
Streets	2,641,500	2,422,791	2,608,531	(185,740)
Adult recreation	482,300	410,637	400,494	10,143
Recreation	953,200	912,271	867,174	45,097
Golf	1,389,000	1,201,086	1,303,135	(102,049)
Public Library Board	530,000	530,000	530,000	-
Other	60,000	60,000	60,000	-
Debt service	518,000	664,900	519,593	145,307
Capital outlay	451,000	146,536	265,033	(118,497)
<b>Total expenditures</b>	<u>18,798,700</u>	<u>18,080,499</u>	<u>18,879,044</u>	<u>(798,545)</u>
<b>Excess of Revenues over (under) Expenditures</b>	<u>(2,247,495)</u>	<u>(3,090,599)</u>	<u>(2,942,742)</u>	<u>147,857</u>
<b>Other financing sources (uses)</b>				
Proceeds from issuance of debt	-	-	3,368,260	3,368,260
Cost from issuance of debt	-	-	(78,364)	(78,364)
Transfer to Debt Service Fund to defease warrants	-	-	(3,289,896)	(3,289,896)
Transfers in	4,090,000	4,444,136	5,094,136	650,000
Transfers out	(1,808,000)	(1,500,000)	(1,158,102)	341,898
<b>Total other financing sources (uses)</b>	<u>2,282,000</u>	<u>2,944,136</u>	<u>3,936,034</u>	<u>991,898</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 34,505</u>	<u>\$ (146,463)</u>	993,292	<u>\$ 1,139,755</u>
<b>FUND BALANCE - BEGINNING OF YEAR</b>			<u>1,083,383</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 2,076,675</u>	

See independent auditors' report.

REQUIRED SUPPLEMENTARY INFORMATION  
CITY OF FAIRHOPE, ALABAMA  
SCHEDULE OF FUNDING PROGRESS – EMPLOYEE RETIREMENT SYSTEM  
SEPTEMBER 30, 2009

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b) <sup>1</sup>	Unfunded AAL (UAAL) b – a	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-1)/c
9/30/08	\$22,906,152	\$30,483,488	\$7,577,336	75.1%	\$11,367,443	66.7%
9/30/07	\$21,712,337	\$28,365,980	\$6,653,643	76.5%	\$10,431,006	63.8%
9/30/06 <sup>8</sup>	\$19,895,139	\$26,367,319	\$6,472,180	75.5%	\$9,530,701	67.9%
9/30/05	\$18,565,922	\$23,773,976	\$5,208,054	78.1%	\$9,706,576	52.9%
9/30/04 <sup>7</sup>	\$17,075,176	\$19,888,433	\$2,813,256	85.9%	\$7,667,270	36.7%
9/30/03 <sup>6</sup>	\$16,083,240	\$18,576,805	\$2,493,565	86.6%	\$7,555,473	33.0%
9/30/02 <sup>5</sup>	\$15,177,087	\$16,920,564	\$1,743,477	90.0%	\$7,190,278	24.0%
9/30/01 <sup>4</sup>	\$14,577,706	\$15,046,428	\$ 468,722	96.9%	\$6,617,043	7.1%
9/30/00	\$13,641,601	\$12,953,210	\$(688,391)	105.3%	\$6,068,744	(11.3%)
9/30/99	\$12,431,781	\$11,674,149	\$(757,632)	106.5%	\$5,565,025	(13.6%)
9/30/98 <sup>3</sup>	\$11,358,040	\$10,577,344	\$(780,696)	107.4%	\$4,958,496	(15.7%)
9/30/97 <sup>2</sup>	\$10,398,022	\$ 9,707,826	\$(690,196)	107.1%	\$4,649,493	(14.8%)

- <sup>1</sup> Reflects liability for cost of living benefit increases granted on or after October 1, 1978.
- <sup>2</sup> Reflects change in asset valuation method to market value.
- <sup>3</sup> Reflects change in asset valuation method to market related value (as of September 30, 1998).
- <sup>4</sup> Reflects changes in actuarial assumptions (as of September 30, 2001).
- <sup>5</sup> Reflects effect of DROP if unit elected to enroll prior to June 20, 2003.
- <sup>6</sup> Reflects effect of DROP if unit elected to enroll prior to May 18, 2004.
- <sup>7</sup> Reflects effect of DROP if unit elected to enroll prior to August 4, 2005.
- <sup>8</sup> Reflects changes in actuarial assumptions.

CITY OF FAIRHOPE, ALABAMA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2009

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) Each September the Mayor submits to the City Council 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 meetings are conducted to obtain taxpayer comments.
- (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 generally accepted accounting principles (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, 2009

NOTE 2 EXCESS EXPENDITURES

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

	<u>Excess Expenditures</u>		<u>Excess Expenditures</u>
<b>General Government</b>		<b>Recreation Department</b>	
Salaries-Council	292	General Supplies	16,690
Salaries-Judge & City Clerk	2,969	General Maintenance	351
Salaries-Building & Zoning	36,772	Gasoline & Oil	787
Salaries-Beach Labor	2,968	Equipment & Vehicle Repair	6,679
Training/School/Travel	9,198	Uniforms	1,424
Legal Fees	225,691		
City Computer Expense	5,043	<b>Adult Recreation Department</b>	
Office Supplies	2,288	Casualty/Workers Compensation Expense	177
General Supplies	6,685	Golf Expense	134
General Maintenance	13,310	Office Expense	196
Telephone	378		
Dues/Memberships/Subscriptions	3,441	<b>Street Department</b>	
Bad Debts	103,841	Casualty/Workers Compensation Expense	4,334
Equipment & Vehicle Repair	1,120	General Supplies	600
Credit Card Processing Fees	1,902	Gasoline & Oil	3,870
Printing	334	Equipment & Vehicle Repair	42,630
Mileage Reimbursement-Mayor	1,246	Sidewalks	4,032
Publications Newspapers	4,348		
Election Expense	356	<b>Sanitation Department</b>	
Book & Sidewalk Brick	815	Casualty/Workers Compensation Expense	4,881
County Prisoner Expense	3,696	General Supplies	6,639
Eastern Shore Chamber of Commerce	1,500	Gasoline & Oil	2,434
Civic Center Maintenance	8,629	Equipment & Vehicle Repair	36,536
Greeno Road Pilot Program	53,611	Landfill Charges	37,401
Grant Expenditures	19,302		
Grant Expenditures-ALDOT Spring Run	22,875	<b>Golf Department</b>	
Dog Park-2008 Project	2,332	Salaries-Club House	11,359
Sales Tax Collection Fees	13,773	Employee Payroll Taxes	588
		Employee Retirement Expense	1,843
<b>Police Department</b>		Employee Medical Insurance	881
Salaries	83,250	General Supplies	29,040
Employee Medical Insurance	4,142	General Maintenance	6,784
Training/School/Travel	7,024	Gasoline & Oil	3,528
General Supplies	10,152	Equipment & Vehicle Repair	2,674
General Maintenance	185	Advertising & Promotion	2,047
Gasoline & Oil	6,280	Material & Landscaping	38,307
Equipment & Vehicle Repair	19,995	Cost-Pro Shop Sales	19,369
NCIC Data System	6,000		
Correction Fund Expense	10,152	<b>Staff Agencies &amp; Appropriations</b>	
DEA Funds Purchases	19,120	Airport Appropriation-Debt Service	290
<b>Fire Department</b>			
Fire call Payments	2,320	<b>Capital Outlay</b>	
Employee Medical Insurance	2,600	Capital Improvements-Golf	92,079
Casualty/Workers Compensation Insurance	11,056	Purchases-Vehicles & Equipment-Police	6,649
General Supplies	7,780		
Gasoline & Oil	2,010	<b>Debt Service</b>	
Equipment & Vehicle Repair	15,059	Lease Purchase	11,799
Purchases-Vehicles & Equipment	23,268	GOW 99 Cost to Refinance	78,364
		Transfers to Debt Service-Defease GOW 1999	3,289,896
		Transfers to Capital Projects Fund	2,576

**OTHER SUPPLEMENTARY INFORMATION**

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

CITY OF FAIRHOPE, ALABAMA  
FUND BALANCE SHEET  
FAIRHOPE PUBLIC LIBRARY BOARD  
SEPTEMBER 30, 2009

ASSETS

Cash and cash equivalents	\$ 79,890
Due from City of Fairhope	<u>44,167</u>

TOTAL ASSETS	\$ <u><u>124,057</u></u>
--------------	--------------------------

LIABILITIES

Accounts payable and accrued expenses	\$ <u>3,275</u>
---------------------------------------	-----------------

FUND BALANCES

Reserved for capital projects	39,562
Unreserved	<u>81,220</u>
Total fund balances	<u>120,782</u>

TOTAL LIABILITIES AND FUND BALANCES	\$ <u><u>124,057</u></u>
-------------------------------------	--------------------------

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA  
RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
FAIRHOPE PUBLIC LIBRARY BOARD  
SEPTEMBER 30, 2009

<b>Fund balance as reported on page 54</b>	\$	120,782
Net Assets reported for governmental activities in the Statement of Net Assets are different from Fund Balance for governmental activities because:		
Capital assets used in governmental activities are financial resources and therefore are not reported in fund financial statements		332,937
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.		<u>(201,277)</u>
<b>Net Assets of Governmental Activities as reported on page 23</b>	\$	<u><u>252,442</u></u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FAIRHOPE PUBLIC LIBRARY BOARD  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

REVENUES

Fines and lost books	\$ 21,993
Donations, gifts, memorials and bequests	145,894
State aid	16,635
Lease income	6,500
Payments from City of Fairhope	530,000
Miscellaneous	12,794
Total revenues	<u>733,816</u>

EXPENDITURES

Salaries	398,723
Payroll taxes	30,502
Employees' retirement	12,178
Books, periodicals, audio visual	112,047
Supplies	13,899
Janitorial service	18,664
Professional fees	7,974
Consultant and fundraising	5,922
Telecommunications	468
Payments to City of Fairhope for Library Debt	71,000
Capital outlay	23,351
Maintenance	29,782
Friends expenses	4,246
Miscellaneous	13,704
Total expenditures	<u>742,460</u>

Net change in fund balance	(8,644)
Fund balance – beginning of year	<u>129,426</u>
Fund balance – end of year	<u>\$ 120,782</u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
FAIRHOPE PUBLIC LIBRARY BOARD  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

**Net change in fund balances - total governmental funds, page 56** \$ (8,644)

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	23,351
Depreciation expense for the year	<u>(26,698)</u>

**Change in Net Assets of Governmental Activities, page 24** \$ (11,991)

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA  
FUND BALANCE SHEET  
FAIRHOPE AIRPORT AUTHORITY  
SEPTEMBER 30, 2009

ASSETS

Cash and cash equivalents

\$ 588,697

TOTAL ASSETS

\$ 588,697

LIABILITIES

Accounts payable and accrued expenses

\$ -

FUND BALANCES

Reserved for capital projects

247,600

Unreserved

341,097

Total net assets

588,697

TOTAL LIABILITIES AND NET ASSETS

\$ 588,697

See independent auditors' report.



CITY OF FAIRHOPE, ALABAMA  
RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
FAIRHOPE AIRPORT AUTHORITY  
SEPTEMBER 30, 2009

<b>Fund balance as reported on page 58</b>	<b>\$ 588,697</b>
Net Assets reported for governmental activities in the Statement of Net Assets are different from Fund Balance for governmental activities because:	
Capital assets used in governmental activities are financial resources and therefore are not reported in fund financial statements	24,310,936
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.	(2,200,948)
Cost associated with warrant issuance are expensed in the current period in Fund Financial Statements	
Warrant Issuance costs, net	166,057
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 (net of discounts \$59,483)	<u>(8,785,517)</u>
<b>Net Assets of Governmental Activities as reported on page 23</b>	<b>\$ <u>14,079,225</u></b>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FAIRHOPE AIRPORT AUTHORITY  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

REVENUES

Fuel sales and rentals	\$ 141,228
Interest income	11,103
Federal grant revenue	165,492
Payments from City of Fairhope	242,090
Total revenues	<u>559,913</u>

EXPENDITURES

Festival of Flight costs	3,000✓
Insurance	31,604✓
Legal and professional	21,590✓
Maintenance	71,739✓
Capital outlay	21,984✓
Debt service interest	216,627✓
Other	14,232
Total expenditures	<u>380,776</u>
Net change in fund balance	179,137
Fund balance – beginning of year	<u>409,560</u>
Fund balance – end of year	<u>\$ 588,697</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, 2009

<b>Net change in fund balances - total governmental funds, page 60</b>	\$ 179,137
Amounts reported for governmental activities in the Statement of Activities are different from the Statements of Revenues, Expenditures and Changes in Fund balances - Governmental Funds because:	
Amortization of bond costs and discounts is not recorded in fund level statements	(10,061)
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	21,984
Depreciation expense for the year	<u>(226,777)</u>
<b>Change in Net Assets of Governmental Activities, page 24</b>	<u>\$ (35,717)</u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA  
SCHEDULE OF CAPITAL PROJECTS EXPENDITURES  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Road project	\$	26,350
Library project		28,997
Football & cheerleading facility		15,886
Recreation center		1,287,024
Golf Course Project		107,142
NRCS Hurricane Gustav		<u>45,402</u>
	\$	<u><u>1,510,801</u></u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA  
 SCHEDULE OF INFORMATION REQUIRED BY BOND INDENTURES  
 SEPTEMBER 30, 2009

	Electric Fund	Natural Gas Fund	Water and Waste Water Fund
A. Utility customers at September 30, 2009 were as follows:			
Number of customers	6,397	8,866	23,917
Number of metered customers	6,397	8,866	23,917
Number of unmetered customers	-	-	-
Number of waste water customers			8,564

	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	Total
B. Annual Net Income of Utility Operations				
Income from operations	\$ 3,358,772	\$ 3,037,100	\$ 2,050,048	\$ 8,445,920
Add:				
Depreciation and amortization	558,915	282,950	960,968	1,802,833
Interest income	<u>22,572</u>	<u>10,272</u>	<u>27,260</u>	<u>60,104</u>
Annual net income as prescribed by debt covenants	<u>\$ 3,940,259</u>	<u>\$ 3,330,322</u>	<u>\$ 3,038,276</u>	<u>\$ 10,308,857</u>

C. Utility fund casualty insurance coverage on electrical sub stations, natural gas facilities, water and waste-water facilities is included in a blanket policy with the Governmental Funds general capital assets building and facilities. The City of Fairhope, Alabama is the named insured on all policies.	
Comprehensive general liability – expires January 2010	\$ 5,000,000
Buildings and facilities – expires April 2010	67,274,730
Automobile – expires April 2010	
Liability	1,000,000
Uninsured motorist	50,000
Public officials errors and omissions liability – expires January 2010	5,000,000

D. The City has complied with all requirements of the respective bond indentures.

CITY OF FAIRHOPE, ALABAMA  
SUMMARY OF DEPOSITS, WITHDRAWALS AND BALANCES OF SELECTED TRUST ACCOUNTS AS  
REQUIRED UNDER CERTAIN TRUST INDENTURES  
SEPTEMBER 30, 2009

	1996	1999	1999	2002	2002	2002	2003	2003	2005	2007	2009	2009
	Capital Improvement	Warrant Fund	Reserve Fund	Warrant Fund	Warrant Fund	Reserve Fund	Reserve Fund	Warrant Fund	Warrant Fund	Warrant Fund	Warrant Fund	Reserve Fund
Balance 10/01/08	\$ 50,000	\$ 95,046	\$ 153,913	\$ 112,407	\$ 155,359	\$ 675,774	\$ 431,097	\$ 357,258	\$ 205,582	\$ 179,688	\$ -	\$ -
Deposits	149	3,482,494	-	330,050	453,311	2,006	1,284	309,196	544,534	528,604	83,962	125,000
Disbursements	(149)	(3,577,540)	(153,913)	(331,650)	(457,373)	(5,780)	(148,531)	(429,963)	(427,051)	(531,571)	(7,887)	-
Balance 9/30/09	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 110,807</u>	<u>\$ 151,497</u>	<u>\$ 672,000</u>	<u>\$ 283,850</u>	<u>\$ 236,491</u>	<u>\$ 323,065</u>	<u>\$ 176,721</u>	<u>\$ 76,075</u>	<u>\$ 125,000</u>

**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.

<b>Contents</b>	<b>Page</b>
<b>Financial Trends</b> <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>	66-71
<b>Revenue Capacity</b> <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>	72-77
<b>Debt Capacity</b> <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>	78-81
<b>Demographic and Economic Information</b> <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>	82-83
<b>Operating Information</b> <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>	84-86

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 ASSETS BY COMPONENT  
LAST SEVEN FISCAL YEARS  
(accrual basis of accounting)**

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
<b>Governmental activities</b>							
Invested in capital assets, net of related debt	\$ 54,678,761	\$57,031,298	\$60,149,769	\$67,742,360	\$61,450,916	\$67,338,065	\$66,295,379
Restricted	1,695,559	1,788,014	1,908,452	787,538	1,073,262	847,580	1,462,430
Unrestricted	(12,322)	273,964	88,053	(1,195)	54,300	(84,709)	165,029
<b>Total governmental activities net assets</b>	<u>\$ 56,361,998</u>	<u>\$59,093,276</u>	<u>\$62,146,274</u>	<u>\$68,528,703</u>	<u>\$62,578,478</u>	<u>\$68,100,936</u>	<u>\$67,922,838</u>
<b>Business-type activities</b>							
Invested in capital assets, net of related debt	\$ 11,617,954	\$17,337,442	\$15,801,139	\$19,307,068	\$23,076,992	\$24,573,181	\$24,210,082
Restricted	1,652,831	1,991,871	2,058,968	2,089,642	2,106,516	2,092,174	1,883,768
Unrestricted	8,962,015	2,949,282	5,082,800	3,334,264	2,105,886	1,422,972	3,691,056
<b>Total business-type activities net assets</b>	<u>\$ 22,232,800</u>	<u>\$22,278,595</u>	<u>\$22,942,907</u>	<u>\$24,730,974</u>	<u>\$27,289,394</u>	<u>\$28,088,327</u>	<u>\$29,784,906</u>
<b>Primary government</b>							
Invested in capital assets, net of related debt	\$ 66,296,715	\$74,368,740	\$75,950,908	\$87,049,428	\$84,527,908	\$91,911,246	\$90,505,461
Restricted	3,348,390	3,779,885	3,967,420	2,877,180	3,179,778	2,939,754	3,346,198
Unrestricted	8,949,693	3,223,246	5,170,853	3,333,069	2,160,186	1,338,263	3,856,085
<b>Total primary government net assets</b>	<u>\$ 78,594,798</u>	<u>\$81,371,871</u>	<u>\$85,089,181</u>	<u>\$93,259,677</u>	<u>\$89,867,872</u>	<u>\$96,189,263</u>	<u>\$97,707,744</u>

The City implemented GASB Statement number 34 fiscal year 2003. Therefore, net asset information is not available years prior.

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

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

The City implemented GASB Statement number 34 fiscal year 2003. Therefore, net asset information is not available years prior.

(continued)

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

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
Net (expense)/revenue							
Governmental activities	\$ (8,198,683)	\$ (6,519,913)	\$ (5,497,847)	\$ (2,380,027)	\$ (1,387,978)	\$ (4,733,274)	\$ (13,896,633)
Business-type activities	4,249,224	5,272,666	4,532,361	5,340,526	6,311,577	4,341,653	7,644,340
Total primary government net expense	<u>\$ (3,949,459)</u>	<u>\$ (1,247,247)</u>	<u>\$ (965,486)</u>	<u>\$ 2,960,499</u>	<u>\$ 4,923,599</u>	<u>\$ (391,621)</u>	<u>\$ (6,252,293)</u>
<b>General Revenues and Other Changes in Net Assets</b>							
Governmental activities:							
Taxes							
Property taxes	\$ 2,278,650	\$ 2,674,204	\$ 2,710,256	\$ 3,159,187	\$ 3,589,489	\$ 4,631,476	\$ 4,939,840
Sales tax	-	-	-	-	-	-	1,003,864
Liquor taxes	299,681	317,899	352,827	347,415	373,794	396,196	385,411
Lodging taxes	-	362,860	449,079	196,224	420,024	495,850	474,852
Other	27,152	100,554	130,305	124,738	138,857	145,836	134,413
Intergovernmental	288,487	243,469	325,557	522,196	472,667	293,007	436,472
Investment earnings	328,868	290,659	327,687	394,006	508,558	340,530	225,860
Other	4,613	107,685	205,060	230,691	251,476	294,469	109,958
Transfer of Golf Fund to Governmental Activities	-	-	-	-	-	-	913,729
Transfers in/(out)	4,360,675	5,330,481	4,058,380	3,787,999	(10,317,112)	3,658,368	5,094,136
Total government activities	<u>7,588,126</u>	<u>9,427,811</u>	<u>8,559,151</u>	<u>8,762,456</u>	<u>(4,562,247)</u>	<u>10,255,732</u>	<u>13,718,535</u>
Business-type activities:							
Investment earnings	176,061	103,610	190,330	235,538	266,888	115,648	60,104
Transfer of Golf Fund to Governmental Activities	-	-	-	-	-	-	(913,729)
Transfers in/(out)	(4,360,675)	(5,330,481)	(4,058,380)	(3,787,999)	(4,020,046)	(3,658,368)	(5,094,136)
Total business-type activities	<u>(4,184,614)</u>	<u>(5,226,871)</u>	<u>(3,868,050)</u>	<u>(3,552,461)</u>	<u>(3,753,158)</u>	<u>(3,542,720)</u>	<u>(5,947,761)</u>
Total primary government	<u>\$ 3,403,512</u>	<u>\$ 4,200,940</u>	<u>\$ 4,691,101</u>	<u>\$ 5,209,995</u>	<u>\$ (8,315,405)</u>	<u>\$ 6,713,012</u>	<u>\$ 7,770,774</u>
<b>Change in Net Assets</b>							
Governmental activities	\$ (610,557)	\$ 2,907,898	\$ 3,061,304	\$ 6,382,429	\$ (5,950,225)	\$ 5,522,458	\$ (178,098)
Business-type activities	64,610	45,795	664,311	1,788,065	2,558,419	798,933	1,696,579
Total primary government	<u>\$ (545,947)</u>	<u>\$ 2,953,693</u>	<u>\$ 3,725,615</u>	<u>\$ 8,170,494</u>	<u>\$ (3,391,806)</u>	<u>\$ 6,321,391</u>	<u>\$ 1,518,481</u>

The City implemented GASB Statement number 34 fiscal year 2003. Therefore, net asset information is not available years prior.

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

<b>Fiscal Year</b>	<b>Sales Tax</b>	<b>Ad Valorem Tax</b>	<b>Automobile Tax</b>	<b>Beer, Wine and Liquor Tax</b>	<b>Cigarette Tax</b>	<b>Lodging Tax</b>	<b>Dog Tax</b>	<b>Burglar Alarm Tax</b>	<b>Total</b>
2003	\$ -	\$ 1,953,186	\$ 325,464	\$ 299,681	\$ 26,941	\$ -	\$ 211	\$ -	\$ 2,605,483
2004	-	2,328,984	345,220	317,899	100,379	362,860	175	-	3,455,517
2005	-	2,268,195	442,061	352,827	130,168	449,079	137	-	3,642,467
2006	-	2,639,610	519,577	347,415	124,606	196,224	107	25	3,827,539
2007	-	3,103,284	486,205	373,794	138,754	420,024	103	-	4,522,164
2008	-	4,143,286	488,190	396,080	145,836	495,852	114	-	5,669,358
2009	1,003,864	4,424,103	515,737	385,411	134,297	474,852	116	-	6,938,380

The City implemented GASB Statement number 34 fiscal year 2003. Therefore, governmental activities information is not available years prior.

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

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
General fund										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 501,932
Unreserved	<u>(8,283)</u>	<u>21,189</u>	<u>369,032</u>	<u>382,274</u>	<u>421,331</u>	<u>1,033,668</u>	<u>1,087,642</u>	<u>1,703,619</u>	<u>1,083,383</u>	<u>1,574,743</u>
<b>Total general fund</b>	<b><u>\$ (8,283)</u></b>	<b><u>\$ 21,189</u></b>	<b><u>\$ 369,032</u></b>	<b><u>\$ 382,274</u></b>	<b><u>\$ 421,331</u></b>	<b><u>\$ 1,033,668</u></b>	<b><u>\$ 1,087,642</u></b>	<b><u>\$ 1,703,619</u></b>	<b><u>\$ 1,083,383</u></b>	<b><u>\$ 2,076,675</u></b>
All other governmental funds										
Reserved	\$ 1,744,104	\$ 1,665,750	\$ 4,438,497	\$ 558,630	\$ 377,983	\$ 272,950	\$ 235,348	\$ 456,957	\$ 470,671	\$ 350,987
Unreserved, reported in:										
Special revenue funds	107,851	161,307	169,668	92,201	143,257	227,109	257,881	311,553	66,907	59,142
Capital projects funds	<u>2,972,957</u>	<u>1,263,203</u>	<u>863,518</u>	<u>876,358</u>	<u>1,219,106</u>	<u>1,602,259</u>	<u>263,202</u>	<u>3,892,524</u>	<u>2,070,337</u>	<u>550,369</u>
<b>Total all other governmental funds</b>	<b><u>\$ 4,824,912</u></b>	<b><u>\$ 3,090,260</u></b>	<b><u>\$ 5,471,683</u></b>	<b><u>\$ 1,527,189</u></b>	<b><u>\$ 1,740,346</u></b>	<b><u>\$ 2,102,318</u></b>	<b><u>\$ 756,431</u></b>	<b><u>\$ 4,661,034</u></b>	<b><u>\$ 2,607,915</u></b>	<b><u>\$ 960,498</u></b>

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>REVENUES</b>										
Local taxes	\$ 2,174,392	\$ 2,366,153	\$ 2,513,172	\$ 2,605,483	\$ 3,455,517	\$ 3,642,467	\$ 3,827,564	\$ 4,522,164	\$ 5,669,358	\$ 6,938,380
Licenses and permits	830,384	1,046,440	1,224,196	1,363,785	1,527,160	2,055,861	3,401,207	2,996,213	2,729,209	2,058,105
Fines and forfeitures	190,768	221,864	209,233	267,834	249,181	325,728	354,504	362,441	252,838	224,022
Intergovernmental	1,129,879	656,440	1,574,345	2,336,195	3,598,224	6,514,824	7,319,833	3,167,141	1,826,517	837,246
Contribution from Public Library Bd	-	-	-	-	-	1,500,000	1,128,850	685,003	208,931	71,000
Interest and rents	651,293	517,064	315,162	328,868	290,659	327,686	394,009	377,743	340,530	225,861
Charges for services	643,136	667,705	683,445	704,228	735,311	792,245	1,577,409	4,149,905	4,610,307	4,450,711
Assessments	425,469	256,060	243,251	182,764	122,170	124,582	39,199	1,831	-	-
Golf course revenue	-	-	-	-	-	-	-	-	-	959,730
Other	305,320	277,022	310,159	258,351	391,478	315,745	343,588	492,419	411,179	277,015
<b>Total revenues</b>	<b>6,350,641</b>	<b>6,008,748</b>	<b>7,072,963</b>	<b>8,047,508</b>	<b>10,369,700</b>	<b>15,599,138</b>	<b>18,386,163</b>	<b>16,754,860</b>	<b>16,048,869</b>	<b>16,042,070</b>
<b>EXPENDITURES</b>										
General government	3,358,804	2,049,471	2,387,201	2,353,659	3,595,220	2,412,693	2,731,819	5,090,777	6,318,322	5,948,479
Sanitation	802,549	688,238	836,798	745,802	861,317	929,815	960,328	1,254,694	1,405,774	1,475,035
Police	1,590,230	1,575,277	1,845,698	2,124,786	2,476,353	2,881,293	3,110,086	3,405,687	3,913,015	3,922,163
Fire	343,432	359,786	396,772	372,263	366,421	492,552	576,191	619,434	707,513	765,645
Airport	10,412	20,090	10,850	6,895	12,742	9,124	63,031	397,183	545,000	242,090
Street	2,044,167	2,095,209	2,167,030	4,159,154	2,453,144	5,636,288	3,580,189	2,552,328	2,554,959	2,704,242
Recreation	310,730	331,712	324,385	366,531	396,660	472,129	513,503	658,837	785,425	867,174
Adult recreation	208,134	191,030	208,020	231,615	238,007	261,569	277,808	328,744	431,481	400,494
Golf	-	-	-	-	-	-	-	-	-	1,303,135
Capital outlay	-	2,314,640	3,596,843	4,146,979	2,544,947	4,131,361	14,308,234	6,054,830	3,227,604	1,775,834
Debt service:										
Principal	763,810	745,891	749,567	891,680	712,321	1,288,488	835,627	4,412,690	2,424,796	863,329
Interest	408,300	376,379	337,944	666,600	532,508	512,025	482,436	532,687	802,140	809,715
Bond issuance costs	-	-	-	-	-	-	-	138,476	-	-
Public Library Board	265,178	286,205	297,147	300,450	288,400	330,806	336,823	396,000	504,560	530,000
Other	-	-	-	-	-	60,000	60,000	60,000	60,000	60,000
<b>Total expenditures</b>	<b>10,105,746</b>	<b>11,033,928</b>	<b>13,158,255</b>	<b>16,366,414</b>	<b>14,478,040</b>	<b>19,418,143</b>	<b>27,836,075</b>	<b>25,902,367</b>	<b>23,680,589</b>	<b>21,667,335</b>
Excess (deficiency) of revenues over expenditures	(3,755,105)	(5,025,180)	(6,085,292)	(8,318,906)	(4,108,340)	(3,819,005)	(9,449,912)	(9,147,507)	(7,631,720)	(5,625,265)
<b>OTHER FINANCING SOURCES (USES)</b>										
Transfers in	3,435,320	4,167,792	4,654,781	5,293,525	5,561,528	4,876,111	5,325,589	4,897,503	5,228,182	9,542,134
Proceeds from issuance of debt	-	-	5,386,930	126,903	-	734,934	4,370,000	9,692,000	1,300,000	3,368,260
Cost from issuance of debt	-	-	-	-	-	-	-	-	-	(78,364)
Payment to Defeased Warrants Escrow Agent	-	-	-	-	-	-	-	-	-	(3,412,892)
Transfer to Debt Service to defease warrants	-	-	-	-	-	-	-	-	-	(3,289,896)
Warrant discount	-	-	(620,107)	-	-	-	-	(43,956)	-	-
Transfers out	(908,208)	(847,792)	(706,969)	(932,851)	(1,200,974)	(817,731)	(1,537,590)	(877,457)	(1,569,814)	(1,158,102)
<b>Total other financing sources (uses)</b>	<b>2,527,112</b>	<b>3,320,000</b>	<b>8,714,635</b>	<b>4,487,577</b>	<b>4,360,554</b>	<b>4,793,314</b>	<b>8,157,999</b>	<b>13,668,090</b>	<b>4,958,368</b>	<b>4,971,140</b>
<b>Net change in fund balance</b>	<b>\$ (1,227,993)</b>	<b>\$ (1,705,180)</b>	<b>\$ 2,629,343</b>	<b>\$ (3,831,329)</b>	<b>\$ 252,214</b>	<b>\$ 974,309</b>	<b>\$ (1,291,913)</b>	<b>\$ 4,520,583</b>	<b>\$ (2,673,352)</b>	<b>\$ (654,125)</b>
Debt service as a percentage of noncapital expenditures	11.6%	12.9%	11.4%	12.8%	10.4%	11.8%	9.7%	24.9%	15.8%	8.4%



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

<b>Fiscal Year Ended September 30</b>	<b>Residential Property</b>	<b>Commercial Property</b>	<b>Industrial Property</b>	<b>Less: Tax Exempt Real Property</b>	<b>Total Taxable Assessed Value</b>	<b>Total Direct Tax Rate</b>	<b>Estimated Actual Taxable Value</b>
2000	\$ 43,946,700	\$ 1,642,352	\$ 88,786,340	\$ 23,011,780	\$ 111,363,612	\$ 15	\$ 1,670,454,180
2001	57,935,060	1,895,840	89,722,510	23,482,700	126,070,710	15	1,891,060,650
2002	62,132,860	1,824,680	95,099,142	25,951,300	133,105,382	15	1,996,580,730
2003	66,037,480	1,446,470	99,099,267	25,446,440	141,136,777	15	2,117,051,655
2004	76,237,460	1,512,340	109,796,799	28,481,560	159,065,039	15	2,385,975,585
2005	81,947,620	1,615,900	110,912,740	29,677,300	164,798,960	15	2,471,984,400
2006	96,692,100	1,715,620	127,556,120	32,829,960	193,133,880	15	2,897,008,200
2007	111,365,480	1,842,120	147,264,040	36,224,280	224,247,360	15	3,363,710,400
2008	167,784,240	1,268,220	217,340,040	58,488,560	327,903,940	15	4,918,559,100
2009	166,205,000	1,412,140	224,300,620	61,340,580	330,577,180	15	4,958,657,700

Source: County Tax Assessor

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

Fiscal Year					Overlapping Rates							Total Direct & Overlapping Rates			
	General Millage	School Millage	Bond Tax Millage	Total City Millage	County				State				Total State Millage		
					General Millage	Road/Bridge Millage	Fire Millage	School Millage	Health Care Authority Millage	Total County Millage	General Millage	School Millage	Soldier Millage		
2000	5.0	5.0	5.0	15.0	5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0
2001	5.0	5.0	5.0	15.0	5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0
2002	5.0	5.0	5.0	15.0	5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0
2003	5.0	5.0	5.0	15.0	5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0
2004	5.0	5.0	5.0	15.0	5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0
2005	5.0	5.0	5.0	15.0	5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0
2006	5.0	5.0	5.0	15.0	5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0
2007	5.0	5.0	5.0	15.0	5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0
2008	5.0	5.0	5.0	15.0	5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0
2009	5.0	5.0	5.0	15.0	5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0

Source: Baldwin County Commission

**CITY OF FAIRHOPE, ALABAMA  
PRINCIPAL PROPERTY TAXPAYERS  
SEPTEMBER 30, 2009**

<u>Taxpayer</u>	<u>2009</u>			<u>2000</u>		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Taxable Assessed Value</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Taxable Assessed Value</u>
Arbor Gates LLC	\$ 3,127,180	1	0.9%	\$ 1,802,500	1	1.6%
FST Mississippi Baldwin Square	1,939,520	2	0.6%			
AI Corte Jr Family Limited Partnership	1,670,800	3	0.5%	1,454,340	5	1.3%
Shellbrooke Pointe Apartments Ltd.	1,447,380	4	0.4%			
The Sanctuary, LLC	1,309,960	5	0.4%			
Fairhope LLC	1,217,220	6	0.4%			
Bellsouth Tele, Inc. dba AT&T	1,171,800	7	0.4%	1,464,020	4	1.3%
CHS Properties, Inc.	1,165,640	8	0.4%	1,703,560	2	1.5%
Fairhope Yacht Club	1,117,320	9	0.3%			
Pelican Properties, Inc.	1,103,880	10	0.3%			
FST E&A Southeast Limited Partnership				1,484,300	3	1.3%
Fairhope Mob, LLC				1,289,320	6	1.2%
Rock Creek Partners LLC				834,140	7	0.7%
Rock Creek LLC				828,480	8	0.7%
Honours-Rock Creek Golf Course LLC				790,700	9	0.7%
Poser Business Forms Inc.				623,340	10	0.6%
	<u>\$ 15,270,700</u>		<u>4.6%</u>	<u>\$ 12,274,700</u>		<u>11.0%</u>

Source: Baldwin County Revenue Commissioner

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

Fiscal Year Ended September 30	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy	
		Amount	Percentage of Levy
2000	\$ 1,670,454	\$ 1,623,042	97.16%
2001	1,891,061	1,742,571	92.15%
2002	1,996,581	1,831,812	91.75%
2003	2,117,052	1,936,184	91.46%
2004	2,385,976	2,233,532	93.61%
2005	2,471,984	2,240,259	90.63%
2006	2,897,008	2,650,741	91.50%
2007	3,363,710	3,053,904	90.79%
2008	4,918,559	4,087,005	83.09%
2009	4,958,658	4,378,939	88.31%

Source: Baldwin County Revenue Commissioner.

**CITY OF FAIRHOPE, ALABAMA  
DIRECT AND OVERLAPPING SALES TAX RATES  
CURRENT FISCAL YEAR**

<u>Fiscal Year</u>	<u>City Direct Rate</u>	<u>Baldwin County</u>	<u>State of Alabama</u>
2009	2.00%	2.00%	4.00%

Source: City Clerk's Office

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

CITY OF FAIRHOPE, ALABAMA  
PRINCIPAL SALES TAX REMITTERS  
CURRENT YEAR

Tax Remitter	2009		
	Tax Liability	Rank	Percentage of Total
Wal-Mart SuperCenter	\$ 169,771	1	16.91%
Publix	112,972	2	11.25%
PCH Hotels and Resorts, Inc.	59,425	3	5.92%
Winn Dixie Stores	52,545	4	5.23%
Southern Family Markets, LLC	44,660	5	4.45%
Bay Shores Oil, Inc.	20,347	6	2.03%
Walgreens	15,388	7	1.53%
Autry Greer & Sons Inc.	13,818	8	1.38%
Cefco Food Store #401	11,071	9	1.10%
C K Collection Inc.	10,440	10	1.04%
	<u>\$ 510,437</u>		<u>50.85%</u>

Source: City Treasurer's Office

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

Fiscal Year	Governmental Activities			Business-Type Activities				Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Debt	Notes Payable	Capital Leases	General Obligation Debt	Utilities Revenue Debt	Notes Payable	Capital Leases			
2000	\$ 7,411,204	\$ 402,168	\$ 849,925	\$ 563,797	\$ 13,055,000	\$ -	\$ 190,532	\$ 22,472,626	6.89%	\$ 1,801
2001	7,008,152	19,888	741,893	519,688	12,710,000	-	315,375	21,314,996	6.11%	1,615
2002	11,138,233	7,348	1,030,084	480,867	19,065,014	195,000	850,159	32,766,705	9.01%	2,424
2003	9,988,410	285,104	979,700	471,590	18,470,000	177,395	1,076,351	31,448,550	8.30%	2,249
2004	9,522,129	246,607	772,224	462,871	18,340,000	158,761	993,213	30,495,805	7.46%	2,168
2005	9,046,405	650,780	290,221	453,595	18,615,000	593,077	448,007	30,097,085	7.29%	2,134
2006	11,437,202	1,943,967	140,632	442,820	18,045,000	446,267	284,572	32,740,460	7.46%	2,203
2007	18,430,349	230,130	111,245	431,688	17,465,000	293,764	122,438	37,084,614	8.28%	2,465
2008	17,474,232	81,604	91,092	413,404	16,865,000	170,145	7,387	35,102,864	7.26%	2,204
2009	16,768,901	30,364	69,942	271,397	16,235,000	86,035	-	33,461,639	6.65%	2,067

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

<u>Fiscal Year</u>	<u>General Obligation Debt</u>	<u>Less: Amounts Available in Debt Service Fund</u>	<u>Total</u>	<u>Percentage of Estimated Actual Taxable Value of Property</u>	<u>Per Capita</u>
2000	\$ 7,975,001	\$ 1,744,104	\$ 6,230,897	1.91%	\$ 499
2001	7,527,840	1,263,203	6,264,637	1.79%	475
2002	11,619,100	863,518	10,755,582	2.96%	796
2003	10,460,000	558,630	9,901,370	2.61%	708
2004	9,985,000	377,983	9,607,017	2.35%	683
2005	9,500,000	272,950	9,227,050	2.23%	654
2006	11,880,022	235,347	11,644,675	2.65%	783
2007	18,862,037	456,957	18,405,080	4.11%	1,223
2008	17,887,636	470,671	17,416,965	3.60%	1,094
2009	17,040,298	350,987	16,689,311	3.32%	1,031



**CITY OF FAIRHOPE, ALABAMA  
COMPUTATION OF OVERLAPPING DEBT  
SEPTEMBER 30, 2009**

	<u>Outstanding Debt</u>	<u>Percentage of debt Applicable to the City Fairhope (1)</u>	<u>Amount of debt Applicable to City of Fairhope</u>
Direct debt of the City	\$ 16,869,207	100.00%	\$ 16,869,207
Overlapping Debt (Supported by ad valorem tax)			
Baldwin County	\$ 123,961,381	7.09% <sup>(1)</sup>	<u>8,788,862</u>
			<u>\$ 25,658,069</u>

(1) Percentage of net assessed value of property in City (\$330,577,180) to net assessed value of property in Baldwin County (\$4,664,597,260) on 10/1/2008.

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Debt limit	\$25,214,142	\$26,621,000	\$26,621,076	\$28,227,355	\$31,813,008	\$32,959,792	\$38,626,776	\$44,849,472	\$65,580,788	\$66,115,436
Total net debt applicable to limit	<u>4,993,462</u>	<u>4,863,152</u>	<u>11,619,099</u>	<u>11,724,805</u>	<u>11,003,831</u>	<u>9,987,406</u>	<u>13,381,169</u>	<u>18,660,479</u>	<u>17,555,836</u>	<u>17,070,662</u>
Legal debt margin	<u>\$20,220,680</u>	<u>\$21,757,848</u>	<u>\$15,001,977</u>	<u>\$16,502,550</u>	<u>\$20,809,177</u>	<u>\$22,972,386</u>	<u>\$25,245,607</u>	<u>\$26,188,993</u>	<u>\$48,024,952</u>	<u>\$49,044,774</u>
Total net debt applicable to limit as a percentage of debt limit	19.80%	18.27%	43.65%	41.54%	34.59%	30.30%	34.64%	41.61%	26.77%	25.82%

**Legal Debt Margin Calculation for Fiscal Year 2009**

Total assessed value	\$ <u>330,577,180</u>
Debt limit (20% of total assessed value)	<u>66,115,436</u>
Debt applicable to limit:	
General obligation warrants	17,040,298
Notes payable	<u>30,364</u>
Total net debt applicable to limit	<u>17,070,662</u>
Legal debt margin	\$ <u>49,044,774</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>
2000	12,480	\$ 325,952,640	\$ 26,118	3,516	3.3%
2001	13,200	349,113,600	26,448	3,527	3.9%
2002	13,518	363,499,020	26,890	3,701	4.6%
2003	13,985	378,923,575	27,095	3,701	4.5%
2004	14,067	408,899,556	29,068	3,965	4.6%
2005	14,106	413,136,528	29,288	3,906	3.4%
2006	14,863	438,948,979	29,533	4,305	2.8%
2007	15,046	447,693,730	29,755	4,050	2.7%
2008	15,927	483,400,377	30,351	4,307	4.1%
2009	16,185	503,418,240	31,104	4,652	7.9%

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

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

Employer	2009			2000		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Thomas Hospital	1,050	1	16.8%	650	1	11.7%
Grand Hotel	590	2	9.5%	400	2	7.2%
Wal-Mart	370	3	5.9%			
City of Fairhope	353	4	5.7%	196	3	3.5%
Publix	130	5	2.1%			
Winn-Dixie	110	6	1.8%			
Print Xcel (formerly Poser Business Forms)	80	7	1.3%	170	4	3.1%
Bruno's	70	8	1.1%			
Fokkert AIR Inc.	70	9	1.1%			
Balloons Everywhere	55	10	0.9%			
BF Goodrich Aerospace				110	5	2.0%
	2,878		46.2%	1,526		27.4%

Sources: Eastern Shore Chamber of Commerce  
State Department of Labor

Additional 2000 employment data is not available.

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

2000: 5,570    2009: 6,232

**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,									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General Government	35	38	42	46	48	49	58	61	62	54
Public Safety										
Police	24	29	32	35	37	39	40	41	42	51
Fire										
Firefighters and Dispatch	2	2	2	4	5	7	9	9	14	13
Highways and Streets										
Public Works	19	22	25	26	28	28	27	29	28	37
Sanitation	11	15	16	19	21	19	25	22	20	21
Culture and Recreation										
Recreation	4	6	6	6	8	8	8	8	9	18
Adult Recreation	1	1	1	1	1	1	1	3	6	10
Gas Department	15	16	16	16	17	17	16	16	19	18
Electric Department	14	15	15	17	17	17	17	20	19	17
Water/Waste Water Department	18	19	20	21	23	23	24	24	25	23
Golf Department	10	12	12	13	13	12	12	13	13	19
<b>Total</b>	<b>153</b>	<b>175</b>	<b>187</b>	<b>204</b>	<b>218</b>	<b>220</b>	<b>237</b>	<b>246</b>	<b>257</b>	<b>281</b>

Source: City of Fairhope human resources department

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

<b>Function</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Police</b>										
Physical arrests	472	532	562	539	840	949	1,255	1,710	1,131	993
Parking violations	286	152	120	65	65	27	56	13	71	285
Traffic violations	1,503	1,467	1,895	1,566	2,116	2,381	2,589	1,516	996	1,004
<b>Fire</b>										
Number of calls answered	311	288	311	332	364	429	381	339	432	427
Inspections	256	270	376	429	505	585	463	282	196	382
<b>Highways and streets</b>										
Street resurfacing (miles)	-	0.25	0.25	7.80	0.25	0.25	2.30	-	-	1.5
Potholes repaired	416	520	780	416	416	312	312	312	414	384
<b>Sanitation</b>										
Garbage collected (tons/year)	5,130	5,515	5,800	6,010	6,566	7,000	7,200	8,246	7,520	7,782
Trash collected (tons/year)	11,702	11,470	15,628	19,361	18,345	23,744	17,943	19,309	21,908	21,275
Recyclables collected (tons/year)	1,354	1,569	1,549	1,660	1,699	2,112	1,959	2,131	1,989	1,297
<b>Culture and recreation</b>										
Golf course rounds @ 9 hole rounds	78,367	72,922	69,874	70,948	82,695	80,603	93,082	92,702	88,475	53,755
Pavilion/park parties			***		9	87	59	74	88	84
<b>Waste water</b>										
Average daily sewage treatment (millions of gallons)	1.4	1.6	1.6	1.7	1.8	1.8	1.6	1.7	1.7	1.7

Sources: Various government departments

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

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

<b>Function</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Public safety</b>										
<b>Police</b>										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	18	21	24	26	29	32	33	35	36	40
Fire stations	2	3	3	3	3	3	3	3	3	3
<b>Highways and streets</b>										
Streets (miles)	68.5	69.7	69.7	75.2	82.2	84.2	89.7	89.7	98.1	98.1
<b>Culture and recreation</b>										
Parks acreage	143	168	168	168	168	168	168	208	208	208
Parks	34	46	46	46	46	46	46	50	50	50
Swimming pools	1	1	1	2	2	2	2	3	3	3
Tennis courts	4	4	4	4	4	4	4	6	6	6
Community center	2	2	2	2	2	2	2	2	1	3
<b>Sewer</b>										
Sanitary sewers (miles)	107	110	112	114	115	117	119	120	121	121
Storm sewers (miles)	1.5	1.75	2	2.8	2.9	3	1.6	1.5	1.2	1.2
Maximum daily treatment capacity (millions of gallons)	4	4	4	4	4	4	4	4	4	4

Sources: Various government departments

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COMPLIANCE SECTION



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

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

We have audited the basic financial statements of the City of Fairhope, Alabama as of and for the year ended September 30, 2009, and have issued our report thereon dated January 14, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Fairhope's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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Compliance and Other Matters

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

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

January 14, 2010  
Fairhope, Alabama