



*CITY OF FAIRHOPE, ALABAMA*

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014**

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## INTRODUCTORY SECTION



January 15, 2015

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, 2014 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 Mayor / Council form of government, with each official elected on an at-large basis for a four-year term, and has a population of 16,794.

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 welcome center, a public golf course, indoor and outdoor swimming

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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 economic growth during the year. The revenue from new construction and building permits, inspection and impact fees totaled \$1,105,621 for the year. These key economic indicators reflect sound growth and consumer confidence in our city.

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. For the second consecutive year, the City made a \$350,000 payment to the five public schools in Fairhope for educational enhancement. The budget for fiscal year 2015 includes a third contribution to the Fairhope schools in this same amount.

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. Operations and staffing at Airbus have begun and will reach capacity during 2015. Austal Shipbuilding now employs over 4,200 people. The Fairhope Airport Authority's new 15,000-square-foot Aviation Academy neared completion at year end, and will be enrolling students from high schools in Baldwin County in January, 2015, for flight and mechanical training. The Airport received a grant from the Federal Aviation Administration in the amount of \$1,080,000 for construction of an east terminal apron, which will enhance and attract additional economic development at that site. 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.



On May 28, 2014, Standard & Poors upgraded by two notches the City of Fairhope's long-term bond rating on General Obligation Warrants, to AA+. The upgrade was credited by S & P to the city's strong management with good financial practices, budgetary flexibility, strong liquidity, very favorable debt to governmental funds revenue ratio, and Fairhope's strong local economy and per capita market value.

Researcher NewGeography named Fairhope as one of the four Alabama cities in the Top 100 of 'America's Smartest Cities,' based on a high quality of life and a high percentage of citizens with college degrees. (<http://www.newgeography.com/content/004774-americas-smartest-cities>). The Alabama Policy Institute listed Fairhope in the Top 10 Business-Friendly Cities for 2014. (The Alabama Policy Institute, Birmingham, Alabama, March, 2014, page 7; [www.alabamapolicy.org](http://www.alabamapolicy.org)). Baldwin County was described by Forbes magazine as a top place to grow a business. (Baldwin Insider Quarterly, Vol. 1V, 2014). Alabama ranked 4<sup>th</sup> in the Top 10 states for doing business. (Baldwin Insider Quarterly, Vol. 1V, 2014).

## MAJOR INITIATIVES

For the Year:

Sales tax receipts for the fiscal year totaled over \$6.51 million, exceeding the budgeted projection by \$618,249. 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. During the year the City paid off in advance \$2.4 million in General Obligation Warrants in addition to \$480,000 in scheduled debt service. The sales tax reserve account balance at fiscal year-end totaled \$8.1 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 2014. Total sales and lodging tax receipts increased by 17% over the prior year's totals.

The Mayor, City Council, and City department heads continue to strive to adhere to the City's established goals in planning for continuing growth, and in maintaining the quality of life and the highest level of governmental services to all residents in the City. The City Council initiated a series of public meetings for input from citizens and city managers to define and prioritize major issues of concern to the citizens, to be used in updating the city's Comprehensive Plan. This will continue into the next fiscal year. In addition, the city received a grant through the Alabama Department of Conservation and Natural

Resources for the development of a Low Impact Design Allowance Plan, as part of the Coastal Zone Management Act of 1972. Low Impact design techniques will be incorporated into the City's Comprehensive Plan through revisions to existing ordinances and regulations, as needed.

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 5.8%, while the rate for the state as a whole was 6.3%.

The Finance Department was once again awarded the Certificate of Achievement for Excellence in Financial Reporting for its CAFR for the fiscal year 2013, 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 2015 contains over \$9.6 million in the General, Capital Projects, Gas Tax, Impact, and Utility Funds for capital purchases, infrastructure improvements, and special projects throughout the City. Transfers from the Enterprise Funds are budgeted for fiscal year 2015 at \$1,826,575, a reduction of \$2,084,084 from the previous year. Other improvements being completed in the next year include major street projects for resurfacing, widening and new sidewalks, drainage improvements, completion of a new soccer complex, additional tennis courts, and irrigation system for the golf course.

#### **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 \$4,149,976 for the year, after transfers of \$3.6 million to support the General fund. Transfers to support the General fund represented 42% of the enterprise funds' operating income before transfers, a decrease of 1% from the prior year. The Enterprise funds expended over \$18

million in capital purchases, funded by operating income, reserves designated for capital purchases, and borrowed funds. Capital purchases included \$8.75 million for a 108-acre tract of land, \$6.8 million of a \$12 million upgrade to the waste water treatment plant, additions to distribution and collection systems totaling \$2.9 million and upgrades to vehicles and equipment.

Cash and cash equivalents in the enterprise funds totaled \$16,202,401 at year-end, a decrease of 17% from the prior year. Total long-term debt at year-end for the Enterprise Funds was \$26,714,220, an increase of \$4,514,540. The purchase of land by the enterprise funds utilized \$3 million in cash and a General Obligation Warrant in the amount of \$5,750,000 for a term of five years. Payments for construction costs for the waste water treatment plant upgrade additionally affected the decrease in cash at year-end. 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 six fiscal years.

#### **GOVERNMENTAL FUNDS HIGHLIGHTS**

The Governmental funds are comprised of General, Capital Projects, Debt Service, Impact 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 \$1,107,692 for the fiscal year, including receipt of \$3.6 million in transfers from the utilities. This \$1.1 million in net surplus was made up of the General Fund's net surplus of \$2,072 and the combined net results in the Capital Projects and other Governmental funds. Total revenues in the Governmental Funds before utility transfers increased by \$1,109,460 from the prior year. Operating expenses in the Governmental fund during the 2014 fiscal year increased by \$3,505,014, an increase of 15%. A leading factor in the increase in expenses and resulting net surplus in the General Fund was the transfer of \$2.6 million from the General fund into the Capital Projects fund for budgeted capital projects during the year, as authorized by the City Council. Capital purchases and improvements in the Governmental Fund totaled \$1,908,464. The City completed a \$352,000 upgrade to the Fairhoppers Community Park. A severe rainstorm on April 28 dropped 26 inches of rain on the city, resulting in over \$800,000 damage to streets, drainage ways, and the waste water treatment plant.

The Governmental Fund Balance was \$14,815,120 at year-end, an 7% increase from the prior year. Total General Fund cash was \$14,925,730 at year-end, an increase of 11%. Total debt of the Governmental Funds

at year-end was \$9,820,396, a decrease of \$2,894,540 or 22%, in long term debt.

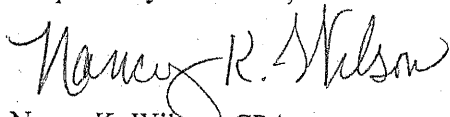
#### INDEPENDENT AUDIT

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,

A handwritten signature in cursive script that reads "Nancy K. Wilson". The signature is written in black ink and is positioned above the printed name.

Nancy K. Wilson, CPA  
City Treasurer



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**City of Fairhope  
Alabama**

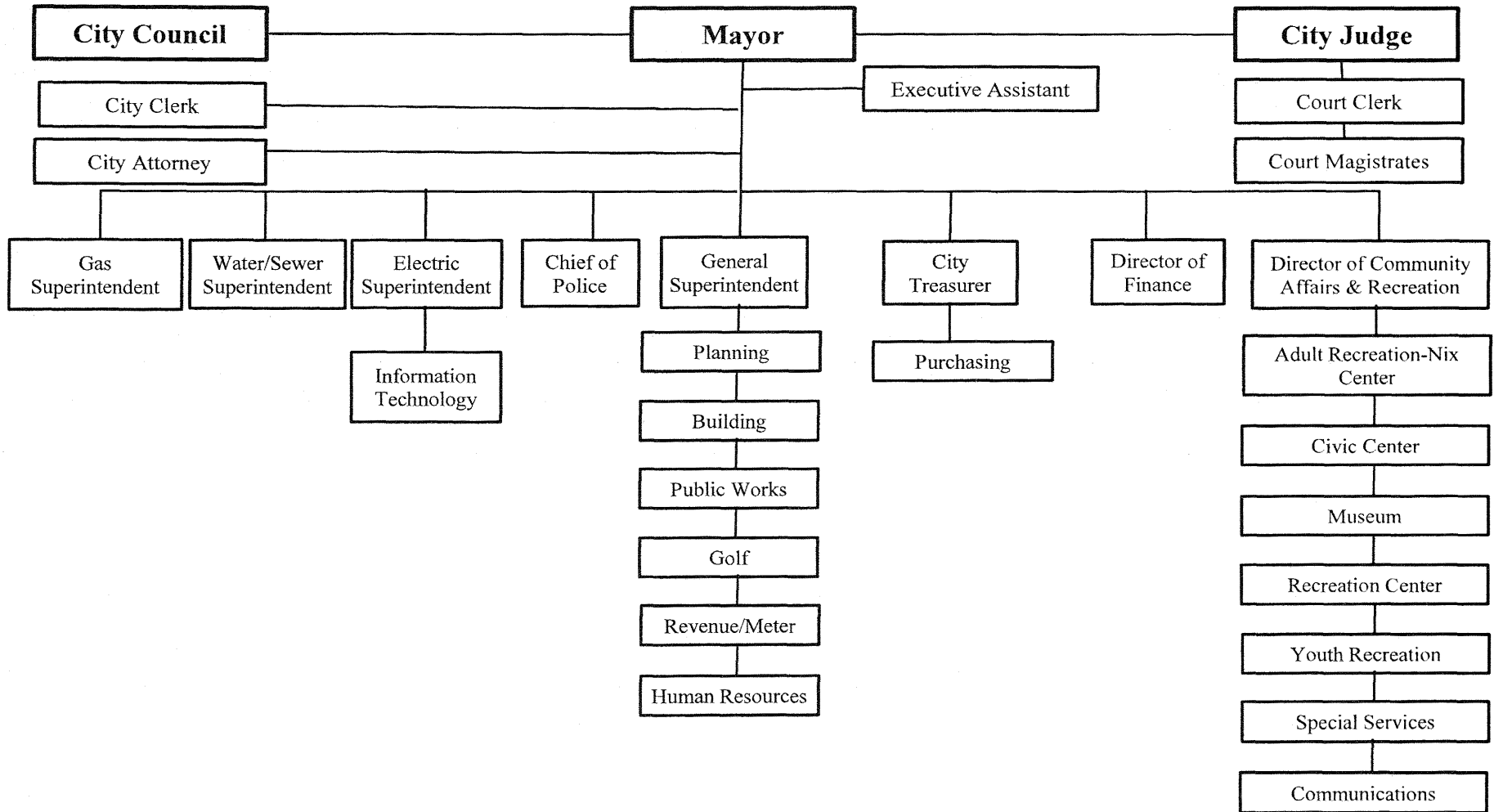
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**September 30, 2013**

A handwritten signature in black ink, reading "Jeffrey R. Enoch". The signature is written in a cursive, flowing style.

Executive Director/CEO

CITY OF FAIRHOPE, ALABAMA  
ORGANIZATIONAL CHART  
SEPTEMBER 30, 2014



**CITY OF FAIRHOPE, ALABAMA**  
**CITY ELECTED AND APPOINTED OFFICIALS**  
**SEPTEMBER 30, 2014**

Timothy M. Kant, ACMO	Mayor
Michael A. Ford, ACMO	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

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806 North Section Street  
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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fairhope, Alabama, as of and for the year then ended September 30, 2014, 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, 2014, 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 3-9 and 52 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.

*Restatement of Prior Periods*

The financial statements of the City as of September 30, 2013, dated January 15, 2014, expressed an unmodified opinion on the financial statements. As discussed in Note 22 to the financial statements, the City has adjusted its September 30, 2013, financial statements to retrospectively apply the implementation of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

As part of our audit, we also audited the adjustments to the September 30, 2013, financial statements to retroactively apply the change in accounting principle as described in Note 22. In our opinion, such adjustments are appropriate and have been properly applied.

**Other Reporting Required by Governmental Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2015, 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.

*Hartmann, Blackman & Kilgus, P.C.*

Certified Public Accountants

January 15, 2015  
Fairhope, Alabama

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Fairhope's (the "City") financial performance provides a narrative overview of the City's financial activities for the fiscal year ended September 30, 2014. 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 \$133,892,293, a current year increase in net position of \$14,178,308 (pages 15 and 16).
- 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 \$14,815,120, an increase of \$1,107,692 from the prior year. The General Fund closed with a fund balance of \$10,449,523, an increase of \$2,072. The reason for this small increase is from an additional principal debt payment paid during the year, as discussed below, as well as greater than anticipated transfers into Capital Projects for projects scheduled for the first part of fiscal year 2015. The Capital Projects Fund had an increase in fund balance of \$1,717,276 after capital expenditures of \$1,526,487 and transfers from the General Fund of \$2,649,389 (page 19). A detailed explanation of these increases can be viewed on page six and seven of this MD&A.
- City wide, governmental and business type funds, cash (including restricted cash) totaled \$31,128,128, a decrease of \$6,780,560 from the previous year. Governmental Funds cash totaled \$14,925,727 at September 30, 2014 (page 15). This is an increase of \$1,261,665 over the prior year. Most of the increase, approximately \$1.1 million was from sales tax receipts directly related to additional annexations into the city limits. The business type funds cash totaled \$16,202,401 at year end (page 21), a decrease of \$8,042,225 from last year. This decrease is primarily a result of payments made on sewer plant upgrades totaling \$6,770,512 and \$3,000,000 on a real estate purchase discussed below. Of this \$3 million, \$1,750,000 in cash reserves was replenished by year end. Revenues in the governmental funds increased approximately \$1.1 million from the previous year. Expenses increased approximately \$3.5 million.
- During fiscal 2014, revenues from the sales tax totaled \$6,518,249, an increase of approximately \$1,080,000 over the previous year. At year end, the City's reserve fund was \$7 million with \$2.9 million paid in principal debt payments. Of this \$2.9 million, \$2.4 million paid off the 2009 General Obligation Refunding Warrant.
- The combined governmental funds expended \$1,908,464 for capital projects and purchases, including \$1,189,389 for special projects, such as the Community Park as well as widening of Fairhope Avenue, \$30,292 for impact fees transportation projects and \$689,000 for vehicles, equipment and other infrastructure additions.
- The business-type activities, Gas, Electric, Water and Waste Water activities, ended the year with income before transfers of \$8,047,842, compared to \$6,728,201 for fiscal 2013. Although revenues increased approximately \$2.7 million, costs of energy and operating expenses also increased about \$1.4 million. The utilities made transfers to the General Fund of \$3,612,482 from income, which is \$376,231 more than transfers last year. The business-type activities recorded an increase in net position, after transfers, of \$4,435,360 (page 22). Details pertaining to these increases can be seen on page seven and eight of this MD&A.
- The City's business-type activities made additions to property, plant and equipment of \$18,893,644. There are two main factors contributing to this significant increase. The City purchased land for \$8,750,000, \$3 million of which was paid in cash and \$5,750,000 of which was financed as mentioned below. In addition, approximately \$6.8 million was spent on sewer plant upgrades. The remaining increase was due to routine system improvements totaling \$2.9 million and vehicles and equipment of \$450,000. Funding for these additions, excluding the land purchase, was prior debt issues, current income and money set aside for this purpose (pages 23 and 37).

- The City of Fairhope's long term debt increased by \$1,620,000 during fiscal year 2014, yielding total outstanding debt of \$36,534,616 compared to the previous year's \$34,914,616. In fiscal year 2014, the City entered into a real estate purchase agreement in which \$5,750,000 of the purchase was financed through General Obligation Warrant Series 2013. Additionally, the 2009 General Obligation Refunding Warrant of approximately \$2.4 million was paid off in full. Governmental activities total debt was \$9,820,396. Business-type activities total debt was \$26,714,220 (pages 38 and 39).

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

For governmental activities, the fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements start on page 26.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's General Fund budget. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget on page 52.

### 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 \$133,892,293 at the close of the most recent fiscal year, as shown in **Figure 1**, page 10 and page 15. This

is an increase of \$14,178,308.

The two major factors contributing to this increase are as follows: revenues among the governmental funds increased \$1,248,865 from last year due mainly to an increase in sales tax of \$1,080,386. This was a result of receiving a full year's worth of income from additional annexations into the city limits.

In addition, revenue from the utility funds increased \$2,693,581 from the prior year due primarily to the increase in sale of energy in both the Gas and Electric funds. This amount totaled approximately \$2.5 million.

The largest portion of the City's net position, approximately 87 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 9.2 percent, represents resources that are subject to restrictions as to how they may be used. Funds restricted for debt service were \$4,075,444; for capital projects, \$1,154,000; for road maintenance and construction, \$46,007; for City Council determined emergencies, \$7,000,000. Restricted funds decreased approximately \$191,500 from the previous year.

The unrestricted net position, approximately 3.6 percent, may be used to meet the City's ongoing obligations to citizens and creditors. Unrestricted net position, \$4,786,613, decreased \$7,237,293 during fiscal 2014 (pages 10 and 15).

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 \$960,415. The current year retirement premium was \$422,248. The liability for OPEB obligation at year end was \$3,162,541. This amount is reported on the Statement of Net Position, page 15, as Net OPEB Obligation and on page 48, Note 17.

Under Government Accounting Standards Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), a service concession arrangement exists between the Airport Authority and the Baldwin County Board of Education (BCBOE). See Note 20, page 51 for detailed explanation of this agreement. At year end, the balance of this deferred inflow of resources is \$2,632,500 million.

Effective for year ended September 30, 2014, the City implemented Government Accounting Standards Statement 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), which 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). One example affecting this new standard is debt issuance costs. See Note 1, page 30 and Note 22, page 51 for additional details.

Another new accounting principle has been issued and is discussed in Note 1, page 30.

**Figure 2**, page 11, is a condensed Statement of Activities for the City as a whole for all activity types. This condensed statement includes comparative information from the prior year for the governmental and business-type activities, as well as the Library and Airport Authority component units.

### **Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds — not the City as a whole. Some funds are required to be established by State Law and by bond covenants.

However, the City Council established many other funds to help control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds — *governmental* and *proprietary* — use different accounting approaches.

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

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

### Governmental Funds

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

**Figure 3**, page 12, presents summaries of the governmental funds (General Fund, Capital Projects, Debt Service, Gas Tax, and Impact Fees) revenues and expenditures, by function, for the fiscal year ended September 30, 2014, and the amounts of increases and decreases in relation to prior year revenues and expenditures.

Governmental activities revenues increased \$1,109,460 from the previous fiscal year. Expenditures of Governmental funds also increased \$3,505,014 for the same period. The following significant events, related to revenues and expense, occurred during fiscal 2014 (the figures are rounded):

#### Related to revenue:

- Taxes, property and local, were up \$1,102,000, with the majority of the increase from sales tax.
- Licenses and permits increased by \$270,000 while fines and forfeitures decreased by \$6,000.
- State of Alabama and United States Government tax and grant income decreased by \$30,000.
- Charges for services were down \$152,000 due mainly to a decrease in utility collection fees.
- Income from the City's golf course, approximately \$1,068,000 was down \$46,000 from the previous year while income from the Recreation department was up \$45,000, with the majority of the increase from memberships.
- Other income was down \$56,000 due mainly to a decrease in fixed asset sales.

#### Related to expenditure:

- Capital outlay expenditures were approximately \$1,908,000, up \$490,000 from the prior year. Expenditures of \$1,419,000 for fiscal 2013 included \$637,000 for special projects, \$127,000 for impact fees transportation projects and \$654,000 for vehicles and equipment. Major capital expenditures for fiscal 2014 were: \$1,189,000 for special projects, including the Community Park and the widening of Fairhope Avenue, \$30,000 for impact fees transportation projects and \$689,000 for vehicles and equipment.
- The City's General Department had an increase in expenditures of \$1.4 million. The major increase for 2014 was the shift of all General Fund departmental casualty/workers comp insurance costs into the general department. This increase was approximately \$591,000. This was a result of the disproportionate insurance costs among the individual General Fund departments. In addition, employee and retiree insurance costs increased \$550,000. The remaining increase related to legal fees of \$265,000.
- The Police Department had decreases of \$228,000. This decrease was from the shift in casualty/workers comp insurance costs into the general department. This amount was \$220,000.
- The Street Department's expenses were up \$347,000 due to unforeseen emergency repairs as a result of the



April 2014 flood event. These costs totaled \$337,000.

- Debt service payments, \$3.4 million, increased \$1.4 million from the previous year's \$2 million total. This was due to the payoff of the 2009 General Obligation Warrant in the amount of \$2.4 million.

### **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 \$14,815,120, an increase of \$1,107,692. This follows an increase in fund balances of \$3,127,016 the previous year. The General Fund had a fund balance of \$10,449,523, an increase of \$2,072. The Capital Projects Fund had an increase in fund balance of \$1,717,276 after \$448,858 for park and soccer projects, \$421,191 for road widening projects, capital outlay of \$656,438 and transfers from the General Fund of \$2,649,389.

The Other Governmental Funds had fund balances of \$1,254,611 at year end, including restrictions for Debt Service of \$357,156, an increase of \$17,848 and assigned funds reported in special revenue fund (Gas Tax and Impact Fees) of \$851,448, a decrease of \$400,765, after expenditures of \$30,292 for capital outlay and \$66,472 for road repair and maintenance. (see pages 17, 19, 55 and 56). Increases and decreases in revenues and expenses are discussed in the **Governmental Funds** section of this MD&A, page 6 above.

The governmental activities' net position at year end was \$85,874,638, an increase of \$9,742,948. This increase is directly related to transfers from the utilities in the amount of \$3,612,482. The Gas, Electric and Water and Waste Water Funds had a net position of \$48,017,655 at year end, an increase of \$4,435,360 (see pages 16 and 22). The increase in the previous year was \$3,491,950. The significant change of \$6,325,166 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 \$981,110. Expenditures for the General Fund were up \$579,445 from the prior year. Transfers from the proprietary funds (Gas, Electric, Water and Waste Water Funds) were \$3,612,482 for the current year, an increase of \$376,231 from the prior year. After transfers, the fund balance of the General Fund increased by \$2,072 during fiscal 2014. The reason for this small increase is from an additional principal debt payment paid during the year, as discussed below, as well as greater than anticipated transfers into Capital Projects for projects scheduled for the first part of fiscal year 2015. The most significant revenue increase was related to local taxes of \$1,101,515, with the majority from sales tax. The other major increase in revenue during the year was licenses and permits of \$268,907. Although local taxes and licenses and permits increased, all other General Fund revenue decreased throughout the year. Fines and forfeitures, interest and rents, as well as recreation and other income had modest decreases totaling \$31,528. There was a decrease in intergovernmental and grant income of \$245,337. Charges for services were down \$65,262 due to a decrease in utility collection fees. Golf revenue was down \$45,684 from last year due mainly to decreases in memberships and pro shop sales. The most significant increase relating to General Fund expenditures was in the General department. Total expenses of \$8,311,040 increased \$1,451,900 over last year. This was a result of all General Fund departmental casualty and workers comp insurance expensed to the General department as opposed to the individual General Fund departments in the prior year. This amount was \$590,768. The remaining increase was from an increase in employee and retiree insurance costs of \$551,289 as well as an increase in legal fees of \$265,000. Police department expenditures were down \$227,523 from last year due to the aforementioned shift of casualty and workers comp insurance costs to the General department. Debt service payments decreased \$732,270 due to the City's payoff of the library bridge loan in the previous year.

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 \$2,693,581 over the prior fiscal year. This represented a 7.4% increase. Operating expenses increased by \$1,392,257, a 4.8% increase. The increase in expenses was due to mainly to increases in energy purchases for resale of \$1,936,340, an increase of 13.2%. Combined, other expenses were down from the prior year, \$544,083. 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 \$8,047,842, an increase of \$1,319,641. Transfers to the General Fund were \$3,612,482, or 45% of income. For fiscal 2013 the transfers to the General Fund were \$3,236,251, or 48% of income. For fiscal 2012 the transfers were \$4,173,802 or 64%. 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 \$4,435,360.

### **General Fund Budgetary Highlights**

Although there is no legal requirement to establish a budget, the City of Fairhope prepares an annual budget. The preparation process involves input from the Mayor, City managers, and the City Council budget committee. Page 53 of this report lists the procedure for preparing the annual budgets. No adjustments to the budget were made during the year.

On page 52, 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 \$648,000 for fiscal 2014. Local taxes were \$347,000 over budget due primarily to greater than expected sales tax revenue. Licenses and permits were \$176,000 over budget. Of that amount, \$171,000 was from business licenses and franchise fees. Charges for services were \$53,000 over budget. Subdivision fees related to an improved construction outlook in Fairhope, and sanitation collections exceeded budgeted amounts. Recreation department revenue was \$68,000 over budget due primarily to an increase in memberships. Other revenue was up \$60,000 from the sale of fixed assets.

At year end, expenditures were \$205,000 under budget. The favorable variances in police, recreation, and golf totaled \$368,000 due primarily from less than anticipated employee costs of \$225,000, \$80,000, and \$38,000, respectively. Adult recreation was \$52,000 under budget due to employee cost reductions as well as decreases in maintenance and supplies. The favorable variance in capital outlay was \$129,000 due to an overall departmental cutback in capital spending throughout the year. In contrast, the street department had an unfavorable variance of \$104,000 due to greater than anticipated street materials and landscaping supplies totaling \$100,000. Sanitation also had an unfavorable variance of \$230,000 due primarily to an increase in equipment and vehicle repairs as well as an increase in gas and oil.

### **Capital Assets**

As of September 30, 2014, the City's governmental activities had \$84,593,843 invested in capital assets, net of depreciation. This is an increase of \$6,240,419 from the prior year. The business-type activities had invested capital assets, net of depreciation of \$60,385,330, an increase of \$16,785,349 (see Note 3, Capital Assets, pages 36 and 37).

The City's governmental activities capital assets, at cost, were \$133,353,891 at September 30, 2014, an increase of \$6,845,962 from the prior year. The reason for this significant increase was due to a three and a half mile road being transferred from the County to the City. The value of this road is estimated at \$7.5 million. The business-type activities, the Gas, Electric and Water and Waste Water Funds, had capital assets, at cost, of \$98,566,902, an increase of \$18.9 million. **Figure 4**, page 13, summarizes capital assets by asset type, at cost, and changes in fixed assets during the year.

### **Debt Administration**

As of September 30, 2014, the City had long-term debt of \$36,534,616 (excluding premiums and discounts), including bonds and warrants payable, notes payable, and obligations under capital leases. This is a net increase, city wide, of \$1,620,000 from the prior year. Governmental activities' decrease in long-term debt was \$2,894,540. Conversely, business-type activities' increase in long-term debt was \$4,514,540.

In January 2014, the City paid off the General Obligation Refunding Warrant Series 2009 of approximately \$2.4 million. During the year, the City entered into a real estate purchase agreement in which \$5,750,000 of this purchase

was financed through General Obligation Warrant Series 2013. See Notes 5 through 8 in the financial statements for more detail. **Figure 5**, page 14, summarizes the City's long-term debt, including compensated absences.

#### **ECONOMIC FACTORS**

The City's management has set a budget decrease in revenue for fiscal 2015 of \$1.3 million. Although, local taxes and licenses and permits are expected to increase \$821,000, transfers from the utilities are budgeted to decrease \$2,000,000.

On the contrary, the General Fund budget has a \$462,000 increase in expenses for fiscal 2015, compared to fiscal 2014. Most departments are relatively flat, or have seen small increases in their budgets. Over half of this increase, \$240,000, relates to General administrative department expenses. The two major increases are: employee costs of \$102,000 as well as professional services and vehicle and equipment purchases totaling \$132,000. The remaining difference is due to an increase in the sanitation department's budget of \$197,000 primarily from an increase in vehicles and equipment purchases of \$127,000.

Gas Fund, Electric Fund and Water and Waste Water Fund operations budgeted revenues are expected to decrease less than 1% from actual amounts for 2014. Costs of energy and operating expenses in the three utilities are projected to decrease by approximately 2% from actual amounts for 2014.

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 \$8,948,442 for fiscal 2015, compared to actual \$8,047,842 for fiscal 2014. This represents a projected increase of 11%. Transfers to the General Fund for fiscal 2015 are budgeted to be \$1,826,575, compared to \$3,910,659 for 2014. This represents a 53% decrease. By significantly reducing transfers, the City will be able to make an extra principal debt payment in the amount of \$2,000,000. 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 9/30/2014**

	COMPONENT UNITS									
	GOVERNMENTAL ACTIVITIES		BUSINESS - TYPE ACTIVITIES		TOTAL PRIMARY GOVERNMENT		LIBRARY		AIRPORT AUTHORITY	
	9/30/2014	9/30/2013	9/30/2014	9/30/2013	9/30/2014	9/30/2013	9/30/2014	9/30/2013	9/30/2014	9/30/2013
Current & Other Assets	\$ 15,708,701	\$ 14,575,528	\$ 19,973,176	\$ 28,441,845	\$ 35,681,877	\$ 43,017,373	\$ 155,642	\$ 163,570	\$ 1,327,960	\$ 3,429,128
Capital Assets, net	84,593,843	78,353,424	60,385,330	43,599,981	144,979,173	121,953,405	69,032	50,637	24,212,839	22,380,982
<b>Total Assets</b>	<b>\$ 100,302,544</b>	<b>\$ 92,928,952</b>	<b>\$ 80,358,506</b>	<b>\$ 72,041,826</b>	<b>\$ 180,661,050</b>	<b>\$ 164,970,778</b>	<b>\$ 224,674</b>	<b>\$ 214,207</b>	<b>\$ 25,540,799</b>	<b>\$ 25,810,110</b>
Long-Term Debt	\$ 10,048,834	\$ 12,559,397	\$ 24,529,566	\$ 21,088,313	\$ 34,578,400	\$ 33,647,710	\$ -	\$ -	\$ 8,440,000	\$ 8,695,000
Other Liabilities	4,379,072	4,103,607	7,811,285	7,085,834	12,190,357	11,189,441	4,306	7,669	-	-
<b>Total Liabilities</b>	<b>\$ 14,427,906</b>	<b>\$ 16,663,004</b>	<b>\$ 32,340,851</b>	<b>\$ 28,174,147</b>	<b>\$ 46,768,757</b>	<b>\$ 44,837,151</b>	<b>\$ 4,306</b>	<b>\$ 7,669</b>	<b>\$ 8,440,000</b>	<b>\$ 8,695,000</b>
Service concession arrangement revenue applicable in future years	-	-	-	-	-	-	-	-	2,632,500.00	2,700,000.00
<b>Deferred Inflows of Resources</b>	-	-	-	-	-	-	-	-	<b>2,632,500.00</b>	<b>2,700,000.00</b>
Net Position:										
Invested in Capital Assets, net of related debt	\$ 74,804,467	\$ 65,671,272	\$ 42,025,762	\$ 29,971,506	\$ 116,830,229	\$ 95,642,778	\$ 69,032	\$ 50,637	\$ 15,772,839	13,685,982
Restricted	8,557,163	8,768,054	3,718,288	3,698,889	12,275,451	12,466,943	-	-	-	-
Unrestricted	2,513,008	1,826,622	2,273,605	10,197,284	4,786,613	12,023,906	151,336	155,901	(1,304,540)	729,128.00
<b>Total Net Position</b>	<b>85,874,638</b>	<b>76,265,948</b>	<b>48,017,655</b>	<b>43,867,679</b>	<b>133,892,293</b>	<b>120,133,627</b>	<b>220,368</b>	<b>206,538</b>	<b>14,468,299</b>	<b>14,415,110</b>
<b>Total Liabilities &amp; Net Position</b>	<b>\$100,302,544</b>	<b>\$ 92,928,952</b>	<b>\$ 80,358,506</b>	<b>\$ 72,041,826</b>	<b>\$ 180,661,050</b>	<b>\$ 164,970,778</b>	<b>\$ 224,674</b>	<b>\$ 214,207</b>	<b>\$ 25,540,799</b>	<b>\$ 25,810,110</b>

Figure 2

**CITY OF FAIRHOPE  
CONDENSED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED 9/30/2014**

	COMPONENT UNITS									
	GOVERNMENTAL ACTIVITIES		BUSINESS - TYPE ACTIVITIES		TOTAL PRIMARY GOVERNMENT		LIBRARY		AIRPORT AUTHORITY	
	9/30/2014	9/30/2013	9/30/2014	9/30/2013	9/30/2014	9/30/2013	9/30/2014	9/30/2013	9/30/2014	9/30/2013
Program Revenues										
Charges for Services	\$ 9,526,574	\$ 9,320,403	\$ 39,090,981	\$ 36,397,400	\$ 48,617,555	\$ 45,717,803	32,527	34,803	163,065	158,316
Operating Grants & Contributions	9,144	-			\$ 9,144	-	730,811	705,179	516,715	601,990
Capital Grants & Contributions	8,416,283	438,033			8,416,283	438,033				
General Revenues										
Taxes	12,046,400	10,944,886			12,046,400	10,944,886				
Intergovernmental	389,561	596,816			389,561	596,816				
Investment Earnings	239,205	251,512	30,815	25,268	270,020	276,780			9,224	1,667
Gain (loss) on sale of Assets	(261,340)	-			(261,340)					
Other	147,672	213,169			147,672	213,169				
<b>Total Revenues</b>	<b>\$ 30,513,499</b>	<b>\$ 21,764,819</b>	<b>\$ 39,121,796</b>	<b>\$ 36,422,668</b>	<b>\$ 69,635,295</b>	<b>\$ 58,187,487</b>	<b>\$ 763,338</b>	<b>\$ 739,982</b>	<b>\$ 689,004</b>	<b>\$ 761,973</b>
Expenses										
General Government	\$ 9,067,340	\$ 7,451,793			\$ 9,067,340	\$ 7,451,793				
Sanitation	1,873,508	1,824,259			1,873,508	1,824,259				
Police	4,220,003	4,441,429			4,220,003	4,441,429				
Fire	431,955	407,361			431,955	407,361				
Airport	443,000	443,000			443,000	443,000				
Street	4,095,487	3,996,599			4,095,487	3,996,599				
Adult Recreation	663,982	640,917			663,982	640,917				
Recreation	1,250,689	1,281,865			1,250,689	1,281,865				
Golf	978,819	987,869			978,819	987,869				
Public Library Board	886,028	840,636			886,028	840,636				
Interest on Long Term Debt	472,222	507,982			472,222	507,982				
Electric			18,379,231	17,164,781	18,379,231	17,164,781				
Natural Gas			5,529,610	5,234,887	5,529,610	5,234,887				
Water and Wastewater			7,165,113	7,294,799	7,165,113	7,294,799				
Golf										
Airport Authority									612,581	508,761
Fairhope Public Library							749,508	715,772		
<b>Total Expenses</b>	<b>\$ 24,383,033</b>	<b>\$ 22,823,710</b>	<b>\$ 31,073,954</b>	<b>\$ 29,694,467</b>	<b>\$ 55,456,987</b>	<b>\$ 52,518,177</b>	<b>\$ 749,508</b>	<b>\$ 715,772</b>	<b>\$ 612,581</b>	<b>\$ 508,761</b>
Change in Net Position before transfers	6,130,466	(1,058,891)	8,047,842	6,728,201	14,178,308	5,669,310	13,830	24,210	76,423	253,212
Special Item - Trans of Golf to										
Governmental Activities										
Transfers	3,612,482	3,236,251	(3,612,482)	(3,236,251)						
Change in Net Position	9,742,948	2,177,360	4,435,360	3,491,950	14,178,308	5,669,310	13,830	24,210	76,423	253,212
Net Position, beginning	76,131,690	74,088,588	43,582,295	40,375,729	119,713,985	114,464,317	206,538	182,328	14,391,876	14,161,898
Prior year adjustment	-	-								
<b>Net Position, ending</b>	<b>\$ 85,874,638</b>	<b>\$ 76,265,948</b>	<b>\$ 48,017,655</b>	<b>\$ 43,867,679</b>	<b>\$ 133,892,293</b>	<b>\$ 120,133,627</b>	<b>\$ 220,368</b>	<b>\$ 206,538</b>	<b>\$ 14,468,299</b>	<b>\$ 14,415,110</b>

Figure 3

**Statement of Revenues and Expenditures  
Governmental Funds  
For the Year Ended September 30, 2014**

<u>Revenues</u>	<u>9/30/2014 Total</u>	<u>9/30/2013 Total</u>	<u>Increase (Decrease)</u>
Local taxes	\$ 12,046,399	\$ 10,944,885	\$ 1,101,514
Licenses & Permits	3,000,673	2,731,766	268,907
Fines & Forfeitures	285,573	291,749	(6,176)
State of Alabama	320,432	532,116	(211,684)
U. S. Government	671,182	490,533	180,649
Contribution from Public Library Board	-	1,500	(1,500)
Interests and Rents	239,205	253,003	(13,798)
Charges for Service	5,165,291	5,317,255	(151,964)
Golf Course Revenue	1,067,593	1,113,277	(45,684)
Assessments	-	-	-
Recreation Department	436,453	391,024	45,429
Other	196,913	253,146	(56,233)
Totals	<u>\$ 23,429,714</u>	<u>\$ 22,320,254</u>	<u>\$ 1,109,460</u>
<u>Expenditures</u>	<u>Total</u>	<u>Total</u>	<u>Increase (Decrease)</u>
General	\$ 8,311,150	\$ 6,862,597	\$ 1,448,553
Sanitation	1,673,938	1,643,715	30,223
Police	3,937,151	4,164,674	(227,523)
Fire	339,623	312,647	26,976
Airport	443,000	443,000	-
Street Department	2,705,732	2,358,383	347,349
Adult Recreation	566,000	543,109	22,891
Debt Service			
Principal	2,894,540	1,485,545	1,408,995
Interest	465,409	508,483	(43,074)
Recreation Department	1,024,526	1,062,174	(37,648)
Golf	901,085	907,216	(6,131)
Public Library Board	674,100	630,000	44,100
Other	89,785	89,133	652
Capital Outlay	1,908,464	1,418,813	489,651
Totals	<u>\$ 25,934,503</u>	<u>\$ 22,429,489</u>	<u>\$ 3,505,014</u>

Figure 4

**City of Fairhope  
Capital Assets**

<u>Governmental Activities</u>	<u>Balance @ 10/1/13</u>	<u>Additions</u>	<u>Reclassifications/ Retirements</u>	<u>Balance @ 9/30/14</u>
Land	\$ 19,838,427	\$ 2,123,375	\$ -	\$ 21,961,802
Buildings & Structures	34,558,677	1,219,682	(490,249)	35,288,110
Vehicles and equipment	12,838,832	688,782	(2,395,628)	11,131,986
Infrastructure	59,271,993	5,700,000	-	64,971,993
<b>Total Capital Assets</b>	<b>\$ 126,507,929</b>	<b>\$ 9,731,839</b>	<b>\$ (2,885,877)</b>	<b>\$ 133,353,891</b>

<u>Business-type activities</u>	<u>Electric Fund</u>	<u>Natural Gas Fund</u>	<u>Water/Wastewater Fund</u>
Balance @ 10/01/13	\$ 24,867,847	\$ 13,499,318	\$ 41,318,900
Additions to Plant	1,438,887	348,866	1,096,968
Addition to land, buildings, vehicles and equipment	7,451,753	1,659,959	126,697
Completed Construction in Progress	-	-	6,770,512
Disposals	-	(12,805)	-
<b>Total Capital Assets @ 9/30/2014</b>	<b>\$ 33,758,487</b>	<b>\$ 15,495,338</b>	<b>\$ 49,313,077</b>

Figure 5

City of Fairhope  
Debt Administration

<u>LONG TERM DEBT</u>	<u>GOVERNMENTAL FUNDS</u>	<u>BUSINESS-TYPE ACTIVITIES</u>
General Obligation Warrants, 2011	\$ 3,350,396	
General Obligation Warrants, 2007	6,470,000	
Obligations under capital leases	-	
Notes Payable		\$ -
Utilities Revenue Warrants, 2011		14,800,000
Utilities Revenue Warrants, 2005		5,260,000
Utilities Revenue Warrants, 2009		750,000
General Obligation Warrant, 2013		5,750,000
General Obligation Warrants, 2011		154,220
Obligations under capital leases		-
Compensated absences	<u>1,268,068</u>	<u>537,099</u>
TOTALS	\$ <u>11,088,464</u>	\$ <u>27,251,319</u>

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



## **BASIC FINANCIAL STATEMENTS**

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF NET POSITION  
SEPTEMBER 30, 2014

	Governmental Fund Types			
	Governmental Activities	Business-type Activities	Total	Component Units
<b>ASSETS</b>				
Cash	\$ 14,568,571	\$ 10,205,511	\$ 24,774,082	\$ 1,483,602
Restricted cash	357,156	5,996,890	6,354,046	-
Receivables, net	761,355	2,360,739	3,122,094	-
Internal balances	(13,306)	13,306	-	-
Inventories	-	730,992	730,992	-
Other assets	34,925	665,738	700,663	-
Land and construction in progress	21,961,802	16,948,979	38,910,781	13,125,920
Capital assets, net	62,632,041	43,436,351	106,068,392	11,155,951
Total assets	<u>\$ 100,302,544</u>	<u>\$ 80,358,506</u>	<u>\$ 180,661,050</u>	<u>\$ 25,765,473</u>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	\$ 964,984	\$ 2,751,379	\$ 3,716,363	\$ 4,306
Customer deposits	-	1,820,032	1,820,032	-
Long-term liabilities				
Due within one year	1,008,610	2,482,810	3,491,420	270,000
Due in more than one year	10,048,834	24,529,566	34,578,400	8,170,000
Net OPEB obligation	2,405,478	757,064	3,162,542	-
Total liabilities	<u>14,427,906</u>	<u>32,340,851</u>	<u>46,768,757</u>	<u>8,444,306</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Service concession arrangement revenue applicable to future years	-	-	-	2,632,500
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,632,500</u>
<b>NET POSITION</b>				
Net investment in capital assets	74,804,467	42,025,762	116,830,229	15,841,871
Restricted for:				
Debt service	357,156	3,718,288	4,075,444	-
Capital projects	1,154,000	-	1,154,000	-
Road maintenance and construction	46,007	-	46,007	-
Council approved emergencies	7,000,000	-	7,000,000	-
Unrestricted	2,513,008	2,273,605	4,786,613	(1,153,204)
Total net position	<u>85,874,638</u>	<u>48,017,655</u>	<u>133,892,293</u>	<u>14,688,667</u>
Total liabilities and net position	<u>\$ 100,302,544</u>	<u>\$ 80,358,506</u>	<u>\$ 180,661,050</u>	<u>\$ 25,765,473</u>

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

**CITY OF FAIRHOPE, ALABAMA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
<b>Primary Government</b>								
Governmental activities:								
General	\$ 9,067,340	\$ 6,225,471	\$ -	\$ -	\$ (2,841,869)		\$ (2,841,869)	
Sanitation	1,873,508	1,462,243	-	-	(411,265)		(411,265)	
Police	4,220,003	285,573	9,144	-	(3,925,286)		(3,925,286)	
Fire	431,955	-	-	-	(431,955)		(431,955)	
Airport Authority	443,000	-	-	-	(443,000)		(443,000)	
Street	4,095,487	-	-	8,416,283	4,320,796		4,320,796	
Adult Recreation	663,982	49,241	-	-	(614,741)		(614,741)	
Recreation	1,250,689	436,453	-	-	(814,236)		(814,236)	
Golf	978,819	1,067,593	-	-	88,774		88,774	
Public Library Board	886,028	-	-	-	(886,028)		(886,028)	
Interest on long term debt	472,222	-	-	-	(472,222)		(472,222)	
Total governmental activities	<u>24,383,033</u>	<u>9,526,574</u>	<u>9,144</u>	<u>8,416,283</u>	<u>(6,431,032)</u>		<u>(6,431,032)</u>	
Business-type activities								
Electric	18,379,231	21,049,277	-	-	-	2,670,046	2,670,046	
Natural gas	5,529,610	8,023,473	-	-	-	2,493,863	2,493,863	
Water and Waste water	7,165,113	10,018,231	-	-	-	2,853,118	2,853,118	
Total business-type activities	<u>31,073,954</u>	<u>39,090,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,017,027</u>	<u>8,017,027</u>	
Total primary government	<u>\$ 55,456,987</u>	<u>\$ 48,617,555</u>	<u>\$ 9,144</u>	<u>\$ 8,416,283</u>	<u>(6,431,032)</u>	<u>8,017,027</u>	<u>1,585,995</u>	
Component Units	<u>\$ 1,362,089</u>	<u>\$ 195,592</u>	<u>\$ 1,247,526</u>	<u>\$ -</u>				<u>\$ 81,029</u>
General revenues:								
Property taxes					4,330,537	-	4,330,537	-
Sales tax					6,518,249	-	6,518,249	-
Liquor taxes					445,132	-	445,132	-
Lodging taxes					614,278	-	614,278	-
Other taxes					138,204	-	138,204	-
Intergovernmental					389,561	-	389,561	-
Investment earnings					239,205	30,815	270,020	9,224
Gain (loss) on sale of assets					(261,340)	-	(261,340)	-
Other					147,672	-	147,672	-
Transfers					3,612,482	(3,612,482)	-	-
Total general revenues and transfers					<u>16,173,980</u>	<u>(3,581,667)</u>	<u>12,592,313</u>	<u>9,224</u>
Change in net position					9,742,948	4,435,360	14,178,308	90,253
Net position, beginning, as previously reported					76,265,948	43,867,679	120,133,627	14,621,648
Prior period adjustment					(134,258)	(285,384)	(419,642)	(23,234)
Net position, ending					<u>\$ 85,874,638</u>	<u>\$ 48,017,655</u>	<u>\$ 133,892,293</u>	<u>\$ 14,688,667</u>

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

CITY OF FAIRHOPE

FUND BALANCE SHEETS  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2014

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash	\$ 10,526,463	\$ 3,141,252	\$ 1,258,015	\$ 14,925,730
Investments	34,925	-	-	34,925
Receivables, net	631,475	104,258	25,617	761,350
Total assets	<u>\$ 11,192,863</u>	<u>\$ 3,245,510</u>	<u>\$ 1,283,632</u>	<u>\$ 15,722,005</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 515,727	\$ 130,153	\$ 29,021	\$ 674,901
Accrued expenses and taxes	196,884	-	-	196,884
Deferred revenue	21,794	-	-	21,794
Due to other funds	8,935	4,371	-	13,306
Total liabilities	<u>743,340</u>	<u>134,524</u>	<u>29,021</u>	<u>906,885</u>
<b>FUND BALANCES</b>				
Restricted for:				
Debt service	-	-	357,156	357,156
Council approved emergencies	7,000,000	-	-	7,000,000
Construction	-	1,154,000	-	1,154,000
Road maintenance and construction	-	-	46,007	46,007
Assigned to:				
Construction and road maintenance	-	1,956,986	851,448	2,808,434
Unassigned	3,449,523	-	-	3,449,523
Total fund balances	<u>10,449,523</u>	<u>3,110,986</u>	<u>1,254,611</u>	<u>14,815,120</u>
Total liabilities and fund balances	<u>\$ 11,192,863</u>	<u>\$ 3,245,510</u>	<u>\$ 1,283,632</u>	<u>\$ 15,722,005</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, 2014

<b>Fund balances as reported on page 17</b>	\$ 14,815,120
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.	133,353,890
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.	(48,760,048)
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred revenue in fund financial statements.	78,214
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)	(9,789,376)
OPEB obligations	(2,405,478)
Accrued interest on long-term debt is not due and payable in the current-period and therefore not included in fund financial statements.	(149,617)
Compensated absences not expected to be paid with current resources as determined under Governmental Accounting Standards are not reported in fund financial statements.	<u>(1,268,068)</u>
<b>Net position of governmental activities as reported on page 15</b>	<u><u>\$ 85,874,638</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, 2014

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Local taxes	\$ 12,046,399	\$ -	\$ -	\$ 12,046,399
Licenses and permits	3,000,673	-	-	3,000,673
Fines and forfeitures	285,573	-	-	285,573
Intergovernmental	310,956	592,908	87,750	991,614
Interest and rents	236,225	1,466	1,514	239,205
Charges for services	4,687,041	-	478,250	5,165,291
Golf course revenue	1,067,593	-	-	1,067,593
Recreation department	436,453	-	-	436,453
Other	196,913	-	-	196,913
Total revenues	<u>22,267,826</u>	<u>594,374</u>	<u>567,514</u>	<u>23,429,714</u>
<b>EXPENDITURES</b>				
General	8,311,040	110	-	8,311,150
Sanitation	1,673,938	-	-	1,673,938
Police	3,937,151	-	-	3,937,151
Fire	339,623	-	-	339,623
Airport	443,000	-	-	443,000
Street	2,302,272	336,988	66,472	2,705,732
Adult recreation	566,000	-	-	566,000
Recreation	1,024,526	-	-	1,024,526
Golf	901,085	-	-	901,085
Public Library Board	674,100	-	-	674,100
Other	89,000	-	785	89,785
Debt service payments				
Principal	-	-	2,894,540	2,894,540
Interest	-	-	465,409	465,409
Capital outlay	688,783	1,189,389	30,292	1,908,464
Total expenditures	<u>20,950,518</u>	<u>1,526,487</u>	<u>3,457,498</u>	<u>25,934,503</u>
Excess of Revenues over (under) Expenditures	1,317,308	(932,113)	(2,889,984)	(2,504,789)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	3,612,482	2,649,389	3,378,328	9,640,199
Transfers out	(4,927,718)	-	(1,100,000)	(6,027,718)
Total other financing sources (uses)	<u>(1,315,236)</u>	<u>2,649,389</u>	<u>2,278,328</u>	<u>3,612,481</u>
Net change in fund balances	2,072	1,717,276	(611,656)	1,107,692
Fund balances - beginning of year	<u>10,447,451</u>	<u>1,393,710</u>	<u>1,866,267</u>	<u>13,707,428</u>
<b>FUND BALANCES-END OF YEAR</b>	<u>\$ 10,449,523</u>	<u>\$ 3,110,986</u>	<u>\$ 1,254,611</u>	<u>\$ 14,815,120</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, 2014

Net change in fund balances - total governmental funds, page 19 \$ 1,107,692

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

Amortization of bond costs and discounts is not recorded in fund level statements. (14,165)

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

Capital outlays for the year	1,908,464
Depreciation expense for the year	(3,230,080)
Loss on assets disposed	(261,340)

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

Principal payments on long term debt	2,894,540
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Some capital assets were acquired through capital contributions and reported as such in the statement of activities and therefore are not reported as a capital outlay in the governmental funds.

Capital contributions for the year	7,823,374
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Some expenses reported in the statement of activities do not require the use of current resources and therefore are not reported as expenditures in governmental funds.

Increase in compensated absences liability	(84,840)
Decrease in accrued interest payable	9,545
Increase in OPEB liability	(410,243)

Change in net position of governmental activities, page 16 \$ 9,742,948

CITY OF FAIRHOPE, ALABAMA

FUND BALANCE SHEETS  
 PROPRIETARY FUNDS  
 SEPTEMBER 30, 2014

	Major Funds			Total
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 4,341,374	\$ 3,349,044	\$ 2,515,093	\$ 10,205,511
Restricted cash for debt service	329,172	149,627	5,518,091	5,996,890
Receivables, net	2,347,672	1,700	11,367	2,360,739
Inventories	308,616	168,998	253,378	730,992
Prepaid expenses	27,060	6,067	8,747	41,874
Total current assets	<u>7,353,894</u>	<u>3,675,436</u>	<u>8,306,676</u>	<u>19,336,006</u>
Noncurrent assets				
Unamortized expense	-	-	587,774	587,774
Due from other funds	18,657	115,336	764,158	898,151
Other assets	12,030	12,030	12,030	36,090
Capital assets				
Distribution and collection systems	20,542,125	10,352,579	38,496,817	69,391,521
Buildings, vehicles and equipment	5,343,357	3,567,267	3,315,777	12,226,401
Land and construction in progress	7,873,004	1,575,492	7,500,483	16,948,979
Less accumulated depreciation	<u>(12,308,318)</u>	<u>(6,522,075)</u>	<u>(19,351,178)</u>	<u>(38,181,571)</u>
Total noncurrent assets	<u>21,480,855</u>	<u>9,100,629</u>	<u>31,325,861</u>	<u>61,907,345</u>
Total assets	<u>\$ 28,834,749</u>	<u>\$ 12,776,065</u>	<u>\$ 39,632,537</u>	<u>\$ 81,243,351</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable and accrued liabilities	\$ 1,827,523	\$ 274,752	\$ 649,104	\$ 2,751,379
Customer deposits	1,746,432	-	73,600	1,820,032
Warrants, notes and capital leases payable	1,325,984	79,217	1,077,609	2,482,810
Total current liabilities	<u>4,899,939</u>	<u>353,969</u>	<u>1,800,313</u>	<u>7,054,221</u>
Noncurrent liabilities				
Compensated absences	162,463	126,243	146,803	435,509
Warrants, notes and capital leases payable	5,752,965	640,001	17,701,091	24,094,057
Net OPEB obligation	232,936	220,470	303,658	757,064
Due to other funds	884,845	-	-	884,845
Total noncurrent liabilities	<u>7,033,209</u>	<u>986,714</u>	<u>18,151,552</u>	<u>26,171,475</u>
Total liabilities	<u>11,933,148</u>	<u>1,340,683</u>	<u>19,951,865</u>	<u>33,225,696</u>
<b>NET POSITION</b>				
Net investment in capital assets	14,371,219	8,254,045	19,400,498	42,025,762
Restricted for debt service	329,172	149,627	3,239,489	3,718,288
Unrestricted	2,201,210	3,031,710	(2,959,315)	2,273,605
Total net position	<u>16,901,601</u>	<u>11,435,382</u>	<u>19,680,672</u>	<u>48,017,655</u>
Total liabilities and net position	<u>\$ 28,834,749</u>	<u>\$ 12,776,065</u>	<u>\$ 39,632,537</u>	<u>\$ 81,243,351</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, 2014

	Business Type Activities			
	Major Funds			Total
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
<b>OPERATING REVENUES</b>				
Sales and services	\$ 20,192,746	\$ 8,014,665	\$ 9,065,755	\$ 37,273,166
Other charges, sales and receipts	856,531	8,808	952,476	1,817,815
Total operating revenues	<u>21,049,277</u>	<u>8,023,473</u>	<u>10,018,231</u>	<u>39,090,981</u>
<b>OPERATING EXPENSES</b>				
Energy purchases and cost of goods sold	13,216,564	2,584,466	792,124	16,593,154
Salaries	781,246	536,758	968,480	2,286,484
Depreciation	702,769	390,242	1,015,281	2,108,292
Insurance	163,580	61,221	117,261	342,062
Electric energy furnished to other departments	1,122,906	-	-	1,122,906
Maintenance	395,612	125,477	1,442,530	1,963,619
Community development projects	204,520	213,885	210,219	628,624
Other operating expense	1,698,177	1,577,620	1,951,513	5,227,310
Total operating expenses	<u>18,285,374</u>	<u>5,489,669</u>	<u>6,497,408</u>	<u>30,272,451</u>
<b>OPERATING INCOME</b>	<u>2,763,903</u>	<u>2,533,804</u>	<u>3,520,823</u>	<u>8,818,530</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest expense	(93,857)	(28,941)	(667,705)	(790,503)
Interest income	7,796	7,260	15,759	30,815
Distribution of joint revenue (expense) – net	-	(11,000)	-	(11,000)
Total nonoperating revenues (expenses)	<u>(86,061)</u>	<u>(32,681)</u>	<u>(651,946)</u>	<u>(770,688)</u>
<b>INCOME BEFORE TRANSFERS AND OTHER ITEMS</b>	<u>2,677,842</u>	<u>2,501,123</u>	<u>2,868,877</u>	<u>8,047,842</u>
<b>TRANSFERS AND OTHER ITEMS</b>				
Transfers out	<u>(867,448)</u>	<u>(1,378,832)</u>	<u>(1,366,202)</u>	<u>(3,612,482)</u>
Total transfers (out)	<u>(867,448)</u>	<u>(1,378,832)</u>	<u>(1,366,202)</u>	<u>(3,612,482)</u>
Change in net position	1,810,394	1,122,291	1,502,675	4,435,360
<b>NET POSITION – BEGINNING OF YEAR</b>	15,113,989	10,324,737	18,428,953	43,867,679
Prior period adjustment	<u>(22,782)</u>	<u>(11,646)</u>	<u>(250,956)</u>	<u>(285,384)</u>
<b>NET POSITION – END OF YEAR</b>	<u>\$ 16,901,601</u>	<u>\$ 11,435,382</u>	<u>\$ 19,680,672</u>	<u>\$ 48,017,655</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, 2014**

	Business Type Activities			
	Major Funds			Total
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Received from customers	\$ 21,078,074	\$ 8,022,415	\$ 10,134,203	\$ 39,234,692
Paid to suppliers for goods and services	(16,846,408)	(4,571,886)	(4,981,673)	(26,399,967)
Paid to personnel for services	(781,246)	(536,758)	(968,480)	(2,286,484)
Net cash provided (used) by operating activities	<u>3,450,420</u>	<u>2,913,771</u>	<u>4,184,050</u>	<u>10,548,241</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income and joint revenue (expense)	7,796	(3,740)	15,759	19,815
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from borrowings	5,750,000	-	-	5,750,000
Repayment of debt	(81,303)	(27,600)	(1,024,967)	(1,133,870)
Interest paid	(86,685)	(26,771)	(572,779)	(686,235)
Acquisition of capital assets	(8,890,639)	(2,008,830)	(7,994,175)	(18,893,644)
Net cash provided (used) by capital and related financing activities	<u>(3,308,627)</u>	<u>(2,063,201)</u>	<u>(9,591,921)</u>	<u>(14,963,749)</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Change in interfund receivable	(18,655)	170,298	(31,316)	120,327
Change in interfund payable	(154,377)	-	-	(154,377)
Transfers out	(867,448)	(1,378,832)	(1,366,202)	(3,612,482)
Net cash provided (used) by noncapital financing activities	<u>(1,040,480)</u>	<u>(1,208,534)</u>	<u>(1,397,518)</u>	<u>(3,646,532)</u>
<b>INCREASE (DECREASE) IN CASH</b>	(890,891)	(361,704)	(6,789,630)	(8,042,225)
Cash – beginning of year	5,561,437	3,860,375	14,822,814	24,244,626
<b>CASH – END OF YEAR</b>	<u>\$ 4,670,546</u>	<u>\$ 3,498,671</u>	<u>\$ 8,033,184</u>	<u>\$ 16,202,401</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>				
Income (loss) from operations	\$ 2,763,903	\$ 2,533,804	\$ 3,520,823	\$ 8,818,530
Adjustments to reconcile income from operations to net cash provided (used) by operating activities				
Depreciation	702,769	390,242	1,015,281	2,108,292
Amortization	-	-	534,562	534,562
Change in assets and liabilities				
Decrease (increase) in accounts receivable	28,797	(1,058)	115,974	143,713
Decrease (increase) in inventories	7,114	(24,114)	67,356	50,356
Decrease (increase) in prepaid expenses	6,228	73	1,350	7,651
Decrease (increase) in unamortized expense	-	-	(561,169)	(561,169)
Increase (decrease) in accounts payable	268,717	(25,362)	(490,474)	(247,119)
Increase (decrease) in customer deposits	(377,094)	-	(53,704)	(430,798)
Increase (decrease) in compensated absences	3,669	9,308	(16,678)	(3,701)
Increase (decrease) in net OPEB obligation	46,317	30,878	50,729	127,924
Net cash provided (used) by operating activities	<u>\$ 3,450,420</u>	<u>\$ 2,913,771</u>	<u>\$ 4,184,050</u>	<u>\$ 10,548,241</u>

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

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CITY OF FAIRHOPE, ALABAMA

COMBINING STATEMENT OF NET POSITION  
DISCRETELY PRESENTED COMPONENT UNITS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Governmental Activities		
	Public Library Board	Airport Authority	Total
<b>ASSETS</b>			
Cash	\$ 155,642	\$ 1,327,960	\$ 1,483,602
Land and construction in progress	-	13,125,920	13,125,920
Capital assets, net	69,032	11,086,919	11,155,951
Total assets	<u>\$ 224,674</u>	<u>\$ 25,540,799</u>	<u>\$ 25,765,473</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 4,306	\$ -	\$ 4,306
Long-term liabilities			
Due within one year	-	270,000	270,000
Due in more than one year	-	8,170,000	8,170,000
Total liabilities	<u>4,306</u>	<u>8,440,000</u>	<u>8,444,306</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Service concession arrangement revenue applicable to future years	-	2,632,500	2,632,500
Total deferred inflows of resources	<u>-</u>	<u>2,632,500</u>	<u>2,632,500</u>
<b>NET POSITION</b>			
Net investment in capital assets	69,032	15,772,839	15,841,871
Unrestricted	151,336	(1,304,540)	(1,153,204)
Total net position	<u>220,368</u>	<u>14,468,299</u>	<u>14,688,667</u>
Total liabilities and net position	<u>\$ 224,674</u>	<u>\$ 25,540,799</u>	<u>\$ 25,765,473</u>

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

**CITY OF FAIRHOPE, ALABAMA**  
**COMBINING STATEMENT OF ACTIVITIES**  
**DISCRETELY PRESENTED COMPONENT UNITS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Public Library Board	Airport Authority	Total
Airport Authority	\$ 612,581	\$ 163,065	\$ 516,715	\$ -	\$ -	\$ 67,199	\$ 67,199
Public Library Board	749,508	32,527	730,811	-	13,830	-	13,830
	<u>\$ 1,362,089</u>	<u>\$ 195,592</u>	<u>\$ 1,247,526</u>	<u>\$ -</u>	<u>13,830</u>	<u>67,199</u>	<u>81,029</u>
General revenues:							
Investment earnings					-	9,224	9,224
Total general revenues					-	9,224	9,224
Change in net position					13,830	76,423	90,253
Net position, beginning					206,538	14,415,110	14,621,648
Prior period adjustment					-	(23,234)	(23,234.00)
Net position, ending					<u>\$ 220,368</u>	<u>\$ 14,468,299</u>	<u>\$ 14,688,667</u>

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

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**NOTES TO THE FINANCIAL STATEMENTS**

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

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, 2014

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, 2014

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	75year

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. BASIS OF ACCOUNTING

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

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

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

E. IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES

Recently Issued and Adopted Accounting Principles

On October 1, 2012, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The adoption of GASB Statement No. 62 did not have any impact on the City's consolidated financial statements for the year ended September 30, 2014.

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, 2014.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

During the year ended September 30, 2014, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 requires certain items that are currently reported as assets and liabilities to be reclassified as deferred outflows of resources, deferred inflows of resources or current-period outflows (expenses) and inflows (revenues). These determinations are based on the definitions of those elements in Concepts Statement No. 4, *Elements of Financial Statements*.

*Deferred outflows of resources* are consumptions of net assets by the City that are applicable to a future reporting period.

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

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

*Inflows of resources* are acquisitions of net assets by the City that are applicable to the reporting period.

See Note 22, Restatement of Beginning Balances, for additional details.

*Recently Issued Accounting Principles*

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. 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 unrestricted net position equal to the unfunded accrued actuarial liability. At September 30, 2013, the Government-wide unfunded accrued actuarial liability is \$10,368,775 as shown in Note 13 to the financial statements.

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CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. CASH

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

G. RECEIVABLES FROM UTILITY CUSTOMERS

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

H. INVENTORIES

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

I. PROPERTY TAX

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

J. DEBT ISSUE COST

Issuance expenses on long term debt of proprietary funds are expensed as incurred in accordance with GASB Statement No. 65. In the fund financial statements, bond discounts, premiums, and issuance costs are treated as period costs in the year of issue. In the government-wide financial statements, bond discounts and premiums are deferred and amortized over the term of the bonds using the bonds outstanding method. Bond discounts and premiums are presented as a reduction or addition to the face amount of the bonds payable whereas issuance costs are expensed as incurred. Deferred losses associated with the issuance of long-term debt are presented as Deferred Outflows of Resources and are amortized on the straight-line method over the term of the bond.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

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, 2014

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 general fund is the only fund that reports a positive unassigned fund balance amount.

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

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

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 2014, the General Fund transferred to the Debt Service Fund \$3,378,328 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 2014, the following amounts were transferred from the utility funds noted to the General Fund.

Electric Fund	\$ 867,448
Natural Gas Fund	1,378,832
Water and Waste Water Fund	<u>1,366,202</u>
Total	\$ <u>3,612,482</u>

In fiscal year 2014, the City transferred \$443,000 to the Airport Authority and \$674,100 to the Public Library Board, both discretely presented component units.

(continued)



CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

NOTE 2 INTERFUND TRANSACTIONS (CONTINUED)

Interfund receivables and payables at September 30, 2014 are:

	<u>Due from</u>	<u>Due to</u>
<b>General Fund</b>		
Electric	\$ -	\$ 18,657
Water and Waste Water	4,804	-
Natural Gas	548	-
Capital Projects	4,370	-
<b>Electric Fund</b>		
General	18,657	-
Water and Waste Water	-	768,961
Natural Gas	-	115,884
<b>Natural Gas Fund</b>		
General	-	548
Electric	115,884	-
<b>Water and Waste Water Fund</b>		
Electric	768,961	-
General	-	4,804
<b>Capital Projects Fund</b>		
General	-	4,370
	<u>\$ 913,224</u>	<u>\$ 913,224</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, 2014

NOTE 3 CAPITAL ASSETS

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

	Balance 10/01/13	Increases	Decreases	Balance 09/30/14
<u>Governmental Activities</u>				
Capital assets not subject to depreciation				
Land	\$ 19,838,427	\$ 2,123,375	\$ -	\$ 21,961,802
Total	<u>19,838,427</u>	<u>2,123,375</u>	<u>-</u>	<u>21,961,802</u>
Other capital assets				
Buildings and structures	34,558,677	1,219,682	(490,249)	35,288,110
Vehicles and equipment	12,838,832	688,782	(2,395,628)	11,131,986
Infrastructure	59,271,993	5,700,000	-	64,971,993
Total	<u>106,669,502</u>	<u>7,608,464</u>	<u>(2,885,877)</u>	<u>111,392,089</u>
Less accumulated depreciation for				
Buildings and structures	(8,514,850)	(865,213)	438,858	(8,941,205)
Vehicles and equipment	(11,411,123)	(719,165)	2,185,679	(9,944,609)
Infrastructure	(28,228,532)	(1,645,702)	-	(29,874,234)
Total accumulated depreciation	<u>(48,154,505)</u>	<u>(3,230,080)</u>	<u>2,624,537</u>	<u>(48,760,048)</u>
Other capital assets, net	58,514,997	4,378,384	(261,340)	62,632,041
Governmental capital assets, net	<u>\$ 78,353,424</u>	<u>\$ 6,501,759</u>	<u>\$ (261,340)</u>	<u>\$ 84,593,843</u>

Depreciation was charged to governmental activities as follows:

General Government	\$ 585,333
Police Department	256,660
Fire Department	91,229
Recreation Department	220,067
Adult Recreation Department	94,383
Street Department	1,716,146
Sanitation Department	192,722
Golf Department	73,540
Total	<u>\$ 3,230,080</u>

During the year ended September 30, 2014, the City disposed of unused, outdated equipment in the general fund in the amount of \$2,885,877. Items disposed were primarily items that were fully depreciated, resulting in a minimal change in net capital assets due to the mass disposal.

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

NOTE 3 CAPITAL ASSETS (CONTINUED)

	Balance 10/01/13	Increases	Decreases	Balance 09/30/14
<u>Business Type Activities</u>				
Capital assets not subject to depreciation				
Land	\$ 837,943	\$ 8,774,095	\$ -	\$ 9,612,038
Construction in progress	566,429	6,770,512	-	7,336,941
Total	<u>1,404,372</u>	<u>15,544,607</u>	<u>-</u>	<u>16,948,979</u>
Other capital assets				
Distribution and collection system	66,506,801	2,884,720	-	69,391,521
Buildings, vehicles and equipment	11,774,892	464,314	(12,805)	12,226,401
Total	<u>78,281,693</u>	<u>3,349,034</u>	<u>(12,805)</u>	<u>81,617,922</u>
Less accumulated depreciation for				
Distribution and collection system	(27,490,435)	(1,610,837)	-	(29,101,272)
Buildings, vehicles and equipment	(8,595,649)	(497,455)	12,805	(9,080,299)
Total accumulated depreciation	<u>(36,086,084)</u>	<u>(2,108,292)</u>	<u>12,805</u>	<u>(38,181,571)</u>
Other capital assets, net	<u>42,195,609</u>	<u>1,240,742</u>	<u>-</u>	<u>43,436,351</u>
Capital assets, net	<u>\$ 43,599,981</u>	<u>\$ 16,785,349</u>	<u>\$ -</u>	<u>\$ 60,385,330</u>
<u>Component Unit - Public Library</u>				
Equipment	\$ 364,771	\$ 32,166	\$ -	\$ 396,937
Less accumulated depreciation	(314,134)	(13,771)	-	(327,905)
Capital assets, net	<u>\$ 50,637</u>	<u>\$ 18,395</u>	<u>\$ -</u>	<u>\$ 69,032</u>
<u>Component Unit - Airport Authority</u>				
Capital assets not subject to depreciation				
Land	\$ 10,934,228	\$ -	\$ -	\$ 10,934,228
Construction in progress	127,646	2,064,046	-	2,191,692
Total	<u>11,061,874</u>	<u>2,064,046</u>	<u>-</u>	<u>13,125,920</u>
Other capital assets				
Runways	10,373,708	-	-	10,373,708
Buildings and improvements	3,968,008	-	-	3,968,008
Equipment	98,885	-	-	98,885
Total	<u>14,440,601</u>	<u>-</u>	<u>-</u>	<u>14,440,601</u>
Less accumulated depreciation for				
Runways	(1,147,500)	(124,133)	-	(1,271,633)
Buildings and improvements	(1,883,154)	(104,915)	-	(1,988,069)
Equipment	(90,839)	(3,141)	-	(93,980)
Total accumulated depreciation	<u>(3,121,493)</u>	<u>(232,189)</u>	<u>-</u>	<u>(3,353,682)</u>
Other capital assets, net	<u>11,319,108</u>	<u>(232,189)</u>	<u>-</u>	<u>11,086,919</u>
Capital assets, net	<u>\$ 22,380,982</u>	<u>\$ 1,831,857</u>	<u>\$ -</u>	<u>\$ 24,212,839</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

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, 2014:

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.	\$14,800,000
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.	154,220
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.	5,260,000
General Obligation Warrant, Series 2013, dated December 30, 2013, original debt obligation of \$5,750,000, interest rate equal to 65% times the LIBOR rate + 1.23%, 1.34% at September 30, 2014, payable semi-annually, principle payments are due December 1, 2015 through December 1, 2018.	5,750,000
Utilities Revenue Warrants, Series 2009 dated April 2, 2009, original debt obligation of \$1,250,000, interest rate 3.85%, payable semi-annually, principal payable 2009 through 2019.	<u>750,000</u>
TOTAL	<u>\$26,714,220</u>

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

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

NOTE 6 NOTE AND WARRANTS PAYABLE – GOVERNMENTAL ACTIVITIES

The following is a governmental fund summary of long term debt at September 30, 2014:

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.	\$ 3,350,396
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.	<u>6,470,000</u>
TOTAL	<u>\$ 9,820,396</u>

The General Obligation Warrant Series 2011 was issued for the purpose of refunding the City's General Obligation Warrants Series 2002.

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

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

NOTE 7 CHANGES IN LONG TERM DEBT

	Balance 10/01/13	Additions	Reductions	Balance 09/30/14	Amounts due within one year
<b>GOVERNMENTAL ACTIVITIES</b>					
Warrants and notes payable					
General obligation warrants	\$ 12,714,936	\$ -	\$ (2,894,540)	\$ 9,820,396	\$ 483,780
Total warrants and notes payable	12,714,936	-	(2,894,540)	9,820,396	483,780
Warrant discount	(32,784)	-	1,764	(31,020)	-
	12,682,152	-	(2,892,776)	9,789,376	483,780
Other liabilities					
Compensated absences	1,183,228	659,274	(574,434)	1,268,068	524,830
Governmental activities long-term liabilities	\$ 13,865,380	\$ 659,274	\$ (3,467,210)	\$ 11,057,444	\$ 1,008,610

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 10/01/13	Additions	Reductions	Balance 09/30/14	Amounts due within one year
<b>BUSINESS-TYPE ACTIVITIES</b>					
Warrants and notes payable					
General obligation warrants	\$ 209,680	\$ 5,750,000	\$ (55,460)	\$ 5,904,220	\$ 1,161,220
Utilities revenue warrants	21,990,000	-	(1,180,000)	20,810,000	1,220,000
Total warrants and notes payable	22,199,680	5,750,000	(1,235,460)	26,714,220	2,381,220
Deferred amount on refunding	(205,791)	-	31,786	(174,005)	-
Warrant discounts	(148,115)	-	83,177	(64,938)	-
	21,845,774	5,750,000	(1,120,497)	26,475,277	2,381,220
Other liabilities					
Compensated absences	531,072	97,889	(91,862)	537,099	101,590
Business-type activities long-term liabilities	\$ 22,376,846	\$ 5,847,889	\$ (1,212,359)	\$ 27,012,376	\$ 2,482,810
Compensated absences due within one year included in accrued liabilities				\$	101,590
Compensated absences due in more than one year included in noncurrent liabilities					435,509
Total compensated absences liability				\$	537,099

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

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, 2014, including interest payments:

Year Ending September 30,	Principal	Interest	Total
2015	\$ 483,780	\$ 374,716	\$ 858,496
2016	503,560	356,500	860,060
2017	513,560	337,411	850,971
2018	533,340	317,823	851,163
2019	552,900	299,813	852,713
2020 - 2024	3,346,680	1,190,380	4,537,060
2025 - 2029	2,431,960	620,176	3,052,136
2030 - 2032	<u>1,454,616</u>	<u>132,750</u>	<u>1,587,366</u>
TOTALS	<u>\$ 9,820,396</u>	<u>\$ 3,629,569</u>	<u>\$ 13,449,965</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, 2014, including interest payments and excluding discounts and premiums related to warrant issuance:

Year Ending September 30,	Principal	Interest	Total
2015	\$ 2,387,070	\$ 761,532	\$ 3,148,602
2016	2,432,560	700,703	3,133,263
2017	2,477,740	637,391	3,115,131
2018	2,528,230	572,303	3,100,533
2019	2,583,940	504,769	3,088,709
2020-2024	7,965,430	1,666,506	9,631,936
2025-2029	5,188,040	482,253	5,670,293
2030-2031	<u>1,151,210</u>	<u>37,800</u>	<u>1,189,010</u>
	<u>\$ 26,714,220</u>	<u>\$ 5,363,257</u>	<u>\$ 32,077,477</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

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, 2014, 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, 2014, including estimated interest payments at 1.53% and excluding discounts related to bonds:

Year Ending Sept. 30,	Principal	Interest	Total
2015	270,000	126,946	396,946
2016	285,000	122,885	407,885
2017	305,000	118,598	423,598
2018	320,000	114,011	434,011
2019	340,000	109,198	449,198
2020 and thereafter	6,920,000	17,347	6,937,347
	<u>\$ 8,440,000</u>	<u>\$ 608,985</u>	<u>\$ 9,048,985</u>

NOTE 10 SALARIES – PROPRIETARY FUNDS

The following is a summary of employees' salaries by Utility Fund for the year ended September 30, 2014:

	Electric Fund	Natural Gas Fund	Water and Waste Water Fund
Total salaries	\$ 1,123,079	\$ 694,709	\$ 1,048,346
Less:			
Salaries capitalized for plant additions	<u>341,833</u>	<u>157,951</u>	<u>79,866</u>
Amount of salaries charged to operations	<u>\$ 781,246</u>	<u>\$ 536,758</u>	<u>\$ 968,480</u>



CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

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, 2013, RSA had a total of 1,151 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, 2014

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, 2013, 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, 2014

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) <sup>1</sup>	Unfunded AAL (UAAL) b-a	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
9/30/2013 <sup>2,4</sup>	\$ 25,073,787	\$ 35,442,562	\$ 10,368,775	70.7%	\$ 11,752,353	88.2%
9/30/2012 <sup>3</sup>	\$ 23,502,551	\$ 32,809,270	\$ 9,306,719	71.6%	\$ 11,752,353	79.2%
9/30/2011 <sup>1</sup>	\$ 23,552,946	\$ 33,999,408	\$ 10,446,462	69.3%	\$ 11,212,324	93.2%

<sup>1</sup> Reflects changes in actuarial assumptions.

<sup>2</sup> 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.

<sup>3</sup> Reflects changes to interest smoothing methodology.

<sup>4</sup> Reflects implementation of Board Funding Policy.

Annual Pension Cost

For 2014, the City's annual pension cost of \$960,242 was equal to the City's required and actual contributions. The required contribution was determined as part of an actuarial valuation (dated September 30, 2013) 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, 2014

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>
9/30/13	\$ 960,242	100%	-
9/30/12	\$ 949,822	100%	-
9/30/11	\$ 1,056,337	100%	-

Funded status and Funding Progress

The funded status of the plan as of October 1, 2013 was as follows:

Actuarial accrued liability (AAL)	\$ 35,442,562
Actuarial value of plan assets	<u>25,073,787</u>
Unfunded actuarial accrued liability (UAAL)	\$ 10,368,775
Funded ratio	70.7%
Covered payroll	\$ 11,752,353
UAAL as a percentage of covered payroll	88.2%

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, 2014

NOTE 14 DEPOSIT AND INVESTMENT RISK

At September 30, 2014, the City had investments in U. S. Treasury money market mutual funds through its trustee agreement for debt sinking funds. The fair value was \$6,354,046 (\$357,156 in governmental activities and \$5,996,890 in business-type activities). The average maturity of the portfolio was 56 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, 2014, 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 \$4,377,407. The commitments funded from governmental activities will be \$161,067 and from business-type activities will be \$4,216,340.

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, 2014

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, 2014, the City’s portion of health care funding cost for retired employees (retiree premiums) totaled \$502,682.

Contribution Rates – Eligible retirees are subject to employer contributions for medical benefits equal to 90% of the premium. At September 30, 2013, 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, 2014, 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	54,028
Adjustment to ARC	<u>(76,595)</u>
Annual OPEB cost (expense)	960,415
Current year retiree premium	<u>(422,248)</u>
Change in net OPEB obligation	538,167
Net OPEB obligation – beginning of year	<u>2,624,374</u>
Net OPEB obligation – end of year	<u>\$ 3,162,541</u>

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

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014

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>
9/30/14	\$ 960,415	33.2%	\$ 3,104,675
9/30/13	951,222	32.7%	2,624,374
9/30/12	908,803	30.2%	1,985,035

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>
9/30/2013	\$ -	\$ 9,379,777	\$ (9,379,777)	0.0%	\$ 11,752,353	79.8%
9/30/2012	\$ -	\$ 9,379,777	\$ (9,379,777)	0.0%	\$ 11,752,353	79.8%
9/30/2011	\$ -	\$ 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, 2014

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, 2014

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 paid the City \$2,700,000 upon execution of the arrangement. The initial payment was used in the construction of the aviation training facility. The initial payment was considered a deferred inflow of resources and rental revenue will be recognized over the life of the initial term of the lease. The City will report the aviation training facility as a capital asset upon completion of the facility and will depreciate the capital asset in accordance with the City's depreciation policy. Upon receipt, the City reported a cash balance in the construction fund of \$2,700,000 with a corresponding balance of \$2,700,000 as a deferred inflow of resources pursuant to the service concession arrangement. The construction fund balance at September 30, 2014, totaled \$740,615. The balance of the deferred inflow of resources is \$2,632,500 at September 30, 2014.

NOTE 21 SUBSEQUENT EVENTS

The City has evaluated subsequent events through January 15, 2015, the date which the financial statements were available to be issued. There were no material subsequent events which require disclosure at September 30, 2014.

NOTE 22 RESTATEMENT OF BEGINNING BALANCES

In accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, GASB concluded that most debt issuance costs do not meet the definition of an asset, because the costs incurred do not result in service capacity that the Board presently controls. GASB also concluded that debt issuance costs do not meet the definition of a deferred outflow of resources because the costs are not applicable to a future period. As a result, the GASB concluded that these costs should be recognized as an outflow of resources (expense) in the reporting period in which they are incurred. Debt issuance costs incurred in previous years have been restated to reflect current treatment of debt issuance costs.

Accordingly, debt issuance costs incurred prior to the 2011 issuance which were reported as assets amortized over the life of the debt, have been restated through a prior-period adjustment to adjust the beginning unrestricted net position to account for implementation of this accounting standard. The effect is as follows:

	2013 Previously Reported	Restatement/ Adjustment	2013 Restated
Unamortized debt issuance costs - Proprietary Funds	\$ 285,384	\$ (285,384)	\$ -
Unrestricted net position - Proprietary Funds	43,867,679	(285,384)	43,582,295
Unamortized debt issuance costs - Governmental Activities	134,258	(134,258)	-
Unrestricted net position - Governmental Activities	76,265,948	(134,258)	76,131,690
Unamortized debt issuance costs - Discretely presented component units	23,234	(23,234)	-
Unrestricted net position - Discretely presented component units	14,621,648	(23,234)	14,598,414

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**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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Local taxes	\$ 11,699,300	\$ 11,699,300	\$ 12,046,399	\$ 347,099
Licenses and permits	2,824,800	2,824,800	3,000,673	175,873
Fine and forfeitures	320,000	320,000	285,573	(34,427)
Intergovernmental	305,700	305,700	310,956	5,256
Interest and rents	241,800	241,800	236,225	(5,575)
Charges for services	4,634,000	4,634,000	4,687,041	53,041
Golf course revenue	1,088,800	1,088,800	1,067,593	(21,207)
Recreation department	417,800	417,800	436,453	18,653
Other revenue	87,250	87,250	196,913	109,663
Total revenues	<u>21,619,450</u>	<u>21,619,450</u>	<u>22,267,826</u>	<u>648,376</u>
<b>EXPENDITURES</b>				
General government	8,315,636	8,315,636	8,311,040	4,596
Sanitation	1,444,367	1,444,367	1,673,938	(229,571)
Police	4,167,072	4,167,072	3,937,151	229,921
Fire	324,119	324,119	339,623	(15,504)
Airport Authority	443,000	443,000	443,000	-
Streets	2,198,187	2,198,187	2,302,272	(104,085)
Adult recreation	618,470	618,470	566,000	52,470
Recreation	1,108,725	1,108,725	1,024,526	84,199
Golf	955,187	955,187	901,085	54,102
Public Library Board	674,100	674,100	674,100	-
Other	89,000	89,000	89,000	-
Capital outlay	818,000	818,000	688,783	129,217
Total expenditures	<u>21,155,863</u>	<u>21,155,863</u>	<u>20,950,518</u>	<u>205,345</u>
Excess of Revenues over (under) Expenditures	<u>463,587</u>	<u>463,587</u>	<u>1,317,308</u>	<u>853,721</u>
Other financing sources (uses)				
Transfers in	3,910,659	3,910,659	3,612,482	(298,177)
Transfers out	(4,222,255)	(4,222,255)	(4,927,718)	(705,463)
Total other financing sources (uses)	<u>(311,596)</u>	<u>(311,596)</u>	<u>(1,315,236)</u>	<u>(1,003,640)</u>
NET CHANGE IN FUND BALANCES	\$ <u>151,991</u>	\$ <u>151,991</u>	2,072	\$ <u>(149,919)</u>
FUND BALANCES - BEGINNING OF YEAR			10,447,451	
FUND BALANCES - END OF YEAR			\$ <u>10,449,523</u>	

See independent auditors' report.

**CITY OF FAIRHOPE, ALABAMA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2014**

**NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING**

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

- (1) The City Council Budget Committee works with City Management to prepare a proposed working budget for the fiscal year commencing the following October 1. The budget includes proposed expenditures and the means of financing them for the upcoming year. Line item budgets are used for administrative control. The level of control for the detailed budgets is at the department head/function level.
- (2) Council budget meetings are conducted to obtain manager and taxpayer input.
- (3) The budget is enacted through council action.
- (4) Reports are submitted to the City Council, showing approved budget and actual operations.
- (5) The Mayor is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total expenditures of any fund or transfer of funds between departments must be approved by the City Council.
- (6) Formal budgetary integration is employed as a management control device during the year for the General Fund.
- (7) Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).
- (8) Budgetary data, if any, for Capital Project Funds are budgeted over the life of the respective project and not on an annual basis.
- (9) All appropriations lapse at year-end.

CITY OF FAIRHOPE, ALABAMA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2014

NOTE 2 EXCESS EXPENDITURES

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

	<u>Excess Expenditures</u>		<u>Excess Expenditures</u>
<b>General Government</b>		<b>Recreation Department</b>	
Grant expenditures	\$ 4,025	General supplies	\$ 4,181
Employee payroll taxes	12,932	Equipment and vehicle repair	316
Training, school, travel	27,083	Uniforms	35
Legal fees	277,002		
Services - excluding accounting and legal	59,803	<b>Adult Recreation Department</b>	
Office supplies	3,844	Employee retirement expense	1,657
Postage	280	Office expense	7
General supplies	5,092	Other expenses	3,807
maintenance/equipment	13,811		
Dues, memberships, subscription	1,243	<b>Street Department</b>	
Uniforms	1,628	Salaries	29,680
Credit card processing fees	3,990	Employee payroll taxes	1,680
Book and sidewalk brick	103	Employee retirement expense	109
Beach repairs and maintenance	12	Equipment and vehicle repair	50,612
Sales tax collection fees	10,125	Uniforms	6,464
		Equipment rental	10,469
<b>Police Department</b>		Street material and landscaping	100,387
General supplies	5,501		
General maintenance	10,577	<b>Sanitation Department</b>	
Equipment and vehicle repair	2,721	General supplies	7,469
Jail expense	35,776	Gasoline and oil	75,105
DEA funds purchases	29,640	Equipment and vehicle repair	155,921
		Landfill maintenance	5,741
<b>Fire Department</b>		Purchases of recycle bins and garbage cans	8,624
Salaries	979		
Fire call payments	4,020	<b>Golf Department</b>	
Employee payroll taxes	75	Professional services	271
Gasoline and oil	669	General maintenance	3,415
Equipment and vehicle repair	17,000	Gasoline and oil	2,642
		Supplies - grill	386
		Pro-shop custom orders	9,191

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**OTHER SUPPLEMENTARY INFORMATION**



**COMBINING FINANCIAL STATEMENTS  
NONMAJOR GOVERNMENTAL FUNDS**

**CITY OF FAIRHOPE, ALABAMA**  
**COMBINING BALANCE SHEETS**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2014**

	Special Revenue Fund Impact Fees	Special Revenue Fund Gas Tax	Debt Service	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash	\$ 851,448	\$ 49,411	\$ 357,156	\$ 1,258,015
Receivables	-	-	25,617	25,617
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	\$ <u>851,448</u>	\$ <u>49,411</u>	\$ <u>382,773</u>	\$ <u>1,283,632</u>
<b>LIABILITIES</b>				
Accounts payable – trade	\$ -	\$ 3,404	\$ 25,617	\$ 29,021
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities	-	3,404	25,617	29,021
<b>FUND BALANCES</b>				
Restricted for:				
Debt service	-	-	357,156	357,156
Road maintenance and construction	-	46,007	-	46,007
Assigned to:				
Construction and road maintenance	851,448	-	-	851,448
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total fund balances	851,448	46,007	357,156	1,254,611
Total liabilities and fund balances	\$ <u>851,448</u>	\$ <u>49,411</u>	\$ <u>382,773</u>	\$ <u>1,283,632</u>

CITY OF FAIRHOPE, ALABAMA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Special Revenue Fund Impact Fees	Special Revenue Fund Gas Tax	Debt Service	Total Nonmajor Governmental Funds
<b>REVENUES</b>				
Intergovernmental	\$ -	\$ 87,750	\$ -	\$ 87,750
Charges for services	478,250	-	-	478,250
Interest and rents	1,277	-	237	1,514
Total revenues	<u>479,527</u>	<u>87,750</u>	<u>237</u>	<u>567,514</u>
<b>EXPENDITURES</b>				
Street department	-	66,472	-	66,472
Other	-	17	768	785
Debt service				
Principal	-	-	2,894,540	2,894,540
Interest	-	-	465,409	465,409
Capital outlay	30,292	-	-	30,292
Total expenditures	<u>30,292</u>	<u>66,489</u>	<u>3,360,717</u>	<u>3,457,498</u>
Excess of revenues over (under) expenditures	<u>449,235</u>	<u>21,261</u>	<u>(3,360,480)</u>	<u>(2,889,984)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	3,378,328	3,378,328
Transfers out	<u>(850,000)</u>	<u>(250,000)</u>	<u>-</u>	<u>(1,100,000)</u>
Total other financing sources (uses)	<u>(850,000)</u>	<u>(250,000)</u>	<u>3,378,328</u>	<u>2,278,328</u>
Net change in fund balances	(400,765)	(228,739)	17,848	(611,656)
Fund balances – beginning of year	<u>1,252,213</u>	<u>274,746</u>	<u>339,308</u>	<u>1,866,267</u>
FUND BALANCES – END OF YEAR	<u>\$ 851,448</u>	<u>\$ 46,007</u>	<u>\$ 357,156</u>	<u>\$ 1,254,611</u>

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

**CITY OF FAIRHOPE, ALABAMA**

**FUND BALANCE SHEET  
FAIRHOPE PUBLIC LIBRARY BOARD  
SEPTEMBER 30, 2014**

**ASSETS**

Cash and cash equivalents	\$ <u>155,642</u>
Total assets	\$ <u><u>155,642</u></u>

**LIABILITIES**

Accounts payable and accrued expenses	\$ <u>4,306</u>
---------------------------------------	-----------------

**FUND BALANCES**

Restricted for:	
Capital projects	48,761
Unassigned	<u>102,575</u>
Total fund balances	<u><u>151,336</u></u>
Total liabilities and fund balances	\$ <u><u>155,642</u></u>

CITY OF FAIRHOPE, ALABAMA

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
FAIRHOPE PUBLIC LIBRARY BOARD  
SEPTEMBER 30, 2014

<b>Fund balances as reported on page 57</b>	\$	151,336
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.		396,937
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.		<u>(327,905)</u>
<b>Net position of governmental activities as reported on page 25</b>	\$	<u><u>220,368</u></u>

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FAIRHOPE PUBLIC LIBRARY BOARD  
FOR THE YEAR ENDED SEPTEMBER 30, 2014

**REVENUES**

Fines and lost books	\$	18,501
Donations, gifts, memorials and bequests		44,568
State aid		15,818
Lease income		-
Payments from City of Fairhope		670,425
Miscellaneous		14,028
Total revenues		<u>763,340</u>

**EXPENDITURES**

Salaries		457,069
Payroll taxes		34,753
Employees' retirement		45,142
Books, periodicals, audio visual		80,712
Supplies		11,580
Janitorial service		21,374
Professional fees		7,229
Telecommunications		468
Capital outlay		39,234
Maintenance		31,897
Miscellaneous		38,447
Total expenditures		<u>767,905</u>

Net change in fund balances (4,565)

Fund balances – beginning of year 155,901

FUND BALANCES - END OF YEAR \$ 151,336



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, 2014

Net change in fund balances - total governmental funds, page 59 \$ (4,565)

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	32,166
Depreciation expense for the year	<u>(13,771)</u>

Change in net position of governmental activities, page 25 \$ 13,830

**CITY OF FAIRHOPE, ALABAMA**  
**FUND BALANCE SHEET**  
**FAIRHOPE AIRPORT AUTHORITY**  
**SEPTEMBER 30, 2014**

<b>ASSETS</b>	
Cash and cash equivalents	\$ <u>1,327,960</u>
Total assets	\$ <u><u>1,327,960</u></u>
 <b>LIABILITIES</b>	
Unearned rent	\$ <u>2,632,500</u>
 <b>FUND BALANCES</b>	
Restricted for:	
Capital projects	103,167
Unassigned	<u>(1,407,707)</u>
Total fund balances	<u><u>(1,304,540)</u></u>
 Total liabilities and fund balances	 \$ <u><u>1,327,960</u></u>

CITY OF FAIRHOPE, ALABAMA

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
FAIRHOPE AIRPORT AUTHORITY  
SEPTEMBER 30, 2014

<b>Fund balances as reported on page 61</b>	\$	(1,304,540)
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		27,566,521
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.		(3,353,682)
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>(8,440,000)</u>
<b>Net position of governmental activities as reported on page 25</b>	\$	<u><u>14,468,299</u></u>

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FAIRHOPE AIRPORT AUTHORITY  
FOR THE YEAR ENDED SEPTEMBER 30, 2014

**REVENUES**

Fuel sales and rentals	\$	163,067
Interest income		9,224
Federal grant revenue		6,215
Payments from City of Fairhope		510,500
Total revenues		<u>689,006</u>

**EXPENDITURES**

Insurance		30,938
Legal and professional		126,735
Maintenance		71,870
Capital outlay		2,064,046
Debt service payments		
Principal		255,000
Interest		129,523
Other		21,331
Total expenditures		<u>2,699,443</u>

Net change in fund balances		(2,010,437)
Fund balances – beginning of year		<u>705,897</u>
FUND BALANCES - END OF YEAR	\$	<u><u>(1,304,540)</u></u>

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, 2014

**Net change in fund balances - total governmental funds, page 63** \$ (2,010,437)

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

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.

Repayment of long-term liabilities is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal payments on long-term debt 255,000

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

Capital outlays for the year 2,064,046

Depreciation expense for the year (232,186)

**Change in net position of governmental activities, page 25** \$ 76,423

CITY OF FAIRHOPE, ALABAMA

SCHEDULE OF CAPITAL PROJECTS EXPENDITURES  
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Emergency Repairs	\$	83,008
Manley Road Soccer Complex		96,400
Welcome Center Restrooms		57,538
Floral Clock		27,257
Church Street Drainage		32,405
Fairhope Avenue Road Widening		421,191
Resurfacing of Fairhope Avenue from Highway 181 to Bancroft		76,676
Community Park		352,458
Troyer Booth Extension		38,921
Fairhope Sidewalk from Idelwild to Highway 181		80,255
Flood Event		253,979
Other projects		<u>6,399</u>
Total capital projects expenditures	\$	<u><u>1,526,487</u></u>

CITY OF FAIRHOPE, ALABAMA

SCHEDULE OF INFORMATION REQUIRED BY BOND INDENTURES  
SEPTEMBER 30, 2014

	<u>Electric Fund</u>	<u>Natural Gas Fund</u>	<u>Water and Waste Water Fund</u>	
A. Utility customers at September 30, 2014 were as follows:				
Number of customers	6,630	9,729	16,870	
Number of metered customers	6,630	9,729	16,870	
Number of unmetered customers	-	-	-	
Number of waste water customers	-	-	9,638	
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	\$2,763,903	\$2,533,804	\$ 3,520,823	\$ 8,818,530
Add:				
Depreciation and amortization	702,769	390,242	1,015,281	2,108,292
Interest income	<u>7,796</u>	<u>7,260</u>	<u>15,759</u>	<u>30,815</u>
Annual net income as prescribed by debt covenants	<u>\$3,474,468</u>	<u>\$2,931,306</u>	<u>\$ 4,551,863</u>	<u>\$10,957,637</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 2015				\$ 5,000,000
Buildings and facilities – expires January 2015				76,812,532
Automobile – expires January 2015				
Liability				1,000,000
Uninsured motorist				50,000
Inland Marine – expires January 2015				44,112
Public officials errors and omissions liability – expires January 2015				5,000,000
Police liability – expires January 2015				5,000,000
Aggregate				2,000,000
Per occurrence				
Excess liability policy for general liability, police and public official – expires January 2015				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, 2014

	1996 Capital Improvement	2005 Warrant Fund	2005 Reserve Fund	2007 Warrant Fund	2009 Warrant Fund	2009 Reserve Fund	2011 Construction Fund	2011 Warrant Fund	2011 Reserve Fund
Balance 10/01/13	\$ 50,000	\$ 616,731	\$ 874,715	\$ 176,942	\$ 102,708	\$ 125,003	\$ 8,217,299	\$ 514,053	\$ 1,415,679
Deposits	5	883,286	87	530,272	147,915	13	5,960,674	897,599	142
Disbursements	(5)	(870,514)	(87)	(530,771)	(140,993)	(13)	(11,899,371)	(897,894)	(142)
Balance 9/30/14	\$ <u>50,000</u>	\$ <u>629,503</u>	\$ <u>874,715</u>	\$ <u>176,443</u>	\$ <u>109,630</u>	\$ <u>125,003</u>	\$ <u>2,278,602</u>	\$ <u>513,758</u>	\$ <u>1,415,679</u>



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**STATISTICAL SECTION**

## STATISTICAL SECTION

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

<b>Contents</b>	<b>Page</b>
Financial Trends <i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	69-74
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>	75-80
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>	81-84
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>	85-86
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>	87-89

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									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Governmental activities</b>										
Invested in capital assets, net of related debt	\$ 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	\$ 74,804,467
Restricted	1,908,452	787,538	1,073,262	847,580	1,462,430	3,564,376	6,207,809	8,015,592	9,007,967	8,557,163
Unrestricted	88,053	(1,195)	54,300	(84,709)	165,029	1,782,848	50,640	56,984	1,586,709	2,513,008
<b>Total governmental activities net positions</b>	<b>\$ 62,146,274</b>	<b>\$ 68,528,703</b>	<b>\$ 62,578,478</b>	<b>\$ 68,100,936</b>	<b>\$ 67,922,838</b>	<b>\$ 71,310,549</b>	<b>\$ 73,104,138</b>	<b>\$ 74,088,588</b>	<b>\$ 76,265,948</b>	<b>\$ 85,874,638</b>
<b>Business-type activities</b>										
Invested in capital assets, net of related debt	\$ 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	\$ 42,025,762
Restricted	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	3,718,288
Unrestricted	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	2,273,605
<b>Total business-type activities net positions</b>	<b>\$ 22,942,907</b>	<b>\$ 24,730,974</b>	<b>\$ 27,289,394</b>	<b>\$ 28,088,327</b>	<b>\$ 29,784,906</b>	<b>\$ 33,043,193</b>	<b>\$ 38,055,728</b>	<b>\$ 40,375,729</b>	<b>\$ 43,867,679</b>	<b>\$ 48,017,655</b>
<b>Primary government</b>										
Invested in capital assets, net of related debt	\$ 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	\$ 116,830,229
Restricted	3,967,420	2,877,180	3,179,778	2,939,754	3,346,198	5,213,482	7,866,440	20,352,639	12,706,856	12,275,451
Unrestricted	5,170,853	3,333,069	2,160,186	1,338,263	3,856,085	8,479,328	10,660,763	10,104,720	11,783,993	4,786,613
<b>Total primary government net position</b>	<b>\$ 85,089,181</b>	<b>\$ 93,259,677</b>	<b>\$ 89,867,872</b>	<b>\$ 96,189,263</b>	<b>\$ 97,707,744</b>	<b>\$ 104,353,742</b>	<b>\$ 111,159,866</b>	<b>\$ 114,464,317</b>	<b>\$ 120,133,627</b>	<b>\$ 133,892,293</b>

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Expenses</b>										
Governmental activities:										
General	\$ 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	\$ 9,067,340
Public safety										
Police	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	4,220,003
Fire	550,602	692,972	781,696	843,469	878,148	1,017,184	483,670	461,865	407,361	431,955
Public works										
Sanitation	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	1,873,508
Street	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	4,095,487
Public Library Board	355,908	336,823	594,378	771,373	760,174	772,539	798,997	810,636	840,636	886,028
Airport	95,272	149,179	397,183	545,000	242,090	249,856	225,843	281,124	443,000	443,000
Recreation	596,686	645,154	819,051	900,759	1,031,886	1,269,393	1,138,079	1,176,191	1,281,865	1,250,689
Adult Recreation	305,018	321,557	390,125	459,961	438,442	601,232	654,736	613,614	640,917	663,982
Golf	-	-	-	-	1,292,200	1,102,861	1,106,624	932,284	987,869	978,819
Interest on long-term debt	503,428	475,699	624,883	743,451	878,534	694,083	633,161	589,174	507,982	472,222
Total governmental activities expenses	16,047,269	15,755,199	18,174,420	19,903,137	22,115,317	23,803,538	22,549,986	25,210,634	22,823,710	24,383,033
Business-type activities:										
Natural gas	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	5,529,610
Electric	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	18,379,231
Water and wastewater	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	7,165,113
Golf	1,320,403	1,476,373	1,544,528	1,713,486	-	-	-	-	-	-
Total business-type activities expenses	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	31,073,954
Total primary government expenses	\$ 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	\$ 55,456,987
<b>Program Revenues</b>										
Governmental activities:										
Charges for services:										
General	\$ 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	\$ 6,225,471
Police	325,728	354,504	362,441	252,838	224,022	261,070	241,104	289,432	291,749	285,573
Sanitation	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	1,462,243
Recreation	70,665	73,975	75,592	83,919	130,740	366,683	369,135	368,493	391,024	436,453
Adult Recreation	40,019	41,590	34,534	32,791	36,316	45,889	46,261	41,018	39,977	49,241
Golf	-	-	-	-	847,016	776,173	944,858	1,001,627	1,113,277	1,067,593
Operating grants and contributions	3,472,502	3,065,387	631,133	206,012	87,416	22,267	24,402	-	-	9,144
Capital grants and contributions	3,792,402	4,861,100	8,526,591	7,310,387	384,358	1,389,592	302,963	1,317,475	438,033	8,416,283
Total governmental activities program revenues	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	17,952,001
Business-type activities:										
Charges for services:										
Gas	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	8,023,473
Electric	12,497,288	14,683,254	16,658,326	17,777,703	18,800,459	18,496,651	19,838,004	18,891,334	19,647,662	21,049,277
Water and wastewater	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	10,018,231
Golf course	1,233,703	1,527,311	1,505,211	1,487,811	-	-	-	-	-	-
Total business-type activities program revenues	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	39,090,981
Total primary government program revenues	\$ 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	\$ 57,042,982

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net (expense)/revenue										
Governmental activities	\$ (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)	\$ (6,431,032)
Business-type activities	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	8,017,027
Total primary government net expense	\$ (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)	\$ 1,585,995
<b>General Revenues and Other Changes in Net Positions</b>										
Governmental activities:										
Taxes										
Property taxes	\$ 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	\$ 4,330,537
Sales tax	-	-	-	-	1,003,864	4,443,325	4,590,149	4,898,362	5,437,863	6,518,249
Liquor taxes	352,827	347,415	373,794	396,196	385,411	392,255	393,123	425,888	425,816	445,132
Lodging taxes	449,079	196,224	420,024	495,850	474,852	483,271	495,870	569,142	643,495	614,278
Other	130,305	124,738	138,857	145,836	134,413	131,135	120,518	124,234	139,666	138,204
Intergovernmental	325,557	522,196	472,667	293,007	436,472	424,359	248,011	314,525	596,816	389,561
Investment earnings	327,687	394,006	508,558	340,530	225,860	239,256	249,489	226,642	251,512	239,205
Gain (loss) on sale of assets	-	-	-	-	-	-	-	-	-	(261,340)
Other	205,060	230,691	251,476	294,469	109,958	1,293,419	124,161	143,319	213,169	147,672
Transfer of Golf Fund to Governmental Activities	-	-	-	-	913,729	-	-	-	-	-
Transfers in/(out)	4,058,380	3,787,999	(10,317,112)	3,658,368	5,094,136	4,897,104	4,827,147	4,173,802	3,236,251	3,612,482
Total government activities	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	16,173,980
Business-type activities:										
Investment earnings	190,330	235,538	266,888	115,648	60,104	23,385	58,522	20,417	25,268	30,815
Transfer of Golf Fund to Governmental Activities	-	-	-	-	(913,729)	-	-	-	-	-
Transfers in/(out)	(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)	(3,612,482)
Total business-type activities	(3,868,050)	(3,552,461)	(3,753,158)	(3,542,720)	(5,947,761)	(4,873,719)	(4,768,625)	(4,153,385)	(3,210,983)	(3,581,667)
Total primary government	\$ 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	\$ 12,592,313
<b>Change in Net Positions</b>										
Governmental activities	\$ 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	\$ 9,742,948
Business-type activities	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	4,435,360
Total primary government	\$ 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	\$ 14,178,308

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

<u>Fiscal Year</u>	<u>Sales Tax</u>	<u>Ad Valorem Tax</u>	<u>Automobile Tax</u>	<u>Beer, Wine and Liquor Tax</u>	<u>Cigarette Tax</u>	<u>Lodging Tax</u>	<u>Dog Tax</u>	<u>Burglar Alarm Tax</u>	<u>Total</u>
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
2014	6,518,249	3,759,584	570,954	445,132	138,204	614,278	75	-	12,046,475

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General fund										
Restricted	\$ -	\$ -	\$ -	\$ -	\$ 501,932	\$ 2,723,595	\$ 5,014,205	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000
Unassigned	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	3,449,523
<b>Total general fund</b>	<b><u>\$ 1,033,668</u></b>	<b><u>\$ 1,087,642</u></b>	<b><u>\$ 1,703,619</u></b>	<b><u>\$ 1,083,383</u></b>	<b><u>\$ 2,076,675</u></b>	<b><u>\$ 4,709,509</u></b>	<b><u>\$ 7,160,155</u></b>	<b><u>\$ 10,295,547</u></b>	<b><u>\$ 10,447,451</u></b>	<b><u>\$ 10,449,523</u></b>
All other governmental funds										
Restricted										
Debt Service - Other Gov. Funds	\$ 272,950	\$ 235,348	\$ 456,957	\$ 470,671	\$ 350,987	\$ 351,008	\$ 350,020	\$ 325,214	\$ 339,308	\$ 357,156
Road Maint & Const. - Other Gov. Funds	-	-	-	-	-	-	-	-	274,746	46,007
Construction - Capital Projects	-	-	-	-	-	-	-	-	1,154,000	1,154,000
Assigned, reported in:										
Other Governmental Funds	227,109	257,881	311,553	66,907	59,142	127,419	167,786	1,029,075	1,252,213	851,448
Capital Projects Funds	1,602,259	263,202	3,892,524	2,070,337	550,369	362,354	675,799	-	58,625	1,956,986
Unassigned										
Capital projects funds	-	-	-	-	-	-	-	(1,069,424)	181,085	-
<b>Total all other governmental funds</b>	<b><u>\$ 2,102,318</u></b>	<b><u>\$ 756,431</u></b>	<b><u>\$ 4,661,034</u></b>	<b><u>\$ 2,607,915</u></b>	<b><u>\$ 960,498</u></b>	<b><u>\$ 840,781</u></b>	<b><u>\$ 1,193,605</u></b>	<b><u>\$ 284,865</u></b>	<b><u>\$ 3,259,977</u></b>	<b><u>\$ 4,365,597</u></b>

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)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>REVENUES</b>										
Local taxes	\$ 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	\$ 12,046,399
Licenses and permits	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	3,000,673
Fines and forfeitures	325,728	354,504	362,441	252,838	224,022	261,070	241,104	289,432	291,749	285,573
Intergovernmental	6,514,824	7,319,833	3,167,141	1,826,517	837,246	547,556	345,966	667,344	1,022,649	991,614
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	327,686	394,009	377,743	340,530	225,861	239,256	249,489	226,748	253,003	239,205
Charges for services	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	5,165,291
Assessments	124,582	39,199	1,831	-	-	-	-	3,659	-	-
Golf course revenue	-	-	-	-	959,730	858,237	1,020,250	1,001,627	1,113,277	1,067,593
Recreation Department	-	-	-	-	-	-	369,135	368,493	391,024	436,453
Other	315,745	343,588	492,419	411,179	277,015	1,705,991	170,422	184,411	253,146	196,913
<b>Total revenues</b>	<b>15,599,138</b>	<b>18,386,163</b>	<b>16,754,860</b>	<b>16,048,869</b>	<b>16,042,070</b>	<b>20,598,979</b>	<b>19,545,695</b>	<b>21,061,464</b>	<b>22,320,254</b>	<b>23,429,714</b>
<b>EXPENDITURES</b>										
General government	2,412,693	2,731,819	5,090,777	6,318,322	5,948,479	6,279,197	5,335,143	7,026,721	6,862,394	8,311,150
Sanitation	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	1,673,938
Police	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	3,937,151
Fire	492,552	576,191	619,434	707,513	765,645	837,597	395,224	339,080	312,647	339,623
Airport	9,124	63,031	397,183	545,000	242,090	249,856	225,843	281,124	443,000	443,000
Street	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	2,705,732
Recreation	472,129	513,503	658,837	785,425	867,174	1,050,957	969,025	989,463	1,062,174	1,024,526
Adult recreation	261,569	277,808	328,744	431,481	400,494	553,125	577,015	525,212	543,109	566,000
Golf	-	-	-	-	1,303,135	1,094,604	1,113,178	863,593	907,216	901,085
Capital outlay	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	1,908,464
Debt service:										
Principal	1,288,488	835,627	4,412,690	2,424,796	863,329	1,047,483	831,483	4,804,960	1,485,545	2,894,540
Interest	512,025	482,436	532,687	802,140	809,715	704,043	666,652	616,221	508,483	465,409
Bond issuance costs	-	-	138,476	-	-	-	-	-	-	-
Public Library Board	330,806	336,823	396,000	504,560	530,000	565,000	565,000	600,000	630,000	674,100
Other	60,000	60,000	60,000	60,000	60,000	75,000	89,620	160,888	89,133	89,785
<b>Total expenditures</b>	<b>19,418,143</b>	<b>27,836,075</b>	<b>25,902,367</b>	<b>23,680,589</b>	<b>21,667,335</b>	<b>22,982,966</b>	<b>21,569,372</b>	<b>27,023,814</b>	<b>22,429,286</b>	<b>25,934,503</b>
Excess (deficiency) of revenues over expenditures	(3,819,005)	(9,449,912)	(9,147,507)	(7,631,720)	(5,625,265)	(2,383,987)	(2,023,677)	(5,962,350)	(109,032)	(2,504,789)
<b>OTHER FINANCING SOURCES (USES)</b>										
Transfers in	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	9,640,199
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	(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)	(6,027,718)
<b>Total other financing sources (uses)</b>	<b>4,793,314</b>	<b>8,157,999</b>	<b>13,668,090</b>	<b>4,958,368</b>	<b>4,971,140</b>	<b>4,897,104</b>	<b>4,827,147</b>	<b>8,189,002</b>	<b>3,236,251</b>	<b>3,612,481</b>
<b>Net change in fund balance</b>	<b>\$ 974,309</b>	<b>\$ (1,291,913)</b>	<b>\$ 4,520,583</b>	<b>\$ (2,673,352)</b>	<b>\$ (654,125)</b>	<b>\$ 2,513,117</b>	<b>\$ 2,803,470</b>	<b>\$ 2,226,652</b>	<b>\$ 3,127,219</b>	<b>\$ 1,107,692</b>
Debt service as a percentage of noncapital expenditures	11.8%	9.7%	24.9%	15.8%	8.4%	8.2%	7.5%	20.6%	9.5%	14.0%

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

<b>Fiscal Year Ended September 30</b>	<b>Residential Property</b>	<b>Commercial Property</b>	<b>Industrial Property</b>	<b>Less: Tax Exempt Real Property</b>	<b>Total Taxable Assessed Value</b>	<b>Total Direct Tax Rate</b>	<b>Estimated Actual Taxable Value</b>
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
2014	146,270,400	1,188,460	195,105,420	67,346,480	275,217,800	15	4,128,267.000

Source: Baldwin County Revenue Commissioner

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

Fiscal Year					Overlapping Rates							Total Direct & Overlapping Rates			
	General Millage	School Millage	Bond Tax Millage	Total City Millage	County				State						
					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	
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
2014	5.0	5.0	5.0	15.0	5.0	2.5	1.5	12.0	0.5	21.5	2.5	3.0	1.0	6.5	43.0

Source: Baldwin County Commission

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

Taxpayer	2014			2005		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
FST Wal-mart Stores East L P	\$ 2,915,780	1	1.1%			
Arbor Gates LLC	2,014,940	2	0.7%	2,443,800	1	1.5%
Fairhope LLC	1,782,880	3	0.6%			
FST Mississippi Baldwin Square	1,543,500	4	0.6%			
CHS Properties, Inc.	1,196,340	5	0.4%	1,948,780	3	1.2%
Fairhope Ridge LLC	1,102,900	6	0.4%			
Health Care Reit Inc.	1,102,280	7	0.4%			
Bellsouth Tele Communications, LLC	1,043,100	8	0.4%	1,306,000	5	0.8%
Bones & Babies LLC	991,980	9	0.4%			
Mediacom Communications Corp.	991,760	10	0.4%			
AI Corte Jr Family Limited Partnership				1,644,840	4	1.0%
FST E&A Southeast Limited Partnership				2,314,920	2	1.4%
FST Eastern Shores Shopping Center				890,080	6	0.5%
Fairhope Mob, LLC				876,240	7	0.5%
Rohr Aero Services, Inc.				775,660	8	0.5%
FST Central Bank of the South				710,840	9	0.4%
FST Greeno Properties North II LTD				643,900	10	0.4%
	<u>\$ 14,685,460</u>		<u>5.3%</u>	<u>\$ 13,555,060</u>		<u>8.2%</u>

Source: Baldwin County Revenue Commissioner

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

Fiscal Year Ended September 30	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
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%	\$ 673,667 **	\$ 4,000,708	92.15%
2013	\$ 4,032,401	\$ 3,590,944	89.05%	\$ 414,166 **	\$ 4,005,110	99.32%
2014	\$ 4,128,267	\$ 3,834,734	92.89%	\$ 175,177 *	\$ 4,009,911	97.13%

Source: Baldwin County Revenue Commissioner.

\* Report only included 7 days of late payments.

\*\* Updated (now includes an extra year of late payments)

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

<b>Fiscal Year</b>	<b>City Direct Rate</b>	<b>Baldwin County</b>	<b>State of Alabama</b>
2011	2.00%	3.00%	4.00%
2012	2.00%	3.00%	4.00%
2013	2.00%	3.00%	4.00%
2014	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 TAX REMITTERS  
\* LAST SIX YEARS

	<b>Top 25 Taxpayers (approximate)</b>	<b>Total Tax</b>	<b>% of Total Tax</b>
<b>2009 (partial year)</b>	\$ 632,797	\$ 1,003,864	63%
<b>2010</b>	\$ 2,124,169	\$ 4,443,325	48%
<b>2011</b>	\$ 2,502,259	\$ 4,591,088	55%
<b>2012</b>	\$ 2,525,722	\$ 4,855,972	52%
<b>2013</b>	\$ 2,641,175	\$ 5,437,863	49%
<b>2014</b>	\$ 3,673,425	\$ 6,518,249	56%

\* 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	Capital Leases			
2005	9,046,405	650,780	290,221	453,595	18,615,000	593,077	448,007	30,097,085	7.29%	2,134
2006	11,437,202	1,943,967	140,632	442,820	18,045,000	446,267	284,572	32,740,460	7.46%	2,203
2007	18,430,349	230,130	111,245	431,688	17,465,000	293,764	122,438	37,084,614	8.28%	2,465
2008	17,474,232	81,604	91,092	413,404	16,865,000	170,145	7,387	35,102,864	7.26%	2,204
2009	16,768,901	30,364	69,942	271,397	16,235,000	86,035	-	33,461,639	6.65%	2,067
2010	15,773,979	-	47,745	256,962	15,610,000	24,681	-	31,713,367	6.43%	1,933
2011	14,965,792	-	24,449	241,993	14,925,000	-	-	30,157,234	6.47%	1,818
2012	14,200,481	-	-	226,260	23,125,000	-	-	37,551,741	8.07%	2,279
2013	12,682,152	-	-	209,680	21,636,094	-	-	34,527,926	6.93%	2,107
2014	9,789,376	-	-	5,904,220	20,571,057	-	-	36,264,653	6.23%	2,159

Note: 2013 has been revised



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

<u>Fiscal Year</u>	<u>General Obligation Debt</u>	<u>Less: Amounts Available in Debt Service Fund</u>	<u>Total</u>	<u>Percentage of Estimated Actual Taxable Value of Property</u>	<u>Per Capita</u>
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	12,891,832	339,308	12,552,524	2.52%	766
2014	15,693,596	357,156	15,336,440	2.64%	913

Note: 2013 has been revised

CITY OF FAIRHOPE, ALABAMA  
COMPUTATION OF OVERLAPPING DEBT  
SEPTEMBER 30, 2014

	<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	\$ 9,789,376	100.00%	\$ 9,789,376
Overlapping Debt (Supported by ad valorem tax)			
Baldwin County	\$ 106,707,902	7.71% <sup>(1)</sup>	<u>8,231,264</u>
			<u>\$ 18,020,640</u>

(1) Percentage of net assessed value of property in City (\$275,217,800) to net assessed value of property in Baldwin County (\$3,567,849,840) on 10/1/2014.

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Debt limit	\$ 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	\$ 55,043,560
Total net debt applicable to limit	<u>9,987,406</u>	<u>13,381,169</u>	<u>18,660,479</u>	<u>17,555,836</u>	<u>17,070,662</u>	<u>16,030,941</u>	<u>15,207,785</u>	<u>14,426,741</u>	<u>12,924,616</u>	<u>15,693,596</u>
Legal debt margin	<u>\$ 22,972,386</u>	<u>\$ 25,245,607</u>	<u>\$ 26,188,993</u>	<u>\$ 48,024,952</u>	<u>\$ 49,044,774</u>	<u>\$ 47,594,467</u>	<u>\$ 43,136,095</u>	<u>\$ 43,457,379</u>	<u>\$ 40,840,724</u>	<u>\$ 39,349,964</u>
Total net debt applicable to limit as a percentage of debt limit	30.30%	34.64%	41.61%	26.77%	25.82%	25.20%	26.07%	24.92%	24.04%	28.51%

**Legal Debt Margin Calculation for Fiscal Year 2014**

Total assessed value	<u>\$ 275,217,800</u>
Debt limit (20% of total assessed value)	<u>55,043,560</u>
Debt applicable to limit:	
General obligation warrants	15,693,596
Notes payable	<u>-</u>
Total net debt applicable to limit	<u>15,693,596</u>
Legal debt margin	<u>\$ 39,349,964</u>

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

<b>Fiscal Year</b>	<b>Population</b>	<b>Personal Income</b>	<b>Per Capita Personal Income</b>	<b>School Enrollment</b>	<b>Unemployment Rate</b>
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%
2014	16,794	581,996,070	34,655	4,734	5.8%

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](http://www.schooldigger.com)

\* Revised with U.S. Census Bureau Figure

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

Employer	2014			2005		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Thomas Hospital	1,048	1	15.3%	900	1	14.5%
Grand Hotel	700	2	10.2%	450	2	7.2%
City of Fairhope	330	3	4.8%	275	3	4.4%
Wal-Mart	325	4	4.7%			
Publix	100	5	1.5%			
Segers Aero Corporation	93	6	1.4%			
Winn-Dixie	75	7	1.1%	75	6	1.2%
Print Xcel (formerly Poser Business Forms)	66	8	1.0%	170	4	2.7%
Balloons Everywhere	65	9	0.9%	58	9	0.9%
Piggly Wiggly	60	10	0.9%			
Bruno's				95	5	1.5%
Rock Creek				70	7	1.1%
Food World				65	8	1.0%
Seton Home Health				55	10	0.9%
	2,862		41.7%	2,213		35.6%

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*

2005: 6,222    2014: 6,862

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,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Government	49	58	61	62	54	55	53	53	48	48
Public Safety										
Police	39	40	41	42	51	48	48	44	48	46
Fire										
Firefighters and Dispatch	7	9	9	14	13	13	17	18	17	18
Highways and Streets										
Public Works	28	27	29	28	37	37	35	36	39	39
Sanitation	19	25	22	20	21	20	20	19	17	21
Culture and Recreation										
Recreation	8	8	8	9	18	18	19	19	24	23
Adult Recreation	1	1	3	6	10	13	14	14	9	10
Gas Department	17	16	16	19	18	18	18	18	17	15
Electric Department	17	17	20	19	17	17	17	18	17	22
Water/Waste Water Department	23	24	24	25	23	23	24	26	24	23
Golf Department	12	12	13	13	19	19	16	14	15	16
Total	<u>220</u>	<u>237</u>	<u>246</u>	<u>257</u>	<u>281</u>	<u>281</u>	<u>281</u>	<u>279</u>	<u>275</u>	<u>281</u>

Source: City of Fairhope human resources department

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

Function	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Police</b>										
Physical arrests	949	1,255	1,710	1,131	993	833	1,134	603	759	750
Parking violations	27	56	13	71	285	201	163	128	22	49
Traffic violations	2,381	2,589	1,516	996	1,004	1,245	1,419	2,215	1,379	887
<b>Fire</b>										
Number of calls answered	429	381	339	432	427	658	801	657	690	853
Inspections	585	463	282	196	382	291	143	101	85	35
<b>Highways and streets</b>										
Street resurfacing (miles)	0.25	2.30	-	-	1.5	-	-	8.1	-	-
Potholes repaired	312	312	312	414	384	400	425	450	1,345	1,480
<b>Sanitation</b>										
Garbage collected (tons/year)	7,000	7,200	8,246	7,520	7,782	8,627	9,100	8,711	7,564	8,509
Trash collected (tons/year)	6,411	4,845	5,213	5,915	5,744	7,385	6,487	5,767	5,513	6,292
Recyclables collected (tons/year)	2,112	1,959	2,131	1,989	1,297	1,281	1,495	1,508	1,512	1,714
<b>Culture and recreation</b>										
Golf course rounds @ 9 hole rounds	80,603	93,082	92,702	88,475	53,755	62,720	61,283	65,500	62,266	59,261
Pavilion/park parties	87	59	74	88	84	80	64	56	58	61
<b>Waste water</b>										
Average daily sewage treatment (millions of gallons)	1.8	1.6	1.7	1.7	1.7	1.8	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	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Public safety										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	32	33	35	36	40	45	45	45	43	37
Fire stations	3	3	3	3	3	3	3	3	3	3
Highways and streets										
Streets (miles)	84.2	89.7	89.7	98.1	98.1	98.1	98.1	99.1	99.1	104.57
Culture and recreation										
Parks acreage	168	168	208	208	208	248	248	248	248	356
Parks	46	46	50	50	50	51	51	51	51	52
Swimming pools	2	2	3	3	3	3	3	3	3	3
Tennis courts	4	4	6	6	6	6	6	6	6	6
Community center	2	2	2	1	3	3	3	3	3	3
Sewer										
Sanitary sewers (miles)	117	119	120	121	121	125	125	125	126	126
Storm sewers (miles)	12.45	14.05	15.55	16.75	16.75	16.75	16.75	17.25	17.25	19.17
Maximum daily treatment capacity (millions of gallons)	4	4	4	4	4	4	4	4	4	4

Sources: Various government departments



**COMPLIANCE SECTION**

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

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

We have audited, 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, 2014, 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, 2015.

**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, 2015  
Fairhope, Alabama