

CITY OF FAIRHOPE, ALABAMA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

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

CITY OF FAIRHOPE, ALABAMA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

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SEPTEMBER 30, 2010

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INTRODUCTORY SECTION



January 21, 2011

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

Brently Gregg Mims
City Administrator

Lisa A. Hanks
City Clerk

Nancy K. Wilson, CPA
City Treasurer

Council Members

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

Rick Kingrea

Lonnie L. Mixon

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

Daniel R. Stankoski, C.M.O.

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

The Comprehensive Annual Financial Report (CAFR) of the City of Fairhope, Alabama (the "City") for the Fiscal Year ending September 30, 2010 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 17,400.

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, a pet park, and many cultural events.

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Fairhope, Alabama 36533

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ECONOMIC CONDITION AND OUTLOOK

The City of Fairhope maintained a stable economic atmosphere, showing steady recovery from the economic downturn of the prior year. The total revenue from new construction and building permits, inspection and impact fees, though sluggish at the beginning of the year, increased at a steady pace through year-end. Total revenue from these key economic indicators was \$706,804 during the year, which was an increase of 43% over the prior year.

Fairhope enjoys a strong sense of community ownership and responsibility among city officials and local citizens, resulting in active community participation and involvement in all current city projects and issues. Clean industry within the City supports health services and higher education. 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:

The City completed its first full year of collecting sales tax, which began July 1, 2009, by City Council enactment. Sales tax receipts for the fiscal year totaled over \$4.4 million, exceeding the budgeted projection by \$400,000. As part of the sales tax ordinance, one half of each month's sales tax receipts must go into reserves, to be used for emergencies or other special projects, as authorized by the City Council. The sales tax reserve account balance at fiscal year-end was over \$2.7 million.

On April 20, 2010, the nation and the Gulf Coast in particular were horrified to learn of the massive explosion on the Deepwater Horizon drilling rig off the coast of Louisiana. A major factor in the economic survival of the small towns and cities along the Gulf Coast has always been a thriving seafood, restaurant, and/or tourist industry. Over the course of the next three months, these cities and small towns saw their very existence and economic survival in jeopardy. The uncertain duration of the tragedy, the fear of permanent damage to wildlife and the environment, and the sight of tar balls and oil on the beautiful beaches all created an economic, emotional and reactionary outcry. Fairhope, located on Mobile Bay, shared in this fear and anxiety, however economic damage to our City was not severe. Though historical sales tax numbers are not available for Fairhope for periods prior to July, 2009, it is estimated that our tax revenue was negatively impacted by 10%, as numerous

merchants suffered heavily due to the downturn in business. However, lodging tax receipts showed an increase from the prior year of almost 2%.

The City was forced to protect its shoreline along Mobile Bay against the potential invasion of the large mass of oil on and underneath the waters of the Gulf. Funding to cover the cost of protection from the oil was provided by British Petroleum, owner of the oil rig, and was disbursed to the affected Alabama cities by the Alabama Emergency Management Agency. The City of Fairhope received \$1,150,000 from the Agency. Direct costs related to the oil spill totaled \$726,815 at fiscal year-end. The balance of the funds is being held for future needs in bay protection, clean-up, and other corrective and preventive measures related to the oil spill.

The Financial Advisory Committee, which was formed in the prior year, continued its work in overseeing budget discussions and recommendations, reviewing all funding requests prior to presentation to the City Council, and evaluating debt and future needs for debt. The Mayor, City Council, Financial Advisory Committee and City department heads continue to strive to adhere to the City's established goals in planning for continuing growth, and in maintaining the quality of life and the highest level of governmental services to all residents in the City.

The Finance Department was once again awarded the Certificate of Achievement for Excellence in Financial Reporting for its CAFR for the fiscal year 2009, by the Government Finance Officers Association (GFOA) of the United States and Canada. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to be considered for another certificate.

For The Future:

The City continues its focus on improvements to existing infrastructure for drainage, streets and the utilities, along with dependable excellent government services, with maximum efficiency and fiduciary responsibility. The budget for the fiscal year 2011 contains \$1,100,000 in the General Fund for street improvements throughout the City, mostly paving. In addition, the City anticipates utilizing a \$450,000 Transportation Enhancement Project grant awarded in the prior year by the Alabama Department of Transportation for sidewalk expansion, at a cost to the City of \$90,000.

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 \$3,258,287 for the year, in addition to transferring \$4.9 million to support the General fund, a decrease of \$200,000 from the prior year. Transfers to support the General fund represented 60% of the enterprise funds' operating income. The Enterprise funds expended over \$1.5 million in capital purchases, funded by operating income and reserves designated for capital purchases. Cash and cash equivalents of the enterprise funds increased by \$3,193,131 over the prior year, representing an increase of 50%. No new long-term debt was incurred by the utilities and total long-term debt decreased by \$700,789. The City historically has used a short-term line of credit each year for use in funding the seasonally high electric power costs during the summer months, however this has not been necessary for the past two fiscal years. Gas line infrastructure was extended into growing areas and major electrical upgrades and improvements were completed. The Electric Department was awarded a Energy Efficiency and Conservation Block Grant by the Alabama Department of Economic and Community Affairs for replacement of a large number of city street lights with energy-efficient LED lights. Grant proceeds will be received and the installation will be completed in the 2011 fiscal year. Plans have begun for a new water tower in the eastern portion of the City.

GOVERNMENTAL FUNDS HIGHLIGHTS

The Governmental funds are comprised of General, Capital Projects, Debt Service, and Special Revenue funds. The General Fund supports the General Administration, Police and Fire, Adult and Youth Recreation, Quail Creek Golf Course, Streets, Sanitation, and other department budgets providing City service. The police department was expanded to include a SWAT team and a mounted patrol, in addition to receipt of over \$1 million of law enforcement surplus equipment from the Secretary of Defense. The Governmental Funds experienced a net surplus of \$2,834,143 for the fiscal year, including receipt of \$4.9 million in transfers from the utilities during the year. Total revenues in the General Fund showed an increase of \$4.5 million over the prior year, with BP oil spill receipts and sales tax making the greatest impact. Capital purchases and improvements in the Governmental Fund totaled \$1.5 million, including purchase of a parcel of land at a cost of over \$876,000, for future recreational expansion.

The Governmental Fund Balance was \$5,550,291 at year-end, representing an increase of \$2.5 million over the prior year. Total General Fund cash was \$4,833,696 at year-end, an increase of 78% over the prior year. Total long-term debt of the

Governmental Funds decreased by \$1,047,483 during the year, with no additional debt being incurred.

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, 2009

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.



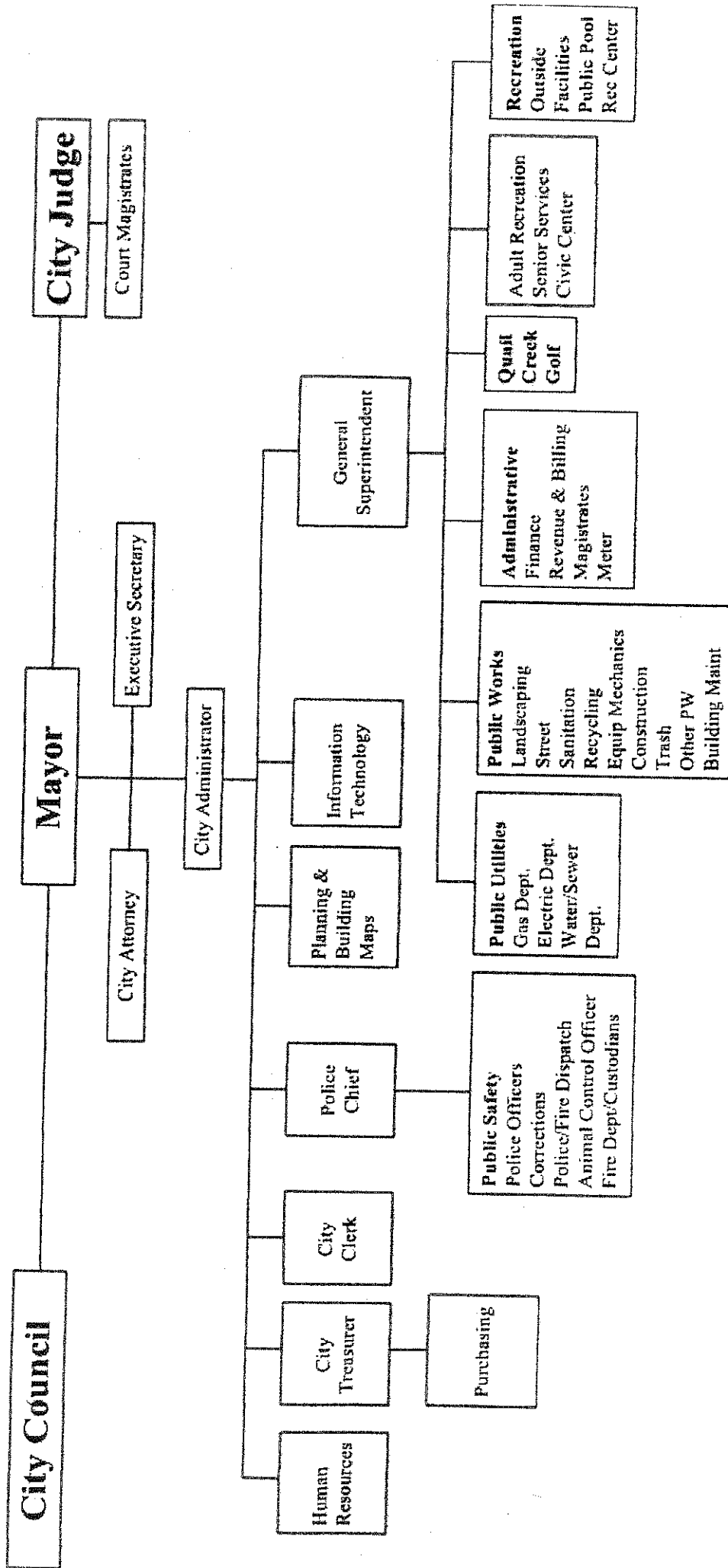
President

Executive Director

CITY OF FAIRHOPE, ALABAMA

ORGANIZATION CHART

AS OF SEPTEMBER 30, 2010



CITY OF FAIRHOPE, ALABAMA
CITY ELECTED AND APPOINTED OFFICIALS
SEPTEMBER 30, 2010

Timothy M. Kant, ACO	Mayor
Michael A. Ford, ACO	Councilmember
Rick Kingrea	Councilmember
Lonnie L. Mixon	Councilmember
Debbie W. Quinn, ACO	Councilmember
Daniel R. Stankoski, 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
Melissa M. Thomas, CPA

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, 2010, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fairhope, Alabama's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fairhope, Alabama, as of September 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have issued a report dated January 21, 2011 on our consideration of the City of Fairhope, Alabama's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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

Hartmann, Blochman Kilger, P.C.
Certified Public Accountants

January 21, 2011
Fairhope, Alabama

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MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Fairhope's financial performance provides a narrative overview of the City's financial activities for the fiscal year ended September 30, 2010. 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 \$104,353,742, a current year increase in net assets of \$6,092,430 and a prior year adjustment of \$553,568 (pages 14 and 15).
- At the close of the fiscal year, the City's combined governmental funds, including General, Capital Projects and Other Governmental Funds, reported ending fund balances totaling \$5,550,291, an increase of \$2,513,117 from the prior year. The General Fund closed with a fund balance of \$4,709,510, an increase of \$2,632,834. The Capital Projects Fund had a decrease in fund balance of \$188,015 after capital expenditures of \$63,834 and a transfer of \$239,489 to the General Fund (page 18).
- The combined governmental funds expended \$1,565,192 for capital projects and purchases, including \$876,135 for land to be used for future recreation facilities, \$226,266 for recreation facilities and golf course improvements and \$462,791 for vehicles, equipment and other infrastructure additions.
- The business-type activities, Gas, Electric, Water and Waste Water activities, ended the year with income before transfers of \$8,155,391, compared to \$7,704,444 for fiscal 2009. Of that amount, the utilities made transfers to the General Fund of \$4,897,104. The business-type activities recorded an increase in net assets, after transfers, of \$3,258,287 (page 21).
- The City's business-type activities made additions to property, plant and equipment of \$1,579,578, while incurring no new long-term debt. Funding for these additions was prior debt issues, current income and money set aside for this purpose (pages 22 and 34).
- On July 1, 2009 the City Council implemented the City's first sales tax, at a rate of 2%. During fiscal 2010, revenues from this tax totaled \$4,443,325. 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, 2010 was \$2,723,595 (pages 14 and 16).
- On April 20, 2010 an explosion on the Deepwater Horizon drilling rig in the Gulf of Mexico resulted in an oil spill that flowed for three months. On July 15 the leak was stopped, after it had released approximately 4.9 million gallons of crude oil. The City of Fairhope is located on Mobile Bay. The proximity of the spill to Mobile Bay required the City to take measures to protect City assets. The direct cost related to those measures was \$726,815 during fiscal 2010. The U. S. Government committed to holding British Petroleum (BP), owner of the oil rig, responsible for the costs related to the spill. BP, through a fund distributed by the State of Alabama, provided \$1,150,000 to the City for expenses related to the spill. Determination of how the remaining funds will be used has not been established, nor has a determination been made as to what additional costs related to the spill the City might incur.
- During fiscal 2010 the City of Fairhope Police Department participated extensively in the 1033 Program. This program permits the Secretary of Defense to transfer, without charge, excess U. S. Department of Defense personal property to local law enforcement agencies. During fiscal 2010 those contributions equaled \$1,377,048. Of that amount, \$153,386 did not meet the City's capitalization threshold and was recorded as contribution revenue and capital expense. The other \$1,223,662 was recorded in the Government-Wide financials as capital assets, vehicles and equipment (pages 14 and 33). At the end of fiscal year 2009 the City of Fairhope received equipment through the 1033 Program totaling \$558,974. Those assets were not recorded in fiscal 2009. After depreciation for fiscal 2009, the net asset addition was \$553,568. This amount has been added as a prior year adjustment on the Statement of Activities and is reflected in the October 1, 2010 amount for capital assets, vehicles and equipment (pages 15 and 33).

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 \$104,353,742 at the close of the most recent fiscal year, as shown in **Figure 1**, page 9 and page 14. This is an increase of \$6,645,998 from the prior year, which includes a prior year adjustment of \$553,568.

The largest portion of the City's net assets, approximately 86.9 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 five percent, represents resources that are subject to restrictions as to how they may be used. The remaining unrestricted net assets, approximately 8.1 percent, may be used to meet the City's ongoing obligations to citizens and creditors. The unrestricted net assets, \$8,479,328, increased \$4,623,243 during fiscal 2010 (**Figure 1**, page 9).

The City has implemented Government Accounting Standards Statement 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions (GASB 45). The City's Annual Required Contribution (ARC) was actuarially determined to be \$611,853. The current year retirement premium was \$240,333. The liability for OPEB obligation at year end was \$778,165. This amount is reported on the Statement of Net Assets, page 14, as Net OPEB Obligation and on page 47, Note 18.

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

Fund Financial Statements

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

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

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, 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, Capital Projects and Other Governmental Funds) revenues and expenditures, by function, for the fiscal year ended September 30, 2010, and the amounts of increases and decreases in relation to prior year revenues and expenditures.

Revenues from Governmental funds increased \$4,556,909 from the previous fiscal year. Expenditures in Governmental funds increased \$1,315,631 for the same period. The following significant events, related to revenues and expense, occurred during fiscal 2010 (the figures are rounded):

Related to revenue:

- Taxes, property and local, were up by \$3.4 million, due to City's first sales tax, which went into effect July 1, 2009. Fiscal 2010 was the first full year the tax was collected, an increase of \$3.4 million over the prior partial year collections. Total city sales tax collections for the year were \$4.45 million.
- Income was provided by British Petroleum, distributed by the State of Alabama, to offset costs related to the Deep Water Horizon oil rig explosion. Funds provided for this purpose were \$1.15 million.
- Income from the City's golf course, approximately \$860,000, was down \$100,000 from the previous year. This

was the result of a general downturn nationally in golf play and a credit given to season pass holders for the months the course was closed in fiscal 2009 for renovation.

- Fees charged by the Planning and Zoning Department for permits and inspections were up \$116,000 from the previous year, indicating a modest upturn in the housing market.
- Income from the City's new recreation facilities was up \$236,000 over the previous year.
- Federal and state grants and Alabama Trust Fund receipts were down \$130,000.
- Transfers from the Business-Type operations to the General Fund were down \$200,000 from the previous year.
- The Capital Project funds transferred \$240,000 to the General Fund. These funds were from a previous year General Obligation Warrant that specified funds to be used for recreation activities. The transfer funded, in part, the purchase of land for future recreation facilities.

Related to expenditure:

- Capital outlay expenditures were approximately \$1.6 million, down \$200,000 from the prior year. Expenditures of \$1.8 million for fiscal 2009 included improvements to recreation, park and golf course facilities. Major expenditures for 2010 were \$900,000 for land for future recreation activities, \$170,000 for parks and recreation facilities and \$400,000 for vehicles and equipment, compared to \$150,000 for the previous year.
- The City's General Department had increases in expenditures of approximately \$331,000. Major increases for 2010 were: direct costs related to the BP oil spill (\$727,000) and employee and retiree insurance costs (\$140,000). Major decreases in expenditures for 2010 were cost related to grants received in 2009 (\$340,000) and legal fees (\$170,000).
- The City's Sanitation Department had increases of \$284,000. Major increases were: employee costs (\$93,000), insurance costs (\$81,000), maintenance, landfill charges and landfill maintenance (\$109,000).
- The Police Department had increases of \$483,000. Major increases for 2010 included increases in employee costs (\$244,000), Program 1033 items that did not meet the capitalization threshold (\$150,000), supplies and maintenance (\$40,000) and purchases made from DEA funds (\$35,000).
- The Adult Recreation Department had an increase of \$153,000 related to the movement of several City functions to this cost center, titled Adult Recreation and Special Services for fiscal 2011. Those included the City Museum, the Civic Center and the Welcome Center.

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, and Other Governmental Funds totaled \$5,550,291, an increase of \$2,513,117. The General Fund had a fund balance of \$4,709,510, an increase of \$2,632,834; the Capital Projects Fund had a decrease in fund balance of \$188,015 after capital outlay of \$63,834 and a transfer to the General Fund of \$239,489 from grants and warrant funds; the Other Governmental Funds had fund balances of \$478,427 at year end, including reserved for Debt Service \$351,008, an increase of \$21 and unreserved funds reported in special revenue fund (Gas Tax) of \$127,419, an increase of \$68,277, after expenditures of \$19,719 for road repair and maintenance (see pages 16 and 18).

The Gas, Electric and Water and Waste Water Funds had net assets of \$33,043,193 at year end, an increase of \$3,258,287 (see pages 15 and 21).

General Fund and enterprise operations fund balances are discussed below.

General Fund Balance: The General Fund had an increase in revenues of \$4,574,325. Expenditures for the General Fund were up \$2,730,205 from the prior year. After transfers, the fund balance of the General Fund increased by \$2,632,834 during fiscal 2010. The most significant revenue increases were: those related to sales tax revenues, \$4.45 million for the year, an increase of \$3.4 million over the prior partial year collections; and \$1.15 million in funds provided by British Petroleum Company, through the State of Alabama for costs related to the Deep Water Horizon explosion and oil spill. Those costs totaled approximately \$727,000. No determination has been made as to the disposition of the remaining funds, nor have projections been made as to future expenses related to the spill. Other major increases in expenditures during the year were: an increase of \$486,000 in the Police Department, including

\$244,000 for employee costs, \$150,000 for expense recognized for non-capitalized acquisitions under the 1033 Program and \$75,000 for supplies and purchases from DEA funds; and an increase of \$284,000 in the Sanitation Department, including \$93,000 in employee costs, \$81,000 in insurance costs, \$109,000 related to landfill maintenance and fees.

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 \$750,364 over the prior fiscal year. Operating expenses increased by \$300,178. The increase in expenses was due to increases in energy purchases for resale of \$671,743. Combined, other expenses were down from the prior year. Income for the enterprise funds, before transfers to the General Fund, was \$8,155,391. This was an increase of \$450,947 over the prior year. The transfers to the General Fund were \$4,897,104, or 60% of income. For fiscal 2009 the income for the three utilities before transfers was \$7,704,444. The transfers to the General Fund were \$5,094,136, or 66% of income. This continued a trend begun in fiscal 2008 of transferring smaller percentages of income from the utilities into the General Fund. The change in net assets of the three utilities was an increase of \$3,258,287.

General Fund Budgetary Highlights

During the year, the City Council revised the General Fund budget (see page 50). The revenue budget was decreased by \$360,000. This amount was for a trail grant that would not be realized until fiscal 2011. At year end, revenues were \$1,938,088 over the revised budget figures. Approximately \$950,000 of unbudgeted income was from the 2% city sales tax. Unbudgeted income of \$1,150,000 was from money allotted to the State of Alabama from British Petroleum funds for costs related to the Gulf of Mexico oil spill.

The City Council also revised the General Fund expenditures budget for 2010. The final expenditure budget was decreased by \$1,331,990 from the original budget amount. The decreases were primarily in capital additions and grant expenditure. At year end, expenditures were \$1,364,623 over the revised budget figures. Major unbudgeted expenses were: \$876,135 for land to be used for future expansion of recreation facilities in General Government expenditures; \$140,522 in the Sanitation Department, including \$40,384 in employee costs and \$63,748 in vehicle repairs; \$367,385 in the Police Department, including \$365,407 in employee costs.

Capital Assets

As of September 30, 2010, the City's governmental activities had \$83,360,690 invested in capital assets, net of depreciation. This is a increase of \$317,625 from the prior year. The business-type activities had invested capital assets, net of depreciation of \$39,973,958, a decrease of \$152,392 (see Note 3, Fixed Assets, pages 33 and 34).

The City's governmental activities capital assets, at cost, were \$123,036,248 at September 30, 2010, an increase of \$2.7 million from the prior year. The business-type activities, the Gas, Electric and Water and Waste Water Funds, had capital assets, at cost, of \$70,542,253, an increase of \$1.6 million. **Figure 4**, page 12, summarizes capital assets by asset type, at cost, and changes in fixed assets during the year.

Debt Administration

As of September 30, 2010, the City had long-term debt of \$31,713,367 (excluding premiums and discounts), including bonds and warrants payable, notes payable, and obligations under capital leases. This is a net decrease, city wide, of \$1,748,272 from the prior year. Governmental activities' decrease in long-term debt was \$1,047,483. Business-type activities' reduction in long-term debt was \$700,789. 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 has budgeted a modest \$1.2 million increase in its revenue budget for fiscal 2011. Half of that amount is an expected increase in sales tax revenues. The budget amount is \$660,000 over last year's budget, but below actual income for fiscal 2010. 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 fiscal 2009 were \$1 million. For fiscal 2010, revenues for this tax were \$4.4 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. At the end of fiscal 2010, that reserved fund totaled \$2.7 million. For fiscal 2011, the City continues to reserve those funds.

In fiscal 2010, the City budgeted \$1,000,000 in loan proceeds for capital additions in the Sanitation Department. That money was not borrowed and the capital additions were not made. For fiscal 2011 the City has budgeted \$1,100,000 for capital additions in the Street Department. Those expenditures are budgeted for street paving.

The City also expects an increase in sidewalk and trail grant income for fiscal 2011, offset by expenditures to build those sidewalks and trails. The grant is an 80%/20% grant, \$360,000 income, \$450,000 expense. This grant was anticipated in fiscal 2010, but deferred until fiscal 2011.

The General Fund overall budgeted increases in expenses for fiscal 2011 are \$1.8 million. Most departments are relatively flat, or have seen cuts in their budgets. The exceptions are the above mentioned paving and sidewalk and trail projects. The General and Police Departments had an increase of \$270,000 for computer projects. The Police Department also had an increase of \$830,000 in employee costs.

In the Gas Fund and Electric Fund operations, revenues and expenses are projected to be relatively flat for fiscal 2011. Projections are for a less than one percent increase in income and a one percent decrease in expense.

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 \$3,488,837 for fiscal 2011, compared to \$3,258,287 for fiscal 2010. Transfers to the General Fund for fiscal 2011 are budgeted to be \$5,101,784, compared to \$4,897,104. The rate of transfers to the General Fund from utility earnings remained 60%.

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, Finance Director, or Nancy Wilson, City Treasurer, at 161 N. Section Street, Fairhope, Alabama, (251) 928-2136.

Figure 1

CITY OF FAIRHOPE CONDENSED STATEMENT OF NET ASSETS FOR THE YEAR ENDED 9/30/2010													
COMPONENT UNITS													
	GOVERNMENTAL ACTIVITIES			BUSINESS - TYPE ACTIVITIES			TOTAL PRIMARY GOVERNMENT			LIBRARY		AIRPORT AUTHORITY	
	9/30/2010	9/30/2009	9/30/2010	9/30/2009	9/30/2010	9/30/2009	9/30/2010	9/30/2009	9/30/2010	9/30/2009	9/30/2010	9/30/2009	
Current & Other Assets	\$ 6,370,562	\$ 3,785,576	\$ 12,919,880	\$ 9,987,005	\$ 19,290,542	\$ 13,772,581	\$ 142,920	\$ 124,057	\$ 659,724	\$ 754,754	\$ 21,991,441	\$ 22,109,988	
Capital Assets, net	83,360,690	83,124,747	39,973,958	40,126,350	123,334,648	123,251,097	104,964	131,660	21,991,441	22,109,988	22,651,165	22,864,742	
Total Assets	\$ 89,731,352	\$ 86,910,323	\$ 52,893,838	\$ 50,113,355	\$ 142,625,190	\$ 137,023,678	\$ 247,884	\$ 255,717	\$ 8,935,000	\$ 8,785,517	\$ 22,651,165	\$ 22,864,742	
Long-Term Debt	\$ 15,596,347	\$ 16,308,034	\$ 15,074,544	\$ 15,722,772	\$ 30,670,891	\$ 32,030,806	\$ -	\$ -	\$ -	\$ -	\$ 8,935,000	\$ 8,785,517	
Other Liabilities	2,824,456	2,679,451	4,776,101	4,605,677	7,600,557	7,285,128	3,197	3,275	-	-	-	-	
Total Liabilities	\$ 18,420,803	\$ 18,987,485	\$ 19,850,645	\$ 20,328,449	\$ 38,271,448	\$ 39,315,934	\$ 3,197	\$ 3,275	\$ 8,935,000	\$ 8,785,517	\$ 8,935,000	\$ 8,785,517	
Net Assets:													
Invested in Capital Assets, net of related debt	\$ 65,963,325	\$ 66,295,379	\$ 24,697,607	\$ 24,210,082	\$ 90,660,932	\$ 90,505,461	\$ 104,964	\$ 131,660	\$ 13,038,211	\$ 13,264,988	\$ 13,716,165	\$ 14,079,225	
Restricted	3,564,376	1,462,430	1,649,106	1,883,768	5,213,482	3,346,198	-	-	32,323	247,600	645,631	566,637	
Unrestricted	1,782,848	165,029	6,696,480	3,691,056	8,479,328	3,856,085	139,723	120,782	252,442	247,600	13,716,165	14,079,225	
Total Net Assets	71,310,549	67,922,838	33,043,193	29,784,906	104,353,742	97,707,744	244,687	252,442	13,716,165	14,079,225	13,716,165	14,079,225	
Total Liabilities & Net Assets	\$ 89,731,352	\$ 86,910,323	\$ 52,893,838	\$ 50,113,355	\$ 142,625,190	\$ 137,023,678	\$ 247,884	\$ 255,717	\$ 22,651,165	\$ 22,864,742	\$ 22,651,165	\$ 22,864,742	

Figure 2

	CITY OF FAIRHOPE CONDENSED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED 9/30/2010										COMPONENT UNITS		
	GOVERNMENTAL ACTIVITIES			BUSINESS - TYPE ACTIVITIES			TOTAL PRIMARY GOVERNMENT			LIBRARY		AIRPORT AUTHORITY	
	9/30/2010	9/30/2009	9/30/2010	9/30/2009	9/30/2010	9/30/2009	9/30/2010	9/30/2009	9/30/2010	9/30/2009	9/30/2010	9/30/2009	
Program Revenues													
Charges for Services	\$ 8,079,332	\$ 7,746,910	\$ 36,087,627	\$ 35,337,263	\$ 44,166,959	\$ 43,084,173	\$ 87,337	\$ 42,647	\$ 131,514	\$ 141,228			
Operating Grants & Contributions:	22,267	87,416			22,267	87,416	609,176	691,169	260,155	407,582			
Capital Grants & Contributions	1,389,592	384,358			1,389,592	384,358							
General Revenues													
Taxes	10,292,352	6,938,380			10,292,352	6,938,380							
Intergovernmental	424,359	436,472			424,359	436,472							
Investment Earnings	239,256	225,860	23,385	60,104	262,641	285,964			5,156	11,102			
Other	1,293,419	109,958			1,293,419	109,958							
Total Revenues	\$ 21,740,577	\$ 15,929,354	\$ 36,111,012	\$ 35,397,367	\$ 57,851,589	\$ 51,326,721	\$ 696,513	\$ 733,816	\$ 396,825	\$ 559,912			
Expenses													
General Government	\$ 6,929,734	\$ 6,536,802			\$ 6,929,734	\$ 6,536,802							
Sanitation	1,973,942	1,657,615			1,973,942	1,657,615							
Police	4,740,344	4,090,851			4,740,344	4,090,851							
Fire	1,017,184	878,148			1,017,184	878,148							
Airport	249,856	242,090			249,856	242,090							
Street	4,452,370	4,308,575			4,452,370	4,308,575							
Adult Recreation	601,232	438,442			601,232	438,442							
Recreation	1,269,393	1,031,886			1,269,393	1,031,886							
Golf	1,102,861	1,292,200			1,102,861	1,292,200							
Public Library Board	772,539	760,174			772,539	760,174							
Interest on Long Term Debt	694,083	878,534			694,083	878,534							
Electric			15,664,835	15,540,148	15,664,835	15,540,148							
Natural Gas			5,757,648	5,349,209	5,757,648	5,349,209							
Water and Wastewater			6,533,138	6,803,566	6,533,138	6,803,566							
Golf													
Airport Authority									\$ 759,885	\$ 595,629			
Fairhope Public Library									\$ 704,268	\$ 745,807			
Total Expenses	\$ 23,803,538	\$ 22,115,317	\$ 27,955,621	\$ 27,692,923	\$ 51,759,159	\$ 49,808,240	\$ 704,268	\$ 745,807	\$ 759,885	\$ 595,629			
Change in net assets before transfers	(2,062,961)	(6,185,963)	8,155,391	7,704,444	6,092,430	1,518,481	(7,755)	(11,991)	(363,060)	(35,717)			
Special Item - Trans of Golf to Governmental Activities													
Transfers	4,897,104	5,094,136	(4,897,104)	(913,729)									
Change in net assets	2,834,143	(178,098)	3,258,287	1,696,579	6,092,430	1,518,481	(7,755)	(11,991)	(363,060)	(35,717)			
Net Assets, beginning	67,922,838	68,100,936	29,784,906	28,088,327	97,707,744	96,189,263	252,442	264,433	14,079,225	14,114,942			
Prior year adjustment	553,568				553,568								
Net Assets, ending	\$ 71,310,549	\$ 67,922,838	\$ 33,043,193	\$ 29,784,906	\$ 104,353,742	\$ 97,707,744	\$ 244,687	\$ 252,442	\$ 13,716,165	\$ 14,079,225			

Figure 3

**Statement of Revenues and Expenditures
Governmental Funds
For the Year Ended September 30, 2010**

Revenues	9/30/2010 Total	9/30/2009 Total	Increase (Decrease)
Local Taxes	\$ 10,292,352	\$ 6,938,380	3,353,972
Licenses & Permits	2,178,982	2,058,105	120,877
Fines & Forfeitures	261,070	224,022	37,048
State of Alabama	176,832	368,626	(191,794)
U. S. Government	370,724	468,620	(97,896)
Contribution from Public Library Board	65,000	71,000	(6,000)
Interests and Rents	239,256	225,861	13,395
Charges for Service	4,450,535	4,450,711	(176)
Golf Course Revenue	858,237	959,730	(101,493)
Other	1,705,991	277,015	1,428,976
Totals	\$ 20,598,979	\$ 16,042,070	\$ 4,556,909
Expenditures	Total	Total	Increase (Decrease)
General	\$ 6,279,197	\$ 5,948,479	330,718
Sanitation	1,758,543	1,475,035	283,508
Police	4,404,803	3,922,163	482,640
Fire	837,597	765,645	71,952
Airport	249,856	242,090	7,766
Street Department	2,797,566	2,704,242	93,324
Adult Recreation	553,125	400,494	152,631
Debt Service			
Principal	1,047,483	863,329	184,154
Interest	704,043	809,715	(105,672)
Recreation Department	1,050,957	867,174	183,783
Golf	1,094,604	1,303,135	(208,531)
Public Library Board	565,000	530,000	35,000
The Haven	75,000	60,000	15,000
Capital Outlay	1,565,192	1,775,834	(210,642)
Totals	\$ 22,982,966	\$ 21,667,335	\$ 1,315,631

Figure 4

City of Fairhope
Capital Assets

<u>Governmental Activities</u>	Balance @ 10/1/09	Additions	Reclassifications/ Retirements	Balance @ 9/30/10
Land	\$ 18,951,592	\$ 876,135	\$ -	\$ 19,827,727
Buildings & Structures	31,932,819	253,537	-	32,186,356
Vehicles and equipment	10,273,891	1,643,564	(95,975)	11,821,480
Infrastructure	59,185,067	15,618	-	59,200,685
Total Capital Assets	\$ 120,343,369	\$ 2,788,854	\$ (95,975)	\$ 123,036,248

<u>Business-type activities</u>	Electric Fund	Natural Gas Fund	Water/Wastewater Fund
Balance @ 10/01/09	\$ 20,098,384	\$ 11,517,484	\$ 37,346,807
Additions to Plant	652,169	304,526	324,137
Addition to land, buildings, vehicles and equipment	266,516	21,489	16,687
Completed Construction in Progress	-	-	(5,946)
Total Capital Assets @ 9/30/2010	\$ 21,017,068	\$ 11,843,499	\$ 37,681,685

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	\$ 4,275,939	
General Obligation Warrants, 2008	1,001,000	
General Obligation Warrants, 2007	7,335,000	
General Obligation Refunding Warrant, 2009	3,162,040	
Obligations under capital leases	47,745	
Notes Payable		\$ 24,681
Utilities Revenue Warrants, 2005		7,720,000
Utilities Revenue Warrants, 2002		6,720,000
Utilities Revenue Warrants, 2009		1,170,000
General Obligation Refunding Warrant, 2009		57,960
General Obligation Warrants, 2002		199,002
Obligations under capital leases		-
Compensated absences	1,199,780	623,665
TOTALS	\$ 17,021,504	\$ 16,515,308

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, 2010

	Governmental Fund Types			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash	\$ 5,368,141	\$ 7,966,353	\$ 13,334,494	\$ 768,556
Restricted cash	321,744	1,649,106	1,970,850	-
Receivables, net	500,833	2,368,726	2,869,559	-
Internal balances	25,023	(25,023)	-	-
Inventories	-	669,740	669,740	-
Other assets	154,921	290,978	445,899	34,088
Land and construction in progress	19,827,727	369,280	20,197,007	11,042,290
Capital assets, net	63,532,963	39,604,678	103,137,641	11,054,115
Total assets	\$ 89,731,352	\$ 52,893,838	\$ 142,625,190	\$ 22,899,049
LIABILITIES				
Accounts payable and accrued expenses	\$ 775,533	\$ 1,876,589	\$ 2,652,122	\$ 3,197
Deferred revenue	69,500	-	69,500	-
Customer deposits	-	1,989,037	1,989,037	-
Long-term liabilities				
Due within one year	1,387,082	724,651	2,111,733	-
Due in more than one year	15,596,347	15,074,544	30,670,891	8,935,000
Net OPEB obligation	592,341	185,824	778,165	-
Total liabilities	18,420,803	19,850,645	38,271,448	8,938,197
NET ASSETS				
Invested in capital assets, net of related debt	65,963,325	24,697,607	90,660,932	13,143,175
Restricted for:				
Debt service	351,008	1,649,106	2,000,114	-
Capital projects	362,354	-	362,354	32,323
Road maintenance and construction	127,419	-	127,419	-
Council approved emergencies	2,723,595	-	2,723,595	-
Unrestricted	1,782,848	6,696,480	8,479,328	785,354
Total net assets	71,310,549	33,043,193	104,353,742	13,960,852
Total liabilities and net assets	\$ 89,731,352	\$ 52,893,838	\$ 142,625,190	\$ 22,899,049

See independent auditors' report and notes to the financial statements

City of Fairhope, Alabama
Statement of Activities
September 30, 2010

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit Component Units
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities	Primary Government Business-type Activities	Total	
			Capital Grants and Contributions	Component Unit Component Units				
Primary Government								
Governmental activities:								
General	\$ 6,929,734	\$ 5,249,279	\$ -	\$ 207,159	\$ (1,473,296)	\$ -	\$ (1,473,296)	
Sanitation	1,973,942	1,380,238	-	-	(593,704)	-	(593,704)	
Police	4,740,344	261,070	22,267	939,792	(3,517,215)	-	(3,517,215)	
Fire	1,017,184	-	-	-	(1,017,184)	-	(1,017,184)	
Airport Authority	249,856	-	-	-	(249,856)	-	(249,856)	
Street	4,452,370	-	-	114,641	(4,337,729)	-	(4,337,729)	
Adult Recreation	601,232	45,889	-	-	(555,343)	-	(555,343)	
Recreation	1,269,393	366,683	-	58,500	(844,210)	-	(844,210)	
Golf	1,102,861	776,173	-	4,500	(322,188)	-	(322,188)	
Public Library Board	772,539	-	-	65,000	(707,539)	-	(707,539)	
Interest on long term debt	694,083	-	-	-	(694,083)	-	(694,083)	
Total governmental activities	23,803,538	8,079,332	22,267	1,389,592	(14,312,347)	-	(14,312,347)	
Business-type activities								
Electric	15,664,835	18,496,651	-	-	-	2,831,816	2,831,816	
Natural gas	5,757,648	8,631,935	-	-	-	2,874,287	2,874,287	
Water and Wastewater	6,533,138	8,959,041	-	-	-	2,425,903	2,425,903	
Total business-type activities	27,955,621	36,087,627	-	-	-	8,132,006	8,132,006	
Total primary government	\$ 51,759,159	\$ 44,166,959	\$ 22,267	\$ 1,389,592	\$ (14,312,347)	\$ 8,132,006	\$ (6,180,341)	
Component Units	\$ 1,464,153	\$ 218,851	\$ 869,331	\$ -	\$ -	\$ -	\$ (375,971)	
General revenues:								
Property taxes					4,842,366	-	4,842,366	
Sales tax					4,443,325	-	4,443,325	
Liquor taxes					392,255	-	392,255	
Lodging taxes					483,271	-	483,271	
Other taxes					131,135	-	131,135	
Intergovernmental					424,359	-	424,359	
Investment earnings					239,256	23,385	262,641	5,156
Other					1,293,419	-	1,293,419	
Transfers					4,897,104	(4,897,104)	-	
Total general revenues, special item and transfers					17,146,490	(4,873,719)	12,272,771	5,156
Change in net assets					2,834,143	3,238,287	6,092,430	(370,815)
Net assets, beginning, as previously reported					67,922,838	29,784,906	97,707,744	14,331,667
Prior year adjustment					533,568	-	533,568	-
Net assets, ending					\$ 71,310,549	\$ 33,043,193	\$ 104,353,742	\$ 13,960,852

See independent auditors' report and notes to the financial statements

CITY OF FAIRHOPE, ALABAMA

FUND BALANCE SHEETS
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash	\$ 4,833,696	\$ 375,647	\$ 158,798	\$ 5,368,141
Investments	-	-	321,744	321,744
Receivables, net	471,557	-	29,276	500,833
Due from other funds	34,247	-	-	34,247
Other assets	34,925	-	-	34,925
Total assets	<u>\$ 5,374,425</u>	<u>\$ 375,647</u>	<u>\$ 509,818</u>	<u>\$ 6,259,890</u>
LIABILITIES				
Accounts payable	\$ 373,171	\$ 13,293	\$ 2,115	\$ 388,579
Accrued expenses and taxes	193,020	-	-	193,020
Due to other funds	9,224	-	-	9,224
Deferred revenue	89,500	-	29,276	118,776
Total liabilities	<u>664,915</u>	<u>13,293</u>	<u>31,391</u>	<u>709,599</u>
FUND BALANCES				
Reserved for:				
Debt service	-	-	351,008	351,008
Council approved emergencies	2,723,595	-	-	2,723,595
Unreserved, reported in:				
General fund	1,985,915	-	-	1,985,915
Capital projects fund	-	362,354	-	362,354
Special revenue fund	-	-	127,419	127,419
Total fund balances	<u>4,709,510</u>	<u>362,354</u>	<u>478,427</u>	<u>5,550,291</u>
Total liabilities and fund balances	<u>\$ 5,374,425</u>	<u>\$ 375,647</u>	<u>\$ 509,818</u>	<u>\$ 6,259,890</u>

See independent auditors' report and notes to the financial statements

CITY OF FAIRHOPE, ALABAMA

RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2010

Fund balance as reported on page 16	\$ 5,550,291
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	123,036,248
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.	(39,675,558)
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	119,996
Long-term liabilities, including warrants, notes, capital lease obligations and OPEB obligations are not due and payable in the current period and therefore are not reported in fund financial statements:	
Warrants and notes payable (net of warrant discount of \$38,075)	(15,735,904)
Obligations under capital leases	(47,745)
OPEB obligations	(592,341)
Accrued interest on long-term debt is not due and payable in the current-period and therefore not included in fund financial statements.	(256,894)
Compensated absences not expected to be paid with current resources as determined under Governmental Accounting Standards are not reported in fund financial statements.	<u>(1,136,820)</u>
Net Assets of Governmental Activities as reported on page 14	<u><u>\$ 71,310,549</u></u>

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

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Local taxes	\$ 10,292,352	\$ -	\$ -	\$ 10,292,352
Licenses and permits	2,178,982	-	-	2,178,982
Fines and forfeitures	261,070	-	-	261,070
Intergovernmental	459,608	-	87,948	547,556
Contribution from Public Library Board	65,000	-	-	65,000
Interest and rents	238,852	308	96	239,256
Charges for services	4,450,535	-	-	4,450,535
Golf course revenue	858,237	-	-	858,237
Other	1,705,991	-	-	1,705,991
Total revenues	20,510,627	308	88,044	20,598,979
EXPENDITURES				
General	6,279,197	-	-	6,279,197
Sanitation	1,758,543	-	-	1,758,543
Police	4,404,803	-	-	4,404,803
Fire	837,597	-	-	837,597
Airport	249,856	-	-	249,856
Street	2,777,847	-	19,719	2,797,566
Adult Recreation	553,125	-	-	553,125
Recreation	1,050,957	-	-	1,050,957
Golf	1,094,604	-	-	1,094,604
Public Library Board	565,000	-	-	565,000
Other	75,000	-	-	75,000
Debt service payments				
Principal	416,823	-	630,660	1,047,483
Interest	44,539	-	659,504	704,043
Capital Outlay	1,501,358	63,834	-	1,565,192
Total expenditures	21,609,249	63,834	1,309,883	22,982,966
Excess of Revenues over (under) Expenditures	(1,098,622)	(63,526)	(1,221,839)	(2,383,987)
OTHER FINANCING SOURCES (USES)				
Transfers in	5,136,593	115,000	1,290,137	6,541,730
Transfers out	(1,405,137)	(239,489)	-	(1,644,626)
Total other financing sources (uses)	3,731,456	(124,489)	1,290,137	4,897,104
Net change in fund balances	2,632,834	(188,015)	68,298	2,513,117
Fund balances - beginning of year	2,076,676	550,369	410,129	3,037,174
FUND BALANCES - END OF YEAR	\$ 4,709,510	\$ 362,354	\$ 478,427	\$ 5,550,291

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, 2010

Net change in fund balances - total governmental funds, page 18 \$ 2,513,117

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 1,565,192
Depreciation expense for the year (3,104,190)
Loss on assets disposed (2,289)

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

Principal payments on long term debt 1,047,483

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

Capital contributions for the year 1,223,662

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.

Increase in compensated absences liability (138,157)
Decrease in accrued interest payable 17,266
Increase in OPEB liability (280,633)

Change in Net Assets of Governmental Activities, page 15 \$ 2,834,143

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

CITY OF FAIRHOPE, ALABAMA

FUND BALANCE SHEETS
 PROPRIETARY FUNDS
 SEPTEMBER 30, 2010

	Business Type Activities			
	Major Funds			Total
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 3,542,756	\$ 2,173,404	\$ 2,250,193	\$ 7,966,353
Restricted cash for debt service	150,141	80,121	1,418,844	1,649,106
Receivables, net	2,323,439	7,444	37,843	2,368,726
Inventories	264,793	152,339	252,608	669,740
Prepaid expenses	18,662	13,624	16,703	48,989
Total current assets	<u>6,299,791</u>	<u>2,426,932</u>	<u>3,976,191</u>	<u>12,702,914</u>
Noncurrent assets				
Unamortized expense	25,724	10,092	170,083	205,899
Due from other funds	45,874	-	435,807	481,681
Other assets	12,030	12,030	12,030	36,090
Capital assets				
Distribution and collection systems	16,471,954	9,125,071	34,671,264	60,268,289
Buildings, vehicles and equipment	4,414,869	2,642,936	2,846,878	9,904,683
Land and construction in progress	130,246	75,492	163,542	369,280
Less accumulated depreciation	(9,704,279)	(5,269,555)	(15,594,460)	(30,568,294)
Total noncurrent assets	<u>11,396,418</u>	<u>6,596,066</u>	<u>22,705,144</u>	<u>40,697,628</u>
Total assets	<u>\$ 17,696,209</u>	<u>\$ 9,022,998</u>	<u>\$ 26,681,335</u>	<u>\$ 53,400,542</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	\$ 1,334,531	\$ 249,748	\$ 292,310	\$ 1,876,589
Customer deposits	1,940,083	-	48,954	1,989,037
Warrants, notes and capital leases payable	118,271	48,337	558,043	724,651
Total current liabilities	<u>3,392,885</u>	<u>298,085</u>	<u>899,307</u>	<u>4,590,277</u>
Noncurrent liabilities				
Compensated absences	120,120	195,509	207,215	522,844
Warrants, notes and capital leases payable	1,624,575	836,679	12,090,446	14,551,700
Net OPEB Obligation	54,006	57,182	74,636	185,824
Due to other funds	464,680	36,650	5,374	506,704
Total noncurrent liabilities	<u>2,263,381</u>	<u>1,126,020</u>	<u>12,377,671</u>	<u>15,767,072</u>
Total liabilities	<u>5,656,266</u>	<u>1,424,105</u>	<u>13,276,978</u>	<u>20,357,349</u>
NET ASSETS				
Invested in capital assets, net of related debt	9,569,944	5,688,928	9,438,735	24,697,607
Restricted for debt service	150,141	80,121	1,418,844	1,649,106
Unrestricted	2,319,858	1,829,844	2,546,778	6,696,480
Total net assets	<u>12,039,943</u>	<u>7,598,893</u>	<u>13,404,357</u>	<u>33,043,193</u>
	<u>\$ 17,696,209</u>	<u>\$ 9,022,998</u>	<u>\$ 26,681,335</u>	<u>\$ 53,400,542</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, 2010

	Business Type Activities			
	Major Funds			Total
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
OPERATING REVENUES				
Sales and services	\$ 18,104,207	\$ 8,531,612	\$ 8,286,221	\$ 34,922,040
Other charges, sales and receipts	392,444	100,323	672,820	1,165,587
Total operating revenues	<u>18,496,651</u>	<u>8,631,935</u>	<u>8,959,041</u>	<u>36,087,627</u>
OPERATING EXPENSES				
Energy purchases and cost of goods sold	11,250,844	3,079,331	672,512	15,002,687
Salaries	601,416	577,505	904,589	2,083,510
Depreciation	574,021	263,013	894,936	1,731,970
Insurance	332,981	279,030	424,630	1,036,641
Electric energy furnished to other departments	1,004,909	-	-	1,004,909
Maintenance	425,553	167,438	1,319,548	1,912,539
Community development projects	73,667	59,159	61,027	193,853
Other operating expense	1,317,917	1,271,942	1,635,553	4,225,412
Total operating expenses	<u>15,581,308</u>	<u>5,697,418</u>	<u>5,912,795</u>	<u>27,191,521</u>
OPERATING INCOME	<u>2,915,343</u>	<u>2,934,517</u>	<u>3,046,246</u>	<u>8,896,106</u>
NONOPERATING REVENUES (EXPENSES)				
Interest expense	(83,527)	(43,230)	(620,343)	(747,100)
Interest income	11,798	6,119	5,468	23,385
Distribution of joint revenue (expense) – net	-	(17,000)	-	(17,000)
Total nonoperating revenues (expenses)	<u>(71,729)</u>	<u>(54,111)</u>	<u>(614,875)</u>	<u>(740,715)</u>
INCOME(LOSS) BEFORE TRANSFERS AND OTHER ITEMS	<u>2,843,614</u>	<u>2,880,406</u>	<u>2,431,371</u>	<u>8,155,391</u>
TRANSFERS AND OTHER ITEMS				
Transfers out	<u>(1,636,964)</u>	<u>(1,792,666)</u>	<u>(1,467,474)</u>	<u>(4,897,104)</u>
Total transfers (out) in	<u>(1,636,964)</u>	<u>(1,792,666)</u>	<u>(1,467,474)</u>	<u>(4,897,104)</u>
Change in net assets	1,206,650	1,087,740	963,897	3,258,287
NET ASSETS – BEGINNING OF YEAR	<u>10,833,293</u>	<u>6,511,153</u>	<u>12,440,460</u>	<u>29,784,906</u>
NET ASSETS – END OF YEAR	<u>\$ 12,039,943</u>	<u>\$ 7,598,893</u>	<u>\$ 13,404,357</u>	<u>\$ 33,043,193</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, 2010

	Business Type Activities			
	Major Funds			Total
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
CASH FLOWS FROM OPERATING ACTIVITIES				
Received from customers	\$ 18,088,223	\$ 8,631,456	\$ 8,962,040	\$ 35,681,719
Paid to suppliers for goods and services	(14,218,575)	(4,845,566)	(4,017,207)	(23,081,348)
Paid to personnel for services	(601,416)	(577,505)	(904,589)	(2,083,510)
Net cash provided (used) by operating activities	<u>3,268,232</u>	<u>3,208,385</u>	<u>4,040,244</u>	<u>10,516,861</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income and joint revenue (expense)	<u>11,798</u>	<u>(10,881)</u>	<u>5,468</u>	<u>6,385</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Repayment of debt	(65,830)	(30,419)	(602,902)	(699,151)
Interest paid	(76,997)	(40,847)	(575,697)	(693,541)
Purchase of property, plant and equipment	(918,685)	(326,015)	(334,878)	(1,579,578)
Net cash provided (used) by capital and related financing activities	<u>(1,061,512)</u>	<u>(397,281)</u>	<u>(1,513,477)</u>	<u>(2,972,270)</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES				
Change in interfund receivable/payable	704,498	350,215	(515,454)	539,259
Transfers in (out)	(1,636,964)	(1,792,666)	(1,467,474)	(4,897,104)
Net cash provided (used) by noncapital financing activities	<u>(932,466)</u>	<u>(1,442,451)</u>	<u>(1,982,928)</u>	<u>(4,357,845)</u>
INCREASE (DECREASE) IN CASH	<u>1,286,052</u>	<u>1,357,772</u>	<u>549,307</u>	<u>3,193,131</u>
Cash – beginning of year	<u>2,406,845</u>	<u>895,753</u>	<u>3,119,730</u>	<u>6,422,328</u>
CASH – END OF YEAR	<u>\$ 3,692,897</u>	<u>\$ 2,253,525</u>	<u>\$ 3,669,037</u>	<u>\$ 9,615,459</u>
Reconciliation of operating income to net cash provided (used) by operating activities				
Income (loss) from operations	\$ 2,915,343	\$ 2,934,517	\$ 3,046,246	\$ 8,896,106
Adjustments to reconcile income from operations to net cash provided (used) by operating activities				
Depreciation	574,021	263,013	894,936	1,731,970
Amortization	2,335	911	16,818	20,064
Change in assets and liabilities				
Decrease (increase) in accounts receivable	(408,428)	(479)	2,999	(405,908)
Decrease (increase) in inventories	(16,997)	(9,234)	124,289	98,058
Decrease (increase) in prepaid expenses	4,009	(2,653)	7,427	8,783
Increase (decrease) in accounts payable	126,024	(17,865)	(55,814)	52,345
Increase (decrease) in customer deposits	27,276	-	(18,271)	9,005
Increase (decrease) in compensated absences	17,542	11,474	(13,465)	15,551
Net cash provided (used) by operating activities	<u>\$ 3,268,232</u>	<u>\$ 3,208,385</u>	<u>\$ 4,040,244</u>	<u>\$ 10,516,861</u>

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

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CITY OF FAIRHOPE, ALABAMA
COMBINING STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
SEPTEMBER 30, 2010

	Governmental Activities		
	Public Library Board	Airport Authority	Total
ASSETS			
Cash	\$ 142,920	\$ 625,636	\$ 768,556
Other assets	-	34,088	34,088
Land and construction in progress	-	11,042,290	11,042,290
Capital assets, net	104,964	10,949,151	11,054,115
Total assets	<u>\$ 247,884</u>	<u>\$ 22,651,165</u>	<u>\$ 22,899,049</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 3,197	\$ -	\$ 3,197
Long-term liabilities			
Due within one year	-	-	-
Due in more than one year	-	8,935,000	8,935,000
Total liabilities	<u>3,197</u>	<u>8,935,000</u>	<u>8,938,197</u>
NET ASSETS			
Invested in capital assets, net of related debt	104,964	13,038,211	13,143,175
Restricted for:			
Capital projects	-	32,323	32,323
Unrestricted	139,723	645,631	785,354
Total net assets	<u>244,687</u>	<u>13,716,165</u>	<u>13,960,852</u>
Total liabilities and net assets	<u>\$ 247,884</u>	<u>\$ 22,651,165</u>	<u>\$ 22,899,049</u>

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

CITY OF FAIRHOPE, ALABAMA
 COMBINING STATEMENT OF ACTIVITIES
 DISCRETELY PRESENTED COMPONENT UNITS
 SEPTEMBER 30, 2010

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Airport Authority	Governmental Activities Public Library Board	Total
Airport Authority	\$ 759,885	\$ 260,155	\$ -	\$ (368,216)	\$ -	\$ (368,216)
Public Library Board	704,268	609,176	-	-	(7,755)	(7,755)
	<u>\$ 1,464,153</u>	<u>\$ 869,331</u>	<u>\$ -</u>	<u>(368,216)</u>	<u>(7,755)</u>	<u>(375,971)</u>
General revenues:						
Investment earnings				5,156	-	5,156
Total General Revenues and Special Item				<u>5,156</u>	<u>-</u>	<u>5,156</u>
Change in net assets				(363,060)	(7,755)	(370,815)
Net assets, beginning				14,079,225	252,442	14,331,667
Net assets, ending				<u>\$ 13,716,165</u>	<u>\$ 244,687</u>	<u>\$ 13,960,852</u>

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

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NOTES TO THE FINANCIAL STATEMENTS

CITY OF FAIRHOPE, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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 significant 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, 2010

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, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Enterprise Funds:

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

C. CAPITAL ASSETS

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

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

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

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

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

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

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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 statements and interpretations issued by the Financial Accounting Standards Board (FASB) on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The City also elected to apply all statements and interpretations issued by the FASB after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

E. CASH

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

F. RECEIVABLES FROM UTILITY CUSTOMERS

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

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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, 2010

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

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, 2010

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 2010, the General Fund transferred to the Debt Service Fund \$1,290,137 in support of long term debt service.

The utility operations transfer a portion of their earnings to the General Fund each year to support general government operations. In fiscal year 2010, the following amounts were transferred from the utility funds noted to the General Fund.

Electric Fund	\$ 1,636,964
Natural Gas Fund	1,792,666
Water and Waste Water Fund	<u>1,467,474</u>
Total	\$ <u>4,897,104</u>

In fiscal year 2010, the City transferred \$249,856 to the Airport Authority and \$565,000 to the Public Library Board both discretely presented component units.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

NOTE 2 INTERFUND TRANSACTIONS (continued)

Interfund receivables and payables at September 30, 2010 are:

	<u>Due from</u>	<u>Due to</u>
General Fund		
Water and Waste Water	\$ 5,374	\$ -
Electric	28,873	9,224
Electric Fund		
General	9,224	28,873
Water and Waste Water	-	435,807
Natural Gas	36,650	-
Natural Gas Fund		
Electric	-	36,650
Water and Wastewater Fund		
General	-	5,374
Electric	435,807	-
	<u>\$ 515,928</u>	<u>\$ 515,928</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, 2010

NOTE 3 CAPITAL ASSETS

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

	Balance 10/01/09	Increases	Decreases	Balance 09/30/10
<u>Governmental Activities</u>				
Capital assets not subject to depreciation				
Land	\$ 18,951,592	\$ 876,135	\$ -	\$ 19,827,727
Total	<u>18,951,592</u>	<u>876,135</u>	<u>-</u>	<u>19,827,727</u>
Other capital assets				
Buildings and structures	31,932,819	253,537	-	32,186,356
Vehicles and equipment	10,273,891	1,643,564	(95,975)	11,821,480
Infrastructure	59,185,067	15,618	-	59,200,685
Total	<u>101,391,777</u>	<u>1,912,719</u>	<u>(95,975)</u>	<u>103,208,521</u>
Less accumulated depreciation for				
Buildings and structures	(5,292,529)	(793,482)	-	(6,086,011)
Vehicles and equipment	(9,451,919)	(734,519)	93,686	(10,092,752)
Infrastructure	(21,920,606)	(1,576,189)	-	(23,496,795)
Total accumulated depreciation	<u>(36,665,054)</u>	<u>(3,104,190)</u>	<u>93,686</u>	<u>(39,675,558)</u>
Other capital assets, net	64,726,723	(1,191,471)	(2,289)	63,532,963
Governmental capital assets, net	<u>\$ 83,678,315</u>	<u>\$ (315,336)</u>	<u>\$ (2,289)</u>	<u>\$ 83,360,690</u>

Depreciation was charged to governmental activities as follows:

General	\$ 251,688
Sanitation	204,859
Police	295,617
Fire	172,909
Public Library	207,539
Street	1,637,383
Adult Recreation	42,737
Recreation	209,088
Golf	82,370
Total	<u>\$ 3,104,190</u>

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

NOTE 3 CAPITAL ASSETS - CONTINUED

	Balance 10/01/09	Increases	Decreases	Balance 09/30/10
<u>Business Type Activities</u>				
Capital assets not subject to depreciation				
Land	\$ 369,280	\$ -	\$ -	\$ 369,280
Construction in progress	5,946	-	(5,946)	-
Total	<u>375,226</u>	<u>-</u>	<u>(5,946)</u>	<u>369,280</u>
Other capital assets				
Distribution and collection system	58,987,458	1,280,832	-	60,268,290
Buildings, vehicles and equipment	9,599,991	304,692	-	9,904,683
Total	<u>68,587,449</u>	<u>1,585,524</u>	<u>-</u>	<u>70,172,973</u>
Less accumulated depreciation for				
Distribution and collection system	(21,483,839)	(1,436,686)	-	(22,920,525)
Buildings, vehicles and equipment	(7,352,486)	(295,284)	-	(7,647,770)
Total accumulated depreciation	<u>(28,836,325)</u>	<u>(1,731,970)</u>	<u>-</u>	<u>(30,568,295)</u>
Other capital assets, net	39,751,124	(146,446)	-	39,604,678
Capital assets, net	<u>\$ 40,126,350</u>	<u>\$ (146,446)</u>	<u>\$ (5,946)</u>	<u>\$ 39,973,958</u>

	Balance 10/01/09	Increases	Decreases	Balance 09/30/10
<u>Component Unit - Public Library</u>				
Equipment	\$ 332,938	\$ -	\$ -	\$ 332,938
Less accumulated depreciation	(201,278)	(26,696)	-	(227,974)
Net	<u>\$ 131,660</u>	<u>\$ (26,696)</u>	<u>\$ -</u>	<u>\$ 104,964</u>

	Balance 10/01/09	Increases	Decreases	Balance 09/30/10
<u>Component Unit - Airport Authority</u>				
Capital assets not subject to depreciation				
Land	\$ 10,934,228	\$ -	\$ -	\$ 10,934,228
Construction in progress	-	108,062	-	108,062
Total	<u>10,934,228</u>	<u>108,062</u>	<u>-</u>	<u>11,042,290</u>
Other capital assets				
Runways	9,309,815	-	-	9,309,815
Buildings and improvements	3,968,177	-	-	3,968,177
Equipment	98,885	-	-	98,885
Total	<u>13,376,877</u>	<u>-</u>	<u>-</u>	<u>13,376,877</u>
Less accumulated depreciation for				
Runways	(662,164)	(124,131)	-	(786,295)
Buildings and improvements	(1,458,911)	(101,102)	-	(1,560,013)
Equipment	(79,874)	(1,544)	-	(81,418)
Total accumulated depreciation	<u>(2,200,949)</u>	<u>(226,777)</u>	<u>-</u>	<u>(2,427,726)</u>
Other capital assets, net	11,175,928	(226,777)	-	10,949,151
Capital assets, net	<u>\$ 22,110,156</u>	<u>\$ (118,715)</u>	<u>\$ -</u>	<u>\$ 21,991,441</u>

CITY OF FAIRHOPE, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 3 CAPITAL ASSETS (continued)

Section 1033 of the National Defense Authorization Act of 1997 authorizes the Department of Defense to transfer excess military property to state and local law enforcement agencies. The City's police department is a participant in this program ("1033 Program"). During fiscal year 2010, management estimated the value of capital assets received through the 1033 Program to be \$1,377,048. This value was estimated by management using 80 to 90 percent of the military's original acquisition cost. Assets received with an estimated value of less than \$5,000 have been reflected as both capital contributions and capital expenditures in the amount of totaling \$149,894 in the government-wide financial statements and \$3,492 in the proprietary fund financial statements. Assets received with an estimated value greater than \$5,000 have been reflected as a capital contribution and a depreciable capital asset in the amount totaling \$1,223,662 in the government wide financial statements.

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, 2010:

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.	\$ 7,720,000
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.	24,681
General Obligation Warrants, Series 2002 dated September 1, 2002, interest rate 1.60% to 5.00%, payable semi-annually, principal payable 2003 through 2025.	199,002
Utilities Revenue Warrants, Series 2009 dated April 2, 2009, interest rate 3.85%, payable semi-annually, principal payable 2009 through 2019.	1,170,000
General Obligation Refunding Warrant, Series 2009, dated April 2, 2009, interest rate 3.62%, payable semi-annually, principal payable 2010 through 2020.	<u>57,960</u>
TOTAL	<u>\$15,891,643</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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

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

NOTE 6 NOTE AND WARRANTS PAYABLE – GOVERNMENTAL ACTIVITIES

The following is a governmental fund summary of long term debt at September 30, 2010:

General Obligation Warrants, Series 2002 dated September 1, 2002, interest rate 1.60% to 5.00%, payable semi-annually, principal payable 2003 through 2025.	\$4,275,939
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.	1,001,000
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.	7,335,000
General Obligation Refunding Warrant, Series 2009, dated April 2, 2009, interest rate 3.62%, payable semi-annually, principal payable 2010 through 2020.	<u>3,162,040</u>
TOTAL	<u>\$15,773,979</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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

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

The General Obligation Warrant Series 2008 related to construction costs on the new Library. The Public Library Board requested the City secure a warrant as a "bridge loan" until pledges from outside donors are collected and remitted to the City. In 2008, the City refunded the original short term note with a general obligation warrant to be paid over 10 years. The Library Board committed to pay costs of the Library project in excess of \$3,000,000. Excluding interest on related long-term debt, the Library project costs, to date, are \$8,070,288. As of September 30, 2010, 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, 2010

NOTE 7 CHANGES IN LONG TERM DEBT

	Balance 10/01/09	Additions	Reductions	Balance 09/30/10	Amounts due within one year
GOVERNMENTAL ACTIVITIES					
Warrants and notes payable					
General obligation warrants	\$ 16,768,901	\$ -	\$ (994,922)	\$ 15,773,979	\$ 788,061
Notes payable	30,364	-	(30,364)	-	-
Total warrants and notes payable	16,799,265	-	(1,025,286)	15,773,979	788,061
Warrant discount	(39,839)	-	1,764	(38,075)	-
	16,759,426	-	(1,023,522)	15,735,904	788,061
Other liabilities					
Obligations under capital leases	69,942	-	(22,197)	47,745	23,296
Compensated absences	1,045,097	886,808	(732,125)	1,199,780	575,725
Governmental activities long-term liabilities	<u>\$ 17,874,465</u>	<u>\$ 886,808</u>	<u>\$ (1,777,844)</u>	<u>\$ 16,983,429</u>	<u>\$ 1,387,082</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 10/01/09	Additions	Reductions	Balance 09/30/10	Amounts due within one year
BUSINESS-TYPE ACTIVITIES					
Warrants and notes payable					
General obligation warrants	\$ 271,397	\$ -	\$ (14,435)	\$ 256,962	\$ 14,969
Utilities revenue warrants	16,235,000	-	(625,000)	15,610,000	685,000
Notes payable	86,035	-	(61,354)	24,681	24,681
Total warrants and notes payable	16,592,432	-	(700,789)	15,891,643	724,650
Warrant premiums	1,354	-	(1,354)	-	-
Deferred amount on refunding	(421,052)	-	35,354	(385,698)	-
Warrant discounts	(256,466)	-	26,871	(229,595)	-
	15,916,268	-	(639,918)	15,276,350	724,650
Other liabilities					
Compensated absences	604,933	220,993	(202,261)	623,665	100,821
Business-type activities long-term liabilities	<u>\$ 16,521,201</u>	<u>\$ 220,993</u>	<u>\$ (842,179)</u>	<u>\$ 15,900,015</u>	<u>\$ 825,471</u>
Compensated absences due within one year included in accrued liabilities					\$ 100,821
Compensated absences due in more than one year included in noncurrent liabilities					<u>522,844</u>
Total compensated absences liability					<u>\$ 623,665</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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, 2010, including interest payments:

Year Ending September 30,	Principal	Interest	Total
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	904,161	541,459	1,445,620
2016 - 2020	4,766,011	2,137,675	6,903,686
2021 - 2025	3,661,235	1,233,236	4,894,471
2026 - 2030	2,130,000	518,850	2,648,850
2031 - 2032	990,000	67,275	1,057,275
TOTALS	<u>\$ 15,773,979</u>	<u>\$ 6,984,319</u>	<u>\$ 22,758,298</u>

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
2011	\$ 23,296	\$ 2,363	\$ 23,296
2012	24,449	1,210	24,449
TOTALS	<u>\$ 47,745</u>	<u>\$ 3,573</u>	<u>\$ 47,745</u>

Capital assets under capital lease had original costs of \$141,458 and accumulated depreciation of \$141,458 at September 30, 2010 in the governmental activities.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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, 2010, including interest payments and excluding discounts and premiums related to warrant issuance:

Year Ending Sept. 30,	Principal	Interest	Total
2011	\$ 724,651	\$ 675,843	\$ 1,400,494
2012	720,592	651,194	1,371,786
2013	749,681	625,425	1,375,106
2014	770,215	597,602	1,367,817
2015	805,839	567,931	1,373,770
2016 - 2020	4,469,989	2,330,698	6,800,687
2021 - 2025	6,225,676	1,157,949	7,383,625
after 2025	1,425,000	35,625	1,460,625
	<u>\$ 15,891,643</u>	<u>\$ 6,642,267</u>	<u>\$ 22,533,910</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

NOTE 9 BONDS PAYABLE - COMPONENT UNITS

On August 26, 2010, the Airport Authority issued Airport Improvement Refunding Bonds in the amount of \$8,935,000 at a variable interest rate. The bonds are repriced monthly by the remarketing agent at a rate to maintain market value of 100% of principal. This issue was used to refund the Series 2007 Airport Improvement Bonds with an outstanding balance of \$8,845,000. The 2010 Airport Improvement Refunding Bonds mature March 1, 2020, but have mandatory redemption requirements as presented below. The bonds are limited obligations of the Airport Authority, payable solely out of appropriations received from the City of Fairhope, Alabama. The Appropriation Agreement between the Airport Authority and the City expires annually on September 30 and is renewable at the City's option. The bond rate at September 30, 2010 was 1.6093%.

As a result of the refunding, the Airport Authority reduced its total debt service requirements by approximately \$1,400,000 which resulted in an economic gain (difference between the present value of the debt service payments on the old debt and the new new debt of approximately \$452,000.

The following is a summary of debt service requirements to maturity of long term debt of the Airport Authority as of September 30, 2010, including estimated interest payments at 1.6093% and excluding discounts related to bonds:

Year Ending Sept. 30,	Principal	Interest	Total
2011	\$ -	\$ 143,791	\$ 143,791
2012	-	143,791	143,791
2013	240,000	139,929	379,929
2014	255,000	135,825	390,825
2015	270,000	131,480	401,480
2016 - 2020	8,170,000	54,783	8,224,783
	<u>\$ 8,935,000</u>	<u>\$ 749,599</u>	<u>\$ 9,684,599</u>

CITY OF FAIRHOPE, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 10 LINE OF CREDIT PAYABLE

At September 30, 2010, the City has no unsecured or secured open lines of credit.

NOTE 11 SALARIES – PROPRIETARY FUNDS

The following is a summary of employees' salaries by Utility Fund for the year ended September 30, 2010:

	<u>Electric Fund</u>	<u>Natural Gas Fund</u>	<u>Water and Waste Water Fund</u>
Total salaries	\$ 601,416	\$ 577,505	\$ 904,589
Less:			
Salaries capitalized for plant additions	<u>303,356</u>	<u>161,508</u>	<u>94,578</u>
Amount of salaries charged to operations	<u>\$ 298,060</u>	<u>\$ 415,997</u>	<u>\$ 810,011</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, 2010

NOTE 12 RISK MANAGEMENT AND CONTINGENCIES (continued)

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

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

NOTE 13 COMPENSATED ABSENCES

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

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

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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, 2009, RSA had a total of 1,122 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. On page 51 of the Required Supplementary Information, immediately following these notes to the financial statements, is The Schedule of Funding Progress – Employee Retirement System. This schedule provides a thirteen year information trend about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

NOTE 14 PENSION PLAN (continued)

Annual Pension Cost

For 2010, the City’s annual pension cost of \$1,086,667 was equal to the City’s required and actual contributions. The required contribution was determined as part of an actuarial valuation (dated September 30, 2009) using the entry age actuarial cost method. Amortization is determined using the level open percent method over a remaining amortization period of 26 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>
9/30/10	\$ 1,086,667	100%	-
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, 2010, the City had investments in U. S. Treasury money market mutual funds through its trustee agreement for debt sinking funds. The fair value was \$1,970,850 (\$321,744 in governmental activities and \$1,649,106 in business-type activities). The average maturity of the portfolio was 21 days.

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

Credit Risk - State statutes authorize the City’s investments. The City is authorized to invest in U.S. Government obligations and its agencies or instrumentalities, direct obligations of the state, or SEC registered mutual funds holding like securities. The City has no investment policy that further limits investment choices. As of September 30, 2010, 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, 2010

NOTE 16 COMMITMENTS

The City has various contractual commitments outstanding at year-end. The commitments under these contracts totaled \$142,761. The commitments funded from governmental activities will be \$18,482 and from business-type activities will be \$124,279.

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, 2010, the City's portion of health care funding cost for retired employees (retiree premiums) totaled \$240,333.

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, 2010

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, 2010, was 28 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>(240,333)</u>
Change in net OPEB obligation	371,520
Net OPEB obligation – beginning of year	<u>406,645</u>
Net OPEB obligation – end of year	<u>\$ 778,165</u>

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
9/30/10	\$ 611,853	39.3%	\$ 778,165
9/30/09	611,853	33.5%	406,645

Funded Status and Funding Progress – The first 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

Actuarial Valuation Dated	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)* - Entry Age (b)	Unfunded (AAL) (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
9/30/09	\$ -	\$6,740,895	\$(6,740,895)	0.0%	\$11,396,085	59.2%
9/30/08	\$ -	\$6,740,895	\$(6,740,895)	0.0%	\$11,189,043	60.2%

*GASB 45 permits the AAL determined at September 30, 2008 to be used for two consecutive years.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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. 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, 2010

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 PRIOR PERIOD ADJUSTMENTS

Government-wide Net Assets at the beginning of the fiscal year 2010 have been increased by \$553,568 to record capital assets received during fiscal year 2009 as part of the 1033 Program (see Note 3).

NOTE 22 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, 2011. 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.

NOTE 23 SUBSEQUENT EVENTS

The City has evaluated subsequent events through January 21, 2011, the date which the financial statements were available to be issued. There were no material subsequent events which require disclosure at September 30, 2010.

**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, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Local taxes	\$ 9,343,864	\$ 9,343,864	\$ 10,292,352	\$ 948,488
Licenses and permits	2,125,383	2,125,383	2,178,982	53,599
Fine and forfeitures	375,000	375,000	261,070	(113,930)
Intergovernmental	687,461	327,461	459,608	132,147
Interest and rents	201,965	201,965	238,852	36,887
Charges for services	4,386,849	4,386,849	4,450,535	63,686
Golf course revenue	1,218,600	1,218,600	858,237	(360,363)
Contributions from Public Library Board	130,000	130,000	65,000	(65,000)
Other revenue	463,417	463,417	1,705,991	1,242,574
Total revenues	<u>18,932,539</u>	<u>18,572,539</u>	<u>20,510,627</u>	<u>1,938,088</u>
EXPENDITURES				
General government	5,879,168	5,424,168	6,279,197	(855,029)
Sanitation	1,618,021	1,618,021	1,758,543	(140,522)
Police	4,205,418	4,037,418	4,404,803	(367,385)
Fire	754,920	754,920	837,597	(82,677)
Airport Authority	337,356	297,356	249,856	47,500
Streets	2,774,500	2,699,500	2,777,847	(78,347)
Adult recreation	592,844	592,844	553,125	39,719
Recreation	1,051,841	1,051,841	1,050,957	884
Golf	1,076,809	1,041,809	1,094,604	(52,795)
Public Library Board	565,000	565,000	565,000	-
Other	89,000	89,000	75,000	14,000
Debt service	405,050	405,050	461,362	(56,312)
Capital outlay	2,226,689	1,667,699	1,501,358	166,341
Total expenditures	<u>21,576,616</u>	<u>20,244,626</u>	<u>21,609,249</u>	<u>(1,364,623)</u>
Excess of Revenues over (under) Expenditures	<u>(2,644,077)</u>	<u>(1,672,087)</u>	<u>(1,098,622)</u>	<u>573,465</u>
Other financing sources (uses)				
Proceeds from issuance of debt	1,000,000	1,000,000	-	(1,000,000)
Transfers in	4,897,104	4,897,104	5,136,593	239,489
Transfers out	(1,298,166)	(1,298,166)	(1,405,137)	(106,971)
Total other financing sources (uses)	<u>4,598,938</u>	<u>4,598,938</u>	<u>3,731,456</u>	<u>(867,482)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 1,954,861</u>	<u>\$ 2,926,851</u>	2,632,834	<u>\$ (294,017)</u>
FUND BALANCE - BEGINNING OF YEAR			<u>2,076,676</u>	
FUND BALANCE - END OF YEAR			<u>\$ 4,709,510</u>	

See independent auditors' report.

REQUIRED SUPPLEMENTARY INFORMATION
CITY OF FAIRHOPE, ALABAMA
SCHEDULE OF FUNDING PROGRESS – EMPLOYEE RETIREMENT SYSTEM
SEPTEMBER 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b) ¹	Unfunded AAL (UAAL) b – a	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-1)/c)
9/30/09	\$23,297,926	\$32,295,205	\$8,997,279	72.1%	\$11,396,085	79.0%
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 ⁸	\$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 ⁷	\$17,075,176	\$19,888,433	\$2,813,257	85.9%	\$7,537,837	36.7%
9/30/03 ⁶	\$16,083,240	\$18,576,805	\$2,493,565	86.6%	\$7,555,473	33.0%
9/30/02 ⁵	\$15,177,087	\$16,920,564	\$1,743,477	90.0%	\$7,190,278	24.0%
9/30/01 ⁴	\$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 ³	\$11,358,040	\$10,577,344	\$ (780,696)	107.4%	\$4,958,496	(15.7%)
9/30/97 ²	\$10,398,022	\$ 9,707,826	\$ (690,196)	107.1%	\$4,649,493	(14.8%)

¹ Reflects liability for cost of living benefit increases granted on or after October 1, 1978.

² Reflects change in asset valuation method to market value.

³ Reflects change in asset valuation method to market related value (as of September 30, 1998).

⁴ Reflects changes in actuarial assumptions (as of September 30, 2001).

⁵ Reflects effect of DROP if unit elected to enroll prior to June 20, 2003.

⁶ Reflects effect of DROP if unit elected to enroll prior to May 18, 2004.

⁷ Reflects effect of DROP if unit elected to enroll prior to August 4, 2005.

⁸ Reflects changes in actuarial assumptions.

CITY OF FAIRHOPE, ALABAMA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2010

NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING

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

- (1) The City Council has appointed a Budget Committee to work with City Management to prepare a proposed working budget for the fiscal year commencing the following October 1. The budget includes proposed expenditures and the means of financing them for the upcoming year. Line item budgets are used for administrative control. The level of control for the detailed budgets is at the department head/function level.
- (2) Council budget meetings are conducted to obtain manager and taxpayer input.
- (3) The budget is enacted through council action.
- (4) Reports are submitted to the City Council, showing approved budget and actual operations.
- (5) The Mayor is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total expenditures of any fund or transfer of funds between departments must be approved by the City Council.
- (6) Formal budgetary integration is employed as a management control device during the year for the General Fund.
- (7) Budgets are adopted on a basis consistent with 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, 2010

NOTE 2 EXCESS EXPENDITURES

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

	<u>Excess Expenditures</u>		<u>Excess Expenditures</u>
General Government		Adult Recreation Department	
Salaries-Administrative	10,172	Salaries	10,171
Salaries-Judge & City Clerk	2,915	Employee Payroll Taxes	164
Salaries-Mechanics	2,825	Employee Medical Insurance	491
Employee Payroll Taxes	15,025	Casualty/Workers Compensation Expense	159
Employee Medical Insurance	163,322		
Casualty/Workpers Compensation Expense	41,849	Street Department	
Legal Fees	213,450	Employee Medical Insurance	70,915
City Computer Expense	1,113	Casualty/Workers Compensation Expense	6,215
Office Supplies	1,137	General Supplies	10,737
Telephone	18,869	Dues/Memberships/Subscriptions	146
Dues/Memberships/Subscriptions	3,231	Gasoline & Oil	39,734
Miscellaneous	47,001	Equipment & Vehicle Repair	6,334
Equipment & Vehicle Repair	1,368	Street Material & Landscaping	1,466
Printing	7,462		
Lease on Credit Card Terminals	1,108	Sanitation Department	
Publications & Newspapers	17,581	Salaries	20,561
Natural Disaster Expense	49,481	Employee Payroll Taxes	1,021
Election Expense	1,079	Employee Retirement Expense	2,635
City Hall Maintenance	3,508	Employee Medical Insurance	16,169
Beach Repairs & Maintenance	7,694	Casualty/Workers Compensation Expense	7,199
2010 Oil Spill Cost	726,815	General Supplies	22,720
2008 Dog Park Project	2,907	Gasoline & Oil	7,197
		Equipment & Vehicle Repair	63,749
Police Department		Uniforms	836
Salaries	283,090	Landfill Charges	22,464
Employee Payroll Taxes	21,514		
Employee Retirement Expense	9,849	Golf Department	
Employee Medical Insurance	50,956	Salaries-Grounds	31,955
Casualty/Workpers Compensation Expense	30,341	Employee Payroll Taxes	1,289
Services Excluding Accounting & Legal	171	Employee Retirement Expense	2,705
General Supplies	1,011	Employee Medical Insurance	32,601
General Maintenance	4,653	General Maintenance	1,271
Gasoline & Oil	10,830	Gasoline & Oil	2,612
DEA Funds Purchases	64,476	Equipment & Vehicle Repair	6,551
Fire Department		Uniforms	41
Salaries	50,092	Cost of Pro Shop Sales	20,047
Employee Payroll Taxes	3,670		
Employee Retirement Expense	2,740	Capital Outlay	
Employee Medical Insurance	14,389	Land Purchase-Manley Road	976,134
Casualty/Workpers Compensation Expense	15,129	Capital Improvements	139,984
General Supplies	7,469		
Gasoline & Oil	4,449	Debt Service	
Equipment & Vehicle Repair	9,572	Lease Purchase	54,030
		Transfers to Capital Projects Fund	115,000
Recreation Department			
Casualty/Workers Compensation Expense	12,109		
General Supplies	21,777		
General Maintenance	10,596		
Equipment & Vehicle Repair	750		

OTHER SUPPLEMENTARY INFORMATION

**COMBINING FINANCIAL STATEMENTS
NONMAJOR GOVERNMENTAL FUNDS**

CITY OF FAIRHOPE, ALABAMA
 COMBINING BALANCE SHEETS
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2010

	Special Revenue Fund Gas Tax	Debt Service	Total Nonmajor Governmental Funds
ASSETS			
Cash	\$ 128,374	\$ 30,424	\$ 158,798
Investments	-	321,744	321,744
Receivables	-	29,276	29,276
	<u>128,374</u>	<u>381,444</u>	<u>509,818</u>
TOTAL ASSETS	\$ <u>128,374</u>	\$ <u>381,444</u>	\$ <u>509,818</u>
LIABILITIES			
Accounts payable – trade	\$ 955	\$ 1,160.00	\$ 2,115
Deferred assessment revenue	-	29,276	29,276
	<u>955</u>	<u>30,436</u>	<u>31,391</u>
TOTAL LIABILITIES	955	30,436	31,391
FUND BALANCES			
Reserved for debt service	-	351,008	351,008
Unreserved	127,419	-	127,419
	<u>127,419</u>	<u>351,008</u>	<u>478,427</u>
TOTAL FUND BALANCES	127,419	351,008	478,427
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>128,374</u>	\$ <u>381,444</u>	\$ <u>509,818</u>

CITY OF FAIRHOPE, ALABAMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Special Revenue Fund Gas Tax	Debt Service	Total Nonmajor Governmental Funds
REVENUES			
Intergovernmental	\$ 87,948	\$ -	\$ 87,948
Interest and rents	48	48	96
Total	<u>87,996</u>	<u>48</u>	<u>88,044</u>
EXPENDITURES			
Street department	19,719	-	19,719
Debt service			
Principal	-	630,660	630,660
Interest	-	659,504	659,504
Total	<u>19,719</u>	<u>1,290,164</u>	<u>1,309,883</u>
Excess of Revenues over (under) expenditures	68,277	(1,290,116)	(1,221,839)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	1,290,137	1,290,137
Total other financing sources (uses)	<u>-</u>	<u>1,290,137</u>	<u>1,290,137</u>
Net change in fund balances	68,277	21	68,298
Fund balances – beginning of year	<u>59,142</u>	<u>350,987</u>	<u>410,129</u>
FUND BALANCES – END OF YEAR	<u>\$ 127,419</u>	<u>\$ 351,008</u>	<u>\$ 478,427</u>

See independent auditors' report.

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

CITY OF FAIRHOPE, ALABAMA
FUND BALANCE SHEET
FAIRHOPE PUBLIC LIBRARY BOARD
SEPTEMBER 30, 2010

ASSETS	
Cash and cash equivalents	\$ <u>142,920</u>
TOTAL ASSETS	\$ <u><u>142,920</u></u>
LIABILITIES	
Accounts payable and accrued expenses	\$ <u>3,197</u>
FUND BALANCES	
Reserved for capital projects	45,411
Unreserved	<u>94,312</u>
Total fund balances	<u><u>139,723</u></u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u><u>142,920</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, 2010

Fund balance as reported on page 56	\$	139,723
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		332,938
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.		<u>(227,974)</u>
Net Assets of Governmental Activities as reported on page 23	\$	<u><u>244,687</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, 2010

REVENUES	
Fines and lost books	\$ 20,994
Donations, gifts, memorials and bequests	74,593
State aid	15,299
Lease income	6,500
Payments from City of Fairhope	565,000
Miscellaneous	14,127
Total revenues	<u>696,513</u>
EXPENDITURES	
Salaries	420,287
Payroll taxes	30,818
Employees' retirement	14,955
Books, periodicals, audio visual	93,855
Supplies	18,100
Janitorial service	18,693
Professional fees	6,714
Consultant and fundraising	6,169
Telecommunications	581
Capital outlay	14,035
Maintenance	25,624
Friends expenses	3,563
Miscellaneous	24,178
Total expenditures	<u>677,572</u>
Net change in fund balance	18,941
Fund balance – beginning of year	<u>120,782</u>
Fund balance – end of year	<u>\$ 139,723</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, 2010

Net change in fund balances - total governmental funds, page 58 \$ 18,941

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.

Depreciation expense for the year (26,696)

Change in Net Assets of Governmental Activities, page 24 \$ (7,755)

CITY OF FAIRHOPE, ALABAMA
FUND BALANCE SHEET
FAIRHOPE AIRPORT AUTHORITY
SEPTEMBER 30, 2010

ASSETS	
Cash and cash equivalents	\$ <u>625,636</u>
TOTAL ASSETS	\$ <u><u>625,636</u></u>
LIABILITIES	
Accounts payable and accrued expenses	\$ <u>-</u>
FUND BALANCES	
Reserved for capital projects	32,323
Unreserved	<u>593,313</u>
Total net assets	<u><u>625,636</u></u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u><u>625,636</u></u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA
RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
FAIRHOPE AIRPORT AUTHORITY
SEPTEMBER 30, 2010

Fund balance as reported on page 60	\$ 625,636
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	24,419,167
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.	(2,427,726)
Cost associated with warrant issuance are expensed in the current period in Fund Financial Statements	
Warrant Issuance costs, net	34,088
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>(8,935,000)</u>
Net Assets of Governmental Activities as reported on page 23	<u>\$ 13,716,165</u>

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, 2010

REVENUES	
Fuel sales and rentals	\$ 131,514
Interest income	5,156
Federal grant revenue	10,299
Payments from City of Fairhope	249,856
Total revenues	<u>396,825</u>
EXPENDITURES	
Insurance	29,279
Legal and professional	76,595
Maintenance	41,732
Capital outlay	108,062
Debt service interest	173,874
Other	20,344
Total expenditures	<u>449,886</u>
OTHER FINANCING SOURCES (USES)	
Proceeds from issuance of debt	8,935,000
Payment to defease 2007 Series bonds	<u>(8,845,000)</u>
Total other financing sources (uses)	<u>90,000</u>
Net change in fund balance	36,939
Fund balance – beginning of year	<u>588,697</u>
Fund balance – end of year	<u>\$ 625,636</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, 2010

Net change in fund balances - total governmental funds, page 62 \$ 36,939

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 (225,372)

Bond 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 the issuance of debt 8,845,000
Principal payments on long-term debt (8,935,000)

Cost associated with debt issuance are expensed in the current period in fund financial statements

Debt issuance costs 34,088

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 108,062
Depreciation expense for the year (226,777)

Change in Net Assets of Governmental Activities, page 24 \$ (363,060)

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA
SCHEDULE OF CAPITAL PROJECTS EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Recreation center	\$	12,949
Golf Course Project		43,336
Drainage Improvements		<u>7,549</u>
Total capital projects expenditures	\$	<u><u>63,834</u></u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA
 SCHEDULE OF INFORMATION REQUIRED BY BOND INDENTURES
 SEPTEMBER 30, 2010

	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
A. Utility customers at September 30, 2010 were as follows:				
Number of customers	6,419	8,944	15,490	
Number of metered customers	6,419	8,944	15,490	
Number of unmetered customers	-	-	-	
Number of waste water customers			8,695	
B. Annual Net Income of Utility Operations				
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	Total
Income from operations	\$ 2,915,343	\$ 2,934,517	\$ 3,046,246	\$ 8,896,106
Add:				
Depreciation and amortization	576,356	263,924	911,754	1,752,034
Interest income	11,798	6,119	5,468	23,385
Annual net income as prescribed by debt covenants	<u>\$ 3,503,497</u>	<u>\$ 3,204,560</u>	<u>\$ 3,963,468</u>	<u>\$ 10,671,525</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 2011				\$ 5,000,000
Buildings and facilities – expires January 2011				67,380,500
Automobile – expires January 2011				
Liability				1,000,000
Uninsured motorist				50,000
Public officials errors and omissions liability – expires January 2011				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, 2010

	1996	2002		2002		2003		2005		2007		2009		2009
	Capital Improvement	Warrant Fund	Warrant Fund	Reserve Fund	Reserve Fund	Warrant Fund	Reserve Fund	Warrant Fund	Warrant Fund	Warrant Fund	Warrant Fund	Warrant Fund	Warrant Fund	Reserve Fund
Balance 10/01/09	\$ 50,000	\$ 110,807	\$ 151,497	\$ 672,000	\$ 283,850	\$ 236,491	\$ 323,065	\$ 176,721	\$ 76,075	\$ 148,863	\$ 125,000			
Deposits	5	331,410	452,613	67	6	47,455	830,055	529,321	148,863					3
Disbursements	(5)	(331,650)	(452,971)	(44)	(283,856)	(283,946)	(566,426)	(528,971)	(126,585)					-
Balance 9/30/10	\$ 50,000	\$ 110,567	\$ 151,139	\$ 672,023	\$ -	\$ -	\$ 586,694	\$ 177,071	\$ 98,353	\$ 125,003				

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STATISTICAL SECTION

STATISTICAL SECTION

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

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

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

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

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

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 EIGHT FISCAL YEARS
(accrual basis of accounting)

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

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 EIGHT FISCAL YEARS
 (accrual basis of accounting)

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
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)	\$ (14,312,347)
Business-type activities	4,249,224	5,272,666	4,532,361	5,340,526	6,311,577	4,341,653	7,644,340	8,132,006
Total primary government net expense	<u>\$ (3,949,459)</u>	<u>\$ (1,247,247)</u>	<u>\$ (965,486)</u>	<u>\$ 2,960,499</u>	<u>\$ 4,923,599</u>	<u>\$ (391,621)</u>	<u>\$ (6,252,293)</u>	<u>\$ (6,180,341)</u>
General Revenues and Other Changes in Net Assets								
Governmental activities:								
Taxes								
Property taxes	\$ 2,278,650	\$ 2,674,204	\$ 2,710,256	\$ 3,159,187	\$ 3,589,489	\$ 4,631,476	\$ 4,939,840	\$ 4,842,366
Sales tax	-	-	-	-	-	-	1,003,864	4,443,325
Liquor taxes	299,681	317,899	352,827	347,415	373,794	396,196	385,411	392,255
Lodging taxes	-	362,860	449,079	196,224	420,024	495,850	474,852	483,271
Other	27,152	100,554	130,305	124,738	138,857	145,836	134,413	131,135
Intergovernmental	288,487	243,469	325,557	522,196	472,667	293,007	436,472	424,359
Investment earnings	328,868	290,659	327,687	394,006	508,558	340,530	225,860	239,256
Other	4,613	107,685	205,060	230,691	251,476	294,469	109,958	1,293,419
Transfer of Golf Fund to Governmental Activities	-	-	-	-	-	-	913,729	-
Transfers in/(out)	4,360,675	5,330,481	4,058,380	3,787,999	(10,317,112)	3,658,368	5,094,136	4,897,104
Total government activities	<u>7,588,126</u>	<u>9,427,811</u>	<u>8,559,151</u>	<u>8,762,456</u>	<u>(4,562,247)</u>	<u>10,255,732</u>	<u>13,718,535</u>	<u>17,146,490</u>
Business-type activities:								
Investment earnings	176,061	103,610	190,330	235,538	266,888	115,648	60,104	23,385
Transfer of Golf Fund to Governmental Activities	-	-	-	-	-	-	(913,729)	-
Transfers in/(out)	(4,360,675)	(5,330,481)	(4,058,380)	(3,787,999)	(4,020,046)	(3,658,368)	(5,094,136)	(4,897,104)
Total business-type activities	<u>(4,184,614)</u>	<u>(5,226,871)</u>	<u>(3,868,050)</u>	<u>(3,552,461)</u>	<u>(3,753,158)</u>	<u>(3,542,720)</u>	<u>(5,947,761)</u>	<u>(4,873,719)</u>
Total primary government	<u>\$ 3,403,512</u>	<u>\$ 4,200,940</u>	<u>\$ 4,691,101</u>	<u>\$ 5,209,995</u>	<u>\$ (8,315,405)</u>	<u>\$ 6,713,012</u>	<u>\$ 7,770,774</u>	<u>\$ 12,272,771</u>
Change in Net Assets								
Governmental activities	\$ (610,557)	\$ 2,907,898	\$ 3,061,304	\$ 6,382,429	\$ (5,950,225)	\$ 5,522,458	\$ (178,098)	\$ 2,834,143
Business-type activities	64,610	45,795	664,311	1,788,065	2,558,419	798,933	1,696,579	3,258,287
Total primary government	<u>\$ (545,947)</u>	<u>\$ 2,953,693</u>	<u>\$ 3,725,615</u>	<u>\$ 8,170,494</u>	<u>\$ (3,391,806)</u>	<u>\$ 6,321,391</u>	<u>\$ 1,518,481</u>	<u>\$ 6,092,430</u>

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 EIGHT FISCAL YEARS
 (accrual basis of accounting)

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

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)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General fund										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 501,932	\$ 2,723,595
Unreserved	21,189	369,032	382,274	421,331	1,033,668	1,087,642	1,703,619	1,083,383	1,574,743	1,985,914
Total general fund	\$ 21,189	\$ 369,032	\$ 382,274	\$ 421,331	\$ 1,033,668	\$ 1,087,642	\$ 1,703,619	\$ 1,083,383	\$ 2,076,675	\$ 4,709,509
All other governmental funds										
Reserved	\$ 1,665,750	\$ 4,438,497	\$ 558,630	\$ 377,983	\$ 272,950	\$ 235,348	\$ 456,957	\$ 470,671	\$ 350,987	\$ 351,008
Unreserved, reported in:										
Special revenue funds	161,307	169,668	92,201	143,257	227,109	257,881	311,553	66,907	59,142	127,419
Capital projects funds	1,263,203	863,518	876,358	1,219,106	1,602,259	263,202	3,892,524	2,070,337	550,369	362,354
Total all other governmental funds	\$ 3,090,260	\$ 5,471,683	\$ 1,527,189	\$ 1,740,346	\$ 2,102,318	\$ 756,431	\$ 4,661,034	\$ 2,607,915	\$ 960,498	\$ 840,781

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
REVENUES										
Local taxes	\$ 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	\$ 10,292,352
Licenses and permits	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	2,178,982
Fines and forfeitures	221,864	209,233	267,834	249,181	325,728	354,504	362,441	252,838	224,022	261,070
Intergovernmental	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	547,556
Contribution from Public Library Bd	-	-	-	-	1,500,000	1,128,850	685,003	208,931	71,000	65,000
Interest and rents	517,064	315,162	328,868	290,659	327,686	394,009	377,743	340,530	225,861	239,256
Charges for services	667,705	683,445	704,228	735,311	792,245	1,577,409	4,149,905	4,610,307	4,450,711	4,450,535
Assessments	256,060	243,251	182,764	122,170	124,582	39,199	1,831	-	-	-
Golf course revenue	-	-	-	-	-	-	-	-	959,730	858,237
Other	277,022	310,159	258,351	391,478	315,745	343,588	492,419	411,179	277,015	1,705,991
Total revenues	6,068,748	7,072,963	8,047,508	10,369,700	15,599,138	18,386,163	16,754,860	16,048,869	16,042,070	20,598,979
EXPENDITURES										
General government	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	6,279,197
Sanitation	688,238	836,798	745,802	861,317	929,815	960,328	1,254,694	1,405,774	1,475,035	1,758,543
Police	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	4,404,803
Fire	359,786	396,772	372,263	366,421	492,552	576,191	619,434	707,513	765,645	837,597
Airport	20,090	10,850	6,895	12,742	9,124	63,031	397,183	545,000	242,090	249,856
Street	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	2,797,566
Recreation	331,712	324,385	366,531	396,660	472,129	513,503	658,837	785,425	867,174	1,050,957
Adult recreation	191,030	208,020	231,615	238,007	261,569	277,808	328,744	431,481	400,494	553,125
Golf	-	-	-	-	-	-	-	-	1,303,135	1,094,604
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	1,565,192
Debt service:										
Principal	745,891	749,567	891,680	712,321	1,288,488	835,627	4,412,690	2,424,796	863,329	1,047,483
Interest	376,379	337,944	666,600	532,508	512,025	482,436	532,687	802,140	809,715	704,043
Bond issuance costs	-	-	-	-	-	-	138,476	-	-	-
Public Library Board	286,205	297,147	300,450	288,400	330,806	336,823	396,000	504,560	530,000	565,000
Other	-	-	-	-	60,000	60,000	60,000	60,000	60,000	75,000
Total expenditures	11,033,928	13,158,255	16,366,414	14,478,040	19,418,143	27,836,075	25,902,367	23,680,589	21,667,335	22,982,966
Excess (deficiency) of revenues over expenditures	(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)	(2,383,987)
OTHER FINANCING SOURCES (USES)										
Transfers in	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	6,541,730
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	(847,792)	(706,969)	(932,851)	(1,200,974)	(817,731)	(1,537,590)	(877,457)	(1,569,814)	(1,158,102)	(1,644,626)
Total other financing sources (uses)	3,320,000	8,714,635	4,487,577	4,360,554	4,793,314	8,157,999	13,668,090	4,958,368	4,971,140	4,897,104
Net change in fund balance	\$ (1,705,180)	\$ 2,629,343	\$ (3,831,329)	\$ 252,214	\$ 974,309	\$ (1,291,913)	\$ 4,520,583	\$ (2,673,352)	\$ (654,125)	\$ 2,513,117
Debt service as a percentage of noncapital expenditures	12.9%	11.4%	12.8%	10.4%	11.8%	9.7%	24.9%	15.8%	8.4%	8.2%

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

Fiscal Year Ended September 30	Residential Property	Commercial Property	Industrial Property	Less:		Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value
				Tax Exempt Real Property	Real Property			
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	
2010	166,238,280	1,562,280	212,323,800	61,797,320	318,127,040	15	4,771,905,600	

Source: Baldwin County Revenue Commissioner

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

Fiscal Year	Overlapping Rates										Total Direct & Overlapping Rates				
	County					State									
	General Millage	School Millage	Bond Tax Millage	Total City Millage	Road/Bridge Millage	General Millage	Fire Millage	School Millage	Health Care Authority Millage	Total County Millage		General Millage	School Millage	Soldier Millage	Total State Millage
2001	5.0	5.0	5.0	15.0	5.0	5.0	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	5.0	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	5.0	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	5.0	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	5.0	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	5.0	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	5.0	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	5.0	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	5.0	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0
2010	5.0	5.0	5.0	15.0	5.0	5.0	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0

Source: Baldwin County Commission

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

Taxpayer	2010			2001		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Arbor Gates LLC	\$ 2,328,600	1	0.7%	\$ 1,907,680	1	1.5%
FST Mississippi Baldwin Square	1,801,020	2	0.6%			
Fairhope LLC	1,686,080	3	0.5%			
Al Corte Jr Family Limited Partnership	1,615,720	4	0.5%	1,454,340	3	1.2%
CHS Properties, Inc.	1,162,520	5	0.4%	1,732,400	2	1.4%
Bones & Babies, LLC	1,142,480	6	0.4%			
Fairhope Yacht Club	1,112,080	7	0.3%			
Fairhope Commercial Investments, LLC	1,104,960	8	0.3%			
Bellsouth Tele, Inc. dba AT&T	1,063,900	9	0.3%	1,344,630	5	1.1%
Pelican Properties, Inc.	1,052,580	10	0.3%			
FST E&A Southeast Limited Partnership				1,431,120	4	1.1%
Fairhope Mob, LLC				876,240	6	0.7%
Rock Creek Partners LLC				812,900	7	0.6%
Poser Business Forms Inc.				687,660	8	0.5%
Rock Creek LLC				680,600	9	0.5%
Honours-Rock Creek Golf Course, LLC				651,500	10	0.5%
	<u>\$ 14,069,940</u>		<u>4.4%</u>	<u>\$ 11,579,070</u>		<u>9.2%</u>

Source: Baldwin County Revenue Commissioner

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

Fiscal Year Ended September 30	Total Tax Levy for Fiscal Year	Collected within the		Collections in Subsequent Years	Total Collections to Date	
		Fiscal Year of the Levy Amount	Percentage of Levy		Amount	Percentage of Levy
2001	\$ 1,891,061	\$ 1,742,571	92.15%	\$ 66,525	\$ 1,809,096	95.67%
2002	\$ 1,996,581	\$ 1,831,812	91.75%	\$ 84,609	\$ 1,916,421	95.99%
2003	\$ 2,117,052	\$ 1,936,184	91.46%	\$ 109,150	\$ 2,045,334	96.61%
2004	\$ 2,385,976	\$ 2,233,532	93.61%	\$ 119,877	\$ 2,353,409	98.64%
2005	\$ 2,471,984	\$ 2,240,259	90.63%	\$ 140,397	\$ 2,380,656	96.31%
2006	\$ 2,897,008	\$ 2,650,741	91.50%	\$ 138,659	\$ 2,789,400	96.29%
2007	\$ 3,363,710	\$ 3,053,904	90.79%	\$ 185,405	\$ 3,239,309	96.30%
2008	\$ 4,918,559	\$ 4,087,005	83.09%	\$ 344,238	\$ 4,431,243	90.09%
2009	\$ 4,958,658	\$ 4,378,939	88.31%	\$ 338,819	\$ 4,717,758	95.14%
2010	\$ 4,771,906	\$ 4,293,008	89.96%	\$ 347,908	\$ 4,640,916	97.25%

Source: Baldwin County Revenue Commissioner.

CITY OF FAIRHOPE, ALABAMA
DIRECT AND OVERLAPPING SALES TAX RATES
CURRENT & PRIOR 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%
2010	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 TAXPAYERS
* LAST TWO YEARS

	Top 25 Taxpayers (approximate)	Total Tax	% of Total Tax
2009 (partial year)	\$ 632,797	\$ 1,003,864	63%
2010	\$ 2,124,169	\$ 4,443,325	48%

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

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

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Debt	Notes Payable	Capital Leases	General Obligation Debt	Utilities Revenue Debt	Notes Payable			
2001	7,008,152	19,888	741,893	519,688	12,710,000	-	315,375	6.11%	1,615
2002	11,138,233	7,348	1,030,084	480,867	19,065,014	195,000	850,159	9.01%	2,424
2003	9,988,410	285,104	979,700	471,590	18,470,000	177,395	1,076,351	8.30%	2,249
2004	9,522,129	246,607	772,224	462,871	18,340,000	158,761	993,213	7.46%	2,168
2005	9,046,405	650,780	290,221	453,595	18,615,000	593,077	448,007	7.29%	2,134
2006	11,437,202	1,943,967	140,632	442,820	18,045,000	446,267	284,572	7.46%	2,203
2007	18,430,349	230,130	111,245	431,688	17,465,000	293,764	122,438	8.28%	2,465
2008	17,474,232	81,604	91,092	413,404	16,865,000	170,145	7,387	7.26%	2,204
2009	16,768,901	30,364	69,942	271,397	16,235,000	86,035	-	6.65%	2,067
2010	15,773,979	-	47,745	256,962	15,610,000	24,681	-	6.43%	1,933

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>
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
2010	16,030,941	351,008	15,679,933	3.18%	956

CITY OF FAIRHOPE, ALABAMA
COMPUTATION OF OVERLAPPING DEBT
SEPTEMBER 30, 2010

	<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	\$ 15,821,724	100.00%	\$ 15,821,724
Overlapping Debt (Supported by ad valorem tax)			
Baldwin County	\$ 116,462,803	7.44% ⁽¹⁾	<u>8,664,833</u>
			<u>\$ 24,486,557</u>

(1) Percentage of net assessed value of property in City (\$318,127,040) to net assessed value of property in Baldwin County (\$4,275,161,020) on 10/1/2009.

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Debt limit	\$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	\$63,625,408
Total net debt applicable to limit	4,863,152	11,619,099	11,724,805	11,003,831	9,987,406	13,381,169	18,660,479	17,555,836	17,070,662	16,030,941
Legal debt margin	\$21,757,848	\$15,001,977	\$16,502,550	\$20,809,177	\$22,972,386	\$25,245,607	\$26,188,993	\$48,024,952	\$49,044,774	\$47,594,467
Total net debt applicable to limit as a percentage of debt limit	18.27%	43.65%	41.54%	34.59%	30.30%	34.64%	41.61%	26.77%	25.82%	25.20%

Legal Debt Margin Calculation for Fiscal Year 2010

Total assessed value	\$ 318,127,040
Debt limit (20% of total assessed value)	63,625,408
Debt applicable to limit:	
General obligation warrants	16,030,941
Notes payable	-
Total net debt applicable to limit	<u>16,030,941</u>
Legal debt margin	<u>\$ 47,594,467</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>
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	4,320	7.9%
2010	16,409	492,959,178	30,042	4,385	9.5%

Sources: U.S. Census Bureau
State of Alabama Department of Industrial Relations
Eastern Shore Chamber of Commerce
www.schooldigger.com

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

Employer	2010			2001		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Thomas Hospital	1,160	1	19.4%	650	1	11.7%
Grand Hotel	725	2	12.1%	400	2	7.2%
City of Fairhope	367	3	6.1%	196	3	3.5%
Wal-Mart	350	4	5.9%			
Publix	135	5	2.3%			
Winn-Dixie	113	6	1.9%			
Bruno's	67	7	1.1%			
Print Xcel (formerly Poser Business Forms)	61	8	1.0%	170	4	3.1%
Fokkert AIR Inc.	60	9	1.0%			
Balloons Everywhere	55	10	0.9%			
BF Goodrich Aerospace				110	5	2.0%
	<u>3,093</u>		<u>51.8%</u>	<u>1,526</u>		<u>27.5%</u>

Sources: Eastern Shore Chamber of Commerce
 State Department of Labor

2000 data used due to unavailability of 2001 employment data.

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

2001: 5,541 2010: 5,971

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,									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Government	38	42	46	48	49	58	61	62	54	55
Public Safety										
Police	29	32	35	37	39	40	41	42	51	48
Fire										
Firefighters and Dispatch	2	2	4	5	7	9	9	14	13	13
Highways and Streets										
Public Works	22	25	26	28	28	27	29	28	37	37
Sanitation	15	16	19	21	19	25	22	20	21	20
Culture and Recreation										
Recreation	6	6	6	8	8	8	8	9	18	18
Adult Recreation	1	1	1	1	1	1	3	6	10	13
Gas Department	16	16	16	17	17	16	16	19	18	18
Electric Department	15	15	17	17	17	17	20	19	17	17
Water/Waste Water Department	19	20	21	23	23	24	24	25	23	23
Golf Department	12	12	13	13	12	12	13	13	19	19
Total	175	187	204	218	220	237	246	257	281	281

Source: City of Fairhope human resources department

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

Function	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Police										
Physical arrests	532	562	539	840	949	1,255	1,710	1,131	993	833
Parking violations	152	120	65	65	27	56	13	71	285	201
Traffic violations	1,467	1,895	1,566	2,116	2,381	2,589	1,516	996	1,004	1,245
Fire										
Number of calls answered	288	311	332	364	429	381	339	432	427	658
Inspections	270	376	429	505	585	463	282	196	382	291
Highways and streets										
Street resurfacing (miles)	0.25	0.25	7.80	0.25	0.25	2.30	-	-	1.5	-
Potholes repaired	520	780	416	416	312	312	312	414	384	400
Sanitation										
Garbage collected (tons/year)	5,515	5,800	6,010	6,566	7,000	7,200	8,246	7,520	7,782	8,627
Trash collected (tons/year)	3,097	4,220	5,227	4,953	6,411	4,845	5,213	5,915	5,744	7,385
Recyclables collected (tons/year)	1,569	1,549	1,660	1,699	2,112	1,959	2,131	1,989	1,297	1,281
Culture and recreation										
Golf course rounds @ 9 hole rounds	72,922	69,874	70,948	82,695	80,603	93,082	92,702	88,475	53,755	62,720
Pavilion/park parties		***		9	87	59	74	88	84	80
Waste water										
Average daily sewage treatment (millions of gallons)	1.6	1.6	1.7	1.8	1.8	1.6	1.7	1.7	1.7	1.8

Sources: Various government departments

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

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

Function	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Public safety										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	21	24	26	29	32	33	35	36	40	45
Fire stations	3	3	3	3	3	3	3	3	3	3
Highways and streets										
Streets (miles)	69.7	69.7	75.2	82.2	84.2	89.7	89.7	98.1	98.1	98.1
Culture and recreation										
Parks acreage	168	168	168	168	168	168	208	208	208	248
Parks	46	46	46	46	46	46	50	50	50	51
Swimming pools	1	1	2	2	2	2	3	3	3	3
Tennis courts	4	4	4	4	4	4	6	6	6	6
Community center	2	2	2	2	2	2	2	1	3	3
Sewer										
Sanitary sewers (miles)	110	112	114	115	117	119	120	121	121	125
Storm sewers (miles)	1.75	3.75	6.55	9.45	12.45	14.05	15.55	16.75	16.75	16.75
Maximum daily treatment capacity (millions of gallons)	4	4	4	4	4	4	4	4	4	4

Sources: Various government departments

COMPLIANCE SECTION



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

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

We have audited the basic financial statements of the City of Fairhope, Alabama as of and for the year ended September 30, 2010, and have issued our report thereon dated January 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Fairhope, Alabama's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Fairhope, Alabama's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Fairhope, Alabama's internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

Hartmann, Blodgett & Kilgus, P.C.

Certified Public Accountants

January 21, 2011
Fairhope, Alabama