



**City of Fairhope
Audited Financial Statement
for Fiscal Year
October 1, 2010 – September 30, 2011**

CITY OF FAIRHOPE, ALABAMA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

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

CITY OF FAIRHOPE, ALABAMA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 SEPTEMBER 30, 2011

TABLE OF CONTENTS

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

CITY OF FAIRHOPE, ALABAMA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 SEPTEMBER 30, 2011

TABLE OF CONTENTS (continued)

	<u>Page</u>
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	50
Schedule of Funding Progress - Employee Retirement System	51
Notes to Required Supplementary Information	52
 OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheets – Nonmajor Governmental Funds	54
Combining Statement of Revenues, Expenditures and Fund Balances - Nonmajor Governmental Funds	55
Fund Balance Sheet - Fairhope Public Library Board	56
Reconciliation of Governmental Fund Balance to Net Assets of Governmental Activities - Fairhope Public Library Board	57
Statement of Revenues, Expenditures and Changes in Fund Balances - Fairhope Public Library Board	58
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities - Fairhope Public Library Board	59
Fund Balance Sheet - Fairhope Airport Authority	60
Reconciliation of Governmental Fund Balance to Net Assets of Governmental Activities - Fairhope Airport Authority	61
Statement of Revenues, Expenditures and Changes in Fund Balances - Fairhope Airport Authority	62
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities - Fairhope Airport Authority	63
Schedule of Capital Projects Expenditures	64
Schedule of Information Required By Bond Indentures	65
Summary of Deposits, Withdrawals and Balances of Selected Trust Accounts as Required Under Certain Trust Indentures	66

CITY OF FAIRHOPE, ALABAMA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 SEPTEMBER 30, 2011

TABLE OF CONTENTS (continued)

	<u>Page</u>
STATISTICAL SECTION	
Net Assets by Component	68
Changes in Net Assets	69
Governmental Activities Tax Revenues by Source	71
Fund Balances of Governmental Funds	72
Changes in Fund Balances of Governmental Funds	73
Assessed and Estimated Actual Value of Taxable Property	74
Property Tax Rates - Direct and Overlapping Governments	75
Principal Property Taxpayers	76
Property Tax Levies and Collections	77
Direct and Overlapping Sales Tax Rates	78
Principal Sales Tax Remitters	79
Ratios of Outstanding Debt by Type	80
Ratios of General Bonded Debt Outstanding	81
Computation of Overlapping Debt	82
Legal Debt Margin Information	83
Demographic and Economic Statistics	84
Principal Employers	85
Full-time Equivalent City Government Employees by Function	86
Operating Indicators by Function	87
Capital Asset Statistics by Function	88
 COMPLIANCE SECTION	
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	89

INTRODUCTORY SECTION



January 19, 2012

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

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

Brently Gregg Mims, ICMA-CM
City Administrator

Lisa A. Hanks, MMC
City Clerk

Nancy K. Wilson, CPA
City Treasurer

Council Members

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

Rick Kingrea

Lonnie L. Mixon

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

Daniel R. Stankoski, C.M.O.

The Comprehensive Annual Financial Report (CAFR) of the City of Fairhope, Alabama (the "City") for the Fiscal Year ending September 30, 2011 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 impacts of significance during the fiscal year.

REPORTING ENTITY

The City of Fairhope, incorporated in 1908, is governed by a Strong Council / Weak Mayor form of government, with each official elected on an at-large basis for a four-year term, and has a population of 15,326 based on the 2010 U.S. Census.

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 public golf course, a tennis complex, a skate park, a pet park, and many cultural events.

ECONOMIC CONDITION AND OUTLOOK

The City of Fairhope maintained stable economic growth during the year. The revenue from new construction and building permits, inspection and impact fees was essentially

161 North Section Street

P. O. Drawer 429

Fairhope, Alabama 36533

251-928-2136

251-928-6776 Fax

www.cofairhope.com

even with the prior year. Total revenue from these key economic indicators was \$646,321 for the year.

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

MAJOR INITIATIVES

For the Year:

Sales tax receipts for the fiscal year totaled over \$4.5 million, exceeding the budgeted projection by \$130,000. As part of the sales tax ordinance, one half of each month's sales tax receipts must go into reserves, to be used for emergencies or other special projects, as authorized by the City Council. The sales tax reserve account balance at fiscal year-end was over \$4.8 million.

Fairhope and surrounding Eastern Shore and Gulf coast cities continue to recover from the economic devastation caused by the oil spill of April, 2010. Lodging tax, a major indicator of tourism, and sales tax receipts regained strength during 2011, with each increasing approximately 3% over the prior year. The balance of funds in reserve received by the City from the Alabama Emergency Management Agency for oil spill expenses totaled \$434,690 at September 30, 2011. Uses of these funds in the future for bay-front restoration, preservation and prevention measures are still under discussion.

The oil spill disaster, immediately followed by a national economic downturn, resulted in significant increases in the state and national unemployment rates. Fairhope and other small cities in Baldwin County were somewhat buffered from economic downturns due to high percentages of resident retirees and by the majority of service, health, and education employers. At fiscal year end, the unemployment rate for Baldwin County was 8.0%, a full 2% lower than neighboring, more industrial counties, while the national average hovered around 9.6%.

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

The Finance Department was once again awarded the Certificate of Achievement for Excellence in Financial Reporting for its CAFR for the fiscal year 2010, 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 2012 contains \$1,127,000 in the Capital Projects Fund for street paving, sidewalks and special recreation projects in the City. Other improvements being finalized in the next year include an up-graded computer software program for the City, and implementation of receipt of on-line utility payments.

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 \$5,012,535 for the year, after transfers of \$4.83 million to support the General fund. Transfers to support the General fund represented 49% of the enterprise funds' operating income before transfers, compared to 60% in the prior year. The Enterprise funds expended over \$2.1 million in capital purchases, funded by operating income and reserves designated for capital purchases. Cash and cash equivalents in the enterprise funds increased by \$4,170,794 over the prior year, representing an increase of 52%. No new long-term debt was incurred by the utilities and total long-term debt at year-end was \$15,166,993, a decrease of \$724,650. 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 three fiscal years. Gas line infrastructure was extended into growing areas and major electrical upgrades and improvements were completed. The Electric Department completed the replacement of a large number of city street lights with energy-efficient LED lights, a project awarded last year as an Energy Efficiency and Conservation Block Grant by the Alabama Department of Economic and Community Affairs. Plans for the 2012 fiscal year include the refinancing of old debt and additional borrowing for upgrades to the wastewater treatment plant and construction of a new water tower.

GOVERNMENTAL FUNDS HIGHLIGHTS

The Governmental funds are comprised of General, Capital Projects, Debt Service, and Special Revenue funds. The General Fund supports the General Administration, Police and Fire, Adult and Youth Recreation, Quail Creek Golf Course, Streets, Sanitation, and other department budgets providing City services. The Governmental Funds experienced a net surplus of \$2,803,470 for the fiscal year, including receipt of \$4.8 million in transfers from the utilities during the year. Total revenues in the Governmental Fund, before utility transfers, decreased by \$1,053,284 from the prior year, mainly attributable to the receipt in the prior year of oil-spill clean-up funds. However, operating expenses in the Governmental fund during the 2011 fiscal year decreased by \$1,413,594. Capital purchases and improvements in the Governmental Fund totaled \$1.5 million, including the purchase of a new fire engine and two garbage trucks.

The Governmental Fund Balance was \$8,353,760 at year-end, representing an increase of \$2.8 million over the prior year. Total General Fund cash was \$8,135,146 at year-end, an increase of 51% over the prior year. Total long-term debt of the Governmental Funds at year-end was \$14,965,792, a decrease of \$808,187. with no additional debt being incurred.

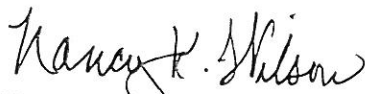
INDEPENDENT AUDIT

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

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

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

Respectfully submitted,



Nancy K. Wilson, CPA
City Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fairhope
Alabama

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2010

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



Linda C. Danson

President

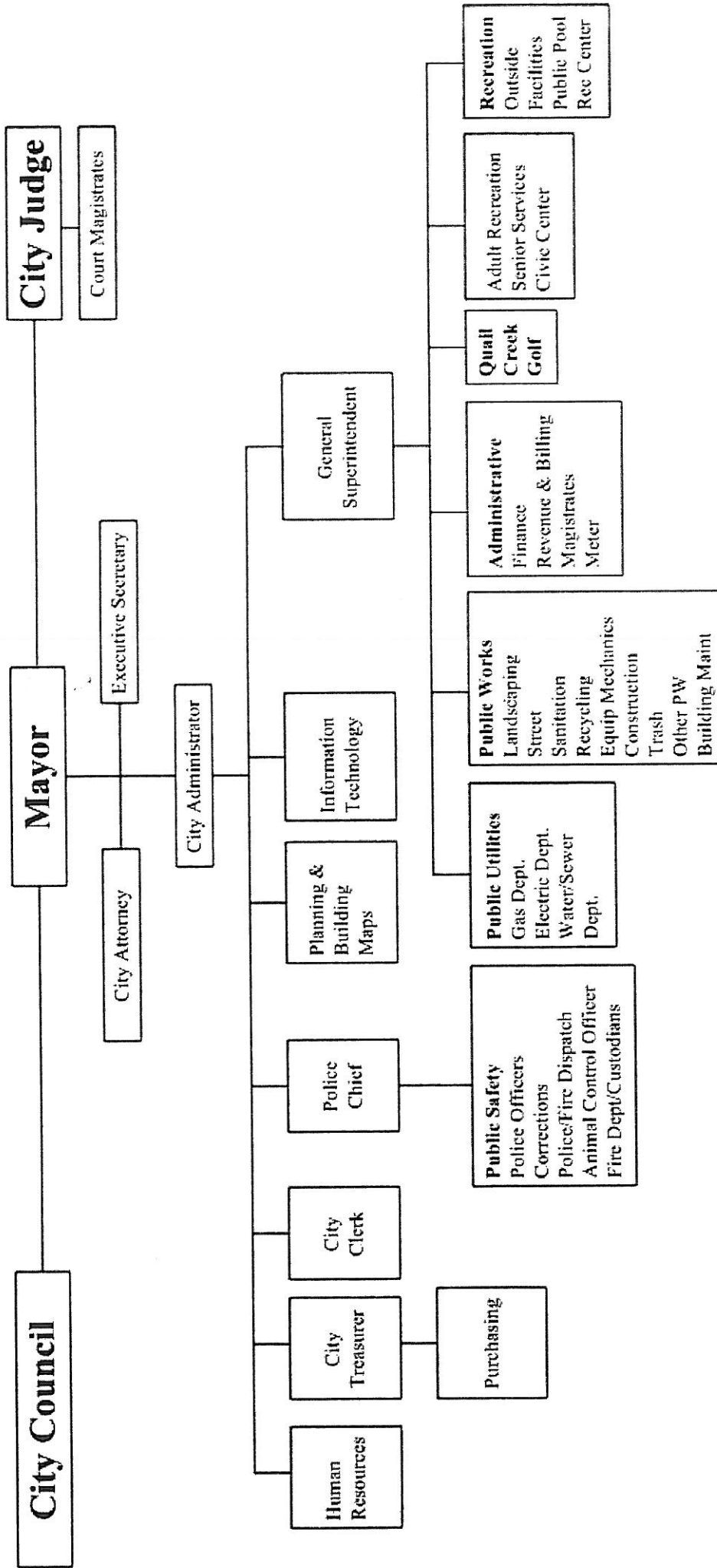
Jeffrey R. Egan

Executive Director

CITY OF FAIRHOPE, ALABAMA

CITY ELECTED AND APPOINTED OFFICIALS

SEPTEMBER 30, 2011



CITY OF FAIRHOPE, ALABAMA
CITY ELECTED AND APPOINTED OFFICIALS
SEPTEMBER 30, 2011

Timothy M. Kant, ACOMO	Mayor
Michael A. Ford, ACOMO	Councilmember
Rick Kingrea	Councilmember
Lonnie L. Mixon	Councilmember
Debbie W. Quinn, ACOMO	Councilmember
Daniel R. Stankoski, CMO	Councilmember
Lisa Hanks	City Clerk
Nancy K. Wilson, CPA	City Treasurer
Bill D. Press	Police Chief
Marion E. Wynne, Jr.	City Attorney

FINANCIAL SECTION



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

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

806 N. SECTION STREET • P.O. BOX 1469 • FAIRHOPE, ALABAMA 36533 • (251) 928-2443 OR (251) 943-4217 • FAX (251) 928-6921

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fairhope, Alabama, as of September 30, 2011, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fairhope, Alabama's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fairhope, Alabama, as of September 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have issued a report dated January 19, 2012 on our consideration of the City of Fairhope, Alabama's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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

Hartmann, Blackman & Kilgore, P.C.
Certified Public Accountants

January 19, 2012
Fairhope, Alabama

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, 2011. The intent of this Management Discussion and Analysis (MD&A) is to review the City's financial performance as a whole. Please read it in conjunction with the City's financial reports, 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 \$111,159,866, a current year increase in net assets of \$6,806,124 (pages 14 and 15).
- At the close of the fiscal year, the City's combined governmental funds, including General, Capital Projects and Other Governmental Funds, reported ending fund balances totaling \$8,353,760, an increase of \$2,803,470 from the prior year. The General Fund closed with a fund balance of \$7,160,155, an increase of \$2,450,645. The Capital Projects Fund had an increase in fund balance of \$313,445 after capital expenditures of \$128,334 and transfers from the General Fund of \$441,186 (page 18). A detailed explanation of these increases can be viewed on page six of this Management's Discussion and Analysis (MD&A).
- Governmental Funds cash increased by \$2,767,003. Most of the increase, approximately, \$2.3 million, was from funds set aside for emergencies by the City Council from sales tax receipts. Additionally, while revenues were down by \$1.1 million from the previous year, expenses were down \$1.4 million (**Figure 3**, page 11). Governmental Funds cash totaled \$8,135,146 at September 30, 2011 (page 16).
- During fiscal 2011, revenues from the City's 2% sales tax totaled \$4,590,149, an increase of approximately \$150,000 over the previous year. Fifty percent of sales tax revenues have been designated by the City Council to be restricted for approved emergencies. The amount of these reserved funds at September 30, 2011 was \$5,014,205 (pages 14 and 16).
- The combined governmental funds expended \$1,474,937 for capital projects and purchases, including vehicles, equipment and recreation capital improvements, without incurring any new debt (page 18).
- The business-type activities, Gas, Electric, Water and Waste Water activities, ended the year with income before transfers of \$9,839,682, compared to \$8,155,391 for fiscal 2010. While revenues increased approximately \$2.3 million, costs of energy and operating expenses increased only about \$600,000. The utilities made transfers to the General Fund of \$4,827,147 from income. The business-type activities recorded an increase in net assets, after transfers, of \$5,012,535 (page 21). Details pertaining to these increases can be seen on pages six and seven of this MD&A.
- The City's business-type activities made additions to property, plant and equipment of \$2,193,779, while incurring no new long-term debt. Funding for these additions was prior debt issues, current income and money set aside for this purpose (pages 22 and 34).
- The City of Fairhope's total debt decreased by \$1,532,837 (4.84%) during fiscal year 2011, yielding total outstanding debt of \$30,132,785, compared to last year at \$31,665,622. Governmental activities total debt was \$14,965,792. Business-type activities total debt was \$15,166,993 (pages 35 and 36).

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

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

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

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's General Fund budget. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget on page 51.

The Statement of Net Assets and the Statement of Activities

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

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

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

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

Net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$111,159,866 at the close of the most recent fiscal year, as shown in **Figure 1**, page 9 and page 14. This is an increase of \$6,806,124.

The largest portion of the City's net assets, approximately 83.3 percent, reflects its investment in capital assets (e.g. land, streets, sidewalks, buildings, infrastructure, equipment, etc.), less any related debt still outstanding used to acquire those assets. The City uses these capital assets to provide services and utilities to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, approximately seven percent, represents resources that are subject to restrictions as to how they may be used. Funds restricted for debt service were \$2,008,651; for capital projects, \$675,798; for road maintenance and construction, \$167,786; for City Council determined emergencies, \$5,014,205. Restricted funds increased approximately \$2.6 million over the previous year.

The unrestricted net assets, approximately 9.6 percent, may be used to meet the City's ongoing obligations to citizens and creditors. Unrestricted net assets, \$10,660,763, increased \$3,794,681 during fiscal 2011 (pages 9 and 14).

The City has implemented Government Accounting Standards Statement 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions (GASB 45). The City's Annual Required Contribution (ARC) was actuarially determined to be \$908,803. The current year retirement premium was \$336,258. The liability for OPEB obligation at year end was \$1,350,711. This amount is reported on the Statement of Net Assets, page 14, as Net

OPEB Obligation and on page 47, Note 18.

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

Fund Financial Statements

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

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

Governmental Funds

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

Figure 3, page 11, presents summaries of the governmental funds (General Fund, Capital Projects and Other Governmental Funds) revenues and expenditures, by function, for the fiscal year ended September 30, 2011, and the amounts of increases and decreases in relation to prior year revenues and expenditures.

Governmental activities revenues decreased \$1,053,284 from the previous fiscal year. Expenditures of Governmental funds decreased \$1,413,593 for the same period. The following significant events, related to revenues and expense, occurred during fiscal 2011 (the figures are rounded):

Related to revenue:

- British Petroleum provided \$1.15 million, distributed by the State of Alabama, to offset costs related to the Deep Water Horizon oil rig explosion in April of 2010. The \$1.1 million decrease in revenues for fiscal 2011 is directly related to the decrease in this revenue. Other net increases in income, \$100,000, are the result of annual fluctuations in the various income centers.
- Local taxes related to property were down \$250,000, while those related to local taxes, including sales, liquor and lodging taxes, were up \$150,000, resulting in a net decrease of \$100,000.
- Business Licenses were up \$220,000, other licenses and permits were down \$105,000, resulting in an increase of \$115,000.
- Fines and forfeitures were down \$20,000.
- State of Alabama and United States Government tax and grant income decreased by \$200,000.
- The Fairhope Library Board made a payment of \$185,000 for the "bridge loan" provided by the City for

uncollected donations for the construction of the new Library (page 37, Note 6). This compared to a payment last year of \$65,000, an increase of \$120,000.

- There were modest increases in interests, rents and charges for service of \$40,000.
- Income from the City's golf course, \$1 million, was up \$160,000 from the previous year. A credit given in fiscal 2010 to season pass holders for the months the course was closed in fiscal 2009 for renovation had expired in fiscal 2011.

Related to expenditure:

- Capital outlay expenditures were \$1.5 million, down \$90,000 from the prior year. Expenditures of \$1.6 million for fiscal 2010 included \$900,000 for land for future recreation activities; \$170,000 for parks and recreation facilities; and \$400,000 for vehicles and equipment. Major capital expenditures for fiscal 2011 were: \$450,000 for fire department equipment; \$70,000 for capital improvements at the James P. Nix Center; \$170,000 for street department equipment, including a new street sweeper; \$430,000 for sanitation collection equipment; and \$280,000 for vehicles and equipment.
- The City's General Department had decreases in expenditures of \$944,000. Major decreases for 2011 were: direct costs related to the BP oil spill, \$3,000 for the current year, compared to \$727,000 for fiscal 2010; and decreases in employee costs of \$250,000.
- The Police Department had increases of \$540,000. Major increases for 2011 included increases in employee costs (\$390,000), computer expense (\$120,000), supplies and gasoline (\$50,000). The employee cost increase was due to the reassignment of certain personnel that were formerly expensed in the Fire Department.
- The Fire Department had a decrease in expense (\$440,000) related to the reassignment of dispatch personnel to the Police Department.
- The Street Department's expenses were down \$185,000 from the previous year, primarily because of reductions in employee costs of \$125,000.
- Debt service payments, \$1.5 million, decreased \$250,000 from the previous year's \$1.75 million total.
- Recreation activities expenses were down \$80,000. Costs related to employees were \$100,000 less than the previous year.

Fund Balances and Net Assets

When reviewing the City's finances it is important to ask if the City as a whole is in better financial condition when compared with the prior year. An indicator of the City's financial health is whether the fund balances of the governmental and net assets of the proprietary funds increased or decreased as a result of operating activities. Fund balances for all governmental funds, including General Fund, Capital Projects Fund, and Other Governmental Funds totaled \$8,353,760, an increase of \$2,803,470. This follows an increase in fund balances of \$2,513,117 the previous year. The General Fund had a fund balance of \$7,160,155, an increase of \$2,450,645. The Capital Projects Fund had an increase in fund balance of \$313,445 after capital outlay of \$128,334 and a transfer from the General Fund of \$441,186. Of the cash transferred to the Capital Projects Fund from the General Fund, \$435,000 was from funds provided by BP for losses related to the Deepwater Horizon oil spill. Those funds will be expended for future, approved, capital projects. The Other Governmental Funds had fund balances of \$517,806 at year end, including reserved for Debt Service \$350,020, a decrease of \$988 and unreserved funds reported in special revenue fund (Gas Tax) of \$167,786, an increase of \$40,367, after expenditures of \$46,794 for road repair and maintenance (see pages 16, 18 and 54). Increases and decreases in revenues and expenses are discussed in the **Governmental Funds** section of this MD&A, pages 5 and 6 above.

The Gas, Electric and Water and Waste Water Funds had net assets of \$38,055,728 at year end, an increase of \$5,012,535 (see pages 15 and 21). This follows an increase in the previous year of \$3,258,287.

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

General Fund Balance: The General Fund had a decrease in revenues of \$1,053,135. Expenditures for the General Fund were down \$1,505,816 from the prior year. Transfers from the proprietary funds (Gas, Electric, Water and Waste Water Funds) were \$4,827,147 for the current year, a decrease of \$309,446 from the prior year. After transfers, the fund balance of the General Fund increased by \$2,450,645 during fiscal 2011.

The most significant revenue and expense decreases were funds provided by British Petroleum Company, through the State of Alabama for costs related to the Deep Water Horizon explosion and oil spill in fiscal 2010 and expenditures related to the clean-up. Funds provided for fiscal 2010 were \$1.15 million, compared to nothing for fiscal 2011. The costs related to the spill totaled approximately \$727,000 for 2010 and less than \$3,000 for fiscal 2011. Another factor affecting the fund balance of the General Fund was, again related to the Deep Water Horizon spill. The money remaining from funds provided for the clean-up, \$435,000, was transferred to the Capital Projects fund for future projects. No determination has been made as to the disposition of those funds.

Two other major decreases in expenditures in the General Fund were: debt service payments decreased by \$250,000 and employee costs in the General, Street and Recreation departments decreased \$475,000

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 \$2,257,722 over the prior fiscal year. This represented a 6.25% increase. Operating expenses increased by \$594,952, a 2.2% increase. The increase in expenses was due to increases in energy purchases for resale of \$539,224, an increase of 3.6%. Combined, other expenses were up from the prior year, \$55,728, less than one-half of one percent. 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 \$9,839,682, an increase of \$1,684,291. Transfers to the General Fund were \$4,827,147, or 49% of income. For fiscal 2010 the transfers to the General Fund were \$4,897,104, or 60% of income. For fiscal 2009 the transfers were \$5,094,136 or 66%. The reduced transfers, as a percent of income, have enabled the utilities to fund capital additions and reserves for emergencies. The change in net assets of the three utilities was an increase of \$5,012,535.

General Fund Budgetary Highlights

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

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

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

The total revenue variance was \$39,000 for fiscal 2011. Licenses and permits were \$190,000 over budget. Of that amount, \$180,000 was from business licenses due to heightened collection efforts and new businesses. Fines and forfeitures were \$60,000 under budget. Intergovernmental revenues were down \$325,000 from budgeted grants that were not awarded in fiscal 2011. Charges for services were \$70,000 over budget. Subdivision fees and impact fees, both related to an improved construction outlook in Fairhope, and sanitation collections exceeded budgeted amounts. The Library Board contributed \$115,000 more than anticipated toward the loan for the construction of the new library.

The total expenditure variance was \$1,730,000. The favorable variance in the general government was \$715,000 due to reductions in employee costs. Reductions in overtime, unfilled positions and unfunded OPEB contributions contributed to this variance. The Sanitation Department had a favorable variance of \$260,000. It was contemplated that some of the solid waste collection would be outsourced at a cost of \$900,000. No collection was outsourced and the amounts that were not budgeted for employees were less than the budget cost of outsourcing the service. The Airport Authority appropriation for debt service was reduced \$55,000 from the budgeted amount due to favorable interest rates. The Recreation department was \$80,000 under budget due to employee cost reductions. The golf course operations had an unfavorable variance of \$115,000. Most of that amount was goods purchased for resale. Members purchased a large amount of special order items during fiscal 2011. These were items outside of the normal items ordered for stock in the shop. Capital projects and equipment for the Street Department were budgeted at \$1,100,000. Expenditures for fiscal 2011 were \$170,000. While some other unbudgeted capital purchases were made due to unforeseen conditions, the over-budgeted amount in capital additions for the Street Department are largely responsible for the \$554,000 favorable variance in capital outlay. One of the most significant unbudgeted capital purchases was in the Sanitation Department for the replacement of collection equipment.

Other financing sources and uses and the budget variances were: unfavorable variance of \$1,350,000 in loan proceeds for capital purchases and improvements not made in fiscal 2011 and therefore had no need of funding; a reduction in the amount budgeted for transfers from the business-type activities of \$275,000, to accomplish a goal of not transferring more than 50% of earnings from operations of the utilities; an unfavorable variance of \$225,000 in transfers out: \$215,000 budgeted for transfers to the Debt Service Fund were not required and \$440,000 in unbudgeted transfers to the Capital Projects Fund, \$435,000 for future projects funded by remaining resources from the Deep Water Horizon oil spill recovery funds.

Capital Assets

As of September 30, 2011, the City's governmental activities had \$81,799,619 invested in capital assets, net of depreciation. This is a decrease of \$1,561,071 from the prior year. The business-type activities had invested capital assets, net of depreciation of \$40,396,719, an increase of \$422,761 (see Note 3, Fixed Assets, pages 33 and 34).

The City's governmental activities capital assets, at cost, were \$124,526,981 at September 30, 2011, an increase of \$1.5 million from the prior year. The business-type activities, the Gas, Electric and Water and Waste Water Funds, had capital assets, at cost, of \$72,681,048, an increase of \$2.1 million. **Figure 4**, page 12, summarizes capital assets by asset type, at cost, and changes in fixed assets during the year.

Debt Administration

As of September 30, 2011, the City had long-term debt of \$30,157,234 (excluding premiums and discounts), including bonds and warrants payable, notes payable, and obligations under capital leases. This is a net decrease, city wide, of \$1,556,133 from the prior year. Governmental activities' decrease in long-term debt was \$831,483. Business-type activities' reduction in long-term debt was \$724,650. See Notes 5 through 10 in the financial statements for more detail.

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

ECONOMIC FACTORS

The City's management has set a budget decrease in revenue for fiscal 2012 of \$550,000. While the overall budget variance for fiscal 2011 was a favorable \$39,000, it was thought that while the economy appears to be recovering, a modest approach to budget expectations for revenue should be followed.

Similarly, the General Fund budget has a \$400,000 decrease in expenses for fiscal 2012, compared to fiscal 2011. Capital projects and purchases funded in the General Fund were budgeted \$1 million less than the prior year. Modest increases over all cost centers, administration, public safety, parks and recreation, streets and sidewalks, sanitation collections, agency appropriations and debt service, totaled \$600,000.

Gas Fund, Electric Fund and Water and Waste Water Fund operations revenues are expected to be relatively flat for fiscal 2012. Increases in revenues budgets are 3% over actual amounts for 2011. Costs of energy and operating expenses in the three utilities are projected to increase by approximately 6% over actual amounts for 2011.

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 \$9,392,519 for fiscal 2012, compared to actual \$9,839,682 for fiscal 2011. This represents a projected decrease of 4.5%. Transfers to the General Fund for fiscal 2012 are budgeted to be \$4,902,949, compared to \$4,827,147 for 2011. This represents an increase of 1.5%. However, 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 Rose Fogarty, Finance Director, or Nancy Wilson, City Treasurer, at 161 N. Section Street, Fairhope, Alabama, (251) 928-2136.

Figure 1

**CITY OF FAIRHOPE
CONDENSED STATEMENT OF NET ASSETS FOR THE YEAR ENDED 9/30/2011**

	COMPONENT UNITS									
	GOVERNMENTAL ACTIVITIES		BUSINESS - TYPE ACTIVITIES		TOTAL PRIMARY GOVERNMENT		LIBRARY		AIRPORT AUTHORITY	
	9/30/2011	9/30/2010	9/30/2011	9/30/2010	9/30/2011	9/30/2010	9/30/2011	9/30/2010	9/30/2011	9/30/2010
Current & Other Assets	\$ 9,365,227	\$ 6,370,662	\$ 17,098,616	\$ 12,919,880	\$ 26,463,843	\$ 19,290,542	\$ 96,306	\$ 142,920	\$ 701,050	\$ 659,724
Capital Assets, net	81,799,619	83,360,690	40,396,719	39,973,958	122,196,338	123,334,648	78,267	104,964	22,022,916	21,991,441
Total Assets	\$ 91,164,846	\$ 89,731,352	\$ 57,495,335	\$ 52,893,838	\$ 148,660,181	\$ 142,625,190	\$ 174,573	\$ 247,884	\$ 22,723,966	\$ 22,651,165
Long-Term Debt	\$ 14,700,965	\$ 15,596,347	\$ 14,362,872	\$ 15,074,544	\$ 29,063,837	\$ 30,670,891	\$ -	\$ -	\$ 8,935,000	\$ 8,935,000
Other Liabilities	3,359,743	2,824,456	5,076,735	4,776,101	8,436,478	7,600,557	3,822	3,197	-	-
Total Liabilities	\$ 18,060,708	\$ 18,420,803	\$ 19,439,607	\$ 19,850,645	\$ 37,500,315	\$ 38,271,448	\$ 3,822	\$ 3,197	\$ 8,935,000	\$ 8,935,000
Net Assets:										
Invested in Capital Assets, net of related debt	\$ 66,845,689	\$ 67,577,041	\$ 25,786,974	\$ 24,697,607	\$ 92,632,663	\$ 92,274,648	\$ 78,267	\$ 104,964	\$ 13,087,916	\$ 13,038,211
Restricted	6,207,809	3,564,376	1,658,631	1,649,106	7,866,440	5,213,482	-	-	112,573	32,323
Unrestricted	50,640	169,132	10,610,123	6,696,480	10,660,763	6,865,612	92,484	139,723	588,477	645,631
Total Net Assets	73,104,138	71,310,549	38,055,728	33,043,193	111,159,866	104,353,742	170,751	244,687	13,788,966	13,716,165
Total Liabilities & Net Assets	\$ 91,164,846	\$ 89,731,352	\$ 57,495,335	\$ 52,893,838	\$ 148,660,181	\$ 142,625,190	\$ 174,573	\$ 247,884	\$ 22,723,966	\$ 22,651,165

Figure 2

**CITY OF FAIRHOPE
CONDENSED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED 9/30/2011**

	COMPONENT UNITS									
	GOVERNMENTAL ACTIVITIES		BUSINESS - TYPE ACTIVITIES		TOTAL PRIMARY GOVERNMENT		LIBRARY		AIRPORT AUTHORITY	
	9/30/2011	9/30/2010	9/30/2011	9/30/2010	9/30/2011	9/30/2010	9/30/2011	9/30/2010	9/30/2011	9/30/2010
Program Revenues										
Charges for Services	\$ 8,376,902	\$ 8,079,332	\$ 38,345,349	\$ 36,087,627	\$ 46,722,251	\$ 44,166,959	43,040	87,337	129,358	131,514
Operating Grants & Contributions	24,402	22,267			24,402	22,267	569,597	609,176	438,107	260,155
Capital Grants & Contributions	302,963	1,389,592			302,963	1,389,592				
General Revenues										
Taxes	10,190,500	10,292,352			10,190,500	10,292,352				
Intergovernmental	248,011	424,359			248,011	424,359				
Investment Earnings	249,489	239,256	58,522	23,385	308,011	262,641			4,746	5,156
Other	124,161	1,293,419			124,161	1,293,419				
Total Revenues	<u>\$ 19,516,428</u>	<u>\$ 21,740,577</u>	<u>\$ 38,403,871</u>	<u>\$ 36,111,012</u>	<u>\$ 57,920,299</u>	<u>\$ 57,851,589</u>	<u>\$ 612,637</u>	<u>\$ 696,513</u>	<u>\$ 572,211</u>	<u>\$ 396,825</u>
Expenses										
General Government	\$ 6,176,077	\$ 6,929,734			\$ 6,176,077	\$ 6,929,734				
Sanitation	1,868,364	1,973,942			1,868,364	1,973,942				
Police	5,213,031	4,740,344			5,213,031	4,740,344				
Fire	483,670	1,017,184			483,670	1,017,184				
Airport	225,843	249,856			225,843	249,856				
Street	4,251,404	4,452,370			4,251,404	4,452,370				
Adult Recreation	654,736	601,232			654,736	601,232				
Recreation	1,138,079	1,269,393			1,138,079	1,269,393				
Golf	1,106,624	1,102,861			1,106,624	1,102,861				
Public Library Board	798,997	772,539			798,997	772,539				
Interest on Long Term Debt	633,161	694,083			633,161	694,083				
Electric			16,909,931	15,664,835	16,909,931	15,664,835				
Natural Gas			5,037,587	5,757,648	5,037,587	5,757,648				
Water and Wastewater			6,616,671	6,533,138	6,616,671	6,533,138				
Golf										
Airport Authority									499,410	759,885
Fairhope Public Library							686,573	704,268		
Total Expenses	<u>\$ 22,549,986</u>	<u>\$ 23,803,538</u>	<u>\$ 28,564,189</u>	<u>\$ 27,955,621</u>	<u>\$ 51,114,175</u>	<u>\$ 51,759,159</u>	<u>\$ 686,573</u>	<u>\$ 704,268</u>	<u>\$ 499,410</u>	<u>\$ 759,885</u>
Change in net assets before transfers	(3,033,558)	(2,062,961)	9,839,682	8,155,391	6,806,124	6,092,430	(73,936)	(7,755)	72,801	(363,060)
Special Item - Trans of Golf to Governmental Activities										
Transfers	4,827,147	4,897,104	(4,827,147)	(4,897,104)						
Change in net assets	1,793,589	2,834,143	5,012,535	3,258,287	6,806,124	6,092,430	(73,936)	(7,755)	72,801	(363,060)
Net Assets, beginning	71,310,549	67,922,838	33,043,193	29,784,906	104,353,742	97,707,744	244,687	252,442	13,716,165	14,079,225
Prior year adjustment		553,568				553,568				
Net Assets, ending	<u>\$ 73,104,138</u>	<u>\$ 71,310,549</u>	<u>\$ 38,055,728</u>	<u>\$ 33,043,193</u>	<u>\$ 111,159,866</u>	<u>\$ 104,353,742</u>	<u>\$ 170,751</u>	<u>\$ 244,687</u>	<u>\$ 13,788,966</u>	<u>\$ 13,716,165</u>

Figure 3

**Statement of Revenues and Expenditures
Governmental Funds
For the Year Ended September 30, 2011**

<u>Revenues</u>	<u>9/30/2011 Total</u>	<u>9/30/2010 Total</u>	<u>Increase (Decrease)</u>
Local taxes	\$ 10,190,500	\$ 10,292,352	\$ (101,852)
Licenses & Permits	2,295,795	2,178,982	116,813
Fines & Forfeitures	241,104	261,070	(19,966)
State of Alabama	223,511	176,832	46,679
U. S. Government	122,455	370,724	(248,269)
Contribution from Public Library Board	183,285	65,000	118,285
Interests and Rents	249,489	239,256	10,233
Charges for Service	4,479,749	4,450,535	29,214
Golf Course Revenue	1,020,250	858,237	162,013
Other	539,557	1,705,991	(1,166,434)
Totals	<u>\$ 19,545,695</u>	<u>\$ 20,598,979</u>	<u>\$ (1,053,284)</u>
<u>Expenditures</u>	<u>Total</u>	<u>Total</u>	<u>Increase (Decrease)</u>
General	\$ 5,335,143	\$ 6,279,197	\$ (944,054)
Sanitation	1,745,785	1,758,543	(12,758)
Police	4,941,051	4,404,803	536,248
Fire	395,224	837,597	(442,373)
Airport	225,843	249,856	(24,013)
Street Department	2,639,416	2,797,566	(158,150)
Adult Recreation	577,015	553,125	23,890
Debt Service			
Principal	831,483	1,047,483	(216,000)
Interest	666,652	704,043	(37,391)
Recreation Department	969,025	1,050,957	(81,932)
Golf	1,113,178	1,094,604	18,574
Public Library Board	565,000	565,000	-
Other	89,620	75,000	14,620
Capital Outlay	1,474,937	1,565,192	(90,255)
Totals	<u>\$ 21,569,372</u>	<u>\$ 22,982,966</u>	<u>\$ (1,413,594)</u>

Figure 4

**City of Fairhope
Capital Assets**

<u>Governmental Activities</u>	Balance @ 10/1/10	Additions	Reclassifications/ Retirements	Balance @ 9/30/11
Land	\$ 19,827,727	\$ -	\$ -	\$ 19,827,727
Buildings & Structures	32,186,356	268,836	-	32,455,192
Vehicles and equipment	11,821,480	1,180,919	(30,330)	12,972,069
Infrastructure	59,200,685	71,308	-	59,271,993
Total Capital Assets	\$ 123,036,248	\$ 1,521,063	\$ (30,330)	\$ 124,526,981

<u>Business-type activities</u>	Electric Fund	Natural Gas Fund	Water/Wastewater Fund
Balance @ 10/01/10	\$ 21,017,070	\$ 11,843,499	\$ 37,681,685
Additions to Plant	776,586	272,492	758,034
Addition to land, buildings, vehicles and equipment	245,565	55,551	85,551
Completed Construction in Progress	-	-	-
Disposals	(18,329)	(18,328)	(18,328)
Total Capital Assets @ 9/30/2011	\$ 22,020,892	\$ 12,153,214	\$ 38,506,942

Figure 5

**City of Fairhope
Debt Administration**

<u>LONG TERM DEBT</u>	<u>GOVERNMENTAL FUNDS</u>	<u>BUSINESS-TYPE ACTIVITIES</u>
General Obligation Warrants, 2002	\$ 4,037,422	
General Obligation Warrants, 2008	847,460	
General Obligation Warrants, 2007	7,130,000	
General Obligation Refunding Warrant, 2009	2,950,910	
Obligations under capital leases	24,449	
Utilities Revenue Warrants, 2005		\$ 7,135,000
Utilities Revenue Warrants, 2002		6,720,000
Utilities Revenue Warrants, 2009		1,070,000
General Obligation Refunding Warrant, 2009		54,090
General Obligation Warrants, 2002		187,903
Compensated absences	<u>1,069,676</u>	<u>560,563</u>
TOTALS	\$ <u>16,059,917</u>	\$ <u>15,727,556</u>

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

BASIC FINANCIAL STATEMENTS

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	Governmental Fund Types			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash	\$ 8,135,146	\$ 12,137,147	\$ 20,272,293	\$ 766,891
Restricted cash	320,963	1,658,631	1,979,594	-
Receivables, net	491,929	2,610,705	3,102,634	-
Internal balances	267,812	(267,812)	-	-
Inventories	-	687,729	687,729	-
Other assets	149,377	272,216	421,593	30,465
Land and construction in progress	19,827,727	369,280	20,197,007	11,300,711
Capital assets, net	61,971,892	40,027,439	101,999,331	10,800,472
Total assets	\$ 91,164,846	\$ 57,495,335	\$ 148,660,181	\$ 22,898,539
LIABILITIES				
Accounts payable and accrued expenses	\$ 1,009,435	\$ 2,008,065	\$ 3,017,500	\$ 3,822
Deferred revenue	4,714	-	4,714	-
Customer deposits	-	2,020,319	2,020,319	-
Long-term liabilities				
Due within one year	1,322,641	720,593	2,043,234	-
Due in more than one year	14,700,965	14,362,872	29,063,837	8,935,000
Net OPEB obligation	1,022,953	327,758	1,350,711	-
Total liabilities	18,060,708	19,439,607	37,500,315	8,938,822
NET ASSETS				
Invested in capital assets, net of related debt	66,845,689	25,786,974	92,632,663	13,166,183
Restricted for:				
Debt service	350,020	1,658,631	2,008,651	-
Capital projects	675,798	-	675,798	112,573
Road maintenance and construction	167,786	-	167,786	-
Council approved emergencies	5,014,205	-	5,014,205	-
Unrestricted	50,640	10,610,123	10,660,763	680,961
Total net assets	73,104,138	38,055,728	111,159,866	13,959,717
Total liabilities and net assets	\$ 91,164,846	\$ 57,495,335	\$ 148,660,181	\$ 22,898,539

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

CITY OF FAIRHOPE, ALABAMA
STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary Government								
Governmental activities:								
General	\$ 6,176,077	\$ 5,383,822	\$ -	\$ -	\$ (792,255)		\$ (792,255)	
Sanitation	1,868,364	1,391,722	-	-	(476,642)		(476,642)	
Police	5,213,031	241,104	24,402	71,120	(4,876,405)		(4,876,405)	
Fire	483,670	-	-	-	(483,670)		(483,670)	
Airport Authority	225,843	-	-	-	(225,843)		(225,843)	
Street	4,251,404	-	-	10,558	(4,240,846)		(4,240,846)	
Adult Recreation	654,736	46,261	-	-	(608,475)		(608,475)	
Recreation	1,138,079	369,135	-	38,000	(730,944)		(730,944)	
Golf	1,106,624	944,858	-	-	(161,766)		(161,766)	
Public Library Board	798,997	-	-	183,285	(615,712)		(615,712)	
Interest on long term debt	633,161	-	-	-	(633,161)		(633,161)	
Total governmental activities	<u>22,549,986</u>	<u>8,376,902</u>	<u>24,402</u>	<u>302,963</u>	<u>(13,845,719)</u>		<u>(13,845,719)</u>	
Business-type activities								
Electric	16,909,931	19,838,004	-	-	-	\$ 2,928,073	2,928,073	
Natural gas	5,037,587	8,219,447	-	-	-	3,181,860	3,181,860	
Water and Wastewater	6,616,671	10,287,898	-	-	-	3,671,227	3,671,227	
Total business-type activities	<u>28,564,189</u>	<u>38,345,349</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,781,160</u>	<u>9,781,160</u>	
Total primary government	<u>\$ 51,114,175</u>	<u>\$ 46,722,251</u>	<u>\$ 24,402</u>	<u>\$ 302,963</u>	<u>(13,845,719)</u>	<u>9,781,160</u>	<u>(4,064,559)</u>	
Component Units	<u>\$ 1,185,983</u>	<u>\$ 172,398</u>	<u>\$ 1,007,704</u>	<u>\$ -</u>				<u>\$ (5,881)</u>
General revenues:								
Property taxes					4,590,840	-	4,590,840	-
Sales tax					4,590,149	-	4,590,149	-
Liquor taxes					393,123	-	393,123	-
Lodging taxes					495,870	-	495,870	-
Other taxes					120,518	-	120,518	-
Intergovernmental					248,011	-	248,011	-
Investment earnings					249,489	58,522	308,011	4,746
Other					124,161	-	124,161	-
Transfers					4,827,147	(4,827,147)	-	-
Total general revenues, special item and transfers					<u>15,639,308</u>	<u>(4,768,625)</u>	<u>10,870,683</u>	<u>4,746</u>
Change in net assets					1,793,589	5,012,535	6,806,124	(1,135)
Net assets, beginning, as previously reported					71,310,549	33,043,193	104,353,742	13,960,852
Net assets, ending					<u>\$ 73,104,138</u>	<u>\$ 38,055,728</u>	<u>\$ 111,159,866</u>	<u>\$ 13,959,717</u>

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

CITY OF FAIRHOPE, ALABAMA

FUND BALANCE SHEETS
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash	\$ 7,257,978	\$ 676,846	\$ 200,322	\$ 8,135,146
Investments	-	-	320,963	320,963
Receivables, net	462,653	-	29,276	491,929
Due from other funds	267,812	-	-	267,812
Other assets	34,925	-	-	34,925
Total assets	<u>\$ 8,023,368</u>	<u>\$ 676,846</u>	<u>\$ 550,561</u>	<u>\$ 9,250,775</u>
LIABILITIES				
Accounts payable	\$ 655,816	\$ 1,047	\$ 3,479	\$ 660,342
Accrued expenses and taxes	182,683	-	-	182,683
Deferred revenue	24,714	-	29,276	53,990
Total liabilities	<u>863,213</u>	<u>1,047</u>	<u>32,755</u>	<u>897,015</u>
FUND BALANCES				
Restricted for:				
Debt service	-	-	350,020	350,020
Council approved emergencies	5,014,205	-	-	5,014,205
Assigned to:				-
Construction and road maintenance	-	675,799	167,786	843,585
Unassigned	2,145,950	-	-	2,145,950
Total fund balances	<u>7,160,155</u>	<u>675,799</u>	<u>517,806</u>	<u>8,353,760</u>
Total liabilities and fund balances	<u>\$ 8,023,368</u>	<u>\$ 676,846</u>	<u>\$ 550,561</u>	<u>\$ 9,250,775</u>

See independent auditors' report and notes to the financial statements

CITY OF FAIRHOPE, ALABAMA

RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2011

Fund balance as reported on page 16	\$ 8,353,760
Net Assets reported for governmental activities in the Statement of Net Assets are different from Fund Balance for governmental activities because:	
Capital assets used in governmental activities are financial resources and therefore are not reported in fund financial statements.	124,526,981
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.	(42,727,362)
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred revenue in fund financial statements.	163,724
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 \$36,311)	(14,929,481)
Obligations under capital leases	(24,449)
OPEB obligations	(1,022,953)
Accrued interest on long-term debt is not due and payable in the current-period and therefore not included in fund financial statements.	(216,092)
Compensated absences not expected to be paid with current resources as determined under Governmental Accounting Standards are not reported in fund financial statements.	<u>(1,019,990)</u>
Net Assets of Governmental Activities as reported on page 14	<u><u>\$ 73,104,138</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, 2011

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Local taxes	\$ 10,190,500	\$ -	\$ -	\$ 10,190,500
Licenses and permits	2,295,795	-	-	2,295,795
Fines and forfeitures	241,104	-	-	241,104
Intergovernmental	258,472	-	87,494	345,966
Contribution from Public Library Board	183,285	-	-	183,285
Interest and rents	248,780	593	116	249,489
Charges for services	4,479,749	-	-	4,479,749
Golf course revenue	1,020,250	-	-	1,020,250
Other	539,557	-	-	539,557
	<u>19,457,492</u>	<u>593</u>	<u>87,610</u>	<u>19,545,695</u>
EXPENDITURES				
General	5,335,143	-	-	5,335,143
Sanitation	1,745,785	-	-	1,745,785
Police	4,941,051	-	-	4,941,051
Fire	395,224	-	-	395,224
Airport	225,843	-	-	225,843
Street	2,592,622	-	46,794	2,639,416
Adult Recreation	577,015	-	-	577,015
Recreation	969,025	-	-	969,025
Golf	1,113,178	-	-	1,113,178
Public Library Board	565,000	-	-	565,000
Other	89,000	-	620	89,620
Debt service payments				
Principal	176,353	-	655,130	831,483
Interest	31,591	-	635,061	666,652
Capital Outlay	1,346,603	128,334	-	1,474,937
	<u>20,103,433</u>	<u>128,334</u>	<u>1,337,605</u>	<u>21,569,372</u>
Excess of Revenues over (under) Expenditures	(645,941)	(127,741)	(1,249,995)	(2,023,677)
OTHER FINANCING SOURCES (USES)				
Transfers in	4,827,147	441,186	1,289,375	6,557,708
Transfers out	(1,730,561)	-	-	(1,730,561)
	<u>3,096,586</u>	<u>441,186</u>	<u>1,289,375</u>	<u>4,827,147</u>
Net change in fund balances	2,450,645	313,445	39,380	2,803,470
Fund balances - beginning of year	4,709,510	362,354	478,426	5,550,290
FUND BALANCES - END OF YEAR	<u><u>\$ 7,160,155</u></u>	<u><u>\$ 675,799</u></u>	<u><u>\$ 517,806</u></u>	<u><u>\$ 8,353,760</u></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, 2011

Net change in fund balances - total governmental funds, page 18 \$ 2,803,470

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

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

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

Capital outlays for the year	1,474,937
Depreciation expense for the year	(3,055,309)
Loss on assets disposed	(26,825)

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	831,483
--------------------------------------	---------

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

Capital contributions for the year	46,125
------------------------------------	--------

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

Decrease in compensated absences liability	116,831
Decrease in accrued interest payable	40,797
Increase in OPEB liability	(430,612)

Change in Net Assets of Governmental Activities, page 15 \$ 1,793,589

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

CITY OF FAIRHOPE, ALABAMA

FUND BALANCE SHEETS
 PROPRIETARY FUNDS
 SEPTEMBER 30, 2011

	Business Type Activities			
	Major Funds			Total
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 4,281,277	\$ 3,805,763	\$ 4,050,107	\$ 12,137,147
Restricted cash for debt service	152,143	80,872	1,425,616	1,658,631
Receivables, net	2,588,421	5,294	16,990	2,610,705
Inventories	258,568	157,196	271,965	687,729
Prepaid expenses	28,009	13,782	13,327	55,118
Total current assets	<u>7,308,418</u>	<u>4,062,907</u>	<u>5,778,005</u>	<u>17,149,330</u>
Noncurrent assets				
Unamortized expense	23,388	9,180	148,440	181,008
Due from other funds	123,565	-	379,568	503,133
Other assets	12,030	12,030	12,030	36,090
Capital assets				
Distribution and collection systems	17,248,541	9,397,563	35,429,299	62,075,403
Buildings, vehicles and equipment	4,642,106	2,680,158	2,914,101	10,236,365
Land and construction in progress	130,246	75,492	163,542	369,280
Less accumulated depreciation	<u>(10,292,547)</u>	<u>(5,522,051)</u>	<u>(16,469,731)</u>	<u>(32,284,329)</u>
Total noncurrent assets	<u>11,887,329</u>	<u>6,652,372</u>	<u>22,577,249</u>	<u>41,116,950</u>
Total assets	<u>\$ 19,195,747</u>	<u>\$ 10,715,279</u>	<u>\$ 28,355,254</u>	<u>\$ 58,266,280</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	\$ 1,290,958	\$ 291,945	\$ 425,162	\$ 2,008,065
Customer deposits	1,976,215	-	44,104	2,020,319
Warrants, notes and capital leases payable	113,806	41,481	565,306	720,593
Total current liabilities	<u>3,380,979</u>	<u>333,426</u>	<u>1,034,572</u>	<u>4,748,977</u>
Noncurrent liabilities				
Compensated absences	116,423	146,954	210,343	473,720
Warrants, notes and capital leases payable	1,519,028	798,233	11,571,891	13,889,152
Net OPEB Obligation	94,902	100,484	132,372	327,758
Due to other funds	491,776	204,247	74,922	770,945
Total noncurrent liabilities	<u>2,222,129</u>	<u>1,249,918</u>	<u>11,989,528</u>	<u>15,461,575</u>
Total liabilities	<u>5,603,108</u>	<u>1,583,344</u>	<u>13,024,100</u>	<u>20,210,552</u>
NET ASSETS				
Invested in capital assets, net of related debt	10,095,512	5,791,448	9,900,014	25,786,974
Restricted for debt service	152,143	80,872	1,425,616	1,658,631
Unrestricted	3,344,984	3,259,615	4,005,524	10,610,123
Total net assets	<u>13,592,639</u>	<u>9,131,935</u>	<u>15,331,154</u>	<u>38,055,728</u>
	<u>\$ 19,195,747</u>	<u>\$ 10,715,279</u>	<u>\$ 28,355,254</u>	<u>\$ 58,266,280</u>

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

CITY OF FAIRHOPE, ALABAMA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Business Type Activities			
	Major Funds			Total
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
OPERATING REVENUES				
Sales and services	\$ 19,405,538	\$ 8,218,092	\$ 9,568,506	\$ 37,192,136
Other charges, sales and receipts	432,466	1,355	719,392	1,153,213
Total operating revenues	<u>19,838,004</u>	<u>8,219,447</u>	<u>10,287,898</u>	<u>38,345,349</u>
OPERATING EXPENSES				
Energy purchases and cost of goods sold	12,324,346	2,473,061	744,504	15,541,911
Salaries	579,235	466,758	915,640	1,961,633
Depreciation	603,978	269,733	890,981	1,764,692
Insurance	321,461	255,166	363,130	939,757
Electric energy furnished to other departments	1,050,275	-	-	1,050,275
Maintenance	423,605	144,549	1,438,202	2,006,356
Community development projects	57,131	56,831	58,166	172,128
Other operating expense	1,471,133	1,272,697	1,605,891	4,349,721
Total operating expenses	<u>16,831,164</u>	<u>4,938,795</u>	<u>6,016,514</u>	<u>27,786,473</u>
OPERATING INCOME	<u>3,006,840</u>	<u>3,280,652</u>	<u>4,271,384</u>	<u>10,558,876</u>
NONOPERATING REVENUES (EXPENSES)				
Interest expense	(78,767)	(40,392)	(600,157)	(719,316)
Interest income	25,209	18,964	14,349	58,522
Distribution of joint revenue (expense) – net	-	(58,400)	-	(58,400)
Total nonoperating revenues (expenses)	<u>(53,558)</u>	<u>(79,828)</u>	<u>(585,808)</u>	<u>(719,194)</u>
INCOME(LOSS) BEFORE TRANSFERS AND OTHER ITEMS	<u>2,953,282</u>	<u>3,200,824</u>	<u>3,685,576</u>	<u>9,839,682</u>
TRANSFERS AND OTHER ITEMS				
Transfers out	<u>(1,400,586)</u>	<u>(1,667,782)</u>	<u>(1,758,779)</u>	<u>(4,827,147)</u>
Total transfers (out) in	<u>(1,400,586)</u>	<u>(1,667,782)</u>	<u>(1,758,779)</u>	<u>(4,827,147)</u>
Change in net assets	1,552,696	1,533,042	1,926,797	5,012,535
NET ASSETS – BEGINNING OF YEAR	<u>12,039,943</u>	<u>7,598,893</u>	<u>13,404,357</u>	<u>33,043,193</u>
NET ASSETS – END OF YEAR	<u>\$ 13,592,639</u>	<u>\$ 9,131,935</u>	<u>\$ 15,331,154</u>	<u>\$ 38,055,728</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, 2011

	Business Type Activities			
	Major Funds			Total
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
CASH FLOWS FROM OPERATING ACTIVITIES				
Received from customers	\$ 19,573,022	\$ 8,221,597	\$ 10,308,749	\$ 38,103,368
Paid to suppliers for goods and services	(15,615,527)	(4,168,060)	(4,009,259)	(23,792,846)
Paid to personnel for services	(579,235)	(466,758)	(915,640)	(1,961,633)
Net cash provided (used) by operating activities	<u>3,378,260</u>	<u>3,586,779</u>	<u>5,383,850</u>	<u>12,348,889</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income and joint revenue (expense)	<u>25,209</u>	<u>(39,436)</u>	<u>14,349</u>	<u>122</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Repayment of debt	(116,913)	(47,817)	(559,920)	(724,650)
Interest paid	(72,700)	(38,188)	(555,017)	(665,905)
Purchase of property, plant and equipment	<u>(1,022,152)</u>	<u>(328,043)</u>	<u>(843,584)</u>	<u>(2,193,779)</u>
Net cash provided (used) by capital and related financing activities	<u>(1,211,765)</u>	<u>(414,048)</u>	<u>(1,958,521)</u>	<u>(3,584,334)</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES				
Change in interfund receivable/payable	(50,595)	167,597	125,787	242,789
Transfers in (out)	<u>(1,400,586)</u>	<u>(1,667,782)</u>	<u>(1,758,779)</u>	<u>(4,827,147)</u>
Net cash provided (used) by noncapital financing activities	<u>(1,451,181)</u>	<u>(1,500,185)</u>	<u>(1,632,992)</u>	<u>(4,584,358)</u>
INCREASE (DECREASE) IN CASH	740,523	1,633,110	1,806,686	4,180,319
Cash – beginning of year	<u>3,692,897</u>	<u>2,253,525</u>	<u>3,669,037</u>	<u>9,615,459</u>
CASH – END OF YEAR	<u>\$ 4,433,420</u>	<u>\$ 3,886,635</u>	<u>\$ 5,475,723</u>	<u>\$ 13,795,778</u>
Reconciliation of operating income to net cash provided (used) by operating activities				
Income (loss) from operations	\$ 3,006,840	\$ 3,280,652	\$ 4,271,384	\$ 10,558,876
Adjustments to reconcile income from operations to net cash provided (used) by operating activities				
Depreciation	603,978	269,733	890,981	1,764,692
Amortization	2,336	912	21,643	24,891
Loss on disposal of property, plant and equipment	2,618	1,091	2,616	6,325
Change in assets and liabilities				
Decrease (increase) in accounts receivable	(264,982)	2,150	20,853	(241,979)
Decrease (increase) in inventories	6,225	(4,857)	(19,357)	(17,989)
Decrease (increase) in prepaid expenses	(9,347)	(158)	3,376	(6,129)
Increase (decrease) in accounts payable	(42,739)	42,509	136,340	136,110
Increase (decrease) in customer deposits	36,132	-	(4,850)	31,282
Increase (decrease) in compensated absences	(3,697)	(48,555)	3,128	(49,124)
Increase (decrease) in net OPEB obligation	40,896	43,302	57,736	141,934
Net cash provided (used) by operating activities	<u>\$ 3,378,260</u>	<u>\$ 3,586,779</u>	<u>\$ 5,383,850</u>	<u>\$ 12,348,889</u>

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

CITY OF FAIRHOPE, ALABAMA
 COMBINING STATEMENT OF NET ASSETS
 DISCRETELY PRESENTED COMPONENT UNITS
 SEPTEMBER 30, 2011

	Governmental Activities		
	Public Library Board	Airport Authority	Total
ASSETS			
Cash	\$ 96,306	\$ 670,585	\$ 766,891
Other assets	-	30,465	30,465
Land and construction in progress	-	11,300,711	11,300,711
Capital assets, net	78,267	10,722,205	10,800,472
Total assets	\$ 174,573	\$ 22,723,966	\$ 22,898,539
LIABILITIES			
Accounts payable and accrued expenses	\$ 3,822	\$ -	\$ 3,822
Long-term liabilities			
Due in more than one year	-	8,935,000	8,935,000
Total liabilities	3,822	8,935,000	8,938,822
NET ASSETS			
Invested in capital assets, net of related debt	78,267	13,087,916	13,166,183
Restricted for:			
Capital projects	-	112,573	112,573
Unrestricted	92,484	588,477	680,961
Total net assets	170,751	13,788,966	13,959,717
Total liabilities and net assets	\$ 174,573	\$ 22,723,966	\$ 22,898,539

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

CITY OF FAIRHOPE, ALABAMA
 COMBINING STATEMENT OF ACTIVITIES
 DISCRETELY PRESENTED COMPONENT UNITS
 SEPTEMBER 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities		
					Airport Authority	Public Library Board	Total
Airport Authority	\$ 499,410	\$ 129,358	\$ 438,107	\$ -	\$ 68,055	\$ -	\$ 68,055
Public Library Board	686,573	43,040	569,597	-	-	(73,936)	(73,936)
	<u>\$ 1,185,983</u>	<u>\$ 172,398</u>	<u>\$ 1,007,704</u>	<u>\$ -</u>	<u>68,055</u>	<u>(73,936)</u>	<u>(5,881)</u>
General revenues:							
					4,746	-	4,746
					<u>4,746</u>	<u>-</u>	<u>4,746</u>
					72,801	(73,936)	(1,135)
					<u>13,716,165</u>	<u>244,687</u>	<u>13,960,852</u>
					<u>\$ 13,788,966</u>	<u>\$ 170,751</u>	<u>\$ 13,959,717</u>

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

NOTES TO THE FINANCIAL STATEMENTS

CITY OF FAIRHOPE, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. REPORTING ENTITY

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

These financial statements present the primary government (the City) and its discretely presented component units, 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 the Festival of Flight, T Hanger and Office rentals, and fuel sales. The Airport Authority does not issue separate financial statements.

These financial statements do not include the following:

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

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

CITY OF FAIRHOPE, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Government-wide

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

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

Fund Level

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

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

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

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

CITY OF FAIRHOPE, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Enterprise Funds:

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

C. CAPITAL ASSETS

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

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

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

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

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

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

CITY OF FAIRHOPE, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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

E. CASH

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

F. RECEIVABLES FROM UTILITY CUSTOMERS

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

CITY OF FAIRHOPE, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. INVENTORIES

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

H. PROPERTY TAX

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

I. DEBT ISSUE COST

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

J. DEFERRED REVENUE

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

CITY OF FAIRHOPE, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. CASH AND CASH EQUIVALENTS

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

L. USE OF ESTIMATES

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

M. NET ASSET AND EQUITY CLASSIFICATIONS

Government-wide Financial Statements

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

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

Fund Financial Statements

The fund equity of the governmental fund financial statements is classified as fund balance. In March 2009, GASB adopted a standard that establishes 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.

CITY OF FAIRHOPE, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Assigned fund balance – Consists of fund balances that are intended to be used for specific purposes but are neither restricted nor committed. Intent should be expressed by (1) the governing body itself, or (2) a subordinate high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. The Mayor and the City Council have the power to assign fund balance amounts to specific purposes. The governing body must vote to grant authorization of assigned fund balances to specific purposes.
- Unassigned fund balances – All other fund balances that do not meet the definition of “restricted, committed or assigned fund balances.”

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

N. MAJOR FUNDS

The City reports the following major Governmental funds:

- General Fund
- Capital Projects Fund

The City reports the following enterprise funds as major funds:

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

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 2011, the General Fund transferred to the Debt Service Fund \$1,289,375 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 2011, the following amounts were transferred from the utility funds noted to the General Fund.

Electric Fund	\$ 1,400,586
Natural Gas Fund	1,667,782
Water and Waste Water Fund	<u>1,758,779</u>
Total	\$ <u>4,827,147</u>

In fiscal year 2011, the City transferred \$226,483 to the Airport Authority and \$517,917 to the Public Library Board both discretely presented component units.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

NOTE 2 INTERFUND TRANSACTIONS (continued)

Interfund receivables and payables at September 30, 2011 are:

	<u>Due from</u>	<u>Due to</u>
General Fund		
Electric	\$ 121,657	\$ -
Water and Waste Water	74,922	-
Natural Gas	71,233	-
Electric Fund		
General	-	121,657
Water and Waste Water	-	370,119
Natural Gas	123,565	-
Natural Gas Fund		
General	-	71,233
Electric	-	123,565
Water and Waste Water	-	9,449
Water and Wastewater Fund		
General	-	74,922
Electric	370,119	-
Natural Gas	9,449	-
	<u>\$ 770,945</u>	<u>\$ 770,945</u>

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

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

NOTE 3 CAPITAL ASSETS

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

	Balance 10/01/10	Increases	Decreases	Balance 09/30/11
<u>Governmental Activities</u>				
Capital assets not subject to depreciation				
Land	\$ 19,827,727	\$ -	\$ -	\$ 19,827,727
Total	<u>19,827,727</u>	<u>-</u>	<u>-</u>	<u>19,827,727</u>
Other capital assets				
Buildings and structures	32,186,356	268,836	-	32,455,192
Vehicles and equipment	11,821,480	1,180,919	(30,330)	12,972,069
Infrastructure	59,200,685	71,308	-	59,271,993
Total	<u>103,208,521</u>	<u>1,521,063</u>	<u>(30,330)</u>	<u>104,699,254</u>
Less accumulated depreciation for				
Buildings and structures	(6,086,011)	(773,681)	-	(6,859,692)
Vehicles and equipment	(10,092,752)	(705,153)	3,505	(10,794,400)
Infrastructure	(23,496,795)	(1,576,475)	-	(25,073,270)
Total accumulated depreciation	<u>(39,675,558)</u>	<u>(3,055,309)</u>	<u>3,505</u>	<u>(42,727,362)</u>
Other capital assets, net	63,532,963	(1,534,246)	(26,825)	61,971,892
Governmental capital assets, net	<u>\$ 83,360,690</u>	<u>\$ (1,534,246)</u>	<u>\$ (26,825)</u>	<u>\$ 81,799,619</u>

Depreciation was charged to governmental activities as follows:

General	\$ 328,571
Sanitation	130,952
Police	311,137
Fire	89,934
Public Library	233,997
Street	1,626,918
Adult Recreation	82,129
Recreation	176,279
Golf	75,392
Total	<u>\$ 3,055,309</u>

(continued)

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

NOTE 3 CAPITAL ASSETS - CONTINUED

	Balance 10/01/10	Increases	Decreases	Balance 09/30/11
<u>Business Type Activities</u>				
Capital assets not subject to depreciation				
Land	\$ 369,280	\$ -	\$ -	\$ 369,280
Total	<u>369,280</u>	<u>-</u>	<u>-</u>	<u>369,280</u>
Other capital assets				
Distribution and collection system	60,268,290	1,807,113	-	62,075,403
Buildings, vehicles and equipment	9,904,683	386,666	(54,984)	10,236,365
Total	<u>70,172,973</u>	<u>2,193,779</u>	<u>(54,984)</u>	<u>72,311,768</u>
Less accumulated depreciation for				
Distribution and collection system	(22,920,526)	(1,469,147)	-	(24,389,673)
Buildings, vehicles and equipment	(7,647,770)	(295,545)	48,659	(7,894,656)
Total accumulated depreciation	<u>(30,568,296)</u>	<u>(1,764,692)</u>	<u>48,659</u>	<u>(32,284,329)</u>
Other capital assets, net	39,604,677	429,087	(6,325)	40,027,439
Capital assets, net	<u>\$ 39,973,957</u>	<u>\$ 429,087</u>	<u>\$ (6,325)</u>	<u>\$ 40,396,719</u>

	Balance 10/01/10	Increases	Decreases	Balance 09/30/11
<u>Component Unit - Public Library</u>				
Equipment	\$ 332,938	\$ -	\$ -	\$ 332,938
Less accumulated depreciation	(227,974)	(26,697)	-	(254,671)
Net	<u>\$ 104,964</u>	<u>\$ (26,697)</u>	<u>\$ -</u>	<u>\$ 78,267</u>

	Balance 10/01/10	Increases	Decreases	Balance 09/30/11
<u>Component Unit - Airport Authority</u>				
Capital assets not subject to depreciation				
Land	\$ 10,934,228	\$ -	\$ -	\$ 10,934,228
Construction in progress	108,233	258,250	-	366,483
Total	<u>11,042,290</u>	<u>258,250</u>	<u>-</u>	<u>11,300,711</u>
Other capital assets				
Runways	9,309,815	-	-	9,309,815
Buildings and improvements	3,968,008	-	-	3,968,008
Equipment	98,885	-	-	98,885
Total	<u>13,376,877</u>	<u>-</u>	<u>-</u>	<u>13,376,708</u>
Less accumulated depreciation for				
Runways	(786,295)	(124,131)	-	(910,426)
Buildings and improvements	(1,560,013)	(99,505)	-	(1,659,518)
Equipment	(81,418)	(3,141)	-	(84,559)
Total accumulated depreciation	<u>(2,427,726)</u>	<u>(226,777)</u>	<u>-</u>	<u>(2,654,503)</u>
Other capital assets, net	10,949,151	(226,777)	-	10,722,205
Capital assets, net	<u>\$ 21,991,441</u>	<u>\$ 31,473</u>	<u>\$ -</u>	<u>\$ 22,022,916</u>

CITY OF FAIRHOPE, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 3 CAPITAL ASSETS (continued)

Section 1033 of the National Defense Authorization Act of 1997 authorizes the Department of Defense to transfer excess military property to state and local law enforcement agencies. The City's police department is a participant in this program ("1033 Program"). During fiscal year 2011, management estimated the value of capital assets received through the 1033 Program to be \$70,170. This value was estimated by management using 80 to 90 percent of the military's original acquisition cost. Assets received with an estimated value of less than \$5,000 have been reflected as both capital contributions and capital expenditures in the amount of totaling \$24,045 in the government-wide financial statements. Assets received with an estimated value greater than \$5,000 have been reflected as a capital contribution and a depreciable capital asset in the amount totaling \$46,125 in the government wide financial statements.

NOTE 4 SINKING FUNDS – PROPRIETARY FUNDS

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

NOTE 5 NOTES AND WARRANTS PAYABLE – BUSINESS-TYPE ACTIVITIES

The following is a summary of revenue bonds, notes and warrants payable from the proprietary funds as of September 30, 2011:

Utilities Revenue Warrants, Series 2005 dated March 1, 2005, interest rate 2.20% to 4.25%, payable semi-annually, principal payable December 1, 2005 through December 1, 2020.	\$ 7,135,000
Utilities Revenue Warrants, Series 2002 dated September 1, 2002, interest rate 4.75% to 5.00%, payable semi-annually, principal payable 2020 through 2025.	6,720,000
General Obligation Warrants, Series 2002 dated September 1, 2002, interest rate 1.60% to 5.00%, payable semi-annually, principal payable 2003 through 2025.	187,903
Utilities Revenue Warrants, Series 2009 dated April 2, 2009, interest rate 3.85%, payable semi-annually, principal payable 2009 through 2019.	1,070,000
General Obligation Refunding Warrant, Series 2009, dated April 2, 2009, interest rate 3.62%, payable semi-annually, principal payable 2010 through 2020.	<u>54,090</u>
TOTAL	<u>\$15,166,993</u>

CITY OF FAIRHOPE, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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

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

NOTE 6 NOTE AND WARRANTS PAYABLE – GOVERNMENTAL ACTIVITIES

The following is a governmental fund summary of long term debt at September 30, 2011:

General Obligation Warrants, Series 2002 dated September 1, 2002, interest rate 1.60% to 5.00%, payable semi-annually, principal payable 2003 through 2025.	\$4,037,422
General Obligation Warrant, Series 2008, dated March 6, 2008, interest at 2.91%, payable semi-annually, \$130,000 annual principal payments are due on April 1 from 2009 to 2018.	847,460
General Obligation Warrants, Series 2007 dated June 1, 2007, interest rate 4.00% to 5.00%, payable semi-annually, principal payable June 1, 2008 through June 1, 2032.	7,130,000
General Obligation Refunding Warrant, Series 2009, dated April 2, 2009, interest rate 3.62%, payable semi-annually, principal payable 2010 through 2020.	<u>2,950,910</u>
TOTAL	<u>\$14,965,792</u>

CITY OF FAIRHOPE, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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

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

The General Obligation Warrant Series 2008 related to construction costs on the new Library. The Public Library Board requested the City secure a warrant as a "bridge loan" until pledges from outside donors are collected and remitted to the City. In 2008, the City refunded the original short term note with a general obligation warrant to be paid over 10 years. The Library Board committed to pay costs of the Library project in excess of \$3,000,000. Excluding interest on related long-term debt, the Library project costs, to date, are \$8,070,288. As of September 30, 2011, the Library Board has provided funding of \$3,263,461 from donations and grants.

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

CITY OF FAIRHOPE, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2011

NOTE 7 CHANGES IN LONG TERM DEBT

	<u>Balance 10/01/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 09/30/11</u>	<u>Amounts due within one year</u>
GOVERNMENTAL ACTIVITIES					
Warrants and notes payable					
General obligation warrants	\$ 15,773,979	\$ -	\$ (808,187)	\$ 14,965,792	\$ 809,407
Total warrants and notes payable	15,773,979	-	(808,187)	14,965,792	809,407
Warrant discount	<u>(38,075)</u>	<u>-</u>	<u>1,764</u>	<u>(36,311)</u>	<u>-</u>
	15,735,904	-	(806,423)	14,929,481	809,407
Other liabilities					
Obligations under capital leases	47,745	-	(23,296)	24,449	24,449
Compensated absences	<u>1,199,780</u>	<u>691,364</u>	<u>(821,468)</u>	<u>1,069,676</u>	<u>488,785</u>
Governmental activities long-term liabilities	<u>\$ 16,983,429</u>	<u>\$ 691,364</u>	<u>\$ (1,651,187)</u>	<u>\$ 16,023,606</u>	<u>\$ 1,322,641</u>

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

	<u>Balance 10/01/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 09/30/11</u>	<u>Amounts due within one year</u>
BUSINESS-TYPE ACTIVITIES					
Warrants and notes payable					
General obligation warrants	\$ 256,962	\$ -	\$ (14,969)	\$ 241,993	\$ 15,593
Utilities revenue warrants	15,610,000	-	(685,000)	14,925,000	705,000
Notes payable	<u>24,681</u>	<u>-</u>	<u>(24,681)</u>	<u>-</u>	<u>-</u>
Total warrants and notes payable	15,891,643	-	(724,650)	15,166,993	720,593
Deferred amount on refunding	(385,698)	-	26,348	(359,350)	-
Warrant discounts	<u>(229,595)</u>	<u>-</u>	<u>31,697</u>	<u>(197,898)</u>	<u>-</u>
	15,276,350	-	(666,605)	14,609,745	720,593
Other liabilities					
Compensated absences	<u>623,665</u>	<u>37,719</u>	<u>(100,821)</u>	<u>560,563</u>	<u>86,843</u>
Business-type activities long-term liabilities	<u>\$ 15,900,015</u>	<u>\$ 37,719</u>	<u>\$ (767,426)</u>	<u>\$ 15,170,308</u>	<u>\$ 807,436</u>
Compensated absences due within one year included in accrued liabilities					\$ 86,843
Compensated absences due in more than one year included in noncurrent liabilities					<u>473,720</u>
Total compensated absences liability					<u>\$ 560,563</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

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, 2011, including interest payments:

Year Ending September 30,	Principal	Interest	Total
2012	\$ 809,407	\$ 636,899	\$ 1,446,306
2013	850,319	607,401	1,457,720
2014	874,785	576,158	1,450,943
2015	904,161	541,459	1,445,620
2016	943,447	505,199	1,448,646
2017 - 2021	4,467,597	1,943,643	6,411,240
2022 - 2026	3,386,076	1,062,469	4,448,545
2027 - 2031	2,225,000	423,000	2,648,000
2032	505,000	22,725	527,725
TOTALS	\$ 14,965,792	\$ 6,318,953	\$ 21,284,745

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

Year Ending September 30,	Minimum Future Lease Payments	Amount Representing Interest	Present Value of Minimum Lease Payments
2011	\$ 24,449	\$ 1,210	\$ 23,296
TOTALS	\$ 24,449	\$ 1,210	\$ 23,296

Capital assets under capital lease had original costs of \$141,458 and accumulated depreciation of \$141,458 at September 30, 2011 in the governmental activities.

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

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

BUSINESS-TYPE ACTIVITIES

The following is a summary of debt service requirements to maturity of long term debt of the Proprietary Funds as of September 30, 2011, including interest payments and excluding discounts and premiums related to warrant issuance:

Year Ending Sept. 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 720,593	\$ 675,843	\$ 1,396,436
2013	749,681	651,194	1,400,875
2014	770,215	625,425	1,395,640
2015	805,839	597,602	1,403,441
2016	826,553	567,931	1,394,484
2017 - 2021	4,764,863	2,330,698	7,095,561
2022 - 2026	6,529,249	1,157,949	7,687,198
	<u>\$ 15,166,993</u>	<u>\$ 6,606,642</u>	<u>\$ 21,773,635</u>

CITY OF FAIRHOPE, ALABAMA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

NOTE 9 BONDS PAYABLE - COMPONENT UNITS

On August 26, 2010, the Airport Authority issued Airport Improvement Refunding Bonds in the amount of \$8,935,000 at a variable interest rate. The bonds are repriced monthly by the remarketing agent at a rate to maintain market value of 100% of principal. This issue was used to refund the Series 2007 Airport Improvement Bonds with an outstanding balance of \$8,845,000. The 2010 Airport Improvement Refunding Bonds mature March 1, 2020, but have mandatory redemption requirements as presented below. The bonds are limited obligations of the Airport Authority, payable solely out of appropriations received from the City of Fairhope, Alabama. The Appropriation Agreement between the Airport Authority and the City expires annually on September 30 and is renewable at the City's option. The bond rate at September 30, 2011 was 1.58944%.

As a result of the 2010 refunding, the Airport Authority reduced its total debt service requirements by approximately \$1,400,000 which resulted in an economic gain (difference between the present value of the debt service payments on the old debt and the new debt of debt of approximately \$452,000.

The following is a summary of debt service requirements to maturity of long term debt of the Airport Authority as of September 30, 2011, including estimated interest payments at 1.58944% and excluding discounts related to bonds:

Year Ending Sept. 30,	Principal	Interest	Total
2012	\$ -	\$ 142,016	\$ 142,016
2013	240,000	138,202	378,202
2014	255,000	134,149	389,149
2015	270,000	129,857	399,857
2016	285,000	125,327	410,327
2017 - 2020	7,885,000	52,220	7,937,220
	<u>\$ 8,935,000</u>	<u>\$ 721,771</u>	<u>\$ 9,656,771</u>

CITY OF FAIRHOPE, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 10 LINE OF CREDIT PAYABLE

At September 30, 2011, the City has no unsecured or secured open lines of credit.

NOTE 11 SALARIES – PROPRIETARY FUNDS

The following is a summary of employees' salaries by Utility Fund for the year ended September 30, 2011:

	<u>Electric Fund</u>	<u>Natural Gas Fund</u>	<u>Water and Waste Water Fund</u>
Total salaries	\$ 835,002	\$ 650,540	\$ 976,320
Less:			
Salaries capitalized for plant additions	<u>255,767</u>	<u>183,782</u>	<u>60,680</u>
Amount of salaries charged to operations	<u>\$ 579,235</u>	<u>\$ 466,758</u>	<u>\$ 915,640</u>

NOTE 12 RISK MANAGEMENT AND CONTINGENCIES

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

CITY OF FAIRHOPE, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 12 RISK MANAGEMENT AND CONTINGENCIES (continued)

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

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

NOTE 13 COMPENSATED ABSENCES

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

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

CITY OF FAIRHOPE, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 14 PENSION PLAN

Plan Description

The City's defined benefit pension plan provides retirement and disability benefits, cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is affiliated with the Employees Retirement System of Alabama (RSA), an agent multiple-employer pension plan. At September 30, 2010, RSA had a total of 1,145 participating units.

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

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

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

Funding Policy

All full-time employees are required to contribute 5% of their annual covered salary, except law enforcement personnel who must contribute 6% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 8.92 % of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by RSA. The 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.

(continued)

CITY OF FAIRHOPE, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2011

NOTE 14 PENSION PLAN (continued)

The Schedule of Funding Progress – Employee Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b) ¹	Unfunded AAL (UAAL) b – a	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-1)/c
9/30/10 ⁶	\$23,618,878	\$33,649,326	\$ 10,030,448	70.2%	\$11,212,324	89.5%
9/30/09	\$23,297,926	\$32,295,205	\$8,997,279	72.1%	\$11,396,085	79.0%
9/30/08	\$22,906,152	\$30,483,488	\$7,577,336	75.1%	\$11,367,443	66.7%
9/30/07	\$21,712,337	\$28,365,980	\$6,653,643	76.5%	\$10,431,006	63.8%
9/30/06 ⁵	\$19,895,139	\$26,367,319	\$6,472,180	75.5%	\$9,530,701	67.9%
9/30/05	\$18,565,922	\$23,773,976	\$5,208,054	78.1%	\$9,706,576	52.9%
9/30/04 ⁴	\$17,075,176	\$19,888,433	\$2,813,257	85.9%	\$7,537,837	36.7%
9/30/03 ³	\$16,083,240	\$18,576,805	\$2,493,565	86.6%	\$7,555,473	33.0%
9/30/02 ²	\$15,177,087	\$16,920,564	\$1,743,477	90.0%	\$7,190,278	24.0%
9/30/01 ¹	\$14,577,706	\$15,046,428	\$ 468,722	96.9%	\$6,617,043	7.1%

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

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

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

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

⁵ Reflects changes in actuarial assumptions.

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

Annual Pension Cost

For 2011, the City's annual pension cost of \$1,056,337 was equal to the City's required and actual contributions. The required contribution was determined as part of an actuarial valuation (dated September 30, 2010) 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 4.61% to 7.75% per year, and (c) no cost-of-living adjustments. Both (a) and (b) included an inflation component of 4.5%. The actuarial value of the City of Fairhope's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 5-year period.

(continued)

CITY OF FAIRHOPE, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 14 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>
9/30/11	\$ 1,056,337	100%	-
9/30/10	\$ 1,086,667	100%	-
9/30/09	\$ 1,091,972	100%	-
9/30/08	\$ 985,276	100%	-
9/30/07	\$ 804,930	100%	-

NOTE 15 DEPOSIT AND INVESTMENT RISK

At September 30, 2011, the City had investments in U. S. Treasury money market mutual funds through its trustee agreement for debt sinking funds. The fair value was \$1,979,594 (\$320,963 in governmental activities and \$1,658,631 in business-type activities). The average maturity of the portfolio was 21 days.

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

Credit Risk - State statutes authorize the City’s investments. The City is authorized to invest in U.S. Government obligations and its agencies or instrumentalities, direct obligations of the state, or SEC registered mutual funds holding like securities. The City has no investment policy that further limits investment choices. As of September 30, 2011, 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 16 COMMITMENTS

The City has various contractual commitments outstanding at year-end. The commitments under these contracts totaled \$191,069. The commitments funded from governmental activities will be \$54,253 and from business-type activities will be \$136,816.

CITY OF FAIRHOPE, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

NOTE 17 DEFERRED COMPENSATION PLAN

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

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

NOTE 18 POST EMPLOYMENT HEALTH BENEFITS

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

Effective with the Fiscal Year beginning October 1, 2008, the City implemented Government Accounting Standards City Statement Number 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions* (GASB 45), for its financial disclosure and reporting purposes. The City intends to fund the OPEB Obligation pursuant to GASB 45 to the extent the funding requirement is not met by the retiree health care premiums paid outright. During the year ended September 30, 2011, the City's portion of health care funding cost for retired employees (retiree premiums) totaled \$336,259.

Contribution Rates – Eligible retirees are subject to employer contributions for medical benefits equal to 90% of the premium. At September 30, 2010, the valuation date, 29 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 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, 2011, was 29 years.

(continued)

CITY OF FAIRHOPE, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2011

NOTE 18 POST EMPLOYMENT HEALTH BENEFITS (continued)

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

Annual required contribution	\$ 908,803
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost (expense)	<u>908,803</u>
Current year retiree premium	<u>(336,259)</u>
Change in net OPEB obligation	572,545
Net OPEB obligation – beginning of year	<u>778,165</u>
Net OPEB obligation – end of year	<u>\$ 1,350,711</u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
9/30/11	\$ 908,803	37.0%	\$ 1,350,711
9/30/10	611,853	39.3%	778,165
9/30/09	611,853	33.5%	406,645

Funded Status and Funding Progress – The first actuarial valuation under GASB 45 was as of September 30, 2008, and the most recent actuarial valuation was as of September 30, 2010. There were no assets accumulated in the Plan, however, market value will be used to value such assets. At September 30, 2010, the Actuarial Accrued Liability (AAL) was \$8,093,303, 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>
9/30/2010	\$ -	\$ 8,093,303	\$ (8,093,303)	0.0%	\$ 11,212,324	72.2%
9/30/2009	\$ -	\$ 6,740,895	\$ (6,740,895)	0.0%	\$ 11,396,085	59.2%
9/30/2008	\$ -	\$ 6,740,895	\$ (6,740,895)	0.0%	\$ 11,189,043	60.2%

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

CITY OF FAIRHOPE, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

NOTE 18 POST EMPLOYMENT HEALTH BENEFITS (continued)

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

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

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

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

Health Care Cost Trend Rate - The expected rate of increase in medical cost is based on 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 19 OPERATING LEASES

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

CITY OF FAIRHOPE, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 20 LEASE EXPENSE

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

NOTE 21 SUBSEQUENT EVENTS

The City has evaluated subsequent events through January 19, 2012, the date which the financial statements were available to be issued. On October 13, 2011, the City issued Utilities Revenue Warrants, Series 2011 in the amount of \$16,140,000 and General Obligation Warrants, Series 2011 in the amount of \$4,200,000 for the purpose of refunding the City's Utilities Revenue Warrants, Series 2002 and General Obligation Warrants, Series 2002, providing for capital improvements and paying any 2011 issuance expenses. There were no other material subsequent events which require disclosure at September 30, 2011.

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

REQUIRED SUPPLEMENTARY INFORMATION
CITY OF FAIRHOPE, ALABAMA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Local taxes	\$ 10,175,088	\$ 10,175,088	\$ 10,190,500	\$ 15,412
Licenses and permits	2,101,487	2,101,487	2,295,795	194,308
Fine and forfeitures	300,000	300,000	241,104	(58,896)
Intergovernmental	586,484	586,484	258,472	(328,012)
Interest and rents	211,022	211,022	248,780	37,758
Charges for services	4,409,975	4,409,975	4,479,749	69,774
Golf course revenue	1,014,429	1,014,429	1,020,250	5,821
Contributions from Public Library Board	70,000	70,000	183,285	113,285
Other revenue	549,781	549,781	539,557	(10,224)
Total revenues	19,418,266	19,418,266	19,457,492	39,226
EXPENDITURES				
General government	6,051,698	6,051,698	5,335,143	716,555
Sanitation	2,002,102	2,002,102	1,745,785	256,317
Police	4,986,166	4,986,166	4,941,051	45,115
Fire	383,783	383,783	395,224	(11,441)
Airport Authority	281,124	281,124	225,843	55,281
Streets	2,602,522	2,602,522	2,592,622	9,900
Adult recreation	616,474	616,474	577,015	39,459
Recreation	1,050,832	1,050,832	969,025	81,807
Golf	995,919	995,919	1,113,178	(117,259)
Public Library Board	565,000	565,000	565,000	-
Other	65,002	65,002	89,000	(23,998)
Debt service	334,054	334,054	207,944	126,110
Capital outlay	1,900,500	1,900,500	1,346,603	553,897
Total expenditures	21,835,176	21,835,176	20,103,433	1,731,743
Excess of Revenues over (under) Expenditures	(2,416,910)	(2,416,910)	(645,941)	1,770,969
Other financing sources (uses)				
Proceeds from issuance of debt	1,350,000	1,350,000	-	(1,350,000)
Transfers in	5,101,784	5,101,784	4,827,147	(274,637)
Transfers out	(1,506,134)	(1,506,134)	(1,730,561)	(224,427)
Total other financing sources (uses)	4,945,650	4,945,650	3,096,586	(1,849,064)
NET CHANGE IN FUND BALANCE	\$ 2,528,740	\$ 2,528,740	2,450,645	\$ (78,095)
FUND BALANCE - BEGINNING OF YEAR			4,709,510	
FUND BALANCE - END OF YEAR			\$ 7,160,155	

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2011

NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING

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

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

CITY OF FAIRHOPE, ALABAMA
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 SEPTEMBER 30, 2011

NOTE 2 EXCESS EXPENDITURES

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

	<u>Excess Expenditures</u>		<u>Excess Expenditures</u>
General Government		Adult Recreation Department	
Salaries-Judge & Court Clerk	\$ 8,670	Casualty/Workers Compensation Expense	\$ 983
Salaries-Mechanics	1,143	Welcome Center Maintenance	600
Salaries-Building & Zoning	4,681	Museum Expense	12,346
Audit & Accounting	575	Office Expense	143
Legal Fees	265,541	Shuttle Bus Expense	857
Services - Excluding Accounting & Legal	5,207		
Office Supplies	6,786	Street Department	
Postage	1,634	Casualty/Workers Compensation Expense	12,505
General Maintenance	18,215	Services - Excluding Accounting & Legal	11,639
Telephone	24,005	Gasoline & Oil	61,551
Dues/Memberships/Subscriptions	539	Equipment Rental	177,345
Miscellaneous	19,506	Street Material & Landscaping	65,589
Lease on Credit Card Terminals	917		
Natural Disaster Expense	4,704	Sanitation Department	
Book & Sidewalk Bricks	716	Salaries	297,640
Historical District Expense	2,535	Employee Payroll Taxes	21,702
Fishermans Wharf Maintenance	5,356	Employee Retirement Expense	24,598
Beach Repairs & Maintenance	4,707	Employee Medical Insurance	88,893
Oil Spill 2010 Cost	2,706	Casualty/Workers Compensation Expense	76,751
Grant Expenditures	32,871	General Supplies	45,800
Sales Tax Collection Fees	33,960	Gasoline & Oil	30,945
Legal Settlements	61,654	Equipment & Vehicle Repair	156,079
		Uniforms	829
Police Department		Golf Department	
Salaries	2,602	Salaries-Grounds	7,280
Services Excluding Accounting & Legal	3,998	Salaries-Club House	17,508
Office Supplies	1,343	Employee Payroll Taxes	269
General Supplies	21,166	Casualty/Workers Compensation Expense	505
General Maintenance	5,521	Supplies-Club House	727
Miscellaneous	24,045	General Maintenance	8,038
Gasoline & Oil	26,899	Gasoline & Oil	629
Equipment & Vehicle Repair	16,330	Purchases-Beer & Wine	5,364
NCIC Data System	3,000	Purchases-Food	15,005
Court Supplies & Expense	3,393	Cost of Pro Shop Sales	81,139
DEA Funds Purchases	61,990	Pro Shop Custom Orders	5,160
		Capital Outlay	
Fire Department		Vehicles & Equipment	636,264
Salaries	7,178		
Fire Call Payments	450	Debt Service	
Employee Payroll Taxes	314	Loan for Library	23,156
Employee Retirement Expense	155	Transfers to Capital Projects Fund	231,186
General Supplies	6,332		
Gasoline & Oil	7,601	Staff Agencies	
Equipment & Vehicle Repair	20,467	Baldwin County Transit Hub	24,000
Recreation Department			
General Supplies	19,820		
General Maintenance	6,139		
Equipment & Vehicle Repair	6,784		
Uniforms	229		

OTHER SUPPLEMENTARY INFORMATION

**COMBINING FINANCIAL STATEMENTS
NONMAJOR GOVERNMENTAL FUNDS**

CITY OF FAIRHOPE, ALABAMA
COMBINING BALANCE SHEETS
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	Special Revenue Fund Gas Tax	Debt Service	Total Nonmajor Governmental Funds
ASSETS			
Cash	\$ 170,105	\$ 30,217	\$ 200,322
Investments	-	320,963	320,963
Receivables	-	29,276	29,276
TOTAL ASSETS	<u>\$ 170,105</u>	<u>\$ 380,456</u>	<u>\$ 550,561</u>
LIABILITIES			
Accounts payable – trade	\$ 2,319	\$ 1,160	\$ 3,479
Deferred assessment revenue	-	29,276	29,276
TOTAL LIABILITIES	<u>2,319</u>	<u>30,436</u>	<u>32,755</u>
FUND BALANCES			
Restricted for:			
Debt service	-	350,020	350,020
Unassigned	167,786	-	167,786
TOTAL FUND BALANCES	<u>167,786</u>	<u>350,020</u>	<u>517,806</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 170,105</u>	<u>\$ 380,456</u>	<u>\$ 550,561</u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Special Revenue Fund Gas Tax	Debt Service	Total Nonmajor Governmental Funds
REVENUES			
Intergovernmental	\$ 87,494	\$ -	\$ 87,494
Interest and rents	68	48	116
Total	87,562	48	87,610
EXPENDITURES			
Street department	46,794	-	46,794
Other	401	219	620
Debt service			
Principal	-	655,130	655,130
Interest	-	635,061	635,061
Total	47,195	1,290,410	1,337,605
Excess of Revenues over (under) expenditures	40,367	(1,290,362)	(1,249,995)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	1,289,375	1,289,375
Total other financing sources (uses)	-	1,289,375	1,289,375
Net change in fund balances	40,367	(987)	39,380
Fund balances – beginning of year	127,419	351,007	478,426
FUND BALANCES – END OF YEAR	\$ 167,786	\$ 350,020	\$ 517,806

See independent auditors' report.

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

CITY OF FAIRHOPE, ALABAMA
FUND BALANCE SHEET
FAIRHOPE PUBLIC LIBRARY BOARD
SEPTEMBER 30, 2011

ASSETS	
Cash and cash equivalents	\$ <u>96,306</u>
TOTAL ASSETS	\$ <u><u>96,306</u></u>
LIABILITIES	
Accounts payable and accrued expenses	\$ <u>3,822</u>
FUND BALANCES	
Restricted for:	
Capital projects	43,136
Unassigned	<u>49,348</u>
Total fund balances	<u><u>92,484</u></u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u><u>96,306</u></u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA
RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
FAIRHOPE PUBLIC LIBRARY BOARD
SEPTEMBER 30, 2011

Fund balance as reported on page 56	\$	92,484
Net Assets reported for governmental activities in the Statement of Net Assets are different from Fund Balance for governmental activities because:		
Capital assets used in governmental activities are financial resources and therefore are not reported in fund financial statements.		332,938
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.		<u>(254,671)</u>
Net Assets of Governmental Activities as reported on page 23	\$	<u><u>170,751</u></u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FAIRHOPE PUBLIC LIBRARY BOARD
FOR THE YEAR ENDED SEPTEMBER 30, 2011

REVENUES	
Fines and lost books	\$ 19,979
Donations, gifts, memorials and bequests	36,177
State aid	15,503
Lease income	6,500
Payments from City of Fairhope	517,917
Miscellaneous	16,560
Total revenues	<u>612,636</u>
EXPENDITURES	
Salaries	416,413
Payroll taxes	31,679
Employees' retirement	18,972
Books, periodicals, audio visual	89,184
Supplies	11,015
Janitorial service	18,290
Professional fees	8,049
Consultant and fundraising	7,675
Telecommunications	390
Payments to City of Fairhope for Library Debt	1,000
Capital outlay	2,948
Maintenance	25,557
Friends expenses	5,843
Miscellaneous	22,860
Total expenditures	<u>659,875</u>
Net change in fund balance	(47,239)
Fund balance – beginning of year	<u>139,723</u>
Fund balance – end of year	<u>\$ 92,484</u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FAIRHOPE PUBLIC LIBRARY BOARD
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Net change in fund balances - total governmental funds, page 58 \$ (47,239)

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

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

Depreciation expense for the year (26,697)

Change in Net Assets of Governmental Activities, page 24 \$ (73,936)

CITY OF FAIRHOPE, ALABAMA
FUND BALANCE SHEET
FAIRHOPE AIRPORT AUTHORITY
SEPTEMBER 30, 2011

ASSETS	
Cash and cash equivalents	\$ <u>670,585</u>
TOTAL ASSETS	\$ <u><u>670,585</u></u>
LIABILITIES	
Accounts payable and accrued expenses	\$ <u>-</u>
FUND BALANCES	
Restricted for:	
Capital projects	112,573
Unassigned	<u>558,012</u>
Total fund balances	<u><u>670,585</u></u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u><u>670,585</u></u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA
RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
FAIRHOPE AIRPORT AUTHORITY
SEPTEMBER 30, 2011

Fund balance as reported on page 60	\$ 670,585
Net Assets reported for governmental activities in the Statement of Net Assets are different from Fund Balance for governmental activities because:	
Capital assets used in governmental activities are financial resources and therefore are not reported in fund financial statements	24,677,419
Depreciation is provided for the above capital assets in government-wide reporting, but is not in fund financial statements.	(2,654,503)
Cost associated with warrant issuance are expensed in the current period in Fund Financial Statements	
Warrant Issuance costs, net	30,465
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>(8,935,000)</u>
Net Assets of Governmental Activities as reported on page 23	<u><u>\$ 13,788,966</u></u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FAIRHOPE AIRPORT AUTHORITY
FOR THE YEAR ENDED SEPTEMBER 30, 2011

REVENUES	
Fuel sales and rentals	\$ 129,358
Interest income	4,746
Federal grant revenue	211,624
Payments from City of Fairhope	226,483
Total revenues	<u>572,211</u>
EXPENDITURES	
Insurance	30,995
Legal and professional	276,728
Maintenance	62,809
Capital outlay	644
Debt service interest	141,677
Other	14,409
Total expenditures	<u>527,262</u>
Net change in fund balance	44,949
Fund balance – beginning of year	<u>625,636</u>
Fund balance – end of year	<u>\$ 670,585</u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FAIRHOPE AIRPORT AUTHORITY
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Net change in fund balances - total governmental funds, page 62 \$ 44,949

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 (3,621)

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 258,250
Depreciation expense for the year (226,777)

Change in Net Assets of Governmental Activities, page 24 \$ 72,801

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA
SCHEDULE OF CAPITAL PROJECTS EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Special Projects	\$	94,774
Skate Board Park		19,987
Fairhope Paving Projects		7,014
Recreation Department Driveway Paving		<u>6,559</u>
Total capital projects expenditures	\$	<u><u>128,334</u></u>

See independent auditors' report.

CITY OF FAIRHOPE, ALABAMA
SCHEDULE OF INFORMATION REQUIRED BY BOND INDENTURES
SEPTEMBER 30, 2011

	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	
A. Utility customers at September 30, 2011 were as follows:				
Number of customers	6,409	9,082	15,578	
Number of metered customers	6,409	9,082	15,578	
Number of unmetered customers	-	-	-	
Number of waste water customers	-	-	8,784	
B. Annual Net Income of Utility Operations				
	Electric Fund	Natural Gas Fund	Water and Waste Water Fund	Total
Income from operations	\$ 3,006,840	\$ 3,280,652	\$ 4,271,384	\$ 10,558,876
Add:				
Depreciation and amortization	606,314	270,645	912,624	1,789,583
Interest income	25,209	18,964	14,349	58,522
Annual net income as prescribed by debt covenants	\$ 3,638,363	\$ 3,570,261	\$ 5,198,357	\$ 12,406,981
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 2012				\$ 3,000,000
Buildings and facilities – expires January 2012				67,404,800
Automobile – expires January 2012				
Liability				1,000,000
Uninsured motorist				50,000
Inland Marine – expires January 2012				2,246,050
Public officials errors and omissions liability – expires January 2012				2,000,000
Police liability – expires January 2012				4,000,000
Aggregate				2,000,000
Per occurrence				
Excess liability policy for general liability, police and public official – expires January 2012				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, 2011

	1996 Capital Improvement	2002 Warrant Fund	2002 Warrant Fund	2002 Reserve Fund	2005 Warrant Fund	2007 Warrant Fund	2009 Warrant Fund	2009 Reserve Fund
Balance 10/01/10	\$ 50,000	\$ 110,567	\$ 151,139	\$ 672,023	\$ 586,694	\$ 177,071	\$ 98,353	\$ 125,004
Deposits	5	331,641	453,666	68	884,483	530,107	141,837	13
Disbursements	<u>(5)</u>	<u>(331,650)</u>	<u>(453,373)</u>	<u>(68)</u>	<u>(873,676)</u>	<u>(531,171)</u>	<u>(143,120)</u>	<u>(14)</u>
Balance 9/30/11	<u>\$ 50,000</u>	<u>\$ 110,558</u>	<u>\$ 151,432</u>	<u>\$ 672,023</u>	<u>\$ 597,501</u>	<u>\$ 176,007</u>	<u>\$ 97,070</u>	<u>\$ 125,003</u>

STATISTICAL SECTION

STATISTICAL SECTION

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

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

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

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

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental activities									
Invested in capital assets, net of related debt	\$ 54,678,761	\$ 57,031,298	\$60,149,769	\$67,742,360	\$61,450,916	\$67,338,065	\$ 66,295,379	\$ 65,963,325	\$ 66,845,689
Restricted	1,695,559	1,788,014	1,908,452	787,538	1,073,262	847,580	1,462,430	3,564,376	6,207,809
Unrestricted	(12,322)	273,964	88,053	(1,195)	54,300	(84,709)	165,029	1,782,848	50,640
Total governmental activities net assets	\$ 56,361,998	\$ 59,093,276	\$62,146,274	\$68,528,703	\$62,578,478	\$68,100,936	\$ 67,922,838	\$ 71,310,549	\$ 73,104,138
Business-type activities									
Invested in capital assets, net of related debt	\$ 11,617,954	\$ 17,337,442	\$15,801,139	\$19,307,068	\$23,076,992	\$24,573,181	\$ 24,210,082	\$ 24,697,607	\$ 25,786,974
Restricted	1,652,831	1,991,871	2,058,968	2,089,642	2,106,516	2,092,174	1,883,768	1,649,106	1,658,631
Unrestricted	8,962,015	2,949,282	5,082,800	3,334,264	2,105,886	1,422,972	3,691,056	6,696,480	10,610,123
Total business-type activities net assets	\$ 22,232,800	\$ 22,278,595	\$22,942,907	\$24,730,974	\$27,289,394	\$28,088,327	\$ 29,784,906	\$ 33,043,193	\$ 38,055,728
Primary government									
Invested in capital assets, net of related debt	\$ 66,296,715	\$ 74,368,740	\$75,950,908	\$87,049,428	\$84,527,908	\$91,911,246	\$ 90,505,461	\$ 90,660,932	\$ 92,632,663
Restricted	3,348,390	3,779,885	3,967,420	2,877,180	3,179,778	2,939,754	3,346,198	5,213,482	7,866,440
Unrestricted	8,949,693	3,223,246	5,170,853	3,333,069	2,160,186	1,338,263	3,856,085	8,479,328	10,660,763
Total primary government net assets	\$ 78,594,798	\$ 81,371,871	\$85,089,181	\$93,259,677	\$89,867,872	\$96,189,263	\$ 97,707,744	\$ 104,353,742	\$ 111,159,866

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

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

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Expenses									
Governmental activities:									
General	\$ 2,493,723	\$ 3,674,382	\$ 2,679,665	\$ 3,873,823	\$ 5,540,860	\$ 6,392,335	\$ 6,536,802	\$ 6,929,734	\$ 6,176,077
Public safety									
Police	2,316,492	2,683,124	3,202,753	3,482,683	3,789,666	4,011,091	4,090,851	4,740,344	5,213,031
Fire	572,709	559,002	550,602	692,972	781,696	843,469	878,148	1,017,184	483,670
Public works									
Sanitation	826,924	922,013	990,511	1,123,517	1,479,374	1,564,126	1,657,615	1,973,942	1,868,364
Street	5,208,843	3,488,870	6,767,426	4,653,792	3,757,204	3,671,572	4,308,575	4,452,370	4,251,404
Public Library Board	300,451	341,789	355,908	336,823	594,378	771,373	760,174	772,539	798,997
Airport	166,760	98,890	95,272	149,179	397,183	545,000	242,090	249,856	225,843
Recreation	448,782	518,126	596,686	645,154	819,051	900,759	1,031,886	1,269,393	1,138,079
Adult Recreation	274,802	281,383	305,018	321,557	390,125	459,961	438,442	601,232	654,736
Golf	-	-	-	-	-	-	1,292,200	1,102,861	1,106,624
Interest on long-term debt	673,220	526,835	503,428	475,699	624,883	743,451	878,534	694,083	633,161
Total governmental activities expenses	13,282,706	13,094,414	16,047,269	15,755,199	18,174,420	19,903,137	22,115,317	23,803,538	22,549,986
Business-type activities:									
Natural gas	4,714,305	4,891,447	5,345,092	6,329,438	5,948,144	6,709,491	5,349,209	5,757,648	5,037,587
Electric	10,406,720	10,428,908	11,213,904	12,842,542	14,029,975	16,006,139	15,540,148	15,664,835	16,909,931
Water and wastewater	4,521,100	4,756,900	5,255,779	5,682,694	6,387,739	6,502,942	6,803,566	6,533,138	6,616,671
Golf	1,154,390	1,278,737	1,320,403	1,476,373	1,544,528	1,713,486	-	-	-
Total business-type activities expenses	20,796,515	21,355,992	23,135,178	26,331,047	27,910,386	30,932,058	27,692,923	27,955,621	28,564,189
Total primary government expenses	\$34,079,221	\$34,450,406	\$39,182,447	\$42,086,246	\$46,084,806	\$50,835,195	\$49,808,240	\$51,759,159	\$51,114,175
Program Revenues									
Governmental activities:									
Charges for services:									
General	\$ 1,396,101	\$ 1,637,995	\$ 2,098,805	\$ 3,726,334	\$ 5,862,118	\$ 5,952,299	\$ 5,140,160	\$ 5,249,279	\$ 5,383,822
Police	267,834	249,181	325,728	354,504	362,441	252,838	224,022	261,070	241,104
Sanitation	824,893	772,645	749,301	1,252,282	1,294,033	1,331,617	1,368,656	1,380,238	1,391,722
Recreation	28,736	90,954	70,665	73,975	75,592	83,919	130,740	366,683	369,135
Adult Recreation	43,677	44,608	40,019	41,590	34,534	32,791	36,316	45,889	46,261
Golf	-	-	-	-	-	-	847,016	776,173	944,858
Operating grants and contributions	130,119	1,453,233	3,472,502	3,065,387	631,133	206,012	87,416	22,267	24,402
Capital grants and contributions	2,392,663	2,325,885	3,792,402	4,861,100	8,526,591	7,310,387	384,358	1,389,592	302,963
Total governmental activities program revenues	5,084,023	6,574,501	10,549,422	13,375,172	16,786,442	15,169,863	8,218,684	9,491,191	8,704,267
Business-type activities:									
Charges for services:									
Gas	5,995,994	6,330,451	6,606,396	7,112,944	7,388,531	7,841,853	8,341,855	8,631,935	8,219,447
Electric	12,196,246	11,918,793	12,497,288	14,683,254	16,658,326	17,777,703	18,800,459	18,496,651	19,838,004
Water and wastewater	5,603,119	7,119,904	7,330,152	8,348,064	8,669,895	8,166,344	8,194,949	8,959,041	10,287,898
Golf course	1,250,380	1,259,510	1,233,703	1,527,311	1,505,211	1,487,811	-	-	-
Total business-type activities program revenues	25,045,739	26,628,658	27,667,539	31,671,573	34,221,963	35,273,711	35,337,263	36,087,627	38,345,349
Total primary government program revenues	\$30,129,762	\$33,203,159	\$38,216,961	\$45,046,745	\$51,008,405	\$50,443,574	\$43,555,947	\$45,578,818	\$47,049,616

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

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

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net (expense)/revenue									
Governmental activities	\$ (8,198,683)	\$ (6,519,913)	\$ (5,497,847)	\$ (2,380,027)	\$ (1,387,978)	\$ (4,733,274)	#####	#####	\$ (13,845,719)
Business-type activities	4,249,224	5,272,666	4,532,361	5,340,526	6,311,577	4,341,653	7,644,340	8,132,006	9,781,160
Total primary government net expense	<u>\$ (3,949,459)</u>	<u>\$ (1,247,247)</u>	<u>\$ (965,486)</u>	<u>\$ 2,960,499</u>	<u>\$ 4,923,599</u>	<u>\$ (391,621)</u>	<u>\$ (6,252,293)</u>	<u>\$ (6,180,341)</u>	<u>\$ (4,064,559)</u>
General Revenues and Other Changes in Net Assets									
Governmental activities:									
Taxes									
Property taxes	\$ 2,278,650	\$ 2,674,204	\$ 2,710,256	\$ 3,159,187	\$ 3,589,489	\$ 4,631,476	\$ 4,939,840	\$ 4,842,366	\$ 4,590,840
Sales tax	-	-	-	-	-	-	1,003,864	4,443,325	4,590,149
Liquor taxes	299,681	317,899	352,827	347,415	373,794	396,196	385,411	392,255	393,123
Lodging taxes	-	362,860	449,079	196,224	420,024	495,850	474,852	483,271	495,870
Other	27,152	100,554	130,305	124,738	138,857	145,836	134,413	131,135	120,518
Intergovernmental	288,487	243,469	325,557	522,196	472,667	293,007	436,472	424,359	248,011
Investment earnings	328,868	290,659	327,687	394,006	508,558	340,530	225,860	239,256	249,489
Other	4,613	107,685	205,060	230,691	251,476	294,469	109,958	1,293,419	124,161
Transfer of Golf Fund to Governmental Activities	-	-	-	-	-	-	913,729	-	-
Transfers in/(out)	4,360,675	5,330,481	4,058,380	3,787,999	(10,317,112)	3,658,368	5,094,136	4,897,104	4,827,147
Total government activities	<u>7,588,126</u>	<u>9,427,811</u>	<u>8,559,151</u>	<u>8,762,456</u>	<u>(4,562,247)</u>	<u>10,255,732</u>	<u>13,718,535</u>	<u>17,146,490</u>	<u>15,639,308</u>
Business-type activities:									
Investment earnings	176,061	103,610	190,330	235,538	266,888	115,648	60,104	23,385	58,522
Transfer of Golf Fund to Governmental Activities	-	-	-	-	-	-	(913,729)	-	-
Transfers in/(out)	(4,360,675)	(5,330,481)	(4,058,380)	(3,787,999)	(4,020,046)	(3,658,368)	(5,094,136)	(4,897,104)	(4,827,147)
Total business-type activities	<u>(4,184,614)</u>	<u>(5,226,871)</u>	<u>(3,868,050)</u>	<u>(3,552,461)</u>	<u>(3,753,158)</u>	<u>(3,542,720)</u>	<u>(5,947,761)</u>	<u>(4,873,719)</u>	<u>(4,768,625)</u>
Total primary government	<u>\$ 3,403,512</u>	<u>\$ 4,200,940</u>	<u>\$ 4,691,101</u>	<u>\$ 5,209,995</u>	<u>\$ (8,315,405)</u>	<u>\$ 6,713,012</u>	<u>\$ 7,770,774</u>	<u>\$ 12,272,771</u>	<u>\$ 10,870,683</u>
Change in Net Assets									
Governmental activities	\$ (610,557)	\$ 2,907,898	\$ 3,061,304	\$ 6,382,429	\$ (5,950,225)	\$ 5,522,458	\$ (178,098)	\$ 2,834,143	\$ 1,793,589
Business-type activities	64,610	45,795	664,311	1,788,065	2,558,419	798,933	1,696,579	3,258,287	5,012,535
Total primary government	<u>\$ (545,947)</u>	<u>\$ 2,953,693</u>	<u>\$ 3,725,615</u>	<u>\$ 8,170,494</u>	<u>\$ (3,391,806)</u>	<u>\$ 6,321,391</u>	<u>\$ 1,518,481</u>	<u>\$ 6,092,430</u>	<u>\$ 6,806,124</u>

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

CITY OF FAIRHOPE, ALABAMA
 GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
 LAST NINE 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>
2003	\$ -	\$ 1,953,186	\$ 325,464	\$ 299,681	\$ 26,941	\$ -	\$ 211	\$ -	\$ 2,605,483
2004	-	2,328,984	345,220	317,899	100,379	362,860	175	-	3,455,517
2005	-	2,268,195	442,061	352,827	130,168	449,079	137	-	3,642,467
2006	-	2,639,610	519,577	347,415	124,606	196,224	107	25	3,827,539
2007	-	3,103,284	486,205	373,794	138,754	420,024	103	-	4,522,164
2008	-	4,143,286	488,190	396,080	145,836	495,852	114	-	5,669,358
2009	1,003,864	4,424,103	515,737	385,411	134,297	474,852	116	-	6,938,380
2010	4,443,325	4,421,646	420,720	392,255	131,063	483,271	73	-	10,292,352
2011	4,590,149	4,102,942	487,897	393,123	120,458	495,870	60	-	10,190,500

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

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

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General fund													
Restricted		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 501,932	\$ 2,723,595	\$ 5,014,205
Unassigned	<u>\$ 4,002,369</u>	<u>(8,283)</u>	<u>21,189</u>	<u>369,032</u>	<u>382,274</u>	<u>421,331</u>	<u>1,033,668</u>	<u>1,087,642</u>	<u>1,703,619</u>	<u>1,083,383</u>	<u>1,574,743</u>	<u>1,985,914</u>	<u>2,145,950</u>
Total general fund		<u>\$ (8,283)</u>	<u>\$ 21,189</u>	<u>\$ 369,032</u>	<u>\$ 382,274</u>	<u>\$ 421,331</u>	<u>\$ 1,033,668</u>	<u>\$ 1,087,642</u>	<u>\$ 1,703,619</u>	<u>\$ 1,083,383</u>	<u>\$ 2,076,675</u>	<u>\$ 4,709,509</u>	<u>\$ 7,160,155</u>
All other governmental funds													
Restricted-Debt Service	2,050,255	\$ 1,744,104	\$ 1,665,750	\$ 4,438,497	\$ 558,630	\$ 377,983	\$ 272,950	\$ 235,348	\$ 456,957	\$ 470,671	\$ 350,987	\$ 351,008	\$ 350,020
Assigned, reported in:													
Special revenue funds	(8,002)	107,851	161,307	169,668	92,201	143,257	227,109	257,881	311,553	66,907	59,142	127,419	167,786
Capital projects funds	-	2,972,957	1,263,203	863,518	876,358	1,219,106	1,602,259	263,202	3,892,524	2,070,337	550,369	362,354	675,799
Total all other governmental funds	<u>\$ 2,042,253</u>	<u>\$ 4,824,912</u>	<u>\$ 3,090,260</u>	<u>\$ 5,471,683</u>	<u>\$ 1,527,189</u>	<u>\$ 1,740,346</u>	<u>\$ 2,102,318</u>	<u>\$ 756,431</u>	<u>\$ 4,661,034</u>	<u>\$ 2,607,915</u>	<u>\$ 960,498</u>	<u>\$ 840,781</u>	<u>\$ 1,193,605</u>

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)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
REVENUES											
Local taxes	\$ 2,366,153	\$ 2,513,172	\$ 2,605,483	\$ 3,455,517	\$ 3,642,467	\$ 3,827,564	\$ 4,522,164	\$ 5,669,358	\$ 6,938,380	\$ 10,292,352	\$ 10,190,500
Licenses and permits	1,046,440	1,224,196	1,363,785	1,527,160	2,055,861	3,401,207	2,996,213	2,729,209	2,058,105	2,178,982	2,295,795
Fines and forfeitures	221,864	209,233	267,834	249,181	325,728	354,504	362,441	252,838	224,022	261,070	241,104
Intergovernmental	656,440	1,574,345	2,336,195	3,598,224	6,514,824	7,319,833	3,167,141	1,826,517	837,246	547,556	345,966
Contribution from Public Library Bd	-	-	-	-	1,500,000	1,128,850	685,003	208,931	71,000	65,000	183,285
Interest and rents	517,064	315,162	328,868	290,659	327,686	394,009	377,743	340,530	225,861	239,256	249,489
Charges for services	667,705	683,445	704,228	735,311	792,245	1,577,409	4,149,905	4,610,307	4,450,711	4,450,535	4,479,749
Assessments	256,060	243,251	182,764	122,170	124,582	39,199	1,831	-	-	-	-
Golf course revenue	-	-	-	-	-	-	-	-	959,730	858,237	1,020,250
Other	277,022	310,159	258,351	391,478	315,745	343,588	492,419	411,179	277,015	1,705,991	539,557
Total revenues	<u>6,008,748</u>	<u>7,072,963</u>	<u>8,047,508</u>	<u>10,369,700</u>	<u>15,599,138</u>	<u>18,386,163</u>	<u>16,754,860</u>	<u>16,048,869</u>	<u>16,042,070</u>	<u>20,598,979</u>	<u>19,545,695</u>
EXPENDITURES											
General government	2,049,471	2,387,201	2,353,659	3,595,220	2,412,693	2,731,819	5,090,777	6,318,322	5,948,479	6,279,197	5,335,143
Sanitation	688,238	836,798	745,802	861,317	929,815	960,328	1,254,694	1,405,774	1,475,035	1,758,543	1,745,785
Police	1,575,277	1,845,698	2,124,786	2,476,353	2,881,293	3,110,086	3,405,687	3,913,015	3,922,163	4,404,803	4,941,051
Fire	359,786	396,772	372,263	366,421	492,552	576,191	619,434	707,513	765,645	837,597	395,224
Airport	20,090	10,850	6,895	12,742	9,124	63,031	397,183	545,000	242,090	249,856	225,843
Street	2,095,209	2,167,030	4,159,154	2,453,144	5,636,288	3,580,189	2,552,328	2,554,959	2,704,242	2,797,566	2,639,416
Recreation	331,712	324,385	366,531	396,660	472,129	513,503	658,837	785,425	867,174	1,050,957	969,025
Adult recreation	191,030	208,020	231,615	238,007	261,569	277,808	328,744	431,481	400,494	553,125	577,015
Golf	-	-	-	-	-	-	-	-	1,303,135	1,094,604	1,113,178
Capital outlay	2,314,640	3,596,843	4,146,979	2,544,947	4,131,361	14,308,234	6,054,830	3,227,604	1,775,834	1,565,192	1,474,937
Debt service:											
Principal	745,891	749,567	891,680	712,321	1,288,488	835,627	4,412,690	2,424,796	863,329	1,047,483	831,483
Interest	376,379	337,944	666,600	532,508	512,025	482,436	532,687	802,140	809,715	704,043	666,652
Bond issuance costs	-	-	-	-	-	-	138,476	-	-	-	-
Public Library Board	286,205	297,147	300,450	288,400	330,806	336,823	396,000	504,560	530,000	565,000	565,000
Other	-	-	-	-	60,000	60,000	60,000	60,000	60,000	75,000	89,620
Total expenditures	<u>11,033,928</u>	<u>13,158,255</u>	<u>16,366,414</u>	<u>14,478,040</u>	<u>19,418,143</u>	<u>27,836,075</u>	<u>25,902,367</u>	<u>23,680,589</u>	<u>21,667,335</u>	<u>22,982,966</u>	<u>21,569,372</u>
Excess (deficiency) of revenues over expenditures	<u>(5,025,180)</u>	<u>(6,085,292)</u>	<u>(8,318,906)</u>	<u>(4,108,340)</u>	<u>(3,819,005)</u>	<u>(9,449,912)</u>	<u>(9,147,507)</u>	<u>(7,631,720)</u>	<u>(5,625,265)</u>	<u>(2,383,987)</u>	<u>(2,023,677)</u>
OTHER FINANCING SOURCES (USES)											
Transfers in	4,167,792	4,654,781	5,293,525	5,561,528	4,876,111	5,325,589	4,897,503	5,228,182	9,542,134	6,541,730	6,557,708
Proceeds from issuance of debt	-	5,386,930	126,903	-	734,934	4,370,000	9,692,000	1,300,000	3,368,260	-	-
Cost from issuance of debt	-	-	-	-	-	-	-	-	(78,364)	-	-
Payment to Defeased Warrants Escrow Agent	-	-	-	-	-	-	-	-	(3,412,892)	-	-
Transfer to Debt Service to defease warrants	-	-	-	-	-	-	-	-	(3,289,896)	-	-
Warrant discount	-	(620,107)	-	-	-	-	(43,956)	-	-	-	-
Transfers out	(847,792)	(706,969)	(932,851)	(1,200,974)	(817,731)	(1,537,590)	(877,457)	(1,569,814)	(1,158,102)	(1,644,626)	(1,730,561)
Total other financing sources (uses)	<u>3,320,000</u>	<u>8,714,635</u>	<u>4,487,577</u>	<u>4,360,554</u>	<u>4,793,314</u>	<u>8,157,999</u>	<u>13,668,090</u>	<u>4,958,368</u>	<u>4,971,140</u>	<u>4,897,104</u>	<u>4,827,147</u>
Net change in fund balance	<u>\$ (1,705,180)</u>	<u>\$ 2,629,343</u>	<u>\$ (3,831,329)</u>	<u>\$ 252,214</u>	<u>\$ 974,309</u>	<u>\$ (1,291,913)</u>	<u>\$ 4,520,583</u>	<u>\$ (2,673,352)</u>	<u>\$ (654,125)</u>	<u>\$ 2,513,117</u>	<u>\$ 2,803,470</u>
Debt service as a percentage of noncapital expenditures	12.9%	11.4%	12.8%	10.4%	11.8%	9.7%	24.9%	15.8%	8.4%	8.2%	7.5%

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

Fiscal Year Ended September 30	Residential Property	Commercial Property	Industrial Property	Less: Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value
2002	62,132,860	1,824,680	95,099,142	25,951,300	133,105,382	15	1,996,580,730
2003	66,037,480	1,446,470	99,099,267	25,446,440	141,136,777	15	2,117,051,655
2004	76,237,460	1,512,340	109,796,799	28,481,560	159,065,039	15	2,385,975,585
2005	81,947,620	1,615,900	110,912,740	29,677,300	164,798,960	15	2,471,984,400
2006	96,692,100	1,715,620	127,556,120	32,829,960	193,133,880	15	2,897,008,200
2007	111,365,480	1,842,120	147,264,040	36,224,280	224,247,360	15	3,363,710,400
2008	167,784,240	1,268,220	217,340,040	58,488,560	327,903,940	15	4,918,559,100
2009	166,205,000	1,412,140	224,300,620	61,340,580	330,577,180	15	4,958,657,700
2010	166,238,280	1,362,280	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

Source: Baldwin County Revenue Commissioner

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

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

Source: Baldwin County Commission

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

Taxpayer	2011			2002		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Bayview II Developer LLC	\$ 8,042,720	1	2.8%			
Arbor Gates LLC	2,279,380	2	0.8%	1,803,700	2	1.4%
Point Clear Partners LLC	1,813,460	3	0.6%			
FST Mississippi Baldwin Square	1,800,520	4	0.6%			
Fairhope LLC	1,671,700	5	0.6%			
AI Corte Jr Family Limited Partnership	1,481,240	6	0.5%	1,454,340	4	1.1%
CHS Properties, Inc.	1,162,540	7	0.4%	1,732,400	3	1.3%
Fairhope Yacht Club	1,133,740	8	0.4%			
Bones & Babies, LLC	1,115,100	9	0.4%			
Fairhope Commercial Investments, LLC	1,093,900	10	0.4%			
Bellsouth Tele, Inc. dba AT&T				1,315,870	6	1.0%
FST Eastern Shores Shopping Center				616,260	10	0.5%
FST E&A Southeast Limited Partnership				1,444,340	5	1.1%
Fairhope Mob, LLC				876,240	7	0.7%
Rock Creek Partners LLC				2,130,000	1	1.6%
Rohr Aero Services, Inc.				618,920	8	0.5%
Rock Creek LLC				618,200	9	0.5%
	<u>\$ 21,594,300</u>		<u>7.4%</u>	<u>\$ 12,610,270</u>		<u>9.5%</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
2002	\$ 1,996,581	\$ 1,831,812	91.75%	\$ 84,609	\$ 1,916,421	95.99%
2003	\$ 2,117,052	\$ 1,936,184	91.46%	\$ 109,150	\$ 2,045,334	96.61%
2004	\$ 2,385,976	\$ 2,233,532	93.61%	\$ 119,877	\$ 2,353,409	98.64%
2005	\$ 2,471,984	\$ 2,240,259	90.63%	\$ 140,397	\$ 2,380,656	96.31%
2006	\$ 2,897,008	\$ 2,650,741	91.50%	\$ 138,659	\$ 2,789,400	96.29%
2007	\$ 3,363,710	\$ 3,053,904	90.79%	\$ 185,405	\$ 3,239,309	96.30%
2008	\$ 4,918,559	\$ 4,087,005	83.09%	\$ 344,238	\$ 4,431,243	90.09%
2009	\$ 4,958,658	\$ 4,378,939	88.31%	\$ 338,819	\$ 4,717,758	95.14%
2010	\$ 4,771,906	\$ 4,293,008	89.96%	\$ 347,908	\$ 4,640,916	97.25%
2011	*	*	*	*	*	*

Source: Baldwin County Revenue Commissioner.

*2011 information was not available from the Baldwin County Revenue Commissioner at the time of issuance.

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

Fiscal Year	City Direct Rate	Baldwin County	State of Alabama
2009	2.00%	2.00%	4.00%
2010	2.00%	2.00%	4.00%
2011	2.00%	3.00%	4.00%

Source: City Clerk's Office

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

CITY OF FAIRHOPE, ALABAMA
PRINCIPAL SALES TAXPAYERS
* LAST THREE YEARS

	Top 25 Taxpayers (approximate)	Total Tax	% of Total Tax
2009 (partial year)	\$ 632,797	\$ 1,003,864	63%
2010	\$ 2,124,169	\$ 4,443,325	48%
2011	\$ 2,502,259	\$ 4,591,088	55%

* 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			
2002	11,138,233	7,348	1,030,084	480,867	19,065,014	195,000	850,159	32,766,705	9.01%	2,424
2003	9,988,410	285,104	979,700	471,590	18,470,000	177,395	1,076,351	31,448,550	8.30%	2,249
2004	9,522,129	246,607	772,224	462,871	18,340,000	158,761	993,213	30,495,805	7.46%	2,168
2005	9,046,405	650,780	290,221	453,595	18,615,000	593,077	448,007	30,097,085	7.29%	2,134
2006	11,437,202	1,943,967	140,632	442,820	18,045,000	446,267	284,572	32,740,460	7.46%	2,203
2007	18,430,349	230,130	111,245	431,688	17,465,000	293,764	122,438	37,084,614	8.28%	2,465
2008	17,474,232	81,604	91,092	413,404	16,865,000	170,145	7,387	35,102,864	7.26%	2,204
2009	16,768,901	30,364	69,942	271,397	16,235,000	86,035	-	33,461,639	6.65%	2,067
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

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>
2002	11,619,100	863,518	10,755,582	2.96%	796
2003	10,460,000	558,630	9,901,370	2.61%	708
2004	9,985,000	377,983	9,607,017	2.35%	683
2005	9,500,000	272,950	9,227,050	2.23%	654
2006	11,880,022	235,347	11,644,675	2.65%	783
2007	18,862,037	456,957	18,405,080	4.11%	1,223
2008	17,887,636	470,671	17,416,965	3.60%	1,094
2009	17,040,298	350,987	16,689,311	3.32%	1,031
2010	16,030,941	351,008	15,679,933	3.18%	956
2011	15,207,785	350,020	14,857,765	3.19%	896

CITY OF FAIRHOPE, ALABAMA
COMPUTATION OF OVERLAPPING DEBT
SEPTEMBER 30, 2011

	<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	\$ 14,990,241	100.00%	\$ 14,990,241
Overlapping Debt (Supported by ad valorem tax)			
Baldwin County	\$ 109,954,393	8.17% ⁽¹⁾	<u>8,983,274</u>
			<u>\$ 23,973,515</u>

(1) Percentage of net assessed value of property in City (\$291,719,400) to net assessed value of property in Baldwin County (\$3,570,497,540) on 10/1/2011.

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Debt limit	\$26,621,076	\$28,227,355	\$31,813,008	\$32,959,792	\$38,626,776	\$44,849,472	\$65,580,788	\$66,115,436	\$63,625,408	\$58,343,880
Total net debt applicable to limit	<u>11,619,099</u>	<u>11,724,805</u>	<u>11,003,831</u>	<u>9,987,406</u>	<u>13,381,169</u>	<u>18,660,479</u>	<u>17,555,836</u>	<u>17,070,662</u>	<u>16,030,941</u>	<u>15,207,785</u>
Legal debt margin	<u>\$15,001,977</u>	<u>\$16,502,550</u>	<u>\$20,809,177</u>	<u>\$22,972,386</u>	<u>\$25,245,607</u>	<u>\$26,188,993</u>	<u>\$48,024,952</u>	<u>\$49,044,774</u>	<u>\$47,594,467</u>	<u>\$43,136,095</u>
Total net debt applicable to limit as a percentage of debt limit	43.65%	41.54%	34.59%	30.30%	34.64%	41.61%	26.77%	25.82%	25.20%	26.07%

Legal Debt Margin Calculation for Fiscal Year 2011

Total assessed value	\$ <u>291,719,400</u>
Debt limit (20% of total assessed value)	<u>58,343,880</u>
Debt applicable to limit:	
General obligation warrants	15,207,785
Notes payable	-
Total net debt applicable to limit	<u>15,207,785</u>
Legal debt margin	\$ <u><u>43,136,095</u></u>

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

Fiscal Year	Population	Personal Income	Per Capita Personal Income	School Enrollment	Unemployment Rate
2002	13,518	363,499,020	26,890	3,701	4.6%
2003	13,985	378,923,575	27,095	3,701	4.5%
2004	14,067	408,899,556	29,068	3,965	4.6%
2005	14,106	413,136,528	29,288	3,906	3.4%
2006	14,863	438,948,979	29,533	4,305	2.8%
2007	15,046	447,693,730	29,755	4,050	2.7%
2008	15,927	483,400,377	30,351	4,307	4.1%
2009	16,185	503,418,240	31,104	4,320	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%

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

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

Employer	2011			2002		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Thomas Hospital	1,150	1	19.3%	812	1	14.7%
Grand Hotel	750	2	12.6%	400	2	7.2%
Wal-Mart	400	3	6.7%			
City of Fairhope	320	4	5.4%	196	3	3.5%
Winn-Dixie	90	5	1.5%	75	7	1.4%
Publix	75	6	1.3%			
Balloons Everywhere	65	7	1.1%	60	9	1.1%
Print Xcel (formerly Poser Business Forms)	64	8	1.1%	170	4	3.1%
Bruno's	60	9	1.0%	100	5	1.8%
BF Goodrich Aerospace						
Rock Creek				80	6	1.4%
Food World				70	8	1.3%
Seton Home Health				58	10	1.0%
	2,974		49.8%	2,021		32.7%

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

2001 data used due to unavailability of 2002 employment data.
 2010 data used due to 2011 not yet reported in census

NOTE: Total city employment number represents people residing in COF that are employed (place of residence) rather than employment for COF businesses
 2002: 5,541 2011: 5,971

CITY OF FAIRHOPE, ALABAMA
 FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
 LAST TEN FISCAL YEARS

Function	Full-time Equivalent Employees as of September 30,									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Government	42	46	48	49	58	61	62	54	55	53
Public Safety										
Police	32	35	37	39	40	41	42	51	48	48
Fire										
Firefighters and Dispatch	2	4	5	7	9	9	14	13	13	17
Highways and Streets										
Public Works	25	26	28	28	27	29	28	37	37	35
Sanitation	16	19	21	19	25	22	20	21	20	20
Culture and Recreation										
Recreation	6	6	8	8	8	8	9	18	18	19
Adult Recreation	1	1	1	1	1	3	6	10	13	14
Gas Department	16	16	17	17	16	16	19	18	18	18
Electric Department	15	17	17	17	17	20	19	17	17	17
Water/Waste Water Department	20	21	23	23	24	24	25	23	23	24
Golf Department	12	13	13	12	12	13	13	19	19	16
Total	<u>187</u>	<u>204</u>	<u>218</u>	<u>220</u>	<u>237</u>	<u>246</u>	<u>257</u>	<u>281</u>	<u>281</u>	<u>281</u>

Source: City of Fairhope human resources department

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

Function	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Police										
Physical arrests	562	539	840	949	1,255	1,710	1,131	993	833	1,134
Parking violations	120	65	65	27	56	13	71	285	201	163
Traffic violations	1,895	1,566	2,116	2,381	2,589	1,516	996	1,004	1,245	1,419
Fire										
Number of calls answered	311	332	364	429	381	339	432	427	658	801
Inspections	376	429	505	585	463	282	196	382	291	143
Highways and streets										
Street resurfacing (miles)	0.25	7.80	0.25	0.25	2.30	-	-	1.5	-	-
Potholes repaired	780	416	416	312	312	312	414	384	400	425
Sanitation										
Garbage collected (tons/year)	5,800	6,010	6,566	7,000	7,200	8,246	7,520	7,782	8,627	9,100
Trash collected (tons/year)	4,220	5,227	4,953	6,411	4,845	5,213	5,915	5,744	7,385	6,487
Recyclables collected (tons/year)	1,549	1,660	1,699	2,112	1,959	2,131	1,989	1,297	1,281	1,495
Culture and recreation										
Golf course rounds @ 9 hole rounds	69,874	70,948	82,695	80,603	93,082	92,702	88,475	53,755	62,720	61,283
Pavilion/park parties		***	9	87	59	74	88	84	80	64
Waste water										
Average daily sewage treatment (millions of gallons)	1.6	1.7	1.8	1.8	1.6	1.7	1.7	1.7	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	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Public safety										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	24	26	29	32	33	35	36	40	45	45
Fire stations	3	3	3	3	3	3	3	3	3	3
Highways and streets										
Streets (miles)	69.7	75.2	82.2	84.2	89.7	89.7	98.1	98.1	98.1	98.1
Culture and recreation										
Parks acreage	168	168	168	168	168	208	208	208	248	248
Parks	46	46	46	46	46	50	50	50	51	51
Swimming pools	1	2	2	2	2	3	3	3	3	3
Tennis courts	4	4	4	4	4	6	6	6	6	6
Community center	2	2	2	2	2	2	1	3	3	3
Sewer										
Sanitary sewers (miles)	112	114	115	117	119	120	121	121	125	125
Storm sewers (miles)	3.75	6.55	9.45	12.45	14.05	15.55	16.75	16.75	16.75	16.75
Maximum daily treatment capacity (millions of gallons)	4	4	4	4	4	4	4	4	4	4

Sources: Various government departments

COMPLIANCE SECTION



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

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

806 N. SECTION STREET • P.O. BOX 1469 • FAIRHOPE, ALABAMA 36533 • (251) 928-2443 OR (251) 943-4217 • FAX (251) 928-6921

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

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

We have audited the basic financial statements of the City of Fairhope, Alabama as of and for the year ended September 30, 2011, and have issued our report thereon dated January 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Hartmann, Bladen & Helgen, P.C.
Certified Public Accountants

January 19, 2012
Fairhope, Alabama