

CITY OF FAIRHOPE, ALABAMA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

CITY OF FAIRHOPE, ALABAMA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

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

CITY OF FAIRHOPE, ALABAMA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2013

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Letter of Transmittal	iv
Certificate of Achievement for Excellence in Financial Reporting	ix
Organization Chart	x
City Elected and Appointed Officials	xi
FINANCIAL SECTION	
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements	
Governmental Fund Financial Statements	
Fund Balance Sheets - Governmental Funds	16
Reconciliation of Governmental Fund Balances to Net Position of Governmental Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Proprietary Fund Financial Statements	
Fund Balance Sheets - Proprietary Funds	20
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	21
Statement of Cash Flows - Proprietary Funds	22
Discretely Presented Component Units	
Combining Statement of Net Position - Discretely Presented Component Units	23
Combining Statement of Activities - Discretely Presented Component Units	24
Notes to the Financial Statements	25

CITY OF FAIRHOPE, ALABAMA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2013

TABLE OF CONTENTS (continued)

	<u>Page</u>
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	51
Notes to Required Supplementary Information	52
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheets – Nonmajor Governmental Funds	54
Combining Statement of Revenues, Expenditures and Fund Balances - Nonmajor Governmental Funds	55
Fund Balance Sheet - Fairhope Public Library Board	56
Reconciliation of Governmental Fund Balances to Net Position of Governmental Activities - Fairhope Public Library Board	57
Statement of Revenues, Expenditures and Changes in Fund Balances - Fairhope Public Library Board	58
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities - Fairhope Public Library Board	59
Fund Balance Sheet - Fairhope Airport Authority	60
Reconciliation of Governmental Fund Balances to Net Position of Governmental Activities - Fairhope Airport Authority	61
Statement of Revenues, Expenditures and Changes in Fund Balances - Fairhope Airport Authority	62
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities - Fairhope Airport Authority	63
Schedule of Capital Projects Expenditures	64
Schedule of Information Required By Bond Indentures	65
Summary of Deposits, Withdrawals and Balances of Selected Trust Accounts as Required Under Certain Trust Indentures	66

CITY OF FAIRHOPE, ALABAMA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2013

TABLE OF CONTENTS (continued)

	<u>Page</u>
STATISTICAL SECTION	
Net Position by Component	68
Changes in Net Postion	69
Governmental Activities Tax Revenues by Source	71
Fund Balances of Governmental Funds	72
Changes in Fund Balances of Governmental Funds	73
Assessed and Estimated Actual Value of Taxable Property	74
Property Tax Rates - Direct and Overlapping Governments	75
Principal Property Taxpayers	76
Property Tax Levies and Collections	77
Direct and Overlapping Sales Tax Rates	78
Principal Sales Tax Remitters	79
Ratios of Outstanding Debt by Type	80
Ratios of General Bonded Debt Outstanding	81
Computation of Overlapping Debt	82
Legal Debt Margin Information	83
Demographic and Economic Statistics	84
Principal Employers	85
Full-time Equivalent City Government Employees by Function	86
Operating Indicators by Function	87
Capital Asset Statistics by Function	88
 COMPLIANCE SECTION	
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	89

INTRODUCTORY SECTION



January 15, 2014

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

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

Council Members

Kevin G. Boone

Diana J. Brewer

Jack Burrell

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

Richard A. Mueller, Sr.

Lisa A. Hanks, MMC
City Clerk

Nancy K. Wilson, CPA
City Treasurer

The Comprehensive Annual Financial Report (CAFR) of the City of Fairhope, Alabama (the "City") for the Fiscal Year ending September 30, 2013, 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. The reader is directed to the Management's Discussion and Analysis section of this report for discussion and insight into financial results and significant trends during the fiscal year.

REPORTING ENTITY

The City of Fairhope, incorporated in 1908, is governed by a Council / Mayor form of government, with each official elected on an at-large basis for a four-year term, and has a population of 14,184.

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, 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

161 North Section Street

P.O. Drawer 429

Fairhope, Alabama 36533

251-928-2136

251-928-6776 Fax

www.cofairhope.com

Printed on recycled paper

welcome center, a public golf course, indoor and outdoor swimming pools, a tennis complex, a skate park, a pet park, and sponsorship of many cultural events.

ECONOMIC CONDITION AND OUTLOOK

The City of Fairhope continued to show significant economic growth during the year. The revenue from new construction and building permits, inspection and impact fees increased over 27% from the prior year. Total revenue from these key economic indicators was \$1,184,019 for the year, an increase of \$216,290.

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. The Alabama Policy Institute ranked Fairhope the No. 1 Business-Friendly City, of Alabama's 50 largest cities (http://www.alabamapolicy.org/wp-content/uploads/API-Study_2013-50BusinessFriendlyCities_final.pdf). The rating was based on economic vitality, business tax burden, community allure, and transportation infrastructure. The City made a \$350,000 payment to five public schools in Fairhope for educational enhancement.

Fairhope gains strong economic stability from the significant industrial and commercial development in surrounding Baldwin County cities and in neighboring Mobile County. Austal Shipbuilding and Airbus aircraft manufacturer, both located within 30 miles of Fairhope, promise to positively impact commercial growth and property values in our area. Austal is currently building 52 combat ships for the U.S. Navy, and Airbus is set to begin construction of A320 planes during 2015, promising to fill several hundred manufacturing jobs. These factors, along with 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:

Sales tax receipts for the fiscal year totaled over \$5.43 million, exceeding the budgeted projection by approximately \$490,863. As part of the sales tax ordinance, one half of each month's sales tax receipts must go into reserves, to be used for debt prepayment and capital

improvements, as authorized by the City Council. The sales tax reserve account balance at fiscal year-end totaled \$7 million. Fairhope and surrounding Eastern Shore and Gulf coast cities continue to enjoy increasing revenues from tourism and corporate functions. Lodging tax and sales tax receipts, major indicators of tourism, remained strong during 2013, increasing 13% and 11%, respectively, over the prior year. The Mayor, City Council, and City department heads continue to strive to adhere to the City's established goals in planning for continuing growth, and in maintaining the quality of life and the highest level of governmental services to all residents in the City.

Fairhope and other small cities in Baldwin County remain somewhat buffered from national economic downturns due to high percentages of resident retirees and by the majority of stable service, health, and education employers. At fiscal year-end, according to the Alabama Department of Labor, the unemployment rate for Baldwin County was 5.7%, while the rate for the state as a whole was 6.4%. This is in sharp contrast to the national unemployment rate in September, 2013, of 7.2%, as recorded by the Bureau of Labor Statistics. The job growth rate for Baldwin County is 30%, as reported by the Eastern Shore Chamber of Commerce.

The Finance Department was once again awarded the Certificate of Achievement for Excellence in Financial Reporting for its CAFR for the fiscal year 2012, 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 2014 contains over \$13 million in the General, Capital Projects, Gas Tax, and Utility Funds for capital purchases, infrastructure improvements, and special projects throughout the City, with projected transfers of 50% of operating income from the Enterprise funds into the General fund. Other improvements being completed in the next year include street projects for resurfacing, widening and new sidewalks, drainage improvements, remodeling of the Community Park, and construction of new soccer complex. A portion of the sales tax reserve fund will be used to prepay \$2.4 million in General fund debt in the upcoming fiscal year.

The Fairhope Airport Authority will complete construction of the \$2 million Aviation Academy, and will begin instruction in the fall of 2014. The Aviation Academy will provide local flight training through cooperation between the Authority and local colleges. This endeavor goes hand-in-hand with the significant growth in the aircraft manufacturing and aerospace industries in neighboring Mobile County.

ENTERPRISE FUNDS HIGHLIGHTS

The City's enterprise funds, made up of Natural Gas, Electric, Water and Waste Water, recorded a combined increase in net assets of \$3,491,950 for the year, after transfers of \$3.24 million to support the General fund. Transfers to support the General fund represented 43% of the enterprise funds' operating income before transfers, a decrease of 13% from the prior year. The Enterprise funds expended over \$4.6 million in capital purchases, funded by operating income and reserves designated for capital purchases. Capital purchases included 6.7-acre property adjacent to the Utility warehouse property, for future utility growth, additions to distribution and collection systems totaling over \$2.7 million, painting of water towers, and upgrades to vehicles and equipment. Work began on the \$10 million upgrade to the Waste Water Treatment Plant. The utilities will be acquiring additional property during the next fiscal year.

Cash and cash equivalents in the enterprise funds totaled \$12,328,438 at year-end, an increase of 4% from the prior year. Total long-term debt at year-end for the Enterprise Funds was \$22,199,680, a decrease of \$1,151,580. 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 five fiscal years.

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, and Sanitation. The Governmental Funds experienced a net surplus of \$3,127,016 for the fiscal year, including receipt of \$3.24 million in transfers from the utilities during the year. Total revenues in the Governmental Funds, before utility transfers, increased by \$1,258,790 from the prior year.

Operating expenses in the Governmental fund during the 2013 fiscal year decreased by \$4,594,325, a decrease of 17%. Capital purchases and improvements in the Governmental Fund totaled \$1,418,813. The City completed a \$75,000 upgrade to the Volanta Ballpark, with the help of a 50% grant from the Alabama Department of Economic and Community Affairs and the Fairhope Recreation Board. A new Veterans' Memorial was constructed and dedicated in Henry George Park.

The Governmental Fund Balance was \$13,707,428 at year-end, representing an increase of \$3.13 million over the prior year. Total General Fund cash was \$13,358,303 at year-end, an increase of 15% over the prior year. Total long-term debt of the Governmental Funds at year-end was \$12,714,936, a decrease of \$1,485,545 in long term debt and \$1,705,502 in short term debt.

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,

Nancy K. Wilson, CPA
City Treasurer



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**City of Fairhope
Alabama**

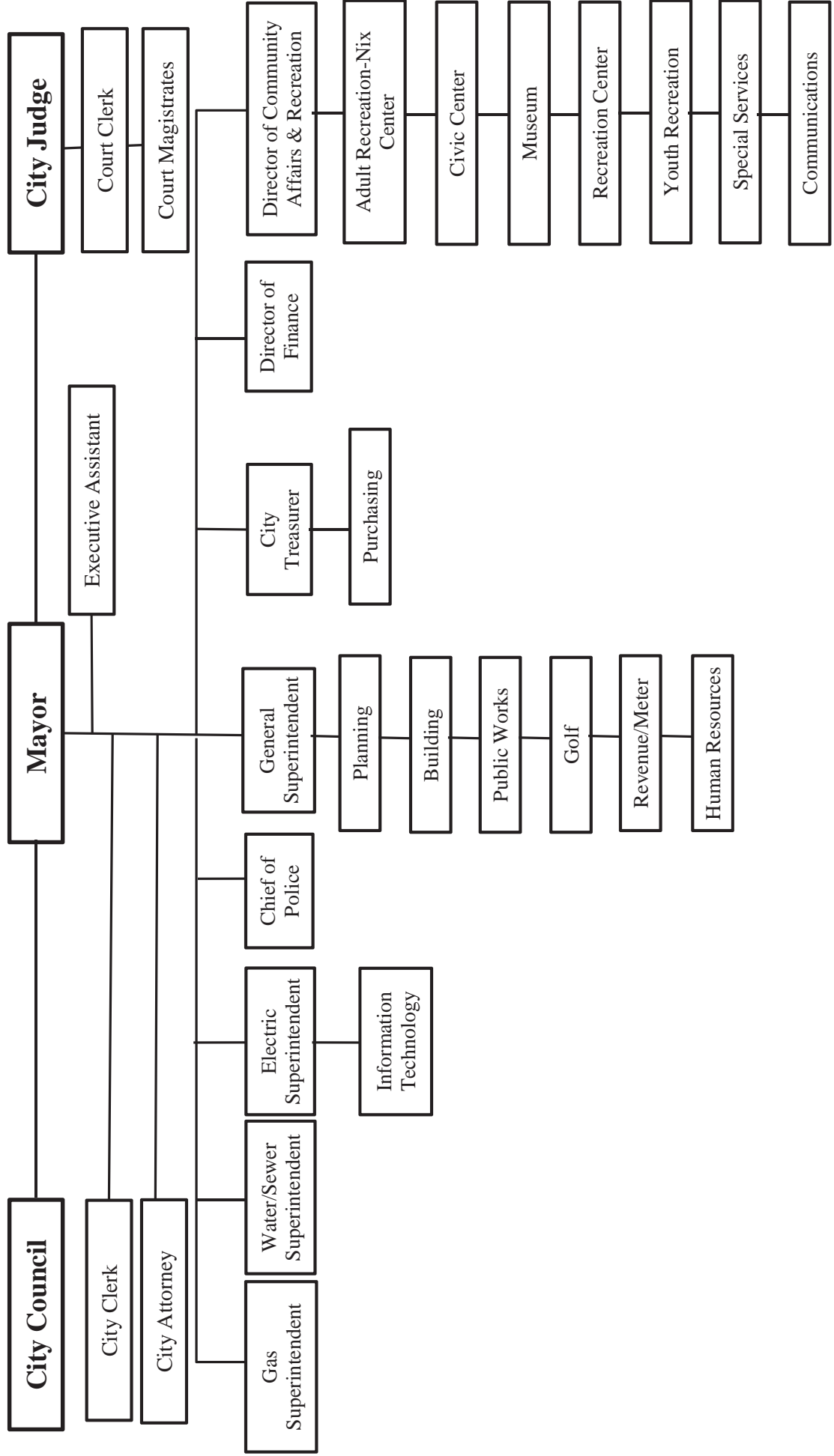
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2012

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

Executive Director/CEO

CITY OF FAIRHOPE, ALABAMA
CITY ELECTED AND APPOINTED OFFICIALS
SEPTEMBER 30, 2013



CITY OF FAIRHOPE, ALABAMA
CITY ELECTED AND APPOINTED OFFICIALS
SEPTEMBER 30, 2013

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

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



Certified Public Accountants & Consultants

Hartmann, Blackmon & Kilgore, P.C.

806 North Section Street
P.O. Box 1469
Fairhope, Alabama 36532
Phone: 251.928.2443
Fax: 251.928.6921

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fairhope, Alabama, as of and for the year then ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of City of Fairhope, Alabama, as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-13 and 51-53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Fairhope, Alabama's basic financial statements. The introductory section, other supplementary information, and statistical information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2014, on our consideration of City of Fairhope, Alabama's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Fairhope, Alabama's internal control over financial reporting and compliance.


Certified Public Accountants

January 15, 2014
Fairhope, Alabama

THIS PAGE INTENTIONALLY LEFT BLANK

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Fairhope's (the "City") financial performance provides a narrative overview of the City's financial activities for the fiscal year ended September 30, 2013. The intent of this Management's Discussion and Analysis (MD&A) is to review the City's financial performance as a whole. Please read it in conjunction with the City's financial reports, which follow this section and the additional information furnished in the letter of transmittal, which can be found in the introductory section of this comprehensive annual financial report (CAFR).

FINANCIAL HIGHLIGHTS

- Assets of the City exceeded its liabilities at the close of the fiscal year by \$120,133,627, a current year increase in net position of \$5,669,310 (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 \$13,707,428, an increase of \$3,127,016 from the prior year. The General Fund closed with a fund balance of \$10,447,451, an increase of \$151,904. The Capital Projects Fund had an increase in fund balance of \$2,463,134 after capital expenditures of \$640,917 and transfers from the General Fund of \$2,724,225 (page 18). A detailed explanation of these increases can be viewed on page six of this MD&A.
- City wide, governmental and business type funds, cash (including restricted cash) totaled \$37,908,688, an increase of \$1,771,093 over the previous year. Governmental Funds cash totaled \$13,664,062 at September 30, 2013 (page 14). This is an increase of \$1,712,808 over the prior year. Most of the increase, approximately \$1.4 million, was from funds set aside for capital projects in anticipation of projects scheduled for the first part of fiscal year 2014. The business type funds cash totaled \$24,244,626 at year end (page 20), an increase of \$58,285 over last year. The Electric fund's purchase of the Pecan Avenue property, approximately \$465,000, in April 2013 resulted in a smaller increase in business type funds cash than expected. Revenues in the governmental funds increased approximately \$1.3 million from the previous year. Expenses decreased approximately \$5 million.
- During fiscal 2013, revenues from the City's 2% sales tax totaled \$5,437,863, an increase of approximately \$540,000 over the previous year. At year end, the City's reserve fund was \$7 million with \$2.4 million paying off the library bridge loan of \$721,442 and a street improvement line of credit of \$1,705,502.
- The combined governmental funds expended \$1,418,813 for capital projects and purchases, including \$637,460 for special projects, including the Troyer Boothe Extension project, \$127,110 of impact fee revenues for police, transportation, and recreation projects and \$654,243 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 \$6,728,201, compared to \$6,493,803 for fiscal 2012. Although revenues increased approximately \$1.5 million, costs of energy and operating expenses also increased about \$1.4 million. The utilities made transfers to the General Fund of \$3,236,251 from income, which is \$937,551 less than transfers last year. The business-type activities recorded an increase in net position, after transfers, of \$3,491,950 (page 21). Details pertaining to these increases can be seen on pages six and seven of this MD&A.
- The City's business-type activities made additions to property, plant and equipment of \$4,611,394, 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 36).
- The City of Fairhope's long term debt decreased by \$2,637,125 during fiscal year 2013, yielding total outstanding debt of \$34,914,616 compared to the previous year's \$37,551,741. Additionally, in fiscal year 2013, the City paid off a street improvement line of credit outstanding at fiscal year end 2012 in the amount of \$1,705,502, as mentioned above. This combined with long term debt, totaled a reduction in total debt of \$4,342,627. Governmental activities total debt was \$12,714,936. Business-type activities total debt was \$22,199,680 (pages 37 and 38).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

For governmental activities, the fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements start on page 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 51.

The Statement of Net Position and the Statement of Activities

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

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

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

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

Net position may serve over time as a useful indicator of a government's financial condition. The City's assets exceeded liabilities by \$120,133,627 at the close of the most recent fiscal year, as shown in **Figure 1**, page 9 and page 14. This is an increase of \$5,669,310. The two major factors contributing to this increase are as follows: expenditures among the governmental funds decreased \$2,386,924 from last year due mainly from a decrease in street department expenditures of \$1.5 million as a result of the completion of \$1.7 million in paving projects in the previous year. In addition, transfers from the utility funds decreased \$937,551 from the prior year.

The largest portion of the City's net position, approximately 80 percent, reflects its investment in capital assets (e.g. land, streets, sidewalks, buildings, infrastructure, equipment, etc.), less any related debt still outstanding used to acquire those assets. The City uses these capital assets to provide services and utilities to citizens; therefore, these assets are not

available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, approximately 10.4 percent, represents resources that are subject to restrictions as to how they may be used. Funds restricted for debt service were \$4,038,197; for capital projects, \$1,154,000; for road maintenance and construction, \$274,746; for City Council determined emergencies, \$7,000,000. Restricted funds decreased approximately \$7.9 million from the previous year.

The unrestricted net position, approximately 10 percent, may be used to meet the City's ongoing obligations to citizens and creditors. Unrestricted net position, \$12,023,906, increased \$1,919,186 during fiscal 2013 (pages 9 and 14).

Under Government Accounting Standards Statement 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions* (GASB 45), the City's Annual Required Contribution (ARC) was actuarially determined to be \$951,221. The current year retirement premium was \$311,882. The liability for OPEB obligation at year end was \$2,624,374. This amount is reported on the Statement of Net Position, page 14, as Net OPEB Obligation and on page 47, Note 17.

Effective October 1, 2012, the City implemented Government Accounting Standards Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). One example affecting the City regarding this new standard is a service concession arrangement entered into by the Airport Authority and the Baldwin County Board of Education (BCBOE). See Note 20, page 50 for detailed explanation of this agreement. At year end, the balance of this deferred inflow of resources is \$2.7 million.

Several new accounting principles have been issued and are discussed in Note 1, pages 28 and 29.

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 Position. The City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows. The City's proprietary funds include the Electric Fund, Natural Gas Fund and Water and Waste Water Fund, which are used to account for the operations of the utilities.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of

spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unrestricted fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Figure 3, page 11, presents summaries of the governmental funds (General Fund, Capital Projects, Debt Service, Gas Tax, and Impact Fees) revenues and expenditures, by function, for the fiscal year ended September 30, 2013, and the amounts of increases and decreases in relation to prior year revenues and expenditures.

Governmental activities revenues increased \$1,258,790 from the previous fiscal year. Expenditures of Governmental funds decreased \$4,594,325 for the same period. The following significant events, related to revenues and expense, occurred during fiscal 2013 (the figures are rounded):

Related to revenue:

- Local taxes, including sales and lodging were up \$629,000, while those related to property and liquor were down \$294,000, resulting in a net increase of \$335,000.
- Licenses and permits as well as fines and forfeitures increased by \$121,000.
- State of Alabama and United States Government tax and grant income increased by \$355,000.
- Charges for services were up \$221,000 over last year due to impact fee income.
- Income from the City's golf course, approximately \$1,113,000 was up \$112,000 from the previous year due to an increase in food and beverage sales as a result of the City reacquiring the grill in October 2012.

Related to expenditure:

- Capital outlay expenditures were approximately \$1,419,000, up \$754,000 from the prior year. Expenditures of \$665,000 for fiscal 2012 included \$85,000 for special projects, \$80,000 for impact fees recreation projects and \$500,000 for vehicles and equipment. Major capital expenditures for fiscal 2013 were: \$637,000 for special projects, \$127,000 for impact fees transportation projects and \$654,000 for vehicles and equipment.
- The City's General Department had a decrease in expenditures of \$164,000. This was mainly due to sidewalk projects of \$270,000 that were completed in the prior year. The remainder of the difference, approximately \$106,000, relates to the net increase and decrease in grant expenditures of \$82,000 and employee costs of \$189,000, respectively.
- The Police Department had decreases of \$507,000. Major decreases for 2013 included employee costs of \$459,000 and jail expenses of \$55,000.
- The Street Department's expenses were down \$1.5 million, primarily because of the completion of paving projects of \$1.7 million in the previous year.
- Debt service payments, \$2 million, decreased \$3.4 million from the previous year's \$5.4 million total. No refunding of debt occurred in 2013 as opposed to the refunding of the 2002 General Obligation Warrants, \$4.2 million, in the prior year.

Fund Balances and Net Position

When reviewing the City's finances, it is important to ask if the City as a whole is in better financial condition when compared with the prior year. An indicator of the City's financial health is whether the fund balances of the governmental and net position of the proprietary funds increased or decreased as a result of operating activities. Fund balances for all governmental funds, including General Fund, Capital Projects Fund, and Other Governmental Funds totaled \$13,707,428, an increase of \$3,127,016. This follows an increase in fund balances of \$2,226,652 the previous year. The General Fund had a fund balance of \$10,447,451, an increase of \$151,904. The Capital Projects Fund had an increase in fund balance of \$2,463,134 after \$3,457 for park projects, capital outlay of \$637,460 and transfers from the General Fund of \$2,724,225. The Other Governmental Funds had fund balances of \$1,866,267 at year end, including restrictions for Debt Service of \$339,308, an increase of \$14,094 and assigned funds reported in special revenue fund (Gas Tax and Impact Fees) of \$1,252,213, an increase of \$223,138, after expenditures of \$127,110 for capital outlay and \$28,498 for road repair and maintenance. (see pages 16, 18, 54 and 55). Increases and decreases in revenues and expenses are discussed in the **Governmental Funds** section of this MD&A, pages 5 and 6 above.

The governmental activities' net position at year end was \$76,265,948, an increase of \$2,177,360. This increase is directly related to transfers from the utilities in the amount of \$3,236,251. The Gas, Electric and Water and Waste Water Funds had a net position of \$43,867,679 at year end, an increase of \$3,491,950 (see pages 15 and 21). The increase in the previous year was \$2,320,001. The significant change of \$5,669,310 from last year to this year is due to

an increase in the change in net position before transfers and investment earnings.

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

General Fund Balance: The General Fund had an increase in revenues of \$571,198. Expenditures for the General Fund were up \$807,961 from the prior year. Transfers from the proprietary funds (Gas, Electric, Water and Waste Water Funds) were \$3,236,251 for the current year, a decrease of \$937,551 from the prior year. After transfers, the fund balance of the General Fund increased by \$151,904 during fiscal 2013. The most significant revenue increase was related to local taxes of \$335,521, with the majority from sales tax. Another factor affecting the fund balance of the General Fund was an increase in intergovernmental and grant income of \$228,457.

The most significant increase relating to General Fund expenditures was in debt service payments. Total payments of \$732,270 increased \$552,973 over last year due to the City's payoff of the library bridge loan in November 2012. Street department expenditures were up \$187,337 over last year due to an increase in employee costs.

Enterprise Operations: The City's enterprise operations consist of the Electric Fund, Natural Gas Fund and Water and Waste Water Fund. The enterprise funds operating revenues increased by \$1,475,500 over the prior fiscal year. This represented a 4.23% increase. Operating expenses increased by \$1,378,972, a 5% increase. The increase in expenses was due to increases in energy purchases for resale of \$275,006, an increase of 1.9%. Combined, other expenses were up from the prior year, \$1,103,966. Of this, \$295,767 was from the increase in community development projects, \$235,096 was from maintenance, \$198,077 was from insurance, \$166,408 was from other operating expenses, \$117,917 was from depreciation and \$79,254 was from salaries. Utility rate calculations are based on costs of energy, expenditures for operations, debt service costs, infrastructure upgrades, capacity increases and transfers to the General Fund to fund public safety, recreational and environmental activities of the City. The City employs a consultant to assist in the rate setting process. Income for the enterprise funds, before transfers to the General Fund, was \$6,728,201, an increase of \$234,398. Transfers to the General Fund were \$3,236,251, or 48% of income. For fiscal 2012 the transfers to the General Fund were \$4,173,802, or 64% of income. For fiscal 2011 the transfers were \$4,827,147 or 49%. The reduced transfers, as a percent of income, have enabled the utilities to fund capital additions and reserves for emergencies. The change in net position of the three utilities was an increase of \$3,491,950.

General Fund Budgetary Highlights

Although there is no legal requirement to establish a budget, the City of Fairhope prepares an annual budget. The preparation process involves input from the Mayor, City managers, Council members and the City's Budget committees. Page 52 of this report lists the procedure for preparing the annual budgets. No adjustments to the budget were made during the year.

On page 51, in the Required Supplementary Information section of this report, there is a budgetary comparison schedule for the General Fund.

For the purposes of this discussion, variance amounts in excess of \$50,000 in each category or department will be discussed. All amounts are rounded.

The total revenue variance was \$1,042,000 for fiscal 2013. Local taxes were \$336,000 over budget. Licenses and permits were \$113,000 over budget. Of that amount, \$94,000 was from building permits due to heightened growth and new businesses. Charges for services were \$108,000 over budget. Subdivision fees related to an improved construction outlook in Fairhope, and sanitation collections exceeded budgeted amounts. Intergovernmental revenues were up \$367,000. Approximately \$345,000 of unbudgeted income came from state grants as well as Alabama Trust Fund receipts. Other revenue was up \$95,000 from the sale of fixed assets.

At year end, expenditures were \$638,000 under budget. The favorable variance in the general government was \$455,000. This was solely due from less than anticipated employee medical insurance costs, totaling \$488,000. Golf was under budget \$159,000 due mainly to a decrease in employee costs of \$100,000. The remaining amount was from modest decreases in food and beverage purchases, supplies, and pro shop sales expenses. Adult recreation was \$60,000 under budget due to employee cost reductions as well as decreases in maintenance and supplies.

The favorable variance in capital outlay was \$233,000 was due to an overall departmental cutback in capital spending throughout the year. In contrast, the police department had an unfavorable variance of \$184,000 due to unbudgeted employee costs of \$49,000, greater than anticipated casualty and workers comp insurance of \$79,000, and increases in supplies, maintenance and equipment and vehicle repairs totaling \$54,000. Sanitation had an unfavorable variance of

\$56,000 due primarily to an increase in casualty and workers comp insurance. Recreation also had an unfavorable variance of \$62,000 due to increases in employee costs, supplies and maintenance, and higher than expected casualty and workers comp insurance.

Capital Assets

As of September 30, 2013, the City's governmental activities had \$78,353,424 invested in capital assets, net of depreciation. This is a decrease of \$1,828,521 from the prior year. The business-type activities had invested capital assets, net of depreciation of \$43,599,981, an increase of \$2,651,558 (see Note 3, Fixed Assets, pages 35 and 36).

The City's governmental activities capital assets, at cost, were \$126,507,929 at September 30, 2013, an increase of \$613,446 from the prior year. The business-type activities, the Gas, Electric and Water and Waste Water Funds, had capital assets, at cost, of \$79,686,065, an increase of \$4.6 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, 2013, the City had long-term debt of \$34,914,616 (excluding premiums and discounts), including bonds and warrants payable, notes payable, and obligations under capital leases. This is a net decrease, city wide, of \$2,637,125 from the prior year. Governmental activities' decrease in long-term debt was \$1,485,545. Business-type activities' decrease in long-term debt was \$1,151,580. See Notes 5 through 9 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 set a budget increase in revenue for fiscal 2014 of \$1.4 million. Of this amount, \$1.1 million is from an anticipated increase in local taxes, primarily sales tax due to additional commercial property being annexed into the City.

Similarly, the General Fund budget has a \$788,000 increase in expenses for fiscal 2014, compared to fiscal 2013. This is mainly from a \$1,012,000 increase in the General administrative department due to a shift in budget of casualty/workers comp insurance for all General Fund departments. This shift in budget was a result of the disproportionate insurance costs among the individual General Fund departments in past years. Other budgeted increases are in the police department, \$109,000; recreation, \$75,000; street, \$56,000; and agency appropriations, \$44,000. Decreases among all other cost centers including fire, adult recreation, sanitation, golf and debt service, totaled \$508,000.

Gas Fund, Electric Fund and Water and Waste Water Fund operations budgeted revenues are expected to increase 3% over actual amounts for 2013. Costs of energy and operating expenses in the three utilities are projected to increase by approximately 1% over actual amounts for 2013.

For the business-type activities, reported as Gas Fund, Electric Fund and Water and Waste Water Fund, a projected excess of revenues over expenditures, before transfers, is \$8,309,259 for fiscal 2014, compared to actual \$6,728,201 for fiscal 2013. This represents a projected increase of 23%. Transfers to the General Fund for fiscal 2014 are budgeted to be \$3,910,659, compared to \$3,910,214 for 2013. This represents a .01% increase. Earnings from operations in the utilities are monitored during the year to insure that excessive amounts are not transferred.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need any additional financial information, please contact Jill Cabaniss, Finance Director, or Nancy Wilson, City Treasurer, at 161 N. Section Street, Fairhope, Alabama, (251) 928-2136.

Figure 1

CITY OF FAIRHOPE
CONDENSED STATEMENT OF NET POSITION FOR THE YEAR ENDED 9/30/2013

	COMPONENT UNITS									
	GOVERNMENTAL ACTIVITIES		BUSINESS - TYPE ACTIVITIES		TOTAL PRIMARY GOVERNMENT		LIBRARY		AIRPORT AUTHORITY	
	9/30/2013	9/30/2012	9/30/2013	9/30/2012	9/30/2013	9/30/2012	9/30/2013	9/30/2012	9/30/2013	9/30/2012
Current & Other Assets	\$ 14,575,528	\$ 12,908,889	\$ 28,441,845	\$ 27,582,275	\$ 43,017,373	\$ 40,491,164	\$ 163,570	\$ 125,316	\$ 3,429,128	\$ 715,140
Capital Assets, net	78,353,424	80,181,945	43,599,981	40,948,423	121,953,405	121,130,368	50,635	60,710	22,380,982	22,381,758
Total Assets	\$ 92,928,952	\$ 93,090,834	\$ 72,041,826	\$ 68,530,698	\$ 164,970,778	\$ 161,621,532	\$ 214,205	\$ 186,026	\$ 25,810,110	\$ 23,096,898
Long-Term Debt	\$ 12,559,397	\$ 13,802,816	\$ 21,088,313	\$ 22,242,224	\$ 33,647,710	\$ 36,045,040	\$ -	\$ -	\$ 8,440,000	\$ 8,695,000
Other Liabilities	4,103,607	5,199,430	7,085,834	5,912,745	11,189,441	11,112,175	7,667	3,698	255,000	240,000
Total Liabilities	16,663,004	19,002,246	28,174,147	28,154,969	44,837,151	47,157,215	7,667	3,698	8,695,000	8,935,000
Service concession arrangement revenue applicable in future years	-	-	-	-	-	-	-	-	2,700,000.00	-
Deferred Inflows of Resources	-	-	-	-	-	-	-	-	2,700,000.00	-
Net Position:										
Invested in Capital Assets, net of related debt	65,671,272	66,016,012	29,971,506	17,990,946	95,642,778	84,006,958	50,635	60,710	13,685,982	13,446,758
Restricted	8,768,054	8,015,592	3,698,889	12,337,047	12,466,943	20,352,639	-	-	-	-
Unrestricted	1,826,622	56,984	10,197,284	10,047,736	12,023,906	10,104,720	155,903	121,618	729,128	715,140
Total Net Position	76,265,948	74,088,588	43,867,679	40,375,729	120,133,627	114,464,317	206,538	182,328	14,415,110	14,161,898
Total Liabilities & Net Position	\$ 92,928,952	\$ 93,090,834	\$ 72,041,826	\$ 68,530,698	\$ 164,970,778	\$ 161,621,532	\$ 214,205	\$ 186,026	\$ 25,810,110	\$ 23,096,898

Figure 2

**CITY OF FAIRHOPE
CONDENSED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED 9/30/2013**

	COMPONENT UNITS									
	GOVERNMENTAL ACTIVITIES		BUSINESS - TYPE ACTIVITIES		TOTAL PRIMARY GOVERNMENT		LIBRARY		AIRPORT AUTHORITY	
	9/30/2013	9/30/2012	9/30/2013	9/30/2012	9/30/2013	9/30/2012	9/30/2013	9/30/2012	9/30/2013	9/30/2012
Program Revenues										
Charges for Services	\$ 9,320,403	\$ 9,409,956	\$ 36,397,400	\$ 34,921,900	\$ 45,717,803	\$ 44,331,856	34,803	37,396	158,316	145,792
Operating Grants & Contributions	-	-	-	-	-	-	705,179	670,950	601,990	788,671
Capital Grants & Contributions	438,033	1,317,475	-	-	438,033	1,317,475	-	-	-	-
General Revenues										
Taxes	10,944,886	10,609,365	-	-	10,944,886	10,609,365	-	-	-	-
Intergovernmental	596,816	314,525	-	-	596,816	314,525	-	-	-	-
Investment Earnings	251,512	226,642	25,268	20,417	276,780	247,059	-	-	1,667	3,406
Other	213,169	143,319	-	-	213,169	143,319	-	-	-	-
Total Revenues	21,764,819	22,021,282	36,422,668	34,942,317	58,187,487	56,963,599	739,982	708,346	761,973	937,869
Expenses										
General Government	7,451,793	8,103,118	-	-	7,451,793	8,103,118	-	-	-	-
Sanitation	1,824,259	1,814,947	-	-	1,824,259	1,814,947	-	-	-	-
Police	4,441,429	4,925,437	-	-	4,441,429	4,925,437	-	-	-	-
Fire	407,361	461,865	-	-	407,361	461,865	-	-	-	-
Airport	443,000	281,124	-	-	443,000	281,124	-	-	-	-
Street	3,996,599	5,502,244	-	-	3,996,599	5,502,244	-	-	-	-
Adult Recreation	640,917	613,614	-	-	640,917	613,614	-	-	-	-
Recreation	1,281,865	1,176,191	-	-	1,281,865	1,176,191	-	-	-	-
Golf	987,869	932,284	-	-	987,869	932,284	-	-	-	-
Public Library Board	840,636	810,636	-	-	840,636	810,636	-	-	-	-
Interest on Long Term Debt	507,982	589,174	-	-	507,982	589,174	-	-	-	-
Electric	-	-	17,164,781	16,912,834	17,164,781	16,912,834	-	-	-	-
Natural Gas	-	-	5,234,887	4,484,683	5,234,887	4,484,683	-	-	-	-
Water and Wastewater	-	-	7,294,799	7,050,997	7,294,799	7,050,997	-	-	-	-
Golf	-	-	-	-	-	-	-	-	-	-
Airport Authority	-	-	-	-	-	-	-	-	508,761	564,937
Fairhope Public Library	-	-	-	-	-	-	715,772	696,769	-	-
Total Expenses	22,823,710	25,210,634	29,694,467	28,448,514	52,518,177	53,659,148	715,772	696,769	508,761	564,937
Change in Net Position before transfers	(1,058,891)	(3,189,352)	6,728,201	6,493,803	5,669,310	3,304,451	24,210	11,577	253,212	372,932
Transfers	3,236,251	4,173,802	(3,236,251)	(4,173,802)	-	-	-	-	-	-
Change in Net Position	2,177,360	984,450	3,491,950	2,320,001	5,669,310	3,304,451	24,210	11,577	253,212	372,932
Net Position, beginning	74,088,588	73,104,138	40,375,729	38,055,728	114,464,317	111,159,866	182,328	170,751	14,161,898	13,788,966
Net Position, ending	\$ 76,265,948	\$ 74,088,588	\$ 43,867,679	\$ 40,375,729	\$ 120,133,627	\$ 114,464,317	\$ 206,538	\$ 182,328	\$ 14,415,110	\$ 14,161,898

Figure 3

**Statement of Revenues and Expenditures
Governmental Funds
For the Year Ended September 30, 2013**

Revenues	9/30/2013 Total	9/30/2012 Total	Increase (Decrease)
Local taxes	\$ 10,944,885	\$ 10,609,364	335,521
Licenses & Permits	2,731,766	2,612,793	118,973
Fines & Forfeitures	291,749	289,432	2,317
State of Alabama	532,116	206,254	325,862
U. S. Government	490,533	461,090	29,443
Contribution from Public Library Board	1,500	1,000	500
Interests and Rents	253,003	226,748	26,255
Charges for Service	5,317,255	5,096,593	220,662
Golf Course Revenue	1,113,277	1,001,627	111,650
Assessments	-	3,659	(3,659)
Other	644,170	552,904	91,266
Totals	\$ 22,320,254	\$ 21,061,464	\$ 1,258,790
Expenditures	Total	Total	Increase (Decrease)
General	\$ 6,862,597	\$ 7,026,721	(164,124)
Sanitation	1,643,715	1,607,918	35,797
Police	4,164,674	4,671,591	(506,917)
Fire	312,647	339,080	(26,433)
Airport	443,000	281,124	161,876
Street Department	2,358,383	3,872,517	(1,514,134)
Adult Recreation	543,109	525,212	17,897
Debt Service			
Principal	1,485,545	4,804,960	(3,319,415)
Interest	508,483	616,221	(107,738)
Recreation Department	1,062,174	989,463	72,711
Golf	907,216	863,593	43,623
Public Library Board	630,000	600,000	30,000
Other	89,133	160,888	(71,755)
Capital Outlay	1,418,813	664,526	754,287
Totals	\$ 22,429,489	\$ 27,023,814	\$ (4,594,325)

Figure 4

**City of Fairhope
Capital Assets**

<u>Governmental Activities</u>	Balance @ 10/1/12	Additions	Reclassifications/ Retirements	Balance @ 9/30/13
Land	\$ 19,827,727	\$ 10,700	\$ -	\$ 19,838,427
Buildings & Structures	33,765,293	793,384	-	34,558,677
Vehicles and equipment	13,029,470	625,429	(816,067)	12,838,832
Infrastructure	59,271,993			59,271,993
Total Capital Assets	\$ 125,894,483	\$ 1,429,513	\$ (816,067)	\$ 126,507,929

<u>Business-type activities</u>	Electric Fund	Natural Gas Fund	Water/Wastewater Fund
Balance @ 10/01/12	\$ 23,068,778	\$ 12,599,397	\$ 39,406,496
Additions to Plant	1,230,584	310,851	1,227,915
Addition to land, buildings, vehicles and equipment	99,822	589,070	132,550
Completed Construction in Progress	468,663	-	551,939
Disposals	-	-	-
Total Capital Assets @ 9/30/2013	\$ 24,867,847	\$ 13,499,318	\$ 41,318,900

Figure 5
City of Fairhope
Debt Administration

<u>LONG TERM DEBT</u>	<u>GOVERNMENTAL FUNDS</u>	<u>BUSINESS-TYPE ACTIVITIES</u>
General Obligation Warrants, 2011	\$ 3,589,396	-
General Obligation Warrants, 2007	6,700,000	-
General Obligation Refunding Warrant, 2009	2,425,540	-
Utilities Revenue Warrants, 2011	-	15,225,000
Utilities Revenue Warrants, 2005	-	5,905,000
Utilities Revenue Warrants, 2009	-	860,000
General Obligation Refunding Warrant, 2009	-	44,460
General Obligation Warrants, 2011	-	165,220
Compensated absences	<u>1,183,228</u>	<u>531,072</u>
TOTALS	\$ <u>13,898,164</u>	\$ <u>22,730,752</u>

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

BASIC FINANCIAL STATEMENTS

CITY OF FAIRHOPE, ALABAMA

**STATEMENT OF NET POSITION
SEPTEMBER 30, 2013**

	Governmental Fund Types			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash	\$ 13,358,303	\$ 12,328,438	\$ 25,686,741	\$ 3,569,467
Restricted cash	305,759	11,916,188	12,221,947	-
Receivables, net	721,536	2,504,450	3,225,986	-
Internal balances	20,747	(20,747)	-	-
Inventories	-	781,348	781,348	-
Other assets	169,183	932,168	1,101,351	23,231
Land and construction in progress	19,838,427	1,404,372	21,242,799	11,061,874
Capital assets, net	58,514,997	42,195,609	100,710,606	11,369,745
Total assets	<u>\$ 92,928,952</u>	<u>\$ 72,041,826</u>	<u>\$ 164,970,778</u>	<u>\$ 26,024,317</u>
LIABILITIES				
Accounts payable and accrued expenses	\$ 801,653	\$ 3,009,193	\$ 3,810,846	\$ 7,669
Unearned revenue	737	-	737	-
Customer deposits	-	2,250,830	2,250,830	-
Long-term liabilities				
Due within one year	1,305,983	1,196,671	2,502,654	255,000
Due in more than one year	12,559,397	21,088,313	33,647,710	8,440,000
Net OPEB obligation	1,995,234	629,140	2,624,374	-
Total liabilities	<u>16,663,004</u>	<u>28,174,147</u>	<u>44,837,151</u>	<u>8,702,669</u>
DEFERRED INFLOWS OF RESOURCES				
Service concession arrangement revenue applicable to future years	-	-	-	2,700,000
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,700,000</u>
NET POSITION				
Net investment in capital assets	65,671,272	29,971,506	95,642,778	13,736,619
Restricted for:				
Debt service	339,308	3,698,889	4,038,197	-
Capital projects	1,154,000	-	1,154,000	-
Road maintenance and construction	274,746	-	274,746	-
Council approved emergencies	7,000,000	-	7,000,000	-
Unrestricted	1,826,622	10,197,284	12,023,906	885,029
Total net position	<u>76,265,948</u>	<u>43,867,679</u>	<u>120,133,627</u>	<u>14,621,648</u>
Total liabilities and net position	<u>\$ 92,928,952</u>	<u>\$ 72,041,826</u>	<u>\$ 164,970,778</u>	<u>\$ 26,024,317</u>

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

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2013

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Units
					Governmental Activities	Business-type Activities	
Primary Government							
Governmental activities:							
General	\$ 7,451,793	\$ 6,052,493	\$ -	10,700	\$ (1,388,600)	\$ (1,388,600)	
Sanitation	1,824,259	1,431,883	-	-	(392,376)	(392,376)	
Police	4,441,429	291,749	-	-	(4,149,680)	(4,149,680)	
Fire	407,361	-	-	-	(407,361)	(407,361)	
Airport Authority	443,000	-	-	-	(443,000)	(443,000)	
Street	3,996,599	-	-	425,833	(3,570,766)	(3,570,766)	
Adult Recreation	640,917	39,977	-	-	(600,940)	(600,940)	
Recreation	1,281,865	391,024	-	-	(890,841)	(890,841)	
Golf	987,869	1,113,277	-	-	125,408	125,408	
Public Library Board	840,636	-	-	1,500	(839,136)	(839,136)	
Interest on long term debt	507,982	-	-	-	(507,982)	(507,982)	
Total governmental activities	22,823,710	9,320,403	-	438,033	(13,065,274)	(13,065,274)	
Business-type activities							
Electric	17,164,781	19,647,662	-	-	-	2,482,881	
Natural gas	5,234,887	6,769,649	-	-	-	1,534,762	
Water and Waste water	7,294,799	9,980,089	-	-	-	2,685,290	
Total business-type activities	29,694,467	36,397,400	-	-	-	6,702,933	
Total primary government	\$ 52,518,177	\$ 45,717,803	\$ -	\$ 438,033	(13,065,274)	(6,362,341)	
Component Units	\$ 1,224,533	\$ 193,119	\$ 1,307,169	\$ -	\$ -	\$ 275,755	
General revenues:							
Property taxes					4,298,046	4,298,046	
Sales tax					5,437,863	5,437,863	
Liquor taxes					425,816	425,816	
Lodging taxes					643,495	643,495	
Other taxes					139,666	139,666	
Intergovernmental					596,816	596,816	
Investment earnings					251,512	251,512	
Other					213,169	213,169	
Transfers					3,236,251	(3,236,251)	
Total general revenues and transfers					15,242,634	(3,210,983)	
Change in net position					2,177,360	3,491,950	
Net position, beginning, as previously reported					74,088,588	40,375,729	
Net position, ending					76,265,948	43,867,679	
					\$ 120,133,627	\$ 14,621,648	

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

CITY OF FAIRHOPE

FUND BALANCE SHEETS
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 10,204,587	\$ 1,587,059	\$ 1,566,657	\$ 13,358,303
Investments	-	-	305,759	305,759
Receivables, net	695,811	108	25,617	721,536
Due from other funds	20,747	-	-	20,747
Other assets	34,925	-	-	34,925
Total assets	<u>\$ 10,956,070</u>	<u>\$ 1,587,167</u>	<u>\$ 1,898,033</u>	<u>\$ 14,441,270</u>
LIABILITIES				
Accounts payable	\$ 303,144	\$ 193,457	\$ 6,149	\$ 502,750
Accrued expenses and taxes	184,738	-	-	184,738
Deferred revenue	20,737	-	25,617	46,354
Total liabilities	<u>508,619</u>	<u>193,457</u>	<u>31,766</u>	<u>733,842</u>
FUND BALANCES				
Restricted for:				
Debt service	-	-	339,308	339,308
Council approved emergencies	7,000,000	-	-	7,000,000
Construction	-	1,154,000	-	1,154,000
Road maintenance and construction	-	-	274,746	274,746
Assigned to:				
Construction and road maintenance	-	58,625	1,252,213	1,310,838
Unassigned	3,447,451	181,085	-	3,628,536
Total fund balances	<u>10,447,451</u>	<u>1,393,710</u>	<u>1,866,267</u>	<u>13,707,428</u>
Total liabilities and fund balances	<u>\$ 10,956,070</u>	<u>\$ 1,587,167</u>	<u>\$ 1,898,033</u>	<u>\$ 14,441,270</u>

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

CITY OF FAIRHOPE, ALABAMA

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2013

Fund balances as reported on page 16	\$ 13,707,428
Net position reported for governmental activities in the statement of net position are different from Fund Balances for governmental activities because:	
Capital assets used in governmental activities are financial resources and therefore are not reported in fund financial statements.	126,507,929
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.	(48,154,505)
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred revenue in fund financial statements.	179,875
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 \$32,784)	(12,682,152)
OPEB obligations	(1,995,234)
Accrued interest on long-term debt is not due and payable in the current-period and therefore not included in fund financial statements.	(168,396)
Compensated absences not expected to be paid with current resources as determined under Governmental Accounting Standards are not reported in fund financial statements.	<u>(1,128,997)</u>
Net position of governmental activities as reported on page 14	<u><u>\$ 76,265,948</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, 2013

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Local taxes	\$ 10,944,885	\$ -	\$ -	\$ 10,944,885
Licenses and permits	2,731,766	-	-	2,731,766
Fines and forfeitures	291,749	-	-	291,749
Intergovernmental	556,293	379,307	87,049	1,022,649
Contribution from Public Library Board	1,500	-	-	1,500
Interest and rents	250,773	519	1,711	253,003
Charges for services	4,752,303	-	564,952	5,317,255
Golf course revenue	1,113,277	-	-	1,113,277
Other	644,170	-	-	644,170
Total revenues	<u>21,286,716</u>	<u>379,826</u>	<u>653,712</u>	<u>22,320,254</u>
EXPENDITURES				
General	6,859,140	3,457	-	6,862,597
Sanitation	1,643,715	-	-	1,643,715
Police	4,164,674	-	-	4,164,674
Fire	312,647	-	-	312,647
Airport	443,000	-	-	443,000
Street	2,329,885	-	28,498	2,358,383
Adult recreation	543,109	-	-	543,109
Recreation	1,062,174	-	-	1,062,174
Golf	907,216	-	-	907,216
Public Library Board	630,000	-	-	630,000
Other	89,000	-	133	89,133
Debt service payments				
Principal	722,125	-	763,420	1,485,545
Interest	10,145	-	498,338	508,483
Capital outlay	654,243	637,460	127,110	1,418,813
Total expenditures	<u>20,371,073</u>	<u>640,917</u>	<u>1,417,499</u>	<u>22,429,489</u>
Excess of Revenues over (under) Expenditures	915,643	(261,091)	(763,787)	(109,235)
OTHER FINANCING SOURCES (USES)				
Transfers in	3,236,251	2,724,225	1,275,765	7,236,241
Transfers out	(3,999,990)	-	-	(3,999,990)
Total other financing sources (uses)	<u>(763,739)</u>	<u>2,724,225</u>	<u>1,275,765</u>	<u>3,236,251</u>
Net change in fund balances	151,904	2,463,134	511,978	3,127,016
Fund balances - beginning of year	10,295,547	(1,069,424)	1,354,289	10,580,412
FUND BALANCES-END OF YEAR	<u>\$ 10,447,451</u>	<u>\$ 1,393,710</u>	<u>\$ 1,866,267</u>	<u>\$ 13,707,428</u>

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

CITY OF FAIRHOPE, ALABAMA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Net change in fund balances - total governmental funds, page 18	\$ 3,127,016
<p>Amounts reported for governmental activities in the statement of activities are different from the statements of revenues, expenditures and changes in fund balances - governmental funds because:</p>	
Amortization of bond costs and discounts is not recorded in fund level statements.	(7,911)
<p>Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.</p>	
Capital outlays for the year	1,418,813
Depreciation expense for the year	(3,093,509)
Loss on assets disposed	(164,525)
<p>Bond and other debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term liabilities is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>	
Principal payments on long term debt	1,485,545
<p>Some capital assets were acquired through capital contributions and reported as such in the statement of activities and therefore are not reported as a capital outlay in the governmental funds.</p>	
Capital contributions for the year	10,700
<p>Some expenses reported in the statement of activities do not require the use of current resources and therefore are not reported as expenditures in governmental funds.</p>	
Increase in compensated absences liability	(121,261)
Decrease in accrued interest payable	10,476
Increase in OPEB liability	(487,984)
Change in net position of governmental activities, page 15	\$ <u>2,177,360</u>

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

CITY OF FAIRHOPE, ALABAMA

FUND BALANCE SHEETS
 PROPRIETARY FUNDS
 SEPTEMBER 30, 2013

	Major Funds			Total
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 5,234,754	\$ 3,711,710	\$ 3,381,974	\$ 12,328,438
Restricted cash for debt service	326,683	148,665	11,440,840	11,916,188
Receivables, net	2,376,469	642	127,339	2,504,450
Inventories	315,730	144,884	320,734	781,348
Prepaid expenses	33,288	6,140	10,097	49,525
Total current assets	<u>8,286,924</u>	<u>4,012,041</u>	<u>15,280,984</u>	<u>27,579,949</u>
Noncurrent assets				
Unamortized expense	22,782	11,646	812,125	846,553
Due from other funds	-	285,633	732,842	1,018,475
Other assets	12,030	12,030	12,030	36,090
Capital assets				
Distribution and collection systems	19,103,239	10,003,713	37,399,849	66,506,801
Buildings, vehicles and equipment	5,165,699	3,420,113	3,189,080	11,774,892
Land and construction in progress	598,909	75,492	729,971	1,404,372
Less accumulated depreciation	<u>(11,605,547)</u>	<u>(6,144,640)</u>	<u>(18,335,897)</u>	<u>(36,086,084)</u>
Total noncurrent assets	<u>13,297,112</u>	<u>7,663,987</u>	<u>24,540,000</u>	<u>45,501,099</u>
Total assets	<u>\$ 21,584,036</u>	<u>\$ 11,676,028</u>	<u>\$ 39,820,984</u>	<u>\$ 73,081,048</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	\$ 1,560,023	\$ 300,609	\$ 1,148,561	\$ 3,009,193
Customer deposits	2,123,526	-	127,304	2,250,830
Warrants, notes and capital leases payable	131,482	54,405	1,010,784	1,196,671
Total current liabilities	<u>3,815,031</u>	<u>355,014</u>	<u>2,286,649</u>	<u>6,456,694</u>
Noncurrent liabilities				
Compensated absences	158,794	116,935	163,481	439,210
Warrants, notes and capital leases payable	1,270,381	689,750	18,688,972	20,649,103
Net OPEB obligation	186,619	189,592	252,929	629,140
Due to other funds	1,039,222	-	-	1,039,222
Total noncurrent liabilities	<u>2,655,016</u>	<u>996,277</u>	<u>19,105,382</u>	<u>22,756,675</u>
Total liabilities	<u>6,470,047</u>	<u>1,351,291</u>	<u>21,392,031</u>	<u>29,213,369</u>
NET POSITION				
Net investment in capital assets	11,860,437	6,610,523	11,500,546	29,971,506
Restricted for debt service	326,683	148,665	3,223,541	3,698,889
Unrestricted	2,926,869	3,565,549	3,704,866	10,197,284
Total net position	<u>15,113,989</u>	<u>10,324,737</u>	<u>18,428,953</u>	<u>43,867,679</u>
Total liabilities and net position	<u>\$ 21,584,036</u>	<u>\$ 11,676,028</u>	<u>\$ 39,820,984</u>	<u>\$ 73,081,048</u>

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

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Major Funds			Total
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
OPERATING REVENUES				
Sales and services	\$ 19,242,914	\$ 6,764,828	\$ 8,728,618	\$ 34,736,360
Other charges, sales and receipts	404,748	4,821	1,251,471	1,661,040
Total operating revenues	<u>19,647,662</u>	<u>6,769,649</u>	<u>9,980,089</u>	<u>36,397,400</u>
OPERATING EXPENSES				
Energy purchases and cost of goods sold	12,018,992	1,870,442	767,380	14,656,814
Salaries	584,763	575,510	987,477	2,147,750
Depreciation	670,956	339,723	949,157	1,959,836
Insurance	290,093	506,150	229,180	1,025,423
Electric energy furnished to other departments	1,062,371	-	-	1,062,371
Maintenance	573,917	201,373	1,512,029	2,287,319
Community development projects	251,929	247,178	234,377	733,484
Other operating expense	1,646,232	1,451,657	1,909,308	5,007,197
Total operating expenses	<u>17,099,253</u>	<u>5,192,033</u>	<u>6,588,908</u>	<u>28,880,194</u>
OPERATING INCOME	<u>2,548,409</u>	<u>1,577,616</u>	<u>3,391,181</u>	<u>7,517,206</u>
NONOPERATING REVENUES (EXPENSES)				
Interest expense	(65,528)	(30,854)	(705,891)	(802,273)
Interest income	4,454	5,116	15,698	25,268
Distribution of joint revenue (expense) – net	-	(12,000)	-	(12,000)
Total nonoperating revenues (expenses)	<u>(61,074)</u>	<u>(37,738)</u>	<u>(690,193)</u>	<u>(789,005)</u>
INCOME BEFORE TRANSFERS AND OTHER ITEMS	<u>2,487,335</u>	<u>1,539,878</u>	<u>2,700,988</u>	<u>6,728,201</u>
TRANSFERS AND OTHER ITEMS				
Transfers out	(1,385,849)	(813,610)	(1,036,792)	(3,236,251)
Total transfers (out)	<u>(1,385,849)</u>	<u>(813,610)</u>	<u>(1,036,792)</u>	<u>(3,236,251)</u>
Change in net position	1,101,486	726,268	1,664,196	3,491,950
NET POSITION – BEGINNING OF YEAR	<u>14,012,503</u>	<u>9,598,469</u>	<u>16,764,757</u>	<u>40,375,729</u>
NET POSITION – END OF YEAR	<u>\$ 15,113,989</u>	<u>\$ 10,324,737</u>	<u>\$ 18,428,953</u>	<u>\$ 43,867,679</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, 2013

	Business Type Activities			
	Major Funds			Total
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
CASH FLOWS FROM OPERATING ACTIVITIES				
Received from customers	\$ 19,476,154	\$ 6,770,555	\$ 9,869,427	\$ 36,116,136
Paid to suppliers for goods and services	(15,711,189)	(4,176,989)	(4,270,180)	(24,158,358)
Paid to personnel for services	(584,763)	(575,510)	(987,477)	(2,147,750)
Net cash provided (used) by operating activities	<u>3,180,202</u>	<u>2,018,056</u>	<u>4,611,770</u>	<u>9,810,028</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income and joint revenue (expense)	4,454	(6,884)	15,698	13,268
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Repayment of debt	(127,122)	(52,435)	(972,023)	(1,151,580)
Interest paid	(57,044)	(28,136)	(686,894)	(772,074)
Acquisition of capital assets	(1,799,069)	(899,923)	(1,912,402)	(4,611,394)
Net cash provided (used) by capital and related financing activities	<u>(1,983,235)</u>	<u>(980,494)</u>	<u>(3,571,319)</u>	<u>(6,535,048)</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES				
Change in interfund receivable/payable	982,432	(448,467)	(527,677)	6,288
Transfers in (out)	(1,385,849)	(813,610)	(1,036,792)	(3,236,251)
Net cash provided (used) by noncapital financing activities	<u>(403,417)</u>	<u>(1,262,077)</u>	<u>(1,564,469)</u>	<u>(3,229,963)</u>
INCREASE (DECREASE) IN CASH	798,004	(231,399)	(508,320)	58,285
Cash – beginning of year	<u>4,763,433</u>	<u>4,091,774</u>	<u>15,331,134</u>	<u>24,186,341</u>
CASH – END OF YEAR	<u>\$ 5,561,437</u>	<u>\$ 3,860,375</u>	<u>\$ 14,822,814</u>	<u>\$ 24,244,626</u>
Reconciliation of operating income to net cash provided (used) by operating activities				
Income (loss) from operations	\$ 2,548,409	\$ 1,577,616	\$ 3,391,181	\$ 7,517,206
Adjustments to reconcile income from operations to net cash provided (used) by operating activities				
Depreciation	670,956	339,723	949,157	1,959,836
Amortization	2,803	1,199	80,466	84,468
Change in assets and liabilities				
Decrease (increase) in accounts receivable	(171,508)	906	(110,660)	(281,262)
Decrease (increase) in inventories	(37,196)	33,992	(32,803)	(36,007)
Decrease (increase) in prepaid expenses	(17,272)	2,512	1,157	(13,603)
Decrease (increase) in unamortized expense	-	-	(561,169)	(561,169)
Increase (decrease) in accounts payable	118,047	58,631	787,393	964,071
Increase (decrease) in customer deposits	(10,149)	-	32,400	22,251
Increase (decrease) in compensated absences	29,140	(40,886)	14,628	2,882
Net cash provided (used) by operating activities	<u>\$ 3,180,202</u>	<u>\$ 2,018,056</u>	<u>\$ 4,611,770</u>	<u>\$ 9,810,028</u>

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

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF FAIRHOPE, ALABAMA

COMBINING STATEMENT OF NET POSITION
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Governmental Activities		
	Public Library Board	Airport Authority	Total
ASSETS			
Cash	\$ 163,570	\$ 3,405,897	\$ 3,569,467
Other assets	-	23,231	23,231
Land and construction in progress	-	11,061,874	11,061,874
Capital assets, net	<u>50,637</u>	<u>11,319,108</u>	<u>11,369,745</u>
Total assets	<u>\$ 214,207</u>	<u>\$ 25,810,110</u>	<u>\$ 26,024,317</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 7,669	\$ -	\$ 7,669
Long-term liabilities			
Due within one year	-	255,000	255,000
Due in more than one year	<u>-</u>	<u>8,440,000</u>	<u>8,440,000</u>
Total liabilities	<u>7,669</u>	<u>8,695,000</u>	<u>8,702,669</u>
DEFERRED INFLOWS OF RESOURCES			
Service concession arrangement revenue applicable to future years	<u>-</u>	<u>2,700,000</u>	<u>2,700,000</u>
Total deferred inflows of resources	<u>-</u>	<u>2,700,000</u>	<u>2,700,000</u>
NET POSITION			
Net investment in capital assets	50,637	13,685,982	13,736,619
Unrestricted	<u>155,901</u>	<u>729,128</u>	<u>885,029</u>
Total net position	<u>206,538</u>	<u>14,415,110</u>	<u>14,621,648</u>
Total liabilities and net position	<u>\$ 214,207</u>	<u>\$ 25,810,110</u>	<u>\$ 26,024,317</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, 2013

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
					Public Library Board	Airport Authority
Airport Authority	\$ 508,761	\$ 158,316	\$ 601,990	\$ -	\$ 251,545	\$ 251,545
Public Library Board	715,772	34,803	705,179	-	-	24,210
	<u>\$ 1,224,533</u>	<u>\$ 193,119</u>	<u>\$ 1,307,169</u>	<u>\$ -</u>	<u>\$ 251,545</u>	<u>\$ 275,755</u>
General revenues:						
Investment earnings					1,667	1,667
Total general revenues					<u>1,667</u>	<u>1,667</u>
Change in net position					253,212	277,422
Net position, beginning					14,161,898	14,344,226
Net position, ending					<u>\$ 14,415,110</u>	<u>\$ 14,621,648</u>

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

THIS PAGE INTENTIONALLY LEFT BLANK

NOTES TO THE FINANCIAL STATEMENTS

CITY OF FAIRHOPE, ALABAMA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Fairhope, Alabama (the City) was incorporated in April, 1908. The City operates under a Mayor – Council form of government chosen at large every four years.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to municipal governments. The following is a summary of the more significant policies.

A. REPORTING ENTITY

The financial statements of the City have been prepared in conformity with the accounting principles generally accepted in the United States of America as specified by the Governmental Accounting Standards Board (GASB).

These financial statements present the primary government (the City) and its discretely presented component units, entities for which the government is considered financially accountable. The units are governmental fund type component units and are reported in a separate column of the government-wide statements to emphasize they are legally separate from the primary government. The discretely presented component units have a September 30 fiscal year-end.

Component Units

Fairhope Public Library - The Library has its own governing body which operates the City public library and is appointed by the City Council. The City provides significantly all the annual operating financial support to the Library. The Library's other sources of revenue come from State financial assistance, gifts, bequests and user fees. The Library Board does not issue separate financial statements.

Fairhope Airport Authority - The Authority operates the City Airport and has its own governing body which is appointed by the City Council. The City provides a significant portion of the annual operating funds support to the Airport. The Airport's other sources of revenue come from Hanger and Office rentals, and fuel sales. The Airport Authority does not issue separate financial statements.

These financial statements do not include the following:

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

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

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Government-wide

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

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

Fund Level

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

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

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

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

(continued)

CITY OF FAIRHOPE, ALABAMA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

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 Position (government-wide level). Depreciation has been provided over the estimated useful lives using the straight line rates as follows:

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

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. BASIS OF ACCOUNTING

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

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

The proprietary fund financial statements are presented on the accrual basis of accounting in accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

E. IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES

Recently Issued and Adopted Accounting Principles

On October 1, 2012, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 62 incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure. The adoption of GASB Statement No. 62 did not have any impact on the City’s consolidated financial statements.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

On October 1, 2012, the City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Balance Sheet is renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources. The City has determined they have no deferred outflows of resources at September 30, 2013, under the requirements of GASB Statement No. 63. The City's component unit, the Airport Authority, has determined they have a deferred inflow of resources related to a service concession arrangement as discussed in Note 20 to the financial statements at September 30, 2013.

Recently Issued Accounting Principles

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 requires certain items that are currently reported as assets and liabilities to be reclassified as deferred outflows of resources, deferred inflows of resources or current-period outflows (expenses) and inflows (revenues). These determinations are based on the definitions of those elements in Concepts Statement No. 4, *Elements of Financial Statements*. This statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this statement on the City's 2014 consolidated financial statements.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans*. Effective for fiscal year 2014, GASB Statement No. 67 will require Pension Plans to present information differently than they have previously. Upon implementation, the City's note disclosures will be presented in accordance with the updated presentation required of Pension Plans. GASB Statement No. 67 is effective for periods beginning after June 15, 2013. Management is currently evaluating the impact of the adoption of this statement on the City's 2014 consolidated financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB*. GASB Statement No. 68 requires a net pension liability to be recognized, to the extent unfunded, on the Statement of Net Position. Previously, no such liability was recognized. GASB Statement No. 68 is effective for periods beginning after June 15, 2014. The City estimates that upon implementation of GASB Statement No. 68, a liability will be shown on the Statement of Net Position as well as a reduction in unassigned net position equal to the unfunded accrued actuarial liability. At September 31, 2013, the Government-wide unfunded accrued actuarial liability is \$9,306,719 as shown in Note 13 to the financial statements.

F. CASH

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

(continued)

CITY OF FAIRHOPE, ALABAMA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. RECEIVABLES FROM UTILITY CUSTOMERS

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

H. INVENTORIES

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

I. PROPERTY TAX

All ad valorem taxes levied by the state, county and any municipality in Baldwin County are assessed and collected by the Revenue Commissioner of Baldwin County. The Baldwin County property tax calendar requires the Revenue Commissioner to assess and attach taxes as enforceable liens on property as of September 30, and taxes are due October 1 through December 31. Property taxes not paid by January 1 are considered as delinquent. Tax collections received by the County Revenue Commissioner are remitted to the City monthly. In accordance with the implementation of Governmental Accounting Standard (GASB) Statement No. 33, revenue is recorded based upon taxes assessed and considered available. Any taxes not considered available are recorded as deferred revenue.

J. DEBT ISSUE COST

Issuance expenses on long term debt of proprietary funds are 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.

In relation to upcoming standards to be implemented for fiscal year 2014, bond issuance costs will be accounted for as costs relating to services provided in the current period and as such will be expensed in the current period. The application of the principle will be retroactively applied. The City estimates the impact of the implementation of this standard on fiscal year 2014 financials will reduce assets and net assets by approximately \$415,000 government-wide. The impact on governmental activities is expected to be approximately \$130,000 and the impact on business-type activities is expected to be approximately \$285,000.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. 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). Proprietary funds defer revenue recognition when monies are collected for goods and services prior to the provision of services.

L. CASH AND CASH EQUIVALENTS

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

M. USE OF ESTIMATES

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

N. NET POSITION AND EQUITY CLASSIFICATIONS

Government-wide Financial Statements

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

- Net investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at year-end, the portion of the debt of deferred inflows of resources attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of the related debt. Rather, that portion of the debt or deferred inflows of resources is included in the same net position as the unspent proceeds.

(continued)

CITY OF FAIRHOPE, ALABAMA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Restricted net position - Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.
- Unrestricted net position – The net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Fund Financial Statements

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

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

- Restricted fund balance – Consists of fund balances with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; (2) or the City’s own laws through its enabling legislation and other provisions of its laws and regulations.
- Committed fund balance – Consists of fund balances that are useable only for specific purposes by formal action of the government’s highest level of decision making authority. The City’s highest level of decision making lies with the Mayor of the City and the City Council. In order to establish, modify or rescind a fund balance commitment, the Mayor and City Council must pass a law by formal action committing the funds, by passage of a resolution.
- Assigned fund balance – Consists of fund balances that are intended to be used for specific purposes but are neither restricted nor committed. Intent should be expressed by (1) the governing body itself, or (2) a subordinate high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. The Mayor and the City Council have the power to assign fund balance amounts to specific purposes. The governing body must vote to grant authorization of assigned fund balances to specific purposes.
- Unassigned fund balances – All other fund balances that do not meet the definition of “restricted, committed or assigned fund balances.”

The City considers restricted fund balances to have been spent when both restricted and unrestricted fund balances are available. Also, the City considers assigned and committed fund balances to have been spent when unassigned or unrestricted amounts are available.

(continued)

CITY OF FAIRHOPE, ALABAMA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. MAJOR FUNDS

The City reports the following major Governmental funds:

- General Fund
- Capital Projects Fund

The City reports the following enterprise funds as major funds:

- Electric Fund
- Natural Gas Fund
- Water and Waste Water Fund

NOTE 2 INTERFUND TRANSACTIONS

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

In fiscal year 2013, the General Fund transferred to the Debt Service Fund \$1,275,765 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 2013, the following amounts were transferred from the utility funds noted to the General Fund.

Electric Fund	\$ 1,385,849
Natural Gas Fund	813,610
Water and Waste Water Fund	<u>1,036,792</u>
Total	\$ <u>3,236,251</u>

In fiscal year 2013, the City transferred \$443,000 to the Airport Authority and \$630,000 to the Public Library Board, both discretely presented component units.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 2 INTERFUND TRANSACTIONS (CONTINUED)

Interfund receivables and payables at September 30, 2013 are:

	<u>Due from</u>	<u>Due to</u>
General Fund		
Electric	\$ 20,747	\$ -
Electric Fund		
General	-	20,747
Water and Waste Water	-	732,842
Natural Gas	-	285,633
Natural Gas Fund		
Electric	285,633	-
Water and Waste Water Fund		
Electric	732,842	-
	\$ <u>1,039,222</u>	\$ <u>1,039,222</u>

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

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 3 CAPITAL ASSETS

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

	Balance 10/01/12	Increases	Decreases	Balance 09/30/13
<u>Governmental Activities</u>				
Capital assets not subject to depreciation				
Land	\$ 19,827,727	\$ 10,700	\$ -	\$ 19,838,427
Total	<u>19,827,727</u>	<u>10,700</u>	<u>-</u>	<u>19,838,427</u>
Other capital assets				
Buildings and structures	33,765,293	793,384	-	34,558,677
Vehicles and equipment	13,029,470	625,429	(816,067)	12,838,832
Infrastructure	59,271,993	-	-	59,271,993
Total	<u>106,066,756</u>	<u>1,418,813</u>	<u>(816,067)</u>	<u>106,669,502</u>
Less accumulated depreciation for				
Buildings and structures	(7,652,573)	(862,277)	-	(8,514,850)
Vehicles and equipment	(11,408,795)	(653,870)	651,542	(11,411,123)
Infrastructure	(26,651,170)	(1,577,362)	-	(28,228,532)
Total accumulated depreciation	<u>(45,712,538)</u>	<u>(3,093,509)</u>	<u>651,542</u>	<u>(48,154,505)</u>
Other capital assets, net	<u>60,354,218</u>	<u>(1,674,696)</u>	<u>(164,525)</u>	<u>58,514,997</u>
Governmental capital assets, net	<u>\$ 80,181,945</u>	<u>\$ (1,663,996)</u>	<u>\$ (164,525)</u>	<u>\$ 78,353,424</u>

Depreciation was charged to governmental activities as follows:

General	\$ 383,395
Sanitation	168,579
Police	239,023
Fire	93,309
Public Library	210,636
Street	1,623,448
Adult Recreation	92,798
Recreation	207,712
Golf	74,609
Total	<u>\$ 3,093,509</u>

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 3 CAPITAL ASSETS (CONTINUED)

	Balance 10/01/12	Increases	Decreases	Balance 09/30/13
<u>Business Type Activities</u>				
Capital assets not subject to depreciation				
Land	\$ 369,280	\$ 468,663	\$ -	\$ 837,943
Construction in progress	14,490	551,939	-	566,429
Total	<u>383,770</u>	<u>1,020,602</u>	<u>-</u>	<u>1,404,372</u>
Other capital assets				
Distribution and collection system	63,737,451	2,769,350	-	66,506,801
Buildings, vehicles and equipment	10,953,450	821,442	-	11,774,892
Total	<u>74,690,901</u>	<u>3,590,792</u>	<u>-</u>	<u>78,281,693</u>
Less accumulated depreciation for				
Distribution and collection system	(25,896,561)	(1,593,874)	-	(27,490,435)
Buildings, vehicles and equipment	(8,229,687)	(365,962)	-	(8,595,649)
Total accumulated depreciation	<u>(34,126,248)</u>	<u>(1,959,836)</u>	<u>-</u>	<u>(36,086,084)</u>
Other capital assets, net	40,564,653	1,630,956	-	42,195,609
Capital assets, net	<u>\$ 40,948,423</u>	<u>\$ 2,651,558</u>	<u>\$ -</u>	<u>\$ 43,599,981</u>
<u>Component Unit - Public Library</u>				
Equipment	\$ 343,601	\$ 21,170	\$ -	\$ 364,771
Less accumulated depreciation	(282,891)	(31,243)	-	(314,134)
Capital assets, net	<u>\$ 60,710</u>	<u>\$ (10,073)</u>	<u>\$ -</u>	<u>\$ 50,637</u>
<u>Component Unit - Airport Authority</u>				
Capital assets not subject to depreciation				
Land	\$ 10,934,228	\$ -	\$ -	\$ 10,934,228
Construction in progress	952,100	183,545	(1,007,999)	127,646
Total	<u>11,886,328</u>	<u>183,545</u>	<u>(1,007,999)</u>	<u>11,061,874</u>
Other capital assets				
Runways	9,309,815	1,063,893	-	10,373,708
Buildings and improvements	3,968,008	-	-	3,968,008
Equipment	98,885	-	-	98,885
Total	<u>13,376,708</u>	<u>1,063,893</u>	<u>-</u>	<u>14,440,601</u>
Less accumulated depreciation for				
Runways	(1,034,556)	(112,944)	-	(1,147,500)
Buildings and improvements	(1,759,023)	(124,131)	-	(1,883,154)
Equipment	(87,699)	(3,140)	-	(90,839)
Total accumulated depreciation	<u>(2,881,278)</u>	<u>(240,215)</u>	<u>-</u>	<u>(3,121,493)</u>
Other capital assets, net	10,495,430	823,678	-	11,319,108
Capital assets, net	<u>\$ 22,381,758</u>	<u>\$ 1,007,223</u>	<u>\$ (1,007,999)</u>	<u>\$ 22,380,982</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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, 2013:

Utilities Revenue Warrants, Series 2011 dated October 13, 2011, original debt obligation of \$16,140,000, interest rate 3.15%, payable semi-annually, principal payable December 1, 2011 through December 1, 2030.	\$15,225,000
General Obligation Warrant, Series 2011, dated October 13, 2011, original debt obligation of \$195,000, interest at 2.55% payable semi-annually, principal payments due December 1, 2012 through June 1, 2025.	165,220
Utilities Revenue Warrants, Series 2005 dated March 1, 2005, original debt obligation of \$8,455,000, interest rate 2.20% to 4.25%, payable semi-annually, principal payable December 1, 2005 through December 1, 2020.	5,905,000
Utilities Revenue Warrants, Series 2009 dated April 2, 2009, original debt obligation of \$1,250,000, interest rate 3.85%, payable semi-annually, principal payable 2009 through 2019.	860,000
General Obligation Refunding Warrant, Series 2009, dated April 2, 2009, original debt obligation of \$61,740, interest rate 3.62%, payable semi-annually, principal payable 2010 through 2020.	<u>44,460</u>
TOTAL	<u>\$22,199,680</u>

(continued)

CITY OF FAIRHOPE, ALABAMA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

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

Revenue bonds, notes, and warrants payable from the proprietary funds (2011 and prior) were for the purpose of financing, or re-financing, new water tanks, new water wells, UV Sewer System, new booster pump, radio system, support tower, phone system, construction of warehouse building and mechanics shop, and extensions to the City's water and sewer lines.

NOTE 6 NOTE AND WARRANTS PAYABLE – GOVERNMENTAL ACTIVITIES

The following is a governmental fund summary of long term debt at September 30, 2013:

General Obligation Warrant, Series 2011, dated October 13, 2011, original debt obligation of \$4,005,000, interest at 2.55%, payable semi-annually, principal payments due December 1, 2012 through June 1, 2025.	\$ 3,589,396
General Obligation Warrants, Series 2007 dated June 1, 2007, original debt obligation of \$7,900,000, interest rate 4.00% to 5.00%, payable semi-annually, principal payable June 1, 2008 through June 1, 2032.	6,700,000
General Obligation Refunding Warrant, Series 2009, dated April 2, 2009, original debt obligation of \$3,368,260, interest rate 3.62%, payable semi-annually, principal payable 2010 through 2020.	<u>2,425,540</u>
TOTAL	<u>\$12,714,936</u>

The General Obligation Warrant Series 2009 and 2011 were issued for the purpose of refunding the City's General Obligation Warrants Series 1999 and 2002, respectively.

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, 2013

NOTE 7 CHANGES IN LONG TERM DEBT

	Balance 10/01/12	Additions	Reductions	Balance 09/30/13	Amounts due within one year
GOVERNMENTAL ACTIVITIES					
Warrants and notes payable					
General obligation warrants	\$ 14,200,481	\$ -	\$ (1,485,545)	\$ 12,714,936	\$ 778,330
Total warrants and notes payable	14,200,481	-	(1,485,545)	12,714,936	778,330
Warrant discount	(34,548)	-	1,764	(32,784)	-
	14,165,933	-	(1,483,781)	12,682,152	778,330
Other liabilities					
Compensated absences	1,061,967	667,003	(545,742)	1,183,228	527,653
Governmental activities					
long-term liabilities	\$ 15,227,900	\$ 667,003	\$ (2,029,523)	\$ 13,865,380	\$ 1,305,983

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 10/01/12	Additions	Reductions	Balance 09/30/13	Amounts due within one year
BUSINESS-TYPE ACTIVITIES					
Warrants and notes payable					
General obligation warrants	\$ 226,260	\$ -	\$ (16,580)	\$ 209,680	\$ 16,671
Utilities revenue warrants	23,125,000	-	(1,135,000)	21,990,000	1,180,000
Total warrants and notes payable	23,351,260	-	(1,151,580)	22,199,680	1,196,671
Deferred amount on refunding	(241,754)	-	35,963	(205,791)	-
Warrant discounts	(152,029)	-	3,914	(148,115)	-
	22,957,477	-	(1,111,703)	21,845,774	1,196,671
Other liabilities					
Compensated absences	527,422	94,744	(91,094)	531,072	91,862
Business-type activities					
long-term liabilities	\$ 23,484,899	\$ 94,744	\$ (1,202,797)	\$ 22,376,846	\$ 1,288,533
Compensated absences due within one year included in accrued liabilities					\$ 91,862
Compensated absences due in more than one year included in noncurrent liabilities					439,210
Total compensated absences liability					\$ 531,072

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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, 2013, including interest payments:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 778,330	\$ 480,117	\$ 1,258,447
2015	802,930	451,323	1,254,253
2016	837,440	421,553	1,258,993
2017	857,260	390,379	1,247,639
2018	891,770	358,348	1,250,118
2019 - 2023	3,927,790	1,339,726	5,267,516
2024 - 2028	2,719,800	726,735	3,446,535
2029 - 2032	<u>1,899,616</u>	<u>218,250</u>	<u>2,117,866</u>
TOTALS	<u>\$ 12,714,936</u>	<u>\$ 4,386,431</u>	<u>\$ 17,101,367</u>

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, 2013, including interest payments and excluding discounts and premiums related to warrant issuance:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,196,670	\$ 735,223	\$ 1,931,893
2015	1,237,070	692,187	1,929,257
2016	1,282,560	646,768	1,929,328
2017	1,327,740	598,866	1,926,606
2018	1,378,230	549,188	1,927,418
2019-2023	7,702,210	1,935,873	9,638,083
2024-2028	6,320,200	663,566	6,983,766
2029-2031	<u>1,755,000</u>	<u>84,184</u>	<u>1,839,184</u>
	<u>\$ 22,199,680</u>	<u>\$ 5,905,855</u>	<u>\$ 28,105,535</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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% 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, 2013, was 1.53%.

The following is a summary of debt service requirements to maturity of long term debt of the Airport Authority as of September 30, 2013, including estimated interest payments at 1.53% and excluding discounts related to bonds:

Year Ending Sept. 30,	Principal	Interest	Total
2014	\$ 255,000	\$ 133,086	\$ 388,086
2015	270,000	129,183	399,183
2016	285,000	125,050	410,050
2017	305,000	120,688	425,688
2018	320,000	116,019	436,019
2019-2020	<u>7,260,000</u>	<u>128,774</u>	<u>7,388,774</u>
	<u>\$ 8,695,000</u>	<u>\$ 752,800</u>	<u>\$ 9,447,800</u>

NOTE 10 SALARIES – PROPRIETARY FUNDS

The following is a summary of employees' salaries by Utility Fund for the year ended September 30, 2013:

	Electric Fund	Natural Gas Fund	Water and Waste Water Fund
Total salaries	\$ 951,729	\$ 729,948	\$ 1,050,645
Less:			
Salaries capitalized for plant additions	<u>366,966</u>	<u>154,438</u>	<u>63,168</u>
Amount of salaries charged to operations	<u>\$ 584,763</u>	<u>\$ 575,510</u>	<u>\$ 987,477</u>

CITY OF FAIRHOPE, ALABAMA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

NOTE 11 RISK MANAGEMENT AND CONTINGENCIES

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

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

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

NOTE 12 COMPENSATED ABSENCES

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

Employees must use all vacation time annually, and the maximum accumulation of sick leave is limited to 960 hours. Accumulated sick leave is paid only upon retirement to employees with 25 years or more of service, at any age, and to employees with 10 years of service who have attained age sixty (60).

NOTE 13 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, 2012, RSA had a total of 1,145 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.

(continued)

CITY OF FAIRHOPE, ALABAMA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

NOTE 13 PENSION PLAN (CONTINUED)

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

During its 2012 session, the Alabama Legislature passed and the Governor signed into law changes in the pension plan effective January 1, 2013. Employees hired prior to January 1, 2013 (Tier 1 employees) must contribute 5% of his or her gross earnings, except law enforcement who must contribute 6%, to the pension plan. Employees hired on or after that date (Tier 2 employees) will contribute on gross earnings at a rate of 6%, except law enforcement who must contribute 7%. The City is required to contribute at an actuarially determined rate. At September 30, 2012, the rate is 9.81% of covered payroll. At September 30, 2012, RSA decreased the City's contribution rate to 9.38% for Tier 1 employees and established at rated of 7.08% for Tier 2 employees. The contribution requirements of plan members and the City are established and may be amended by RSA.

A Tier 1 employee may retire after 25 years of credited service and receive pension benefits equal to 2.0125% of the employee's average final salary multiplied times years of credited service. A Tier 2 employee may retire after attainment of age 62 and ten years of service years and with benefits equal to 1.65% of the employee's average final salary multiplied by years of credited service. Average final salary is defined as the average of the three highest years' salary out of the last ten years of service. The pension plan also provides death benefits and disability benefits as determined by state statutes.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 13 PENSION PLAN (CONTINUED)

The following is the Schedule of Funding Progress – Employee Retirement System which provides trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

The Schedule of Funding Progress – Employee Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b) ¹	Unfunded AAL (UAAL) b-a	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
9/30/2012 ^{6,7}	\$ 23,502,551	\$ 32,809,270	\$ 9,306,719	71.6%	\$ 10,584,730	87.9%
9/30/2011 ^{5,6}	\$ 23,552,946	\$ 33,999,408	\$ 10,446,462	69.3%	\$ 11,028,263	94.7%
9/30/2010 ⁶	\$ 23,618,878	\$ 33,649,326	\$ 10,030,448	70.2%	\$ 11,212,324	89.5%

¹ Reflects changes in actuarial assumptions (as of September 30, 2001).

² Reflects effect of DROP if unit elected to enroll prior to June 20, 2003.

³ Reflects effect of DROP if unit elected to enroll prior to May 18, 2004.

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

⁵ Reflects changes in actuarial assumptions.

⁶ Reflects impact of Act 2011-27, as well as Act 2011-676, which increases the member contribution rates by 2.25% beginning October 1, 2011 and by an additional 0.25% beginning October 1, 2012.

⁷ Reflects changes to interest smoothing methodology.

Annual Pension Cost

For 2013, the City's annual pension cost of \$949,822 was equal to the City's required and actual contributions. The required contribution was determined as part of an actuarial valuation (dated September 30, 2012) using the entry age actuarial cost method. Amortization is determined using the level open percent method over a remaining amortization period of 30 years. The actuarial assumptions included (a) 8.0% investment rate of return, (b) projected salary increases ranging from 3.75-7.25% per year, and (c) no cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. 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.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 13 PENSION PLAN (CONTINUED)

Trend Information

<u>Fiscal Year Funding</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/12	\$ 949,822	100%	-
9/30/11	\$ 1,056,337	100%	-
9/30/10	\$ 1,086,667	100%	-

Funded status and Funding Progress

The funded status of the plan as of October 1, 2012 was as follows:

Actuarial accrued liability (AAL)	\$ 32,809,270
Actuarial value of plan assets	<u>23,502,551</u>
Unfunded actuarial accrued liability (UAAL)	\$ 9,306,719
Funded ratio	71.6%
Covered payroll	\$ 10,584,730
UAAL as a percentage of covered payroll	87.9%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress is presented in these notes to the financial statements. This schedule presents multi-year trend information 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, 2013**

NOTE 14 DEPOSIT AND INVESTMENT RISK

At September 30, 2013, the City had investments in U. S. Treasury money market mutual funds through its trustee agreement for debt sinking funds. The fair value was \$12,221,947 (\$305,759 in governmental activities and \$11,916,188 in business-type activities). The average maturity of the portfolio was 48 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, 2013, the City’s mutual fund investments principal stability rating was AAAM as reported by Standard & Poor’s.

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

NOTE 15 COMMITMENTS

The City has various contractual commitments outstanding at year-end. The commitments under these contracts totaled \$11,981,194. The commitments funded from governmental activities will be \$320,897 and from business-type activities will be \$11,660,297.

NOTE 16 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.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 17 POST EMPLOYMENT HEALTH BENEFITS

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

The City implemented Government Accounting Standards Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions* (GASB Statement No. 45), for its financial disclosure and reporting purposes. The City intends to fund the OPEB Obligation pursuant to GASB Statement No. 45 to the extent the funding requirement is not met by the retiree health care premiums paid outright. During the year ended September 30, 2013, the City’s portion of health care funding cost for retired employees (retiree premiums) totaled \$311,882.

Contribution Rates – Eligible retirees are subject to employer contributions for medical benefits equal to 90% of the premium. At September 30, 2012, the valuation date, 23 participants were receiving benefits under various provisions of the Plan. Complete plan provisions are included in the official plan documents.

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

Annual Required Contribution – The City’s Annual Required Contribution (ARC) is an amount actuarially determined using the Projected Unit Credit Method in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a level percentage of pay, open amortization period of thirty years. The remaining amortization period at September 30, 2013, was 30 years.

The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan using operating funds, and changes in the City’s net OPEB obligation to the Plan:

Annual required contribution	\$ 982,982
Interest on net OPEB obligation	79,401
Adjustment to ARC	<u>(111,162)</u>
Annual OPEB cost (expense)	951,221
Current year retiree premium	<u>(311,882)</u>
Change in net OPEB obligation	639,339
Net OPEB obligation – beginning of year	<u>1,985,035</u>
Net OPEB obligation – end of year	<u>\$ 2,624,374</u>

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

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 17 POST EMPLOYMENT HEALTH BENEFITS (CONTINUED)

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
9/30/13	\$ 951,222	32.7%	\$ 2,624,374
9/30/12	908,803	30.2%	1,985,035
9/30/11	908,803	37.0%	1,350,711

Funded Status and Funding Progress – The first actuarial valuation under GASB Statement No. 45 was as of September 30, 2008, and the most recent actuarial valuation was as of September 30, 2012. There were no assets accumulated in the Plan, however, market value will be used to value such assets. At September 30, 2012, the Actuarial Accrued Liability (AAL) was \$9,379,777, which is defined as that portion, as determined by a particular actuarial cost method (the City uses the Projected Unit Credit Method), of the actuarial present value of post employment plan benefits and expenses which is not provided by normal cost. The funded ratio is developed below.

Schedule of Funding Progress

<u>Actuarial Valuation Dated</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL)* - Entry Age (b)</u>	<u>Unfunded (AAL) (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/c</u>
9/30/2012	\$ -	\$ 9,379,777	\$ (9,379,777)	0.0%	\$ 10,584,730	88.6%
9/29/2011	\$ -	\$ 8,093,303	\$ (8,093,303)	0.0%	\$ 11,028,263	73.4%
9/30/2010	\$ -	\$ 8,093,303	\$ (8,093,303)	0.0%	\$ 11,212,324	72.2%

*GASB 45 permits the AAL determined at September 30, 2012 to be used for two consecutive years

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

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 17 POST EMPLOYMENT HEALTH BENEFITS (CONTINUED)

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

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

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

Health Care Cost Trend Rate - The expected rate of increase in medical cost is based on a 10.5% projected increase for 2011 graduated down to an ultimate annual rate of 5% for 2018 and beyond.

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

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

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

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

NOTE 18 OPERATING LEASES

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

NOTE 19 LEASE EXPENSE

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

CITY OF FAIRHOPE, ALABAMA

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

NOTE 20 SERVICE CONCESSION ARRANGEMENT

The Airport Authority, entered into an agreement with the Baldwin County Board of Education (BCBOE), under which the BCBOE will operate and collect tuition from aviation training facility at the airport for the next 40 years with an automatic extension of 5 years unless written notice is received six months prior to the expiration of the initial term. BCBOE will pay the City \$2,700,000 upon execution of the arrangement. The initial payment will be deposited into a construction fund and used in the construction of the aviation training facility. The initial payment will be considered a deferred inflow of resources and rental revenue will be recognized over the life of the initial term of the lease. The City will report the aviation training facility as a capital asset upon completion of the facility and will depreciate the capital asset in accordance with the City's depreciation policy. Upon receipt, the City reported a cash balance in the construction fund of \$2,700,000 with a corresponding balance of \$2,700,000 as a deferred inflow of resources pursuant to the service concession arrangement. The construction fund balance at September 30, 2013, totaled \$2,515,370.

NOTE 21 SUBSEQUENT EVENTS

The City has evaluated subsequent events through January 15, 2014, the date which the financial statements were available to be issued.

In fiscal year 2014, the City entered into a real estate purchase agreement in the amount of \$8,750,000, \$3,000,000 of which was paid in cash at closing, and \$5,750,000 of which was financed by means of General Obligation Warrant, Series 2013. The Warrant accrues interest equal to 65% times the LIBOR rate plus 1.23%, but no less than a minimum rate of 1.34% per annum. The interest rate is 1.35%, per annum, at the date in which the financial statements were available to be issued. Interest is payable semiannually. The Warrant is payable in five equal annual installments of \$1,150,000 maturing December 1, 2018.

There were no other material subsequent events which require disclosure at September 30, 2013.

THIS PAGE INTENTIONALLY LEFT BLANK

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

CITY OF FAIRHOPE, ALABAMA

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Local taxes	\$ 10,609,020	\$ 10,609,020	\$ 10,944,885	\$ 335,865
Licenses and permits	2,618,500	2,618,500	2,731,766	113,266
Fine and forfeitures	320,000	320,000	291,749	(28,251)
Intergovernmental	189,200	189,200	556,293	367,093
Interest and rents	229,800	229,800	250,773	20,973
Charges for services	4,644,000	4,644,000	4,752,303	108,303
Golf course revenue	1,084,400	1,084,400	1,113,277	28,877
Contributions from Public Library Board	-	-	1,500	1,500
Other revenue	549,490	549,490	644,170	94,680
Total revenues	<u>20,244,410</u>	<u>20,244,410</u>	<u>21,286,716</u>	<u>1,042,306</u>
EXPENDITURES				
General government	7,313,931	7,313,931	6,859,140	454,791
Sanitation	1,587,292	1,587,292	1,643,715	(56,423)
Police	3,980,799	3,980,799	4,164,674	(183,875)
Fire	321,728	321,728	312,647	9,081
Airport Authority	443,000	443,000	443,000	-
Streets	2,369,695	2,369,695	2,329,885	39,810
Adult recreation	603,560	603,560	543,109	60,451
Recreation	1,000,151	1,000,151	1,062,174	(62,023)
Golf	1,066,115	1,066,115	907,216	158,899
Public Library Board	630,000	630,000	630,000	-
Other	89,000	89,000	89,000	-
Debt service	717,000	717,000	732,270	(15,270)
Capital outlay	887,022	887,022	654,243	232,779
Total expenditures	<u>21,009,293</u>	<u>21,009,293</u>	<u>20,371,073</u>	<u>638,220</u>
Excess of Revenues over (under) Expenditures	<u>(764,883)</u>	<u>(764,883)</u>	<u>915,643</u>	<u>1,680,526</u>
Other financing sources (uses)				
Transfers in	3,910,214	3,910,214	3,236,251	(673,963)
Transfers out	<u>(3,064,786)</u>	<u>(3,064,786)</u>	<u>(3,999,990)</u>	<u>(935,204)</u>
Total other financing sources (uses)	<u>845,428</u>	<u>845,428</u>	<u>(763,739)</u>	<u>(1,609,167)</u>
NET CHANGE IN FUND BALANCES	\$ <u>80,545</u>	\$ <u>80,545</u>	151,904	\$ <u>71,359</u>
FUND BALANCES - BEGINNING OF YEAR			<u>10,295,547</u>	
FUND BALANCES - END OF YEAR			\$ <u>10,447,451</u>	

CITY OF FAIRHOPE, ALABAMA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2013**

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 accounting principles generally accepted in the United States of America (GAAP).
- (8) Budgetary data, if any, for Capital Project Funds are budgeted over the life of the respective project and not on an annual basis.
- (9) All appropriations lapse at year-end.

CITY OF FAIRHOPE, ALABAMA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2013

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		Fire Department	
Grant expenditures	\$ 22,630	Casualty and workers comp insurance	\$ 682
Salary - mayor	2,500	Equipment and vehicle repair	16,205
Salaries - council	258		
Salaries - administrative	78,846	Recreation Department	
Salaries - judge and court clerk	11,937	Salaries	13,392
Salaries - beach labor	1,666	Employee payroll taxes	944
Employee payroll taxes	13,321	Casualty and workers comp insurance	8,522
Required contribution - OPEB	8,790	General supplies	9,517
Casualty and workers comp insurance	2,325	General maintenance	38,028
Training, school, travel	9,110	Uniforms	779
Services - excluding accounting and legal	72,891		
Office supplies	12,418	Adult Recreation Department	
Postage	623	Casualty and workers comp insurance	1,692
General maintenance	38,454	Special programs	163
Telephone	27,372	Dance expense	81
Equipment and vehicle repair	2,258	Office expense	2,502
Credit card processing fees	1,962	Shuttle bus expense	1,255
Lease on terminals	58		
Colony rent	292	Street Department	
Publications newspapers	3,389	Salaries	967
Historical district expense	2,683	Casualty and workers comp insurance	3,373
County prisoner expense	880	General maintenance	3,910
City hall maintenance	672	Equipment and vehicle repair	27,925
Beach repairs and maintenance	3,603	Equipment rental	20,528
Hurricane Isaac costs	633	Material and landscaping	71,962
General supplies	8,697		
		Sanitation Department	
Police Department		Casualty and workers comp insurance	54,346
Salaries	42,543	General supplies	9,632
Employee payroll taxes	4,144	Gasoline and oil	9,935
Employee retirement	2,484	Equipment and vehicle repair	72,430
Casualty and workers comp insurance	79,211	Landfill maintenance	5,842
Office supplies	131		
General supplies	22,420	Golf Department	
General maintenance	8,029	General maintenance	491
Equipment and vehicle repair	23,123	Gasoline and oil	534
NCIC data system	1,140	Equipment and vehicle repair	1,146
Jail expense	33,390		
DEA funds purchases	44,943		

THIS PAGE INTENTIONALLY LEFT BLANK

OTHER SUPPLEMENTARY INFORMATION

**COMBINING FINANCIAL STATEMENTS
NONMAJOR GOVERNMENTAL FUNDS**

CITY OF FAIRHOPE, ALABAMA
COMBINING BALANCE SHEETS
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	Special Revenue Fund Impact Fees	Special Revenue Fund Gas Tax	Debt Service	Total Nonmajor Governmental Funds
ASSETS				
Cash	\$ 1,254,013	\$ 278,212	\$ 34,432	\$ 1,566,657
Investments	-	-	305,759	305,759
Receivables	-	-	25,617	25,617
Total assets	<u>\$ 1,254,013</u>	<u>\$ 278,212</u>	<u>\$ 365,808</u>	<u>\$ 1,898,033</u>
LIABILITIES				
Accounts payable – trade	\$ 1,800	\$ 3,466	\$ 883	\$ 6,149
Deferred assessment revenue	-	-	25,617	25,617
Total liabilities	<u>1,800</u>	<u>3,466</u>	<u>26,500</u>	<u>31,766</u>
FUND BALANCES				
Restricted for:				
Debt service	-	-	339,308	339,308
Road maintenance and construction	-	274,746	-	274,746
Assigned to:				
Construction and road maintenance	<u>1,252,213</u>	<u>-</u>	<u>-</u>	<u>1,252,213</u>
Total fund balances	<u>1,252,213</u>	<u>274,746</u>	<u>339,308</u>	<u>1,866,267</u>
Total liabilities and fund balances	<u>\$ 1,254,013</u>	<u>\$ 278,212</u>	<u>\$ 365,808</u>	<u>\$ 1,898,033</u>

CITY OF FAIRHOPE, ALABAMA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Special Revenue Fund Impact Fees	Special Revenue Fund Gas Tax	Debt Service	Total Nonmajor Governmental Funds
REVENUES				
Intergovernmental	\$ -	\$ 87,049	\$ -	\$ 87,049
Charges for services	564,952	-	-	564,952
Interest and rents	1,491	-	220	1,711
Total revenues	<u>566,443</u>	<u>87,049</u>	<u>220</u>	<u>653,712</u>
EXPENDITURES				
Street department	-	28,498	-	28,498
Other	-	-	133	133
Debt service				
Principal	-	-	763,420	763,420
Interest	-	-	498,338	498,338
Capital outlay	127,110	-	-	127,110
Total expenditures	<u>127,110</u>	<u>28,498</u>	<u>1,261,891</u>	<u>1,417,499</u>
Excess of revenues over (under) expenditures	<u>439,333</u>	<u>58,551</u>	<u>(1,261,671)</u>	<u>(763,787)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	1,275,765	1,275,765
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>1,275,765</u>	<u>1,275,765</u>
Net change in fund balances	439,333	58,551	14,094	511,978
Fund balances – beginning of year	<u>812,880</u>	<u>216,195</u>	<u>325,214</u>	<u>1,354,289</u>
FUND BALANCES – END OF YEAR	<u>\$ 1,252,213</u>	<u>\$ 274,746</u>	<u>\$ 339,308</u>	<u>\$ 1,866,267</u>

THIS PAGE INTENTIONALLY LEFT BLANK

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

CITY OF FAIRHOPE, ALABAMA

**FUND BALANCE SHEET
FAIRHOPE PUBLIC LIBRARY BOARD
SEPTEMBER 30, 2013**

ASSETS

Cash and cash equivalents	\$ <u>163,570</u>
Total assets	\$ <u><u>163,570</u></u>

LIABILITIES

Accounts payable and accrued expenses	\$ <u>7,669</u>
---------------------------------------	-----------------

FUND BALANCES

Restricted for:	
Capital projects	74,963
Unassigned	<u>80,938</u>
Total fund balances	<u><u>155,901</u></u>
Total liabilities and fund balances	\$ <u><u>163,570</u></u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
FAIRHOPE PUBLIC LIBRARY BOARD
SEPTEMBER 30, 2013

Fund balances as reported on page 56	\$	155,901
Net position reported for governmental activities in the statement of net position are different from fund balances for governmental activities because:		
Capital assets used in governmental activities are financial resources and therefore are not reported in fund financial statements.		364,771
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.		<u>(314,134)</u>
Net position of governmental activities as reported on page 23	\$	<u><u>206,538</u></u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FAIRHOPE PUBLIC LIBRARY BOARD
SEPTEMBER 30, 2013

REVENUES

Fines and lost books	\$	19,339
Donations, gifts, memorials and bequests		62,098
State aid		15,581
Lease income		1,500
Payments from City of Fairhope		627,500
Miscellaneous		13,964
Total revenues		<u>739,982</u>

EXPENDITURES

Salaries		438,973
Payroll taxes		32,482
Employees' retirement		34,363
Books, periodicals, audio visual		84,754
Supplies		12,408
Janitorial service		19,749
Professional fees		6,319
Telecommunications		468
Payments to City of Fairhope for Library Debt		1,500
Capital outlay		21,170
Maintenance		34,490
Friends expenses		4,881
Miscellaneous		14,142
Total expenditures		<u>705,699</u>

Net change in fund balances 34,283

Fund balances – beginning of year 121,618

FUND BALANCES - END OF YEAR \$ 155,901

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, 2013

Net change in fund balances - total governmental funds, page 58 \$ 34,283

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

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

Capital outlays for the year	21,170
Depreciation expense for the year	<u>(31,243)</u>

Change in net position of governmental activities, page 24 \$ 24,210

CITY OF FAIRHOPE, ALABAMA
FUND BALANCE SHEET
FAIRHOPE AIRPORT AUTHORITY
SEPTEMBER 30, 2013

ASSETS

Cash and cash equivalents \$ 3,405,897

Total assets \$ 3,405,897

LIABILITIES

Unearned rent \$ 2,700,000

FUND BALANCES

Restricted for:

Capital projects 182,730

Unassigned 523,167

Total fund balances 705,897

Total liabilities and fund balances \$ 3,405,897

CITY OF FAIRHOPE, ALABAMA

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
FAIRHOPE AIRPORT AUTHORITY
SEPTEMBER 30, 2013

Fund balances as reported on page 60	\$	705,897
Net position reported for governmental activities in the statement of net position are different from fund balances for governmental activities because:		
Capital assets used in governmental activities are financial resources and therefore are not reported in fund financial statements		25,502,475
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.		(3,121,493)
Cost associated with warrant issuance are expensed in the current period in fund financial statements		
Warrant issuance costs, net		23,231
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		<u>(8,695,000)</u>
Net position of governmental activities as reported on page 23	\$	<u><u>14,415,110</u></u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FAIRHOPE AIRPORT AUTHORITY
SEPTEMBER 30, 2013**

REVENUES

Fuel sales and rentals	\$	158,315
Interest income		1,667
Federal grant revenue		95,116
Payments from City of Fairhope		506,874
Total revenues		<u>761,972</u>

EXPENDITURES

Insurance		30,609
Legal and professional		47,032
Maintenance		34,696
Capital outlay		239,439
Debt service payments		
Principal		240,000
Interest		138,044
Other		14,549
Total expenditures		<u>744,369</u>

Net change in fund balances 17,603

Fund balances – beginning of year 688,294

FUND BALANCES - END OF YEAR \$ 705,897

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, 2013

Net change in fund balances - total governmental funds, page 62	\$	17,603
<p>Amounts reported for governmental activities in the statement of activities are different from the statements of revenues, expenditures and changes in fund balances - governmental funds because:</p>		
Amortization of bond costs and discounts is not recorded in fund level statements		(3,615)
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term liabilities is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
Principal payments on long-term debt		240,000
<p>Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.</p>		
Capital outlays for the year		239,439
Depreciation expense for the year		<u>(240,215)</u>
Change in net position of governmental activities, page 24	\$	<u><u>253,212</u></u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA

SCHEDULE OF CAPITAL PROJECTS EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Community park project	\$	3,457
Special projects		90,670
Troyer Boothe project		<u>546,790</u>
Total capital projects expenditures	\$	<u><u>640,917</u></u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA

SCHEDULE OF INFORMATION REQUIRED BY BOND INDENTURES
SEPTEMBER 30, 2013

	<u>Electric Fund</u>	<u>Natural Gas Fund</u>	<u>Water and Waste Water Fund</u>	
A. Utility customers at September 30, 2013 were as follows:				
Number of customers	6,591	9,468	16,489	
Number of metered customers	6,591	9,468	16,489	
Number of unmetered customers	-	-	-	
Number of waste water customers	-	-	9,357	
B. Annual Net Income of Utility Operations				
	<u>Electric Fund</u>	<u>Natural Gas Fund</u>	<u>Water and Waste Water Fund</u>	<u>Total</u>
Income from operations	\$2,548,409	\$1,577,616	\$ 3,391,181	\$7,517,206
Add:				
Depreciation and amortization	673,759	340,922	1,029,623	2,044,304
Interest income	<u>4,454</u>	<u>5,116</u>	<u>15,698</u>	<u>25,268</u>
Annual net income as prescribed by debt covenants	<u>\$3,226,622</u>	<u>\$1,923,654</u>	<u>\$ 4,436,502</u>	<u>\$9,586,778</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 2014				\$5,000,000
Buildings and facilities – expires January 2014				76,812,532
Automobile – expires January 2014				
Liability				1,000,000
Uninsured motorist				50,000
Inland Marine – expires January 2014				44,112
Public officials errors and omissions liability – expires January 2014				5,000,000
Police liability – expires January 2014				5,000,000
Aggregate				2,000,000
Per occurrence				
Excess liability policy for general liability, police and public official – expires January 2014				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, 2013

1996 Capital Improvement	2005		2007		2009		2009		2011		2011	
	Warrant Fund	Reserve Fund	Warrant Fund	Reserve Fund	Warrant Fund	Reserve Fund	Warrant Fund	Reserve Fund	Construction Fund	Warrant Fund	Reserve Fund	
Balance 10/01/12 \$	50,000	\$ 607,358	\$ 874,715	\$ 176,542	\$ 104,120	\$ 125,003	\$ 8,662,753	\$ 497,417	\$ 1,415,679			
Deposits	5	882,918	87	529,971	143,815	13	8,862,582	902,523	142			
Disbursements	(5)	(873,545)	(87)	(529,571)	(145,227)	(13)	(9,308,036)	(885,887)	(142)			
Balance 9/30/13 \$	50,000	\$ 616,731	\$ 874,715	\$ 176,942	\$ 102,708	\$ 125,003	\$ 8,217,299	\$ 514,053	\$ 1,415,679			

THIS PAGE INTENTIONALLY LEFT BLANK

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental activities										
Invested in capital assets, net of related debt	\$ 57,031,298	\$ 60,149,769	\$ 67,742,360	\$ 61,450,916	\$ 67,338,065	\$ 66,295,379	\$ 65,963,325	\$ 66,845,689	\$ 66,016,012	\$ 65,671,272
Restricted	1,788,014	1,908,452	787,538	1,073,262	847,580	1,462,430	3,564,376	6,207,809	8,015,592	8,768,054
Unrestricted	273,964	88,053	(1,195)	54,300	(84,709)	165,029	1,782,848	50,640	56,984	1,826,622
Total governmental activities net positions	\$ 59,093,276	\$ 62,146,274	\$ 68,528,703	\$ 62,578,478	\$ 68,100,936	\$ 67,922,838	\$ 71,310,549	\$ 73,104,138	\$ 74,088,588	\$ 76,265,948
Business-type activities										
Invested in capital assets, net of related debt	\$ 17,337,442	\$ 15,801,139	\$ 19,307,068	\$ 23,076,992	\$ 24,573,181	\$ 24,210,082	\$ 24,697,607	\$ 25,786,974	\$ 17,990,946	\$ 29,971,506
Restricted	1,991,871	2,058,968	2,089,642	2,106,516	2,092,174	1,883,768	1,649,106	1,658,631	12,337,047	3,698,889
Unrestricted	2,949,282	5,082,800	3,334,264	2,105,886	1,422,972	3,691,056	6,696,480	10,610,123	10,047,736	10,197,284
Total business-type activities net positions	\$ 22,278,595	\$ 22,942,907	\$ 24,730,974	\$ 27,289,394	\$ 28,088,327	\$ 29,784,906	\$ 33,043,193	\$ 38,055,728	\$ 40,375,729	\$ 43,867,679
Primary government										
Invested in capital assets, net of related debt	\$ 74,368,740	\$ 75,950,908	\$ 87,049,428	\$ 84,527,908	\$ 91,911,246	\$ 90,505,461	\$ 90,660,932	\$ 92,632,663	\$ 84,006,958	\$ 95,642,778
Restricted	3,779,885	3,967,420	2,877,180	3,179,778	2,939,754	3,346,198	5,213,482	7,866,440	20,352,639	12,466,943
Unrestricted	3,223,246	5,170,853	3,333,069	2,160,186	1,338,263	3,856,085	8,479,328	10,660,763	10,104,720	12,023,906
Total primary government net position	\$ 81,371,871	\$ 85,089,181	\$ 93,259,677	\$ 89,867,872	\$ 96,189,263	\$ 97,707,744	\$ 104,353,742	\$ 111,159,866	\$ 114,464,317	\$ 120,133,627

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Expenses										
Governmental activities:										
General	\$ 3,674,382	\$ 2,679,665	\$ 3,873,823	\$ 5,540,860	\$ 6,392,335	\$ 6,536,802	\$ 6,929,734	\$ 6,176,077	\$ 8,103,118	\$ 7,451,793
Public safety										
Police	2,683,124	3,202,753	3,482,683	3,789,666	4,011,091	4,090,851	4,740,344	5,213,031	4,925,437	4,441,429
Fire	559,002	550,602	692,972	781,696	843,469	878,148	1,017,184	483,670	461,865	407,361
Public works										
Sanitation	922,013	990,511	1,123,517	1,479,374	1,564,126	1,657,615	1,973,942	1,868,364	1,814,947	1,824,259
Street	3,488,870	6,767,426	4,653,792	3,757,204	3,671,572	4,308,575	4,452,370	4,251,404	5,502,244	3,996,599
Public Library Board	341,789	355,908	336,823	594,378	771,373	760,174	772,539	798,997	810,636	840,636
Airport	98,890	95,272	149,179	397,183	545,000	242,090	249,856	225,843	281,124	443,000
Recreation	518,126	596,686	645,154	819,051	900,759	1,031,886	1,269,393	1,138,079	1,176,191	1,281,865
Adult Recreation	281,383	305,018	321,557	390,125	459,961	438,442	601,232	654,736	613,614	640,917
Golf	-	-	-	-	-	1,292,200	1,102,861	1,106,624	932,284	987,869
Interest on long-term debt	526,835	503,428	475,699	624,883	743,451	878,534	694,083	633,161	589,174	507,982
Total governmental activities expenses	13,094,414	16,047,269	15,755,196	18,174,420	19,903,137	22,115,317	23,803,538	22,549,986	25,210,634	22,823,710
Business-type activities:										
Natural gas	4,891,447	5,345,092	6,329,438	5,948,144	6,709,491	5,349,209	5,757,648	5,037,587	4,484,683	5,234,887
Electric	10,428,908	11,213,904	12,842,542	14,029,975	16,006,139	15,540,148	15,664,835	16,909,931	16,912,834	17,164,781
Water and wastewater	4,756,900	5,255,779	5,682,694	6,387,739	6,502,942	6,803,566	6,533,138	6,616,671	7,050,997	7,294,799
Golf	1,278,737	1,320,403	1,476,373	1,544,528	1,713,486	-	-	-	-	-
Total business-type activities expenses	21,355,992	23,135,178	26,331,047	27,910,386	30,932,058	27,692,923	27,955,621	28,564,189	28,448,514	29,694,467
Total primary government expenses	\$34,450,406	\$39,182,447	\$42,086,246	\$46,084,806	\$50,835,195	\$49,808,240	\$51,759,159	\$51,114,175	\$53,659,148	\$52,518,177
Program Revenues										
Governmental activities:										
Charges for services:										
General	\$ 1,637,995	\$ 2,098,805	\$ 3,726,334	\$ 5,862,118	\$ 5,952,299	\$ 5,140,160	\$ 5,249,279	\$ 5,383,822	\$ 6,301,207	\$ 6,052,493
Police	249,181	325,728	354,504	362,441	252,838	224,022	261,070	241,104	289,432	291,749
Sanitation	772,645	749,301	1,252,282	1,294,033	1,331,617	1,368,656	1,380,238	1,391,722	1,408,179	1,431,883
Recreation	90,954	70,665	73,975	75,592	83,919	130,740	366,683	369,135	368,493	391,024
Adult Recreation	44,608	40,019	41,590	34,534	32,791	36,316	45,889	46,261	41,018	39,977
Golf	-	-	-	-	-	847,016	776,173	944,858	1,001,627	1,113,277
Operating grants and contributions	1,453,233	3,472,502	3,065,387	631,133	206,012	87,416	22,267	24,402	-	-
Capital grants and contributions	2,325,885	3,792,402	4,861,100	8,526,591	7,310,387	384,558	1,389,592	302,963	1,317,475	438,033
Total governmental activities program revenues	6,574,501	10,549,422	13,375,172	16,786,442	15,169,863	8,218,684	9,491,191	8,704,267	10,727,431	9,758,436
Business-type activities:										
Charges for services:										
Gas	6,330,451	6,606,396	7,112,944	7,388,531	7,841,853	8,341,855	8,631,935	8,219,447	6,191,986	6,769,649
Electric	11,918,793	12,497,288	14,683,254	16,638,326	17,777,703	18,800,459	18,496,651	19,838,004	18,891,334	19,647,662
Water and wastewater	7,119,904	7,330,152	8,348,064	8,669,895	8,166,344	8,194,949	8,959,041	10,287,898	9,838,580	9,980,089
Golf course	1,259,510	1,233,703	1,527,311	1,505,211	1,487,811	-	-	-	-	-
Total business-type activities program revenues	26,628,658	27,667,539	31,671,573	34,221,963	35,273,711	35,337,263	36,087,627	38,345,349	34,921,900	36,397,400
Total primary government program revenues	\$33,203,159	\$38,216,961	\$45,046,745	\$51,008,405	\$50,443,574	\$43,555,947	\$45,578,818	\$47,049,616	\$45,649,331	\$46,155,836

(continued)

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Net (expense)/revenue	\$ (6,519,913)	\$ (5,497,847)	\$ (2,380,027)	\$ (1,387,978)	\$ (4,733,274)	\$ (13,896,633)	\$ (14,312,347)	\$ (13,845,719)	\$ (14,483,203)	\$ (13,065,274)
Governmental activities	5,272,666	4,532,361	5,340,526	6,311,577	4,341,653	7,644,340	8,132,006	9,781,160	6,473,386	6,702,933
Business-type activities	\$ (1,247,247)	\$ (965,486)	\$ 2,960,499	\$ 4,923,599	\$ (391,621)	\$ (6,252,293)	\$ (6,180,341)	\$ (4,064,559)	\$ (8,009,817)	\$ (6,362,341)
Total primary government net expense	\$ 2,674,204	\$ 2,710,256	\$ 3,159,187	\$ 3,589,489	\$ 4,631,476	\$ 4,939,840	\$ 4,842,366	\$ 4,590,840	\$ 4,591,739	\$ 4,298,046
General Revenues and Other Changes in Net Positions										
Governmental activities:										
Taxes										
Property taxes						1,003,864	4,443,325	4,590,149	4,898,362	5,437,863
Sales tax						385,411	392,255	393,123	425,888	425,816
Liquor taxes	317,899	352,827	347,415	373,794	396,196	474,852	483,271	495,870	569,142	643,495
Lodging taxes	362,860	449,079	196,224	420,024	495,850	134,413	131,135	120,518	124,234	139,666
Other	100,554	130,305	124,738	138,857	145,836	436,472	424,359	248,011	314,525	596,816
Intergovernmental	243,469	325,557	522,196	472,667	293,007	225,860	239,256	249,489	226,642	251,512
Investment earnings	290,659	327,687	394,006	508,538	340,530	109,958	1,293,419	124,161	143,319	213,169
Other	107,685	205,060	230,691	251,476	294,469	913,729				
Transfer of Golf Fund to Governmental Activities						5,094,156	4,897,104	4,827,147	4,173,802	3,236,251
Transfers in/(out)	5,330,481	4,058,380	3,787,999	(10,317,112)	3,658,368	13,718,535	17,146,490	15,639,308	15,467,653	15,242,634
Total government activities	9,427,811	8,559,151	8,762,456	(4,562,247)	10,255,732	13,718,535	17,146,490	15,639,308	15,467,653	15,242,634
Business-type activities:										
Investment earnings	103,610	190,330	235,538	266,888	115,648	60,104	23,385	58,522	20,417	25,268
Transfer of Golf Fund to Governmental Activities						(913,729)				
Transfers in/(out)	(5,330,481)	(4,058,380)	(3,787,999)	(4,020,046)	(3,658,368)	(5,094,136)	(4,897,104)	(4,827,147)	(4,173,802)	(3,236,251)
Total business-type activities	(5,226,871)	(3,868,050)	(3,552,461)	(3,753,158)	(3,542,720)	(5,047,761)	(4,873,719)	(4,768,625)	(4,153,385)	(3,210,983)
Total primary government	\$ 4,200,940	\$ 4,691,101	\$ 5,209,995	\$ (8,315,405)	\$ 6,713,012	\$ 7,770,774	\$ 12,272,771	\$ 10,870,683	\$ 11,314,268	\$ 12,031,651
Change in Net Positions										
Governmental activities	\$ 2,907,898	\$ 3,061,304	\$ 6,382,429	\$ (5,950,225)	\$ 5,522,458	\$ (178,098)	\$ 2,834,143	\$ 1,793,589	\$ 984,450	\$ 2,177,360
Business-type activities	45,795	664,311	1,788,065	2,558,419	798,933	1,696,579	3,258,287	5,012,535	2,320,001	3,491,950
Total primary government	\$ 2,953,693	\$ 3,725,615	\$ 8,170,494	\$ (3,391,806)	\$ 6,321,391	\$ 1,518,481	\$ 6,092,430	\$ 6,806,124	\$ 3,304,451	\$ 5,669,310

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

Fiscal Year	Sales Tax	Ad Valorem Tax	Automobile Tax	Beer, Wine and Liquor Tax	Cigarette Tax	Lodging Tax	Dog Tax	Burglar Alarm Tax	Total
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
2011	4,590,149	4,102,942	487,897	393,123	120,458	495,870	60	-	10,190,500
2012	4,898,362	4,065,822	525,917	425,888	124,183	569,142	50	-	10,609,364
2013	5,437,863	3,738,511	559,534	425,816	139,526	643,495	140	-	10,944,885

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General fund										
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 501,932	\$ 2,723,595	\$ 5,014,205	\$ 7,000,000	\$ 7,000,000
Unassigned	421,331	1,033,668	1,087,642	1,703,619	1,083,383	1,574,743	1,985,914	2,145,950	3,295,547	3,447,451
Total general fund	\$ 421,331	\$ 1,033,668	\$ 1,087,642	\$ 1,703,619	\$ 1,083,383	\$ 2,076,675	\$ 4,709,509	\$ 7,160,155	\$ 10,295,547	\$ 10,447,451
All other governmental funds										
Restricted										
Debt Service - Other Gov. Funds	\$ 377,983	\$ 272,950	\$ 235,348	\$ 456,957	\$ 470,671	\$ 350,987	\$ 351,008	\$ 350,020	\$ 325,214	\$ 339,308
Road Maint & Const. - Other Gov. Funds	-	-	-	-	-	-	-	-	-	274,746
Construction - Capital Projects	-	-	-	-	-	-	-	-	-	1,154,000
Assigned, reported in:										
Other Governmental Funds	143,257	227,109	257,881	311,553	66,907	59,142	127,419	167,786	1,029,075	1,252,213
Capital Projects Funds	1,219,106	1,602,259	263,202	3,892,524	2,070,337	550,369	362,354	675,799	-	58,625
Unassigned	-	-	-	-	-	-	-	-	-	-
Capital projects funds	-	-	-	-	-	-	-	-	(1,069,424)	181,085
Total all other governmental funds	\$ 1,740,346	\$ 2,102,318	\$ 756,431	\$ 4,661,034	\$ 2,607,915	\$ 960,498	\$ 840,781	\$ 1,193,605	\$ 284,865	\$ 3,259,977

The City implemented GASB Statement number 54 fiscal year 2011. This statement replaces the previous classifications of reserved, unreserved, designated and undesignated fund balances.

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

	Fiscal Year										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	
REVENUES											
Local taxes	\$ 3,455,517	\$ 3,642,467	\$ 3,827,564	\$ 4,522,164	\$ 5,669,358	\$ 6,938,380	\$ 10,292,352	\$ 10,190,500	\$ 10,609,364	\$ 10,944,885	
Licenses and permits	1,527,160	2,055,861	3,401,207	2,996,213	2,729,209	2,058,105	2,178,982	2,295,795	2,612,793	2,731,766	
Fines and forfeitures	249,181	325,728	354,504	362,441	252,838	224,022	261,070	241,104	289,432	291,749	
Intergovernmental	3,598,224	6,514,824	7,319,833	3,167,141	1,826,517	837,246	547,556	345,966	667,344	1,022,649	
Contribution from Public Library Bd	-	1,500,000	1,128,850	685,003	208,931	71,000	65,000	183,285	1,000	1,500	
Interest and rents	290,659	327,686	394,009	377,743	340,530	225,861	239,256	249,489	226,748	253,003	
Charges for services	735,311	792,245	1,577,409	4,149,905	4,610,307	4,450,711	4,450,535	4,479,749	5,096,593	5,317,255	
Assessments	122,170	124,582	39,199	1,831	-	-	-	-	3,659	-	
Golf course revenue	-	315,745	343,588	492,419	411,179	277,015	1,705,991	539,557	552,904	644,170	
Other	391,478	15,599,138	18,386,163	16,754,860	16,048,869	16,042,070	20,598,979	19,545,695	21,061,464	22,320,254	
Total revenues	10,369,700	15,599,138	18,386,163	16,754,860	16,048,869	16,042,070	20,598,979	19,545,695	21,061,464	22,320,254	
EXPENDITURES											
General government	3,595,220	2,412,693	2,731,819	5,090,777	6,318,322	5,948,479	6,279,197	5,335,143	7,026,721	6,862,597	
Sanitation	861,317	929,815	960,328	1,254,694	1,405,774	1,475,035	1,758,543	1,745,785	1,607,918	1,643,715	
Police	2,476,353	2,881,293	3,110,086	3,405,687	3,913,015	3,922,163	4,404,803	4,941,051	4,671,591	4,164,674	
Fire	366,421	492,552	576,191	619,434	707,513	765,645	837,597	395,224	339,080	312,647	
Airport	12,742	9,124	63,031	397,183	545,000	242,090	249,856	225,843	281,124	443,000	
Street	2,453,144	5,636,288	3,580,189	2,552,328	2,554,959	2,704,242	2,797,566	2,639,416	3,872,517	2,358,383	
Recreation	396,660	472,129	513,503	658,837	785,425	867,174	1,050,957	969,025	989,463	1,062,174	
Adult recreation	238,007	261,569	277,808	328,744	431,481	400,494	553,125	577,015	525,212	543,109	
Golf	-	-	-	-	431,481	1,303,135	1,094,604	1,113,178	863,593	907,216	
Capital outlay	2,544,947	4,131,361	14,308,234	6,054,830	3,227,604	1,775,834	1,565,192	1,474,937	664,526	1,418,813	
Debt service:											
Principal	712,321	1,288,488	835,627	4,412,690	2,424,796	863,329	1,047,483	831,483	4,804,960	1,485,545	
Interest	532,508	512,025	482,436	532,687	802,140	809,715	704,043	666,652	616,221	508,483	
Bond issuance costs	-	-	-	138,476	-	-	-	-	-	-	
Public Library Board	288,400	330,806	336,823	396,000	504,560	530,000	565,000	565,000	600,000	630,000	
Other	-	60,000	60,000	60,000	60,000	60,000	75,000	89,620	160,888	89,133	
Total expenditures	14,478,040	19,418,143	27,836,075	25,902,367	23,680,589	21,667,335	22,982,966	21,569,372	27,023,814	22,429,489	
Excess (deficiency) of revenues over expenditures	(4,108,340)	(3,819,005)	(9,449,912)	(9,147,507)	(7,631,720)	(5,625,265)	(2,383,987)	(2,023,677)	(5,962,350)	(109,235)	
OTHER FINANCING SOURCES (USES)											
Transfers in	5,561,528	4,876,111	5,325,589	4,897,503	5,228,182	9,542,134	6,541,730	6,557,708	10,379,818	7,236,241	
Proceeds from issuance of debt	-	734,934	4,370,000	9,692,000	1,300,000	3,368,260	-	-	4,015,200	-	
Cost from issuance of debt	-	-	-	-	-	(78,364)	-	-	-	-	
Payment to Defeased Warrants Escrow Agent	-	-	-	-	-	(3,412,892)	-	-	-	-	
Transfer to Debt Service to defease warrants	-	-	-	-	-	(3,289,896)	-	-	-	-	
Warrant discount	-	-	-	(43,956)	-	-	-	-	-	-	
Transfers out	(1,200,974)	(817,731)	(1,537,590)	(877,457)	(1,569,814)	(1,158,102)	(1,644,626)	(1,730,561)	(6,206,016)	(3,999,990)	
Total other financing sources (uses)	4,360,554	4,793,314	8,157,999	13,668,090	4,958,368	4,971,140	4,897,104	4,827,147	8,189,002	3,236,251	
Net change in fund balance	\$ 252,214	\$ 974,309	\$ (1,291,913)	\$ 4,520,583	\$ (2,673,352)	\$ (654,125)	\$ 2,513,117	\$ 2,803,470	\$ 2,226,652	\$ 3,127,016	
Debt service as a percentage of noncapital expenditures	10.4%	11.8%	9.7%	24.9%	15.8%	8.4%	8.2%	7.5%	20.6%	9.5%	

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	Tax Exempt Real Property			
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	1,362,280	212,323,800	61,797,320	318,127,040	15	4,771,905,600	
2011	152,409,500	1,293,000	199,340,360	61,323,460	291,719,400	15	4,375,791,000	
2012	151,955,400	1,165,600	205,976,380	69,676,780	289,420,600	15	4,341,309,000	
2013	142,695,840	1,188,460	189,033,860	64,091,460	268,826,700	15	4,032,400,500	

Source: Baldwin County Revenue Commissioner

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

Fiscal Year	Direct Rates					Overlapping Rates										Total Direct & Overlapping Rates
	City					County					State					
	General Millage	School Millage	Bond Tax Millage	Total City Millage		General Millage	Road/Bridge Millage	Fire Millage	School Millage	Health Care Authority Millage	Total County Millage	General Millage	School Millage	Soldier Millage	Total State Millage	
2004	5.0	5.0	5.0	15.0		5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0
2005	5.0	5.0	5.0	15.0		5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0
2006	5.0	5.0	5.0	15.0		5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0
2007	5.0	5.0	5.0	15.0		5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0
2008	5.0	5.0	5.0	15.0		5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0
2009	5.0	5.0	5.0	15.0		5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0
2010	5.0	5.0	5.0	15.0		5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0
2011	5.0	5.0	5.0	15.0		5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0
2012	5.0	5.0	5.0	15.0		5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0
2013	5.0	5.0	5.0	15.0		5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0

Source: Baldwin County Commission

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

Taxpayer	2013			2004		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Bayview II Developer LLC	\$ 2,252,200	1	0.8%			
Arbor Gates LLC	2,007,120	2	0.7%	\$ 2,321,000	1	1.5%
MediaCom Southeast LLC	1,639,700	3	0.6%			
Fairhope LLC	1,558,820	4	0.6%			
FST Mississippi Baldwin Square	1,544,460	5	0.6%			
Point Clear Partners LLC	1,369,280	6	0.5%			
AI Corte Jr Family Limited Partnership	1,252,380	7	0.5%	1,690,540	2	1.1%
CHS Properties, Inc.	1,205,740	8	0.4%	1,601,400	3	1.0%
Health Care Reit Inc.	1,104,460	9	0.4%			
Bellsouth Tele Communications, LLC	1,085,300	10	0.4%	1,309,800	4	0.8%
FST E&A Southeast Limited Partnership				1,283,540	5	0.8%
Fairhope Mob, LLC				876,240	6	0.6%
FST Eastern Shores Shopping Center				814,280	7	0.5%
FST Greeno Properties North II LTD				653,040	8	0.4%
FST Central Bank of the South				636,740	9	0.4%
Poser Business Forms Inc.				624,920	10	0.4%
	<u>\$ 15,019,460</u>		<u>5.6%</u>	<u>\$ 11,811,500</u>		<u>7.4%</u>

Source: Baldwin County Revenue Commissioner

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

Fiscal Year Ended September 30	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
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%
2011	4,375,791	3,336,261	76.24%	971,558	4,307,819	98.45%
2012	4,341,309	3,327,041	76.64%	669,202	3,996,243	92.05%
2013	4,032,401	3,589,038	89.00%	241,122 *	3,830,159	94.98%

Source: Baldwin County Revenue Commissioner.

* Report only included 8 days of late payments.

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

Fiscal Year	City Direct Rate	Baldwin County	State of Alabama
2010	2.00%	2.00%	4.00%
2011	2.00%	3.00%	4.00%
2012	2.00%	3.00%	4.00%
2013	2.00%	3.00%	4.00%

Source: City Clerk's Office

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

CITY OF FAIRHOPE, ALABAMA
PRINCIPAL SALES TAXPAYERS
* LAST FIVE 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%
2011	\$ 2,502,259	\$ 4,591,088	55%
2012	\$ 2,525,722	\$ 4,855,972	52%
2013	\$ 2,641,175	\$ 5,437,863	49%

* 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			
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
2011	14,965,792	-	24,449	241,993	14,925,000	-	-	6.47%	1,818
2012	14,200,481	-	-	226,260	23,125,000	-	-	8.07%	2,279
2013	12,714,936	-	-	209,680	21,990,000	-	-	7.01%	2,131

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

Fiscal Year	General Obligation Debt	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value of Property	Per Capita
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
2011	15,207,785	350,020	14,857,765	3.19%	896
2012	14,426,741	325,214	14,101,527	3.03%	856
2013	12,924,616	339,308	12,585,308	2.53%	768

CITY OF FAIRHOPE, ALABAMA
COMPUTATION OF OVERLAPPING DEBT
SEPTEMBER 30, 2013

	<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	\$ 12,714,936	100.00%	\$ 12,714,936
Overlapping Debt (Supported by ad valorem tax)			
Baldwin County	107,590,851	7.71% ⁽¹⁾	<u>8,290,736</u>
			<u><u>\$ 21,005,672</u></u>

(1) Percentage of net assessed value of property in City (\$268,826,700) to net assessed value of property in Baldwin County (\$3,488,612,660) on 10/1/2013.

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Debt limit	\$31,813,008	\$32,959,792	\$38,626,776	\$44,849,472	\$65,580,788	\$66,115,436	\$63,625,408	\$58,343,880	\$ 57,884,120	\$ 53,765,340
Total net debt applicable to limit	11,003,831	9,987,406	13,381,169	18,660,479	17,555,836	17,070,662	16,030,941	15,207,785	14,426,741	12,924,616
Legal debt margin	\$20,809,177	\$22,972,386	\$25,245,607	\$26,188,993	\$48,024,952	\$49,044,774	\$47,594,467	\$43,136,095	\$ 43,457,379	\$ 40,840,724
Total net debt applicable to limit as a percentage of debt limit	34.59%	30.30%	34.64%	41.61%	26.77%	25.82%	25.20%	26.07%	24.92%	24.04%

Legal Debt Margin Calculation for Fiscal Year 2013

Total assessed value	\$ 268,826,700
Debt limit (20% of total assessed value)	53,765,340
Debt applicable to limit:	
General obligation warrants	12,924,616
Notes payable	-
Total net debt applicable to limit	12,924,616
Legal debt margin	\$ 40,840,724

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>
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	8.6%
2010	16,409	492,959,178	30,042	4,385	8.9%
2011	16,588	466,189,152	28,104	4,477	8.7%
2012	16,479 *	465,548,229	28,251	4,487	7.1%
2013	16,385	497,890,995	30,387	4,526	6.1%

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

* Revised with U.S. Census Bureau Figure

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

Employer	2013			2004		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Thomas Hospital	1,000	1	14.8%	835	1	13.6%
Grand Hotel	698	2	10.3%	415	2	6.7%
City of Fairhope	330	3	4.9%	204	3	3.3%
Wal-Mart	325	4	4.8%			
Publix	100	5	1.5%			
Segers Aero Corporation	92	6	1.4%			
Winn-Dixie	75	7	1.1%	75	7	1.2%
Print Xcel (formerly Poser Business Forms)	66	8	1.0%	170	4	2.8%
Balloons Everywhere	65	9	1.0%	60	9	1.0%
Piggly Wiggly	60	10	0.9%			
Bruno's				100	5	1.6%
BF Goodrich Aerospace						
Rock Creek				80	6	1.3%
Food World				70	8	1.1%
Seton Home Health				55	10	0.9%
	2,811		41.7%	2,064		33.5%

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

NOTE: Total city employment number represents people residing in COF that are employed (place of residence) rather than employment for COF businesses
 2004: 6,162 2013: 6,748

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,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Government	48	49	58	61	62	54	55	53	53	48
Public Safety										
Police	37	39	40	41	42	51	48	48	44	48
Fire										
Firefighters and Dispatch	5	7	9	9	14	13	13	17	18	17
Highways and Streets										
Public Works	28	28	27	29	28	37	37	35	36	39
Sanitation	21	19	25	22	20	21	20	20	19	17
Culture and Recreation										
Recreation	8	8	8	8	9	18	18	19	19	24
Adult Recreation	1	1	1	3	6	10	13	14	14	9
Gas Department	17	17	16	16	19	18	18	18	18	17
Electric Department	17	17	17	20	19	17	17	17	18	17
Water/Waste Water Department	23	23	24	24	25	23	23	24	26	24
Golf Department	13	12	12	13	13	19	19	16	14	15
Total	218	220	237	246	257	281	281	281	279	275

Source: City of Fairhope human resources department

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

Function	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Police										
Physical arrests	840	949	1,255	1,710	1,131	993	833	1,134	603	759
Parking violations	65	27	56	13	71	285	201	163	128	22
Traffic violations	2,116	2,381	2,589	1,516	996	1,004	1,245	1,419	2,215	1,379
Fire										
Number of calls answered	364	429	381	339	432	427	658	801	657	690
Inspections	505	585	463	282	196	382	291	143	101	85
Highways and streets										
Street resurfacing (miles)	0.25	0.25	2.30	-	-	1.5	-	-	8.1	-
Potholes repaired	416	312	312	312	414	384	400	425	450	1,345
Sanitation										
Garbage collected (tons/year)	6,566	7,000	7,200	8,246	7,520	7,782	8,627	9,100	8,711	7,564
Trash collected (tons/year)	4,953	6,411	4,845	5,213	5,915	5,744	7,385	6,487	5,767	5,513
Recyclables collected (tons/year)	1,699	2,112	1,959	2,131	1,989	1,297	1,281	1,495	1,508	1,512
Culture and recreation										
Golf course rounds @ 9 hole rounds	82,695	80,603	93,082	92,702	88,475	53,755	62,720	61,283	65,500	62,266
Pavilion/park parties	9	87	59	74	88	84	80	64	56	58
Waste water										
Average daily sewage treatment (millions of gallons)	1.8	1.8	1.6	1.7	1.7	1.7	1.8	1.8	1.8	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	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Public safety										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	29	32	33	35	36	40	45	45	45	43
Fire stations	3	3	3	3	3	3	3	3	3	3
Highways and streets										
Streets (miles)	82.2	84.2	89.7	89.7	98.1	98.1	98.1	98.1	99.1	99.1
Culture and recreation										
Parks acreage	168	168	168	208	208	208	248	248	248	248
Parks	46	46	46	50	50	50	51	51	51	51
Swimming pools	2	2	2	3	3	3	3	3	3	3
Tennis courts	4	4	4	6	6	6	6	6	6	6
Community center	2	2	2	2	1	3	3	3	3	3
Sewer										
Sanitary sewers (miles)	115	117	119	120	121	121	125	125	125	126
Storm sewers (miles)	9.45	12.45	14.05	15.55	16.75	16.75	16.75	16.75	17.25	17.25
Maximum daily treatment capacity (millions of gallons)	4	4	4	4	4	4	4	4	4	4

Sources: Various government departments

COMPLIANCE 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



Certified Public Accountants & Consultants

Hartmann, Blackmon & Kilgore, P.C.

806 North Section Street
P.O. Box 1469
Fairhope, Alabama 36532
Phone: 251.928.2443
Fax: 251.928.6921

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Fairhope, Alabama as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise City of Fairhope, Alabama's basic financial statements, and have issued our report thereon dated January 15, 2014.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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



Certified Public Accountants

January 15, 2014
Fairhope, Alabama