

CITY OF FOLEY, ALABAMA



ANNUAL FINANCIAL REPORT

2011

CITY OF FOLEY, ALABAMA
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2011

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Foley, Alabama ("the City"), as of and for the year ended September 30, 2011, 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's management. Our responsibility is to express opinions on these basic 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Foley, Alabama, as of September 30, 2011, and the respective changes in financial position 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 also issued our report dated April 9, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 11, and the Schedule of Revenues, Expenditures and Changes in Fund Balance (Budget and Actual) on page 42 be presented to supplement the basic financial

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements taken as a whole. The combining and individual non-major fund financial statements listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is also presented for the purpose of additional analysis as required by the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole

Warren Averett, LLC

April 9, 2012
Foley, Alabama

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The City of Foley's (the "City") discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent years' challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

FINANCIAL HIGHLIGHTS

- The City's total net assets (assets less liabilities) were \$96,439,910 at September 30, 2011. This was a decrease of \$161,324 from the prior fiscal year. A detailed explanation of this decrease can be found beginning on page 3 of the Management's Discussion and Analysis (MD&A).
- The Statement of Activities shows the City received taxes and other revenue of \$28,150,047 and had expenses of \$28,311,371.
- General fund operating revenues exceeded operating expenditures by \$2,840,217.
- The City's governmental funds reported a combined ending fund balance of \$24,052,384, a decrease in fund balance of \$2,718,929 from the prior year's ending fund balance.
- The General Fund closed with a fund balance of \$20,546,404 reflecting a decrease of \$1,545,116 for the year.
- Notes payable and a bank line of credit totaling \$2,153,958 were retired.

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 consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to that of a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues. The governmental activities of the City include general government, public safety, highways and streets, sanitation, economic development, culture and recreation, and conservation. The government-wide financial statements can be found immediately following this discussion and analysis.

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City consist of governmental type funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City had activity in twelve individual governmental funds during the year. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Capital Projects Fund, Public Facilities Cooperative District, which are considered to be major funds. Data from the other nine governmental funds are combined into a single, aggregated presentation column on the basis financial statement. Individual fund data for each of these non-major governmental funds can be found in the form of combining and individual fund statements and schedules elsewhere in this report.

Notes to the Financial Statements – The notes to the financial statements are an integral part of the financial statements. They provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information – In addition to the basic financial statements and accompanying notes, this report also presents a budgetary comparison schedule for the General Fund as required supplementary information. This comparison presents the originally approved budget, final budget and actual, giving the reader a quick view of revisions and amendments versus actual activity. The budgetary highlights are discussed in more detail later in the MD&A.

Other Supplementary Information – The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

STATEMENT OF NET ASSETS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$96,439,910 at the close of the fiscal year.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

STATEMENT OF NET ASSETS (Continued)

By far the largest portion of the City's net assets are reflected in its investment in capital assets (e.g., land, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding.

The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A small portion of the City's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors. The City is able to report positive balances in all three categories of net assets (invested in capital-net, restricted and unrestricted) for both the current and preceding year.

The following table presents the condensed statement of net assets compared to prior year:

TABLE 1
SUMMARY OF STATEMENT OF NET ASSETS
As of September 30,

	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 25,398,994	\$ 28,305,973
Capital assets, net	<u>106,567,324</u>	<u>106,503,039</u>
Total assets	<u>131,966,318</u>	<u>134,809,012</u>
Current and other liabilities	1,271,364	1,299,127
Long-term debt	<u>34,255,044</u>	<u>36,927,313</u>
Total liabilities	<u>35,526,408</u>	<u>38,226,440</u>
Net assets:		
Invested in capital assets, net of debt	73,424,176	71,349,370
Restricted for		
Capital projects	224,533	1,503,630
Debt service	2,139,764	2,135,447
Other purposes	1,199,126	987,162
Unrestricted	<u>19,492,311</u>	<u>20,625,628</u>
Total net assets	<u>\$ 96,439,910</u>	<u>\$ 96,601,234</u>

The following table presents a seven year comparison of total net assets:

Fiscal Year	2005	2006	2007	2008	2009	2010	2011
Total net assets	\$ 73,607,988	\$ 77,161,635	\$ 89,856,770	\$ 95,018,209	\$ 94,422,482	\$ 96,601,234	\$ 96,439,910

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

STATEMENT OF ACTIVITIES

The following table presents a condensed version of the City's government-wide statement of activities compared to the prior year:

TABLE 2
CHANGES IN NET ASSETS
For the years ended September 30,

	<u>2011</u>	<u>2010</u>
Program revenues:		
Charges for services	\$ 4,833,020	\$ 4,899,670
Operating grants and contributions	374,068	623,528
Capital grants and contributions	604,582	2,087,502
General revenues:		
Property taxes	1,473,779	1,580,706
Sales and other local taxes	12,274,297	11,261,438
Utility tax equivalents	5,927,604	5,554,632
Fines and forfeitures	44,047	13,873
Grants and contributions not restricted to specific programs	1,571,669	152,146
Interest and rents	278,230	449,832
Other	791,933	1,578,858
Loss on discontinuation of projects	(36,418)	-
Gain on sale of capital assets	13,236	70,813
Total revenues	<u>28,150,047</u>	<u>28,272,998</u>
Expenses:		
General government	4,829,325	4,655,034
Public safety	9,302,294	9,354,764
Highways and streets	4,603,813	4,366,671
Sanitation	2,114,831	2,145,550
Economic development	1,447,843	23,543
Conservation	56,513	95,055
Culture and recreation	4,448,209	3,945,381
Interest on long-term debt	1,508,543	1,508,248
Total expenses	<u>28,311,371</u>	<u>26,094,246</u>
Change in net assets	(161,324)	2,178,752
Net assets – beginning	<u>96,601,234</u>	<u>94,422,482</u>
Net assets – ending	<u>\$ 96,439,910</u>	<u>\$ 96,601,234</u>

CITY OF FOLEY FUNDS

The following table presents a summary of the changes in the City’s fund balances:

TABLE 3
CHANGE IN FUND BALANCES
For the Year Ended September 30

	<u>Beginning Fund Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Fund Balance</u>
General Fund	\$ 22,091,520	\$ (1,545,116)	\$ 20,546,404
Capital Projects Fund	1,503,630	(1,279,097)	224,533
Public Facilities Cooperative District	1,938,300	(9,835)	1,928,465
Other Funds	<u>1,237,863</u>	<u>115,119</u>	<u>1,352,982</u>
Total	<u>\$ 26,771,313</u>	<u>\$ (2,718,929)</u>	<u>\$ 24,052,384</u>

The General Fund closed with a decrease in fund balance of \$1,545,116. Actual General Fund operations resulted in \$2,840,217 in excess revenue remaining after General Fund expenditures. Sale of land and equipment and transfers from other funds generated an additional \$1,531,950 and consisted mainly of project user fees from the Public Facilities Cooperative District. Transfers to other funds of \$5,917,283 were made to service debt, including note payoffs of \$2,153,958, and to fund capital improvements. Management recommended the payoff of these higher interest notes due to the continuance of unfavorable investment rates.

The City’s established annual undesignated minimum fund balance goal for the General Fund is equal to 25% of each year’s original budgeted operating and debt service/other expenditures. This resulted in a target goal of \$6.1 million for 2011, with the goal for 2012 calculated to be approximately \$6.4 million. This minimum fund balance is designed to assist the City during periods of financial stress which may be caused by natural disasters or other unforeseen events. Table 4 presents historical fund balance information on the fund balance of the General Fund.

TABLE 4
FUND BALANCES, GENERAL FUND
LAST SEVEN FISCAL YEARS

Fiscal Year	2005	2006	2007	2008	2009	2010	2011
Fund Balance	\$ 13,311,966	\$ 11,842,920	\$ 9,077,642	\$ 11,045,206	\$ 22,111,478	\$ 22,091,520	\$ 20,546,404

The Capital Projects fund experienced a decrease of \$1,279,097 in fund balance. Expenditures totaling \$3,123,689 consisted of capital asset and construction work in progress additions of \$1,296,597, required maintenance to infrastructure of \$782,084, and principal and interest payments of \$1,045,008. Grants and contributions totaling \$544,802 were recognized and cash transfers from the General Fund totaling \$1,299,790 were made to fund the remaining expenditures.

The Public Facilities Cooperative District experienced a decrease of \$9,835 in fund balance. Transfers from the General Fund of \$2,941,354 were made to service debt and fund projects. Debt in the amount of \$1,124,312 was issued and subsequently retired as previously discussed. Proceeds from sale of assets of \$9,312 and other revenues totaling \$868,848, consisting primarily of Project User Fees from the Tanger Outlet, were received. Two years of project user fees totaling \$1,370,183 were transferred to the General Fund, debt expenditures totaled \$2,841,745 and capital project and other expenditures of \$741,733 were made.

CITY OF FOLEY FUNDS (continued)

Other Funds realized an aggregate fund balance increase of \$115,119. Mayor and Council elected to transfer cash on hand from the Recreational Activities Fund in order to offset some of the program administrative costs being funded by the General Fund resulting in a fund balance decrease of \$62,852. A fund balance decrease of \$90,175 occurred in the Corrections Fund due to the continued use of cash on hand to fund jail and court expense formally funded by the General Fund. All other Special Revenue Funds experienced positive fund balance increases totaling \$182,560. Debt Service Funds experienced an increase of \$85,586 representing cash held for future debt retirement.

GENERAL FUND BUDGETARY HIGHLIGHTS

Due to the continued uncertainty of the economy, management's budgeting of both revenues and expenditures were conservative for FY11. Revenues were originally budgeted at \$24,085,687 representing a decrease of \$677,627 over the FY10 projected close in anticipation of the continued decline in property taxes, due to the continued decline in valuations, and licenses and permits. Grants and other increases approved by Mayor and Council throughout the year totaling \$96,842 resulted in final budgeted revenues of \$24,182,529 with actual revenues of \$24,700,183 which exceeded the final budget by \$517,654 primarily due to local tax revenues coming in higher than anticipated.

The Original Budget expenditures of \$20,809,124 included an increase of \$358,843 over FY10 for departmental capital purchases, an employee one-time payment of \$500 and salary adjustments of approximately \$233,068 to certain employees. Expenditures were increased by \$1,284,743 during the year by action of the Mayor and Council. Equity of \$34,666 in Alabama Municipal Insurance Company was adjusted to insurance accounts throughout the General Fund, capital purchase accounts were increased by approximately \$75,000, salary and related personnel accounts were increased by approximately \$123,000, and budgeting for Tanger Outlet grant expense of \$625,500 was moved from the Public Facilities Cooperative District Fund to the General Fund to properly show the expense of the City. The Tanger Outlet grant expense is primarily offset by transfers of Project User Fees from the Cooperative District Fund. General Fund actual operational expenditures closed \$233,900 less than the final amended budget of \$22,093,867.

Other Financing Source budgets were increased \$625,500 to reflect funding of the Tanger Outlet grant as discussed above and exceeded the final budget of \$741,887 by \$769,032 due to timing of prior year project user fee transfers from the Public Facilities Cooperative District. The anticipated proceeds from the sale of property and equipment of \$62,000 fell short by \$40,969. Transfers Out included both debt service and transfers required to support other funds. The Original Budget for transfer out of \$6,503,901 was increased by \$1,137,143 mainly to allow for the payoff of a construction loan prior to issuance of warrants on behalf of the Public Facilities Cooperative District. Transfer out closed \$1,723,761 under budget as the result of capital projects coming in under what was planned for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets net of depreciation at September 30, 2011, totaled \$106,567,324. Major capital asset events during the current fiscal year included the following:

- Foley's Graham Creek Nature Preserve, which boasts 484 acres of natural habitats and offers a canoe/kayak launch, hiking trails and bird watching, received a 50/50 pass-through grant from the Alabama Department of Conservation and Natural Resources to aid in the construction of a pavilion costing \$50,140.

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

- The City of Foley Public Facilities Cooperative District completed \$1,293,760 in renovations to an existing building at a site known as the Wilson Property which is being leased by Wolf Bay Lodge Restaurant. A Project User Fee was imposed to assist in offsetting the renovation costs.
- The extension of Airport Drive closed out at \$1,566,187 and provides an alternate route for truck traffic reducing the use of roads in residential neighborhoods not designed for heavy weight loads. The extension required the City to utilize a portion of the airport property and, because Federal funds have been used for various projects at the airport, the FAA required proof that the City had spent their own funds in the amount of the appraised value of the land taken.
- Revitalization of the downtown area continues with Phase II of the Streetscape Project that includes decorative street lamps, wooden trellises, stamped concrete alley entrances and concrete planters completed this year at a total cost of \$265,173.
- The addition of a taxiway at the Foley Municipal Airport was completed for \$292,730 and was primarily funded by Federal and State grants.
- An abandoned subdivision that adjoins the City’s Sportplex on Highway 98 was acquired and improvements made for \$241,660.
- The Homeowners of Glenlakes Subdivision participated with the City in the cost of constructing a bike and pedestrian path costing \$61,000.
- Projects under construction resulted in expenditures of \$1,951,819 and a cumulative construction in progress balance of \$576,363. Refer to Note G for more information on the activity of construction in progress. In the future, an estimated \$1,395,470 net of grants and other funding will be needed to complete these projects and new projects costing \$971,460 are being contemplated for FY12.

The following table presents the City’s capital assets at year end:

TABLE 5
CAPITAL ASSETS
September 30, 2011

Land	\$	19,796,781
Buildings		18,160,410
Property improvements		11,198,821
Infrastructure		87,111,366
Machinery and equipment		14,714,443
Construction in progress		<u>576,363</u>
Total		151,558,184
Less: Accumulated depreciation		<u>(44,990,860)</u>
Net capital assets		<u><u>\$ 106,567,324</u></u>

Additional information on the City’s capital assets can be found in Note F of this report.

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

As of September 30, 2011 the City had \$33,143,148 in outstanding warrants, notes payable and capital lease obligations. The Cooperative District authorized the issuance of up to \$1.3 million Revenue Bonds for the purpose of reimbursing the City for the cost of the “Wolf Bay Lodge” project. During the construction phase, the project was financed by a construction loan with a local bank. At completion of the project, bond interest rates were compared to current and projected investment rates and the District and the City mutually agreed not to issue the bonds. Instead a transfer of \$1,124,312 for the principal balance plus the amount due in interest was made by the City to the District to pay off the construction loan. City Officials also elected early pay off of two notes payable resulting in principal reduction of \$1,029,646. The City maintains its Standard & Poor’s AA- rating.

Under Section 225 of the Constitution of Alabama of 1901, as amended, the present constitutional debt limit of the City is an amount equal to 20% of the assessed value of the property therein. Under Chapter 99B of Title 11 of The Code of Alabama, debt issued by the Public Facilities Cooperative District is solely an obligation of the District. Therefore the District’s debt is not chargeable against the City’s debt limit.

Table 6 provides a historical analysis of the City’s Debt Margin.

**TABLE 6
LEGAL DEBT MARGIN ANALYSIS
LAST SEVEN FISCAL YEARS**

	2005	2006	2007	2008	2009	2010	2011
Debt Limit	\$ 35,932,260	\$ 42,968,704	\$ 58,350,152	\$ 60,316,916	\$ 57,116,168	\$ 50,642,448	\$ 47,954,395
Net debt applicable to limit	10,819,968	21,293,631	21,268,404	19,895,842	11,403,649	11,684,547	9,577,793
Legal debt margin	\$ 25,112,292	\$21,675,073	\$ 37,081,748	\$ 40,421,074	\$ 45,712,519	\$ 38,957,901	\$ 38,376,602
Net debt as a percentage of debt limit	30.11%	49.56%	36.45%	32.99%	19.97%	23.07%	19.97%

	2011
Assessed Value	<u>\$ 239,771,978</u>
Debt limit (20% of assessed value)	<u>47,954,395</u>
Debt applicable to limit:	
Bonds, warrants, notes and capital leases	33,143,148
Less: Public Facilities Cooperative District Series 2009 Revenue Bonds	(21,425,591)
Less: Amount set aside for repayment of General Obligation debt	<u>(2,139,764)</u>
Total net debt applicable to limit	<u>9,577,793</u>
Legal Debt Margin for Fiscal Year 2011	<u>\$ 38,376,602</u>

Assessed Value Source: Baldwin County Revenue Commissioner and Baldwin County Judge of Probate

ECONOMIC FACTORS

The City relies on taxes (property, sales, lodging, etc.), and fees (license, permits, etc.) for their governmental activities. The following analysis of a few of these taxes and fees serves as a good indicator of economic trends.

ECONOMIC FACTORS (Continued)

**TABLE 7
GENERAL FUND REVENUE ANALYSIS
LAST SEVEN FISCAL YEARS**

Revenue Type	2005	2006	*2007	2008	2009	2010	2011
Real estate taxes	\$ 672,429	\$ 806,099	\$ 942,840	\$ 1,182,099	\$ 1,302,540	\$ 1,263,986	\$ 1,159,542
Sales tax	\$ 5,816,915	\$ 6,607,352	\$ 10,000,952	\$ 11,076,204	\$ 10,015,279	\$ 10,075,681	\$ 10,959,261
Business License	\$ 1,381,644	\$ 1,545,644	\$ 1,690,266	\$ 1,681,006	\$ 1,499,493	\$ 1,731,743	\$ 1,636,442
Building Permits	\$ 593,580	\$ 789,174	\$ 785,762	\$ 453,332	\$ 137,648	\$ 199,640	\$ 160,109

*Sales tax was increased from one percent to two percent on March 1, 2007. Had the one percent increase been effective for twelve months of fiscal year 2007, the total collected would have been \$12,534,475 and fiscal years 2005-2006 would have doubled.

Certain governmental activities (sanitation, recreational activities, etc.) require the user pay a related fee or charge associated with the service. It is important to note that although fire protection continues to be provided in both the corporate and jurisdictional limits, the taxes, fees and charges for services in the jurisdictional area are minimal in comparison to the cost to provide such services. The level of taxes, fees and charges for services have a direct bearing on the City’s ability to annex land into the corporate limits and encourage retail, commercial, residential and industrial development.

The City continued its focus on economic development bringing a pharmaceutical compounding business, a Krispy Kreme franchise, a senior citizens facility, a small technical school, and several other small businesses to the City. The Public Facilities Cooperative District imposed a project user fee to help offset some of the capital investment related to the Krispy Kreme project.

The City of Foley Public Facilities Cooperative District renewed a two-year Project User Fee at the Tanger Foley Mall that is renewable for two additional two-year terms. Twenty-five percent of the fee will be earmarked to address needed roadway improvements in and around the Tanger retail center and it is likely that the majority will be used for major improvements to Juniper Street from Country Road 20, north to State Highway 98.

Sales tax revenue rebounded from the substantial drop in the prior fiscal year that was caused by the BP Oil Spill. The City has filed a claim against BP and the Responsible Parties in the federal court action suit for losses suffered after FY10 but the value of the claim is not yet determined. The City received approval to use a portion of a \$252,025 BP grant passed-through the State in FY10 to cover outstanding legal fees associated with the Spill and to purchase a boat for the Fire Department to monitor shoreline effects of the Spill. We are still in correspondence with the State regarding uses for the remaining grant funds which currently stand at \$196,000.

In FY11, the City outlined a plan to complete phases of an overall Streetscape project over time. Streetscape phase I and phase II are complete and, as of the writing of this report, Phase III is in its final stages. There are two more Phases within the outline that are anticipated to be completed in 2012 & 2013. The Streetscape Project encompasses sidewalk renovation, repaving of streets and alleys, decorative lighting, creation of flower/landscape beds and baskets, construction of trellises, and signage within the general area of Downtown Foley.

ECONOMIC FACTORS *(continued)*

Upon completion of the taxiways at the Foley Municipal Airport, the City began the process to design and construct eight T-Hangars to be completed the first part of 2012. The hangars shall be funded by the City with an intended pay off of fifteen years. In addition, bids were let for the refurbishment of airport access road which will be funded primarily by Federal and State grants.

During the year, The Foley Municipal Airport experienced a change in the Fixed Base Operator (FBO) management which infused new life into the airport. The new FBO brought with him a flight school heavily supported by the Navy. The school trains approximately 25 to 30 students a month. The students are transients who contribute to the economy of Foley. In addition, the FBO has brought eleven new jobs and hopes to expand to thirteen in the near future. The renewed interest in the airport and its operations has prompted the City to try to nurture this atmosphere. The City has refurbished the main hangar in an attempt to assist with the improvements made by the FBO. The City also has begun to rehabilitate the existing T-hangars, initially by the addition of electricity.

The City granted a restrictive easement agreement valued at \$98,100 in favor of the United States of America that will provide for Type III Clear Zones at Navy Outlying Landing Field (NOLF) Barin Field. The City also approved a land swap with the Alabama National Guard who plans to build a 125,000 square-foot armory on 30 acres at the City's Industrial Park located near Barin Field. In addition to close access by Air National guard units to the Navy's Barin Field, the facility would benefit the community with sufficient space to hold events such as the high school senior prom and long-distance learning classes, all of which is certain to boost the economy. In return, the City would receive property near City Hall where the existing Fort Smith Armory is currently located that would provide much needed space to the City. However, if the National Guard does not meet planning and construction deadlines, or if military officials change their minds, the exchange could be cancelled.

In December, 2011 the City voted to approve a long-range plan for a non-motorized transit system consisting of 170 bike and walking path projects totaling \$23.78 million. A \$23 million USDOT Transportation Investment Generating Economic Recovery (TIGER) grant has been applied for. If the TIGER grant is not received, the City will pursue other grant sources such as Federal Highway Administration Transportation Enhancement Act grants, Rails to Trails, and Community Development Block Grants to assist with funding for some if not all of the projects.

Although the city exceeded its budgeted revenue streams for FY11 due to a rebound from the previous years' Oil Spill, management remained cognizant of the macroeconomic stresses in the economy and forecasted a revenue stream for FY12 that is essentially flat from FY11. Due to the overall financial uncertainties both locally and nationally, the City continues to restrict any material personnel growth. The FY12 budget represents a position growth of two from 287 to 289, while 8 budgeted full-time positions remained frozen at the time the budget was adopted. The City did approve a small pay increase for all merit employees beginning in January 2012 of 1.67% which represents their first raise since the start of the recession on FY08.

Requests for Information - This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the City of Foley's finances. Questions about the report or requests for additional financial information should be addressed to the Finance Division Supervisor, PO Box 1750, Foley, Alabama 36536. Financial information about the City can also be obtained by accessing the City's web site at www.cityoffoley.org.

BASIC FINANCIAL STATEMENTS

City of Foley, Alabama
STATEMENT OF NET ASSETS
September 30, 2011

ASSETS	
Cash	\$ 19,911,736
Certificates of deposit	3,246,388
Receivables	
Utility tax equivalents	579,294
Sales and other local taxes	903,909
Other	579,456
Inventories	73,432
Prepaid expenses	104,779
Capital assets (net of accumulated depreciation)	<u>106,567,324</u>
Total assets	<u><u>131,966,318</u></u>
LIABILITIES	
Accounts payable	1,074,990
Accrued expenses	139,929
Retainage payable	56,445
Non-current liabilities:	
Due within one year	
General obligation warrants	1,120,000
Public Facilities Cooperative District bonds	840,000
Capital leases	39,546
Accrued interest	105,342
Compensated absences	233,427
Health claims payable	129,300
Due in more than one year	
General obligation warrants	10,516,098
Public Facilities Cooperative District bonds	20,585,591
Capital leases	41,913
Post-employment health care obligation	293,687
Compensated absences	<u>350,140</u>
Total liabilities	<u><u>35,526,408</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	73,424,176
Restricted for	
Capital projects	224,533
Debt service	2,139,764
Other purposes	1,199,126
Unrestricted	<u>19,452,311</u>
Total net assets	<u><u>\$ 96,439,910</u></u>

The accompanying notes are an integral part of these financial statements.

City of Foley, Alabama
STATEMENT OF ACTIVITIES
Year Ended September 30, 2011

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Function/Program Activities					
Governmental Activities					
General government	\$ 4,829,325	\$ 1,779,374	\$ 1,937	\$ 291,052	\$ (2,756,962)
Public safety	9,302,294	884,572	264,521	59,780	(8,093,421)
Highways and streets	4,603,813	-	1,500	229,472	(4,372,841)
Sanitation	2,114,831	1,855,851	-	-	(258,980)
Culture and recreation	4,448,209	313,223	49,597	120	(4,085,269)
Conservation	56,513	-	56,513	24,158	24,158
Economic development	1,447,843	-	-	-	(1,447,843)
Interest on long-term debt	1,508,543	-	-	-	(1,508,543)
Total governmental activities	\$ 28,311,371	\$ 4,833,020	\$ 374,068	\$ 604,582	\$ (22,499,701)

General Revenues:

Property taxes	1,473,779
Sales and other local taxes	12,274,297
Utility tax equivalents	5,927,604
Fines and forfeitures	44,047
Contributed capital	1,571,669
Interest and rents	278,230
Other	791,933
Loss on discontinuation of projects	(36,418)
Gain on sale of capital assets	13,236
Total general revenues	22,338,377
Change in net assets	(161,324)
Net assets - beginning of year	96,601,234
Net assets - end of year	\$ 96,439,910

City of Foley, Alabama
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2011

ASSETS	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Public Facilities Cooperative District</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash	\$ 16,773,595	\$ 220	\$ 1,804,575	\$ 1,333,346	\$ 19,911,736
Certificates of deposit	3,230,000	-	-	16,388	3,246,388
Receivables					
Utility tax equivalents	579,294	-	-	-	579,294
Gasoline excise tax	-	-	-	8,030	8,030
Property and advalorem taxes	25,236	-	-	1,386	26,622
Sales and other local taxes	903,909	-	-	-	903,909
Sanitation	21,197	-	-	-	21,197
Grants	82,266	281,895	-	-	364,161
Other	122,200	-	37,246	-	159,446
Due from other funds	5,597	-	123,890	-	129,487
Inventories	73,432	-	-	-	73,432
Prepaid expenses	104,779	-	-	-	104,779
Total assets	<u>\$ 21,921,505</u>	<u>\$ 282,115</u>	<u>\$ 1,965,711</u>	<u>\$ 1,359,150</u>	<u>\$ 25,528,481</u>
LIABILITIES					
Accounts payable	\$ 1,074,419	\$ -	\$ -	\$ 571	\$ 1,074,990
Accrued expenses	138,792	57,582	-	-	196,374
Due to other funds	123,890	-	-	5,597	129,487
Deferred revenue	38,000	-	37,246	-	75,246
Total liabilities	<u>1,375,101</u>	<u>57,582</u>	<u>37,246</u>	<u>6,168</u>	<u>1,476,097</u>
FUND BALANCES					
Nonspendable	178,211	-	-	-	178,211
Restricted	257,992	224,533	1,803,477	1,277,421	3,563,423
Committed	-	-	124,988	-	124,988
Assigned	3,221,132	-	-	75,561	3,296,693
Unassigned	16,889,069	-	-	-	16,889,069
Total fund balances	<u>20,546,404</u>	<u>224,533</u>	<u>1,928,465</u>	<u>1,352,982</u>	<u>24,052,384</u>
Total liabilities and fund balances	<u>\$ 21,921,505</u>	<u>\$ 282,115</u>	<u>\$ 1,965,711</u>	<u>\$ 1,359,150</u>	<u>\$ 25,528,481</u>

The accompanying notes are an integral part of these financial statements.

City of Foley, Alabama
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
September 30, 2011

Fund balances - total governmental funds		\$ 24,052,384
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Governmental capital assets	\$ 151,558,184	
Less accumulated depreciation	<u>(44,990,860)</u>	106,567,324

Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.

Warrants and bonds payable, net of deferred refunding, premiums, discounts, and issue costs	(33,061,689)	
Capital leases	(81,459)	
Accrued interest payable	(105,342)	
Health claims payable	(129,300)	
Post-employment health care obligation	(293,687)	
Compensated absences	<u>(583,567)</u>	(34,255,044)

Deferred revenue in governmental funds is susceptible to full accrual accounting in the government-wide financial statements.

Revenue that is deferred because it is not available to finance current expenditures.		<u>75,246</u>
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Net assets of governmental activities		<u><u>\$ 96,439,910</u></u>
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GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year ended September 30, 2011

	General Fund	Capital Projects Fund	Public Facilities Cooperative District	Non-Major Governmental Funds	Total Governmental Funds
Revenues					
Property and advalorem taxes	\$ 1,308,484	\$ -	\$ -	\$ 165,294	\$ 1,473,778
Sales and other local taxes	12,215,166	-	-	59,130	12,274,296
Licenses and permits	1,839,187	-	-	-	1,839,187
Intergovernmental	391,817	541,294	-	14,476	947,587
Charges for services	1,839,975	-	-	243,835	2,083,810
Fines and forfeitures	603,197	-	-	132,034	735,231
Utility tax equivalents	5,927,604	-	-	-	5,927,604
Interest and rents	369,400	-	68,180	940	438,520
Contributions and donations	42,876	3,508	-	23,149	69,533
Other	162,477	-	800,668	9,146	972,291
Total revenues	<u>24,700,183</u>	<u>544,802</u>	<u>868,848</u>	<u>648,004</u>	<u>26,761,837</u>
Expenditures					
Current:					
General government	4,169,232	40,884	-	58,152	4,268,268
Public safety	8,464,599	-	-	181,460	8,646,059
Highways and streets	1,582,734	741,200	-	-	2,323,934
Sanitation	1,927,347	-	-	-	1,927,347
Culture and recreation	3,507,028	-	-	213,267	3,720,295
Conservation	56,513	-	-	-	56,513
Economic development	1,437,367	-	10,476	-	1,447,843
Capital outlay	670,724	1,296,597	731,257	24,831	2,723,409
Debt service:					
Principal	37,313	1,029,646	1,944,312	1,065,000	4,076,271
Interest	7,109	15,362	852,921	460,836	1,336,228
Bond and loan cost	-	-	44,512	64,742	109,254
Total expenditures	<u>21,859,966</u>	<u>3,123,689</u>	<u>3,583,478</u>	<u>2,068,288</u>	<u>30,635,421</u>
Excess (deficiency) of revenues over expenditures	2,840,217	(2,578,887)	(2,714,630)	(1,420,284)	(3,873,584)
Other financing sources (uses)					
Issuance of debt	-	-	1,124,312	-	1,124,312
Transfers in	1,510,919	1,299,790	2,941,354	1,676,139	7,428,202
Transfers out	(5,917,283)	-	(1,370,183)	(140,736)	(7,428,202)
Proceeds from sale of assets	21,031	-	9,312	-	30,343
Total other financing sources (uses)	<u>(4,385,333)</u>	<u>1,299,790</u>	<u>2,704,795</u>	<u>1,535,403</u>	<u>1,154,655</u>
Net change in fund balances	(1,545,116)	(1,279,097)	(9,835)	115,119	(2,718,929)
Fund balances, beginning of year	22,091,520	1,503,630	1,938,300	1,237,863	26,771,313
Fund balances, end of year	<u>\$ 20,546,404</u>	<u>\$ 224,533</u>	<u>\$ 1,928,465</u>	<u>\$ 1,352,982</u>	<u>\$ 24,052,384</u>

City of Foley, Alabama
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
Year Ended September 30, 2011

Net change in fund balances - total governmental funds \$ (2,718,929)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are capitalized and depreciated over their estimated useful lives.

Expenditures for capital assets	\$ 2,723,409	
Less current year depreciation	<u>(4,177,268)</u>	(1,453,859)

Contributions of capital assets are not reported as income in governmental funds.	1,571,669
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Changes in deferred revenue	(160,287)
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Debt proceeds are reported as a source of financing in the governmental funds. Debt proceeds are not reported as revenues in the Statement of Activities, but are reported as additional long-term liabilities.

Note payable proceeds	(1,124,312)
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Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal payments - bonds, notes, and capital leases payable	4,076,271
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Amortization of current year bond costs	(34,214)	
Amortization of current year bond discount / premium	12,020	
Amortization of deferred charges on bond refunding	(19,244)	
Change in accrued interest payable	(63,061)	
Change in self-insured health plan unpaid claims	17,300	
Change in post-employment health care obligation	(148,044)	
Change in long-term compensated absences	(63,109)	
Disposal of capital assets	<u>(53,525)</u>	<u>(351,877)</u>

Change in net assets of governmental activities	<u>\$ (161,324)</u>
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City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Foley (City) is an Alabama municipal corporation governed by an elected mayor and five-member council.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant policies.

1. The Reporting Entity

As required by Governmental Accounting Standards Board Statement (GASBS) No. 14, *The Financial Reporting Entity* (as amended by GASBS No. 39, *Determining Whether Certain Organizations Are Component Units*), the accompanying financial statements present the City as the primary government and its component units, entities for which the City is considered *financially accountable*. Component units are included in the reporting entity because of the significance of their operational relationship with the primary government. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if City officials appoint a voting majority of the organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. The primary government may also be financially accountable for governmental organizations that are fiscally dependent on it. Lastly, even if the primary government is not financially accountable, an organization should be included if its exclusion would render the reporting entity's financial statements incomplete or misleading.

If *financial accountability* exists, and the governing bodies are substantively the same or the organization provides services or exists almost exclusively for the benefit of the primary government, the organization is a *blended component unit* and its data is combined with and treated as if it were a fund of the City. Otherwise, the organization is a *discretely presented component unit* and its data is reported together with, but separately from, the data of the City in the government-wide financial statements. The City has no discretely presented component units.

Blended Component Unit - The City of Foley Public Cooperative District was incorporated in 2009 as a capital improvement district under the provisions of Chapter 99B of Title 11 Code of Alabama, 1975. The purpose of the District is to acquire, construct and install various capital improvements within the City and to aid the City in its economic development efforts through its ability to finance eligible projects under the authority of Chapter 99B. The District issued approximately \$23.3 million of bonds and transferred the net proceeds to the City in exchange for various capital projects and properties from the City, including the City Hall, Public Library, street and drainage projects, etc. Simultaneous with the transfer of assets to the District, the City leased-back the subject properties and projects from the District under an annual lease agreement requiring annual payments equal to the debt service on the District's bonds. The annual lease renews automatically each year, through the year ending September 30, 2030 (final maturity of the bonds) unless the City adopts a resolution expressing its intent to not renew. Upon final maturity of the bonds, the properties revert back to the City. Since the City appoints a voting majority of the District's Board members, provides rents equal to 100% of the District's annual debt service, and the District exists almost exclusively for the benefit of the City, its accounts and transactions are presented as a blended component unit in the City's financial statements.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

1. The Reporting Entity - (Continued)

Other Entities - Excluded from the financial statements are the following boards, for which a lack of influence, control and dependency exist: the Utilities Board of the City of Foley, the Medical Clinic Board, and the Industrial Development Board. These boards are governed by their own boards of directors, prepare and adopt annual operating budgets which are not influenced by the City, have the authority to issue debt securities which are not an obligation of the City (nor secured by City revenues), and must self-fund any operating deficits which may occur.

2. Government-Wide and Fund Financial Statements

Financial reporting requirements include a management's discussion and analysis, basic financial statements consisting of government-wide and fund financial statements, required supplementary information, and other supplementary information.

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide statement of net assets is presented on a consolidated basis on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide statement of activities reflects both the gross and net costs per functional category (general government, public safety, highways and streets, etc.) that are otherwise being supported by general government revenues (property taxes, sales taxes, fines, permit and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, which must be directly associated with the function (general government, public safety, highways and streets, etc.). Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operations or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The City does not allocate indirect expenses. The operating grants and contributions column includes operating specific and discretionary (either operating or capital) grants while the capital grants and contributions column reflects capital-specific grants. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are budgeted and presented on a current financial resource and modified accrual basis of accounting. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the government-wide financial statements.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (Continued)

3. Measurement Focus, Basis of Accounting, and Financial Statements Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered susceptible to accrual and are recognized as revenue of the current fiscal period. Only the portion of special assessments collectible within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and then unrestricted resources, as they are needed.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The *capital projects fund* is used to account for financial resources for the acquisition or construction of major capital items.

The *public facilities cooperative district fund* is used to account for the user fees charged by the district and for resources accumulated for the payment of interest and principal on the long-term debt of the Cooperative District.

Additionally, the City reports the following fund types:

Special Revenue Funds: These funds are established to account for the proceeds of specific revenue sources other than special assessments, expendable trusts or major capital projects that are legally restricted to expenditures for specified purposes.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (Continued)

3. Measurement Focus, Basis of Accounting, and Financial Statements Presentation – Continued

Debt Service Funds: These funds are established for the purpose of accumulating resources for the payment of interest and principal on long-term general obligation debt.

Capital Projects Funds: Capital project funds account for financial resources designated to construct or acquire capital assets and major improvements.

4. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. During the months of July and August, Administration meets with each department head to discuss the proposed departmental budgets for the fiscal year commencing the following October 1.
2. Administration prepares the budgets for the various funds, which include proposed expenditures and the means of financing them.
3. On or before September 1, a proposed budget is submitted to the Mayor and City Council. Prior to October 1, the budgets are legally enacted through passage of a resolution.
4. The City Council may amend the budget through resolution as needed.
5. The budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) and in accordance with Alabama law.
6. With the exception of construction work in progress, appropriations lapse at the end of each fiscal year.

5. Property Tax Revenue Recognition

Ad valorem taxes (based on assessments of property values by the Baldwin County Tax Assessor) are levied by the City and collected by the Baldwin County Tax Collector and remitted to the City on a monthly basis. The County's property tax calendar requires the Tax Assessor to assess, and attach taxes as enforceable liens on property as of September 30th. Taxes are due October 1st through December 31st. Property taxes not paid by January 1st are considered delinquent. All amounts remitted to the City within the bill paying period are included in revenue. Taxes collected within the fiscal year but remitted to the City after the fiscal year-end are accrued in both the government-wide and fund financial statements.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (Continued)

6. Cash and Investments

Cash includes demand deposits as well as all highly liquid investments with a maturity of three months or less when purchased. Certificates of deposits are typically issued for periods less than one year. State statutes authorize the City to invest in deposit accounts and certificates of deposits with banks, in direct obligations of the United States Treasury Department, and obligations of certain other federal agencies. Investments are stated at fair value. The unrealized gain or loss on investments is reflected in investment income.

7. Deferred Revenue

Deferred revenue includes amounts collected before revenue recognition criteria are met.

8. Prepaid Items

Payments to vendors for services that will benefit periods beyond September 30, 2011, are recorded as prepaid items in both government-wide and fund financial statements.

9. Inventories

Inventory consists of expendable supplies held in the General Fund for consumption. Inventory is presented at the lower of cost or market on a first-in, first-out basis and is expensed when used.

10. Capital Assets

Capital assets, which include land, buildings, improvements, machinery and equipment, and infrastructure assets, are reported in the government-wide financial statements. Capital assets are defined by the City as those assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of five years.

Expenditures for capital assets acquired or constructed are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Donated capital assets are valued at their estimated fair value on the date donated. Public domains (rights-of-way and easements) have been capitalized using actual and estimated historical costs of such assets that were acquired by the City.

The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' useful lives using the straight-line method. The range of estimated useful lives by type of asset is as follows:

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (Continued)

10. Capital Assets – (Continued)

Buildings	20 - 40 years
Improvements (Building and Property)	7 - 30 years
Infrastructure (Drainage, Streets, Bridges, Sidewalks, etc.)	10 - 50 years
Infrastructure (Sewer)	75 years
Machinery and equipment	5 - 20 years
Automobiles and equipment	5 - 15 years
Office equipment	5 - 10 years

In the fund financial statements, capital assets are accounted for as capital outlay expenditures upon acquisition.

11. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. In the event of termination, an employee is paid for accumulated vacation hours not to exceed 160 hours. Employees are paid for overtime accumulated and unpaid to the date of termination not to exceed 80 hours, or in the case of law enforcement officers and firefighters, not to exceed 160 hours. Employees are not entitled to be paid for accumulated sick pay benefits upon termination.

Vacation, sick pay, and overtime are accrued in accordance with GASB Statement No. 16. Unpaid compensated absences are recorded as a liability when the benefits are earned in the government-wide financial statements. Expenditures are recognized in governmental funds when payments are made to employees.

12. Net Assets and Fund Balances

In the government-wide financial statements, the difference between the City's total assets and total liabilities represents net assets. Net assets is displayed as three components:

- *Invested in capital assets, net of related debt* – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted net assets* – Consists of net assets with constraints placed on their use by external groups such as creditors, grantors, contributors, or laws or regulations of other governments.
- *Unrestricted net assets* – Represents the net assets available for future operations.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (Continued)

13. Net Assets and Fund Balances (continued)

Beginning with fiscal year 2011, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- *Non-spendable fund balance*—Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
- *Restricted fund balance*— Amounts that can be spent only for specific purposes because of the City Charter, City Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- *Committed fund balance*—Amounts that can be used only for the specific purposes determined by a formal action of the City' highest level of decision-making authority (the City Council).
- *Assigned fund balance*—Amounts intended to be used for a specific purpose, but which do not meet the more formal criterion to be considered either restricted or committed.
- *Unassigned fund balance*—All amounts not included in other spendable classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the City to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the City that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

It is the City's policy to maintain a minimum unassigned fund balance in the general fund equal to 25% of the fiscal year original budgeted expenditures, including debt service, as a safeguard against financial demands such as major natural disasters or other unforeseen events.

14. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses during the reporting period. Actual results could differ from these estimates.

15. Events Occurring After Reporting Date

The City has evaluated events and transactions that occurred between September 30, 2011 and April 9, 2012 which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE B - CASH AND INVESTMENTS

The Council manages custodial credit risk, which is the risk that in the event of a bank failure the City's deposits may not be returned, by approving, by resolution, all banks or other financial institutions utilized as depositories for City funds. Prior to approval, each proposed depository must provide evidence of its designation by the Alabama State Treasurer as a qualified public depository under the Security of Alabama Funds Enhancement Act (SAFE). From time to time, the Council may request that the depository provide evidence of its continuing designation as a qualified public depository. Under the mandatory SAFE program, each qualified public depository (QPD) is required to hold collateral for all of its public deposits on a pooled basis in a custody account established for the State Treasurer as SAFE administrator. In the unlikely event a public entity should suffer a deposit loss due to QPD insolvency or default; a claim would be filed with the State Treasurer who would use the SAFE pool collateral or other means to reimburse the loss. At September 30, 2011, the City's reported amount of deposits was \$19,911,739. The actual bank balance was \$20,446,743, consisting entirely of deposits with financial institutions in checking and money market accounts.

The City's investments include certificates of deposit, which are covered by the SAFE program, totaling \$3,246,388, with an average maturity of 102 days.

NOTE C - UTILITY TAX EQUIVALENTS

Monthly tax equivalent payments are made to the City by the Utilities Board of the City of Foley based on a percentage of the retained earnings of the Utilities Board. The annual tax equivalent rate for fiscal year 2011 was 4.25% and resulted in collections of approximately \$5,927,600 by the City.

NOTE D - PENSION PLANS

DEFINED BENEFIT PENSION PLAN

1. Plan Description

The City participates in the Employees' Retirement System of Alabama ("ERSA"), an agent multiple-employer public employee retirement system (PERS), that acts as a common investment and administrative agent for the various state agencies and departments as well as for cities and counties which elect to participate in ERSA.

Membership is mandatory for covered or eligible City employees and substantially all employees are members of ERSA. Benefits vest after 10 years of creditable service and vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, and (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. If a member dies prior to retirement, death benefits are calculated and paid to the beneficiary(s) based on the member's age, service credit, employment status and eligibility for retirement.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE D - PENSION PLANS -- (Continued)

DEFINED BENEFIT PENSION PLAN -- (Continued)

1. Plan Description -- (Continued)

ERSA was established 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 ERSA is vested in the Board of Control. Benefit provisions are established by state law and authority to amend the plan rests with the Legislature of Alabama.

Cost-of-living adjustments (COLA's) to retirement benefit payments are granted on an ad hoc basis by the state legislature. Also, such legislation usually provides that the retired member shall receive an increase authorized by legislation only if the City elects to grant and fund the increase.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for ERSA. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

2. Funding Policy

General employees are required to contribute 5% of their annual covered payroll. Certified police and firefighters are required to contribute 6% of their annual covered payroll. The City is required to contribute at an actuarially determined rate; the rate for fiscal year ended September 30, 2011 was 5.89% of annual covered payroll. The contribution requirements for employees and the City are mandated by state statutes.

3. Annual Pension Cost

For 2011, the City's annual pension cost of \$520,481 was equal to the City's required and actual contributions. The required contribution was determined as part of the September 30, 2010, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8.0% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 4.61% to 7.75% per year, and (c) 0% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. Any unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2010 was within a 30 year period.

THREE-YEAR TREND INFORMATION

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/09	\$ 566,007	100%	\$ -
9/30/10	\$ 561,288	100%	\$ -
9/30/11	\$ 520,481	100%	\$ -

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE D - PENSION PLANS -- (Continued)

DEFINED BENEFIT PENSION PLAN -- (Continued)

3. Annual Pension Cost - (Continued)

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
9/30/05	\$ 8,070,427	\$ 8,763,450	\$ 693,023	92.10%	\$ 5,307,881	13.10%
9/30/06	\$ 8,766,464	\$ 9,889,714	\$ 1,123,250	88.60%	\$ 6,315,321	17.80%
9/30/07	\$ 10,169,068	\$ 11,687,397	\$ 1,518,329	87.00%	\$ 7,903,367	19.20%
9/30/08	\$ 11,294,583	\$ 13,265,596	\$ 1,971,013	85.10%	\$ 9,142,381	21.60%
9/30/09	\$ 12,139,465	\$ 15,305,288	\$ 3,165,823	79.30%	\$ 9,619,363	32.90%
9/30/10	\$ 12,694,381	\$ 17,156,015	\$ 4,461,634	74.00%	\$ 9,539,301	46.80%

VOLUNTEER FIREMEN'S RETIREMENT PLAN

1. Plan Description

The City contributes to a Length of Service Awards Program, Defined Benefit Pension Plan, for the benefit of the City's volunteer firemen. The plan is administered by the VFIS Benefits Division of the Glatfelter Insurance Group.

Since the firemen are volunteers, benefits are based upon a length of service formula effective July 1, 1994. All volunteers age 21-45 with 12 months of service are eligible. Under the provisions of the plan, pension benefits vest 100% after five years of service. Prior to five years of service, there is no vesting. Members receive benefits beginning on the first of the month following attainment of entitlement age (65). Benefits are \$10.00 multiplied by total years of service. Past and future service calculated as of July 1, 1994 is limited to 30 years. After July 1, 1994, past service is limited to ten years and future service is limited to 30 years. Service prior to July 1, 1984 is excluded. The plan is funded entirely by the City. Also, the pension plan provides for death benefits immediately and certain disability benefits.

2. Funding Policy

The contribution requirements are actuarially determined annually.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE D - PENSION PLANS -- (Continued)

VOLUNTEER FIREMEN'S RETIREMENT PLAN -- (Continued)

3. Contributions Required and Contributions Made

Periodic contributions to the pension plan are determined on an actuarial basis using the entry age normal actuarial cost method, with frozen initial past service liability. Normal cost is funded on a current basis. Any unfunded actuarial accrued liability is funded within a 20-year period. Actual assumptions included a 4.75% investment rate of return.

THREE-YEAR TREND INFORMATION

Fiscal Year Ending	Normal Pension Cost	Percentage Contributed	Net Pension Obligation
6/30/09	\$ 5,068	100%	\$ -
6/30/10	\$ 4,313	100%	\$ -
6/30/11	\$ 6,130	100%	\$ -

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)
6/30/03	\$ 81,957	\$ 93,722	\$ 11,765	87.4%
6/30/04	\$ 96,783	\$ 102,952	\$ 6,169	94.0%
6/30/05	\$ 113,394	\$ 136,506	\$ 23,112	83.1%
6/30/06	\$ 96,790	\$ 124,779	\$ 27,989	77.6%
6/30/07	\$ 112,040	\$ 123,555	\$ 11,515	90.7%
6/30/08	\$ 130,592	\$ 143,934	\$ 13,342	90.7%
6/30/09	\$ 148,537	\$ 167,123	\$ 18,586	88.9%
6/30/10	\$ 128,834	\$ 148,453	\$ 19,619	86.8%

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE E – POST-EMPLOYMENT HEALTH CARE BENEFITS

1. Plan Description

The City of Foley Health Care Plan is a single-employer defined benefit health care plan administered by the City of Foley. A bi-annual actuarial valuation is made to determine whether the contributions are sufficient to meet the plan obligations. The latest actuarial valuation was made as of September 30, 2009. Membership in the plan consisted of eleven retirees and two hundred thirty-two active employees at that date. The Plan does not issue stand-alone financial reports.

Under the City's Health Care Plan, a retired employee who draws a monthly retirement check may elect to continue coverage in the Plan if the retiree has 25 years of service, regardless of age, or the retiree has 10 years of service and is 60 years old, or has been determined to be disabled by the Social Security Administration or the Retirement System of Alabama. Coverage is also offered to eligible retirees' dependents. Retirees reimburse the City for 100% of the premium rate set by the City for health, vision, and dental coverage. Pre-Medicare retirees pay the blended premium rate, while Medicare-eligible retirees are offered a C-Plus Plan with Blue Cross Blue Shield of Alabama.

2. Funding Policy

The contribution requirements of plan members are established and may be amended by the City of Foley. The City's required contribution is based on projected pay-as-you-go financing requirements.

3. Annual Other Post-Employment Benefit Cost

The cost of postemployment healthcare benefits should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. Accordingly, the City recognizes the cost of postemployment healthcare in the year when employee services are rendered, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the City's future cash flows. Because the City adopted the requirements of GASB Statement No. 45 prospectively, recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2009 liability.

For 2011, the City's annual other post-employment benefit (OPEB) cost was calculated based on the annual required contribution of the employer (ARC), which was determined as part of the September 30, 2009 actuarial valuation using the projected unit credit cost method. The actuarial assumptions included (a) 4.0% investment rate of return and (b) projected medical cost increases ranging from 10.5% in 2009 to 5.0% in 2016. The investment rate of return includes an inflation component of 4.5% and reflects the fact that no assets are set aside within the City of Foley that are legally held exclusively for retiree health benefits. 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 (or funding excess) over a period not to exceed thirty years.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE E – POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)

3. Annual Other Post-Employment Benefit Cost (Continued)

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The following table shows the components of the City’s annual OPEB cost, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation for the year ended September 30, 2011:

Annual required contribution (a)	\$	199,666
Interest on net OPEB obligation		5,826
Adjustment to the annual required contribution		<u>(4,525)</u>
Annual OPEB Cost		200,967
Contributions made by City		<u>(52,923)</u>
Increase in net OPEB obligation		148,044
Net OPEB obligation - beginning of year		<u>145,643</u>
Net OPEB obligation - end of year	\$	<u><u>293,687</u></u>

(a) Includes normal cost of \$149,709 plus amortized unfunded actuarial accrued liability cost of \$49,957

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the most recent three years were:

THREE-YEAR TREND INFORMATION

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/09	\$ 56,755	69.95%	\$ 17,055
9/30/10	\$ 199,818	35.65%	\$ 145,643
9/30/11	\$ 200,967	26.33%	\$ 293,687

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE E – POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)

3. Annual Other Post-Employment Benefit Cost (Continued)

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date **	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
9/30/06	N/A	N/A	N/A	N/A	N/A	N/A
9/30/07	\$ -	\$ 451,771	\$ 451,771	0.0%	\$ 7,903,367	5.7%
9/30/09	\$ -	\$ 1,608,044	\$ 1,608,044	0.0%	\$ 9,619,363	16.7%

** Three-year funding progress data will be shown when three year's funding progress data becomes available.

NOTE F - DEFERRED COMPENSATION PLAN

Employees of the City may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457. The plan is available to all eligible employees of the City. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency.

The plan is administered by the Employees' Retirement System of Alabama as fiduciary. Under the terms of an IRS Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts are held by the financial institution, until paid or made available to the employees or beneficiaries.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE G - CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended September 30, 2011:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 19,612,102	\$ 122,971	\$ -	\$ 61,708	\$ 19,796,781
Buildings	17,013,138	36,034	-	1,111,237	18,160,409
Property improvements	10,549,558	3,137	-	646,126	11,198,821
Infrastructure	83,671,766	1,478,019	-	1,961,581	87,111,366
Machinery & equipment	14,116,719	703,098	(143,735)	38,362	14,714,444
Construction in progress	<u>2,479,976</u>	<u>1,951,819</u>	<u>(36,418)</u>	<u>(3,819,014)</u>	<u>576,363</u>
Totals	147,443,259	<u>\$ 4,295,078</u>	<u>\$ (180,153)</u>	<u>\$ -</u>	151,558,184
Less accumulated depreciation	<u>40,940,220</u>				<u>44,990,860</u>
Capital assets, net	<u>\$106,503,039</u>				<u>\$106,567,324</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 371,212
Public safety	626,733
Highways and streets	2,271,537
Sanitation	189,861
Culture and recreation	<u>717,925</u>
Total depreciation expense	<u>\$ 4,177,268</u>

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE G - CAPITAL ASSETS -- (Continued)

Construction in progress consisted of the following:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Softball Field & Concession (Soccer)	\$ 28,141	\$ -	\$ -	\$ -	\$ 28,141
Bridge County Road 12 E	36,418	-	36,418	-	-
Airport Drive Extension	1,584,776	(18,589)	-	1,566,187	-
Graham Creek Nature Preserve - Pavilion	1,684	48,456	-	50,140	-
Graham Creek Nature Preserve - 18 mi trail	-	3,299	-	-	3,299
Cedar Street Sidewalks	37,500	291,930	-	-	329,430
Uptown Streetscape - Phase II	91,789	173,384	-	265,173	-
SE Regional Storm Water Detention	29,986	-	-	-	29,986
CR20 Sidewalk Ext - Glenlakes Bike Path	33,624	27,343	-	60,967	-
Cypress Pond Drainage Improvements	4,138	-	-	-	4,138
Airport Taxiways - Grant - Taxiways	41,743	250,988	-	292,731	-
Airport Taxiways - Grant - ALP	-	15,394	-	-	15,394
Wilson Property - Common Area Improvement	25,799	22,597	-	48,396	-
Land Purchase - Olde Town Subdivision	1,875	239,785	-	241,660	-
T-Hangar Construction (8)	-	121,373	-	-	121,373
Airport - Rehab Access Road	-	16,709	-	-	16,709
Runway 36 Approach	-	15,423	-	-	15,423
Juniper St - Widening/Sidewalks	-	12,470	-	-	12,470
Wilson Property - Wolf Bay Lodge	562,503	731,257	-	1,293,760	-
Total	\$ 2,479,976	\$ 1,951,819	\$ 36,418	\$ 3,819,014	\$ 576,363

During 2011, the County Road 12 East Bridge project was discontinued. Accordingly, amounts totaling \$36,418 that had been previously capitalized for that project were written off.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE H - LONG-TERM DEBT

During the year ended September 30, 2011, the Cooperative District authorized the issuance of up to \$1.3 million principal amount Revenue Bonds, Series 2010, for the purpose of reimbursing the City for the cost of the "Wolf Bay Lodge" project which was financed by a construction loan with a local bank. Upon completion of the construction project, the District and the City mutually agreed not to issue the bonds. The City's General Fund transferred to the District the amount required to pay all costs related to the project, including repayment of the construction loan and related loan costs.

The Alabama Constitution limits the amount of long-term debt the City can incur. The amount of debt applicable to this limit during a year can be no greater than 20% of the assessed value of taxable property as of the beginning of the fiscal year. As of September 30, 2011, the amount of outstanding debt applicable to this limit was equal to 3.99% of the property assessment as of October 1, 2010.

In 2009 the Public Facilities Cooperative District (a blended component unit of the City) issued \$23,335,000 in revenue bonds. The Bonds are special obligations of the District payable solely from revenues derived by the District from facilities financed by the proceeds of the Bonds (the "Project"), including without limitation payments to be made under a Lease Agreement by the District to the City of Foley, Alabama (the "City") with respect to the Project. The Lease Agreement provides that (i) for each year in which the Lease Agreement is in effect, the City shall pay rentals for the account of the District at such times and in such amounts as shall be sufficient to pay the principal of and interest on the Bonds when due and any amounts required to be paid into the reserve fund for the Bonds, (ii) the obligations of the City under the Lease Agreement shall be general obligations of the City, and (iii) the City may terminate the Lease Agreement as of September 30 of any year without penalty, and without acceleration or advancement of maturity or due date of any principal of or interest on the Bonds or amount payable under the Lease Agreement, and without recourse against the City for the payment of any amount which would otherwise become due under the Lease Agreement in any year subsequent to such termination of the Lease Agreement. As set forth herein, the Bonds and the obligations of the City under the Lease Agreement are not chargeable against the constitutional debt limit of the City.

The warrants, bonds, and notes payable as of September 30, 2011 were as follows:

City of Foley

\$1,295,000 Series 2004, General Obligation Warrants; due in annual installments from \$110,000 to \$135,000 plus semi-annual interest varying from 1.4% to 3.2%; final maturity in 2015.	\$ 505,000
\$11,460,000 Series 2006A, General Obligation Warrants; due in semi-annual installments from \$280,000 to \$510,000 plus monthly interest at 3.9%; final maturity in 2020.	8,115,000
\$3,615,000 Series 2009, General Obligation Warrants; due in annual installments from \$50,000 to \$360,000 plus semi-annual interest varying from 2.0% to 4.25%; final maturity in 2030.	3,255,000

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE H - LONG-TERM DEBT -- (Continued)

Public Facilities Cooperative District

\$23,335,000 Public Facilities Cooperative District Series 2009, Revenue Bonds; due in annual installments from \$820,000 to \$1,595,000 plus semi-annual interest with effective rates from 3.7% to 4.5%; final maturity in 2030.

21,640,000

Total

\$ 33,515,000

The principal maturities and related interest requirements for the warrants, bonds, and notes payable for the next five fiscal years and thereafter are as follows:

Warrants and Bonds:

Fiscal Year Ending September 30,	Principal	Interest	Total
2012	\$ 1,960,000	\$ 1,258,720	\$ 3,218,720
2013	2,015,000	1,203,387	3,218,387
2014	2,065,000	1,144,691	3,209,691
2015	2,150,000	1,072,179	3,222,179
2016	2,100,000	996,390	3,096,390
2017 to 2021	10,505,000	3,839,295	14,344,295
2022 to 2026	6,435,000	2,249,793	8,684,793
2027 to 2031	6,285,000	655,274	6,940,274
TOTALS	<u>\$ 33,515,000</u>	<u>\$ 12,419,729</u>	<u>\$ 45,934,729</u>

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE H - LONG-TERM DEBT -- (Continued)

The changes in long-term debt for the year were as follows:

	Principal Balance 10/1/10	Additions	Reductions	Principal Balance 9/30/11	Due Within One Year
Bonds Payable:					
<u>General Obligation Warrants:</u>					
Series 2004 General Obligation Warrants	\$ 625,000	\$ -	\$ (120,000)	\$ 505,000	\$ 120,000
Series 2006 General Obligation Warrants	8,785,000	-	(670,000)	8,115,000	700,000
Series 2009 General Obligation Warrants	3,530,000	-	(275,000)	3,255,000	300,000
<u>Revenue Bonds:</u>					
Public Facilities Cooperative District Series 2009 Revenue Bonds	22,460,000	-	(820,000)	21,640,000	840,000
	<u>35,400,000</u>	-	<u>(1,885,000)</u>	<u>33,515,000</u>	<u>1,960,000</u>
<u>Less deferred amounts:</u>					
For issuance premiums	280,559	-	(14,764)	265,795	-
For issuance discounts	(33,822)	-	2,744	(31,078)	-
For issuance costs	(622,046)	-	34,214	(587,832)	-
On refunding	(119,440)	-	19,244	(100,196)	-
Total bonds payable	34,905,251	-	(1,843,562)	33,061,689	1,960,000
Notes payable	1,029,646	1,124,312	(2,153,958)	-	-
Capital lease obligation	118,772	-	(37,313)	81,459	39,546
Accrued interest	42,281	63,061	-	105,342	105,342
Health claims payable	146,600	1,486,315	(1,503,615)	129,300	129,300
Post-employment health care	145,643	148,044	-	293,687	-
Compensated absences	520,458	713,682	(650,573)	583,567	233,427
Long-term liabilities	<u>\$36,908,651</u>	<u>\$ 3,535,414</u>	<u>\$ (6,189,021)</u>	<u>\$34,255,044</u>	<u>\$ 2,467,615</u>

The General Fund generally liquidates claims and judgments, and compensated absences for governmental activities.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE I - CAPITAL LEASE OBLIGATION

During 2008, the City entered into a non-cancellable lease agreement for certain police vehicle equipment totaling \$187,195. The lease qualifies as a capital lease for accounting purposes and is recorded at the present value of the future minimum lease payments at the inception of the lease. At September 30, 2011, the leased equipment had a cost of \$187,195 and accumulated amortization of \$58,891. Amortization of the leased asset is included in depreciation expense. Future minimum lease payments together with the present value of the minimum lease payments are as follows:

Year ending September 30:		
2012		\$ 44,422
2013		44,422
Total minimum lease payments		<u>88,844</u>
Amount representing interest expense		<u>7,384</u>
Present value of minimum lease payments		<u>\$ 81,459</u>

NOTE J - INTERFUND RECEIVABLE AND PAYABLES

The following is a detailed listing of interfund receivables and payables shown in the combined balance sheet:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$ 5,597	\$ 123,890
Public Facilities Cooperative District Fund	123,890	-
Non-Major Governmental Funds	-	5,597
Total	<u>\$ 129,487</u>	<u>\$ 129,487</u>

NOTE K - INTERFUND TRANSFERS

Interfund transfers during the year ended September 30, 2011 were as follows:

Fund	Transfers To Other Funds	Transfers From Other Funds
General Fund	\$ 5,917,283	\$ 1,510,919
Capital Projects Fund	-	1,299,790
Public Facilities Cooperative District Fund	1,370,183	2,941,354
Non-Major Governmental Funds	140,736	1,676,139
Total	<u>\$ 7,428,202</u>	<u>\$ 7,428,202</u>

Transfers to or from other funds are based on budgetary or statutory requirements, occur on a routine basis, and are consistent with the activities of the fund making the transfer.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE L – FUND BALANCE CONSTRAINTS

The constraints on fund balance as listed in aggregate in the Statement of Revenues, Expenditures, and Changes in Fund Balance are detailed according to balance classification and fund.

	General Fund	Capital Projects Fund	Public Facilities Cooperative District	Non-Major Funds	Total
Fund Balances:					
Non-Spendable:					
Inventory	\$ 73,432	\$ -	\$ -	\$ -	\$ 73,432
Prepaid expenses	104,779	-	-	-	104,779
Total Non-Spendable	<u>178,211</u>	-	-	-	<u>178,211</u>
Restricted:					
Debt Service Reserves	-	-	1,803,477	336,287	2,139,764
Capital Projects	-	224,533	-	-	224,533
State Gas Tax	-	-	-	399,526	399,526
County Fire Ad Valorem Tax	-	-	-	293,755	293,755
Federal Forfeitures	31,793	-	-	-	31,793
Alabama Emergency Management	226,199	-	-	-	226,199
Corrections	-	-	-	247,853	247,853
Total Restricted	<u>257,992</u>	<u>224,533</u>	<u>1,803,477</u>	<u>1,277,421</u>	<u>3,563,423</u>
Committed:					
Economic Development	-	-	124,988	-	124,988
Total Committed	-	-	124,988	-	124,988
Assigned:					
Culture and Recreation	28,340	-	-	75,561	103,901
Balancing Future Budget Shortfalls	2,687,276	-	-	-	2,687,276
Self-Insurance Provisions	505,516	-	-	-	505,516
Total Assigned	<u>3,221,132</u>	-	-	75,561	<u>3,296,693</u>
Unassigned:					
	16,889,069	-	-	-	16,889,069
Total Fund Balances	<u>\$ 20,546,404</u>	<u>\$ 224,533</u>	<u>\$ 1,928,465</u>	<u>\$ 1,352,982</u>	<u>\$ 24,052,384</u>

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE M - LEASES

Lessor - The U.S. Postal Service occupies a City owned facility under a twenty (20) year lease which expires in 2015. The annual rental revenues are \$140,532 for the remainder of the lease.

Lessee - During the year ended September 30, 2011, the City entered into a non-cancelable operating lease for a commercial building used for storage from June 1, 2011 – May 31, 2016. The City may terminate the lease if the Landlord does not meet certain minimum employee requirements. The total lease payments made during the current year were \$11,000. The future minimum lease payments are as follows:

Year ending September 30:

2012	\$	33,000
2013		33,000
2014		33,000
2015		33,000
2016		<u>22,000</u>
		<u>\$ 154,000</u>

NOTE N - RISK MANAGEMENT AND SELF-INSURED HEALTH INSURANCE

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance to cover these risks. During the year the City had no significant reductions in its commercial insurance coverage from the prior year. In addition, there have been no settlements that exceeded the City’s insurance coverage in any of the past three fiscal years.

Beginning in January 2009 the City established a self-funded health plan for its employees. A third-party administrator is responsible for the approval, processing, and payment of claims. The City is responsible for a monthly administrative fee. Employees who are eligible for coverage by the plan are charged a monthly fee and claims paid by the City are charged to the various departments where each employee works. Medical claims exceeding \$50,000 per covered individual, per year, are covered through a private insurance carrier.

Liabilities for unpaid claims are based on recommendations by third-party administrators. Changes in the balance of claims liabilities, including provision for incurred but not reported (IBNR) claims, are as follows.

Unpaid claims, beginning of year	\$	146,600
Incurred claims, including change in IBNR provision		1,486,315
Claims payments		<u>(1,503,615)</u>
Unpaid claims, end of year		<u>\$ 129,300</u>

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE O - COMMITMENTS AND CONTINGENCIES

The City had various capital improvement projects in progress at September 30, 2011. In addition, the City has commitments and plans for additional major capital projects for the fiscal year September 30, 2012. The cost of these projects is estimated by management to be approximately \$3.1 million at September 30, 2011. The City expects to receive partial funding of approximately \$760,000 for these projects from third parties in the form of grants and joint participation reimbursements in 2012.

Various lawsuits are pending against the City. In addition, claims have been filed which have not yet resulted in lawsuits. In the opinion of legal counsel, the potential adverse impact of all these claims, individually or in the aggregate, would not be material to the financial statements of the City.

The City has received 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 agencies for expenditures disallowed under the terms of the grants. City management believes such disallowances, if any, would not be material to the financial statements of the City.

The State of Alabama is currently in litigation over potential refunds associated with the Oil & Gas Severance Tax. A ruling from the State of Alabama's Administrative Law Judge ordered the Alabama Department of Revenue to pay refunds to some oil and gas severance taxpayers. The State Department of Revenue intends to appeal these decisions to a higher court. Oil and gas severance taxes have been paid to the City of Foley through disbursements from the Baldwin County Commission. The refund amounts, if any, due to the Baldwin County Commission because of this ruling cannot be determined at this time. In addition to refunds of amounts collected in the past, the rulings may cause a decrease in future distributions to the City of Foley.

NOTE P – DEEPWATER HORIZON INCIDENT

On April 20, 2010, the Deepwater Horizon drilling rig exploded, causing a massive ongoing oil spill in the Gulf of Mexico. Since that time, the Gulf Coast has experienced significant decreases in tourism as a result of the oil spill. In January 2011, the City reached an agreement with BP for a partial settlement of loss of approximately \$580,000 which represents the reduction in the City's expected sales and other local tax revenues for May-September 2010. The City intends to file a final claim with BP for the period October 1, 2010 – September, 2011.

In July 2010, the City received approximately \$252,000 from the State of Alabama Emergency Management Administration (AEMA), which was received by the State from BP to purchase, install, and maintain boom at the Graham Creek Preserve area. Before the boom could be purchased, a tropical disturbance came through the area and the BP Unified Command required that all boom be removed and subsequently decided that the boom would not be reset. The City received permission from AEMA to use a portion of these funds to pay for legal fees that were disallowed in their BP claims. The City continues to seek permission for other alternative uses for these funds, and does not expect to be required to return any of these funds.

City of Foley, Alabama
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE Q - ECONOMIC DEPENDENCY

The City's main revenue sources are derived primarily from sales tax on retail businesses, charges for services such as waste removal, and utility tax equivalents (Note C). The revenues are collected on a monthly basis.

NOTE R - NEW ACCOUNTING PRONOUNCEMENTS

For the year ending September 30, 2011, the City implemented the following statements of financial accounting standards issued by the Governmental Accounting Standards Board:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*
- GASB Statement No. 59, *Financial Instruments Omnibus*
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

GASB Statement No. 54 establishes standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additionally, the definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency. (See Note A, 13)

GASB Statement No. 59 has no reporting implications for the City of Foley.

REQUIRED SUPPLEMENTARY INFORMATION

City of Foley, Alabama
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year ended September 30, 2011

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
Revenues				
Property taxes	\$ 1,185,830	\$ 1,185,830	\$ 1,308,484	\$ 122,654
Sales and other local taxes	11,594,449	11,594,449	12,215,166	620,717
Licenses and permits	1,712,286	1,712,286	1,839,187	126,901
Intergovernmental	323,886	429,628	391,817	(37,811)
Charges for services	1,884,705	1,884,705	1,839,975	(44,730)
Fines and forfeitures	555,456	546,556	603,197	56,641
Utility tax equivalents	5,924,970	5,924,970	5,927,604	2,634
Interest and rents	490,504	490,504	369,400	(121,104)
Contributions and donations	14,736	14,736	42,876	28,140
Other	398,865	398,865	162,477	(236,388)
Total revenues	<u>24,085,687</u>	<u>24,182,529</u>	<u>24,700,183</u>	<u>517,654</u>
Expenditures				
Current:				
General government	4,089,348	4,288,948	4,169,232	119,716
Public safety	8,725,983	8,837,008	8,464,599	372,409
Highways and streets	1,636,499	1,648,796	1,582,734	66,062
Sanitation	1,948,192	1,952,335	1,927,347	24,988
Culture and recreation	3,505,963	3,731,128	3,507,028	224,100
Conservation	7,500	7,500	56,513	(49,013)
Economic development	35,000	665,500	1,437,367	(771,867)
Capital outlay	816,214	918,227	670,724	247,503
Debt service:				
Principal	37,315	37,315	37,313	2
Interest	7,110	7,110	7,109	1
Total expenditures	<u>20,809,124</u>	<u>22,093,867</u>	<u>21,859,966</u>	<u>233,901</u>
Excess (deficiency) of revenues over expenditures	3,276,563	2,088,662	2,840,217	751,555
Other financing sources (uses)				
Transfers in	116,387	741,887	1,510,919	769,032
Transfers out	(6,503,901)	(7,641,044)	(5,917,283)	1,723,761
Proceeds from sale of assets	62,000	62,000	21,031	(40,969)
Total other financing sources (uses)	<u>(6,325,514)</u>	<u>(6,837,157)</u>	<u>(4,385,333)</u>	<u>2,451,824</u>
Net change in fund balances	(3,048,951)	(4,748,495)	(1,545,116)	3,203,379
Fund balances, beginning of year	22,091,520	22,091,520	22,091,520	-
Fund balances, end of year	<u>\$ 19,042,569</u>	<u>\$ 17,343,025</u>	<u>\$ 20,546,404</u>	<u>\$ 3,203,379</u>

City of Foley, Alabama
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2011

NOTE A - BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. During the months of July and August, Administration meets with each of the department heads to discuss a proposed budget for that department for the fiscal year commencing the following October 1.
2. Administration then drafts budgets for the General Fund, which include proposed expenditures and the means of financing them.
3. On or before September 1, a proposed budget is submitted to the Mayor and City Council. Prior to October 1, the budgets are legally enacted through passage of a resolution.
4. The City Council may amend the budget through resolution as needed.
5. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP) and in accordance with Alabama law.
6. With the exception of construction work in progress, appropriations lapse at the end of each fiscal year.

SUPPLEMENTARY INFORMATION

City of Foley, Alabama
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2011

ASSETS	Special Revenue Funds	Debt Service Funds	Total Non-Major Governmental Funds
Cash	\$ 997,059	\$ 336,287	\$ 1,333,346
Certificates of deposit	16,388	-	16,388
Receivables			
Gasoline excise tax	8,030	-	8,030
Property and advalorem taxes	1,386	-	1,386
Total assets	<u><u>\$ 1,022,863</u></u>	<u><u>\$ 336,287</u></u>	<u><u>\$ 1,359,150</u></u>
 LIABILITIES			
Accounts payable	\$ 571	\$ -	\$ 571
Due to other funds	5,597	-	5,597
Total liabilities	<u><u>6,168</u></u>	<u><u>-</u></u>	<u><u>6,168</u></u>
 FUND BALANCES			
Restricted	941,134	336,287	1,277,421
Assigned	75,561	-	75,561
Total fund balances	<u><u>1,016,695</u></u>	<u><u>336,287</u></u>	<u><u>1,352,982</u></u>
Total liabilities and fund balances	<u><u>\$ 1,022,863</u></u>	<u><u>\$ 336,287</u></u>	<u><u>\$ 1,359,150</u></u>

City of Foley, Alabama
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
Year ended September 30, 2011

	Special Revenue Funds	Debt Service Funds	Community Development Block Grant Program	Total Non-Major Governmental Funds
Revenues				
Property and advalorem taxes	\$ 165,294	\$ -	\$ -	\$ 165,294
Sales and other local taxes	59,130	-	-	59,130
Intergovernmental	14,476	-	-	14,476
Charges for services	243,835	-	-	243,835
Fines and forfeitures	132,034	-	-	132,034
Interest and rents	915	25	-	940
Contributions and donations	23,149	-	-	23,149
Other	9,146	-	-	9,146
Total revenues	<u>647,979</u>	<u>25</u>	<u>-</u>	<u>648,004</u>
Expenditures				
Current:				
General government	58,152	-	-	58,152
Public safety	181,460	-	-	181,460
Culture and recreation	213,267	-	-	213,267
Capital outlay	24,831	-	-	24,831
Debt service:				
Principal	-	1,065,000	-	1,065,000
Interest	-	460,836	-	460,836
Bond cost	-	64,742	-	64,742
Total expenditures	<u>477,710</u>	<u>1,590,578</u>	<u>-</u>	<u>2,068,288</u>
Excess (deficiency) of revenues over expenditures	170,269	(1,590,553)	-	(1,420,284)
Other financing sources (uses)				
Transfers in	-	1,676,139	-	1,676,139
Transfers out	(140,686)	-	(50)	(140,736)
Total other financing sources (uses)	<u>(140,686)</u>	<u>1,676,139</u>	<u>(50)</u>	<u>1,535,403</u>
Net change in fund balances	29,583	85,586	(50)	115,119
Fund balances, beginning of year	987,112	250,701	50	1,237,863
Fund balances, end of year	<u>\$ 1,016,695</u>	<u>\$ 336,287</u>	<u>\$ -</u>	<u>\$ 1,352,982</u>

City of Foley, Alabama
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
September 30, 2011

ASSETS	County Fire Ad Valorem Tax and State Grant	State Gasoline Tax	Public Library	Corrections Fund	Youth Sports	Totals
Cash	\$ 292,369	\$ 392,067	\$ 56,442	\$ 253,450	\$ 2,731	\$ 997,059
Certificates of deposit	-	-	16,388	-	-	16,388
Receivables						
Gasoline excise tax	-	8,030	-	-	-	8,030
Property and advalorem taxes	1,386	-	-	-	-	1,386
Total assets	<u>\$ 293,755</u>	<u>\$ 400,097</u>	<u>\$ 72,830</u>	<u>\$ 253,450</u>	<u>\$ 2,731</u>	<u>\$ 1,022,863</u>
 LIABILITIES						
Accounts payable	\$ -	\$ 571	\$ -	\$ -	\$ -	\$ 571
Due to other funds	-	-	-	5,597	-	5,597
Total liabilities	<u>-</u>	<u>571</u>	<u>-</u>	<u>5,597</u>	<u>-</u>	<u>6,168</u>
 FUND BALANCES						
Restricted	293,755	399,526	-	247,853	-	941,134
Assigned	-	-	72,830	-	2,731	75,561
Unassigned	-	-	-	-	-	-
Total fund balances	<u>293,755</u>	<u>399,526</u>	<u>72,830</u>	<u>247,853</u>	<u>2,731</u>	<u>1,016,695</u>
Total liabilities and fund balances	<u>\$ 293,755</u>	<u>\$ 400,097</u>	<u>\$ 72,830</u>	<u>\$ 253,450</u>	<u>\$ 2,731</u>	<u>\$ 1,022,863</u>

City of Foley, Alabama
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year ended September 30, 2011

	County Fire Ad Valorem Tax and State Grant	State Gasoline Tax	Public Library	Corrections Fund	Youth Sports	Totals
Revenues						
Property and advalorem taxes	\$ 165,294	\$ -	\$ -	\$ -	\$ -	\$ 165,294
Sales and other local taxes	-	59,130	-	-	-	59,130
Intergovernmental	-	-	12,539	1,937	-	14,476
Charges for services	-	-	-	-	243,835	243,835
Fines and forfeitures	-	-	15,319	116,715	-	132,034
Interest and rents	134	372	228	157	24	915
Contributions and donations	-	-	23,149	-	-	23,149
Other	-	-	9,146	-	-	9,146
Total revenues	<u>165,428</u>	<u>59,502</u>	<u>60,381</u>	<u>118,809</u>	<u>243,859</u>	<u>647,979</u>
Expenditures						
Current:						
General government	-	-	-	58,152	-	58,152
Public safety	11,437	19,191	-	150,832	-	181,460
Culture and recreation	-	-	47,242	-	166,025	213,267
Capital outlay	23,362	-	1,469	-	-	24,831
Total expenditures	<u>34,799</u>	<u>19,191</u>	<u>48,711</u>	<u>208,984</u>	<u>166,025</u>	<u>477,710</u>
Excess (deficiency) of revenues over expenditures	130,629	40,311	11,670	(90,175)	77,834	170,269
Other financing sources (uses)						
Transfers out	-	-	-	-	(140,686)	(140,686)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(140,686)</u>	<u>(140,686)</u>
Net change in fund balances	130,629	40,311	11,670	(90,175)	(62,852)	29,583
Fund balances, beginning of year	163,126	359,215	61,160	338,028	65,583	987,112
Fund balances, end of year	<u>\$ 293,755</u>	<u>\$ 399,526</u>	<u>\$ 72,830</u>	<u>\$ 247,853</u>	<u>\$ 2,731</u>	<u>\$ 1,016,695</u>

City of Foley, Alabama
NON-MAJOR DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
September 30, 2011

ASSETS	General Obligation Warrants Series 2004	General Obligation Warrants Series 2009	Totals
Cash	\$ 82,575	\$ 253,712	\$ 336,287
Total assets	\$ 82,575	\$ 253,712	\$ 336,287
 FUND BALANCES			
Restricted	82,575	253,712	336,287
Total fund balances	82,575	253,712	336,287
Total liabilities and fund balances	\$ 82,575	\$ 253,712	\$ 336,287

City of Foley, Alabama
NON-MAJOR DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
Year ended September 30, 2011

	General Obligation Warrants Series 2004	General Obligation Warrants Series 2006A	General Obligation Warrants Series 2009	Totals
Revenues				
Interest	\$ 7	\$ -	\$ 18	\$ 25
Total revenues	<u>7</u>	<u>-</u>	<u>18</u>	<u>25</u>
Expenditures				
Debt service:				
Principal	120,000	670,000	275,000	1,065,000
Interest	17,076	326,210	117,550	460,836
Bond cost	-	64,742	-	64,742
Total expenditures	<u>137,076</u>	<u>1,060,952</u>	<u>392,550</u>	<u>1,590,578</u>
Excess (deficiency) of revenues over expenditures	(137,069)	(1,060,952)	(392,532)	(1,590,553)
Other financing sources (uses)				
Transfers in	136,519	1,060,952	478,668	1,676,139
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>136,519</u>	<u>1,060,952</u>	<u>478,668</u>	<u>1,676,139</u>
Net change in fund balances	(550)	-	86,136	85,586
Fund balances, beginning of year	83,125	-	167,576	250,701
Fund balances, end of year	<u>\$ 82,575</u>	<u>\$ -</u>	<u>\$ 253,712</u>	<u>\$ 336,287</u>

COMPLIANCE AND INTERNAL CONTROL

City of Foley, Alabama
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended September 30, 2011

Federal Agency Pass-Through Entity Federal Program	Federal CFDA Number	Contract/Grant Number	Expenditures
U.S. Department of Commerce			
Pass-through from:			
Alabama Department of Conservation Coastal Zone Management Administration Awards	11.419	CZM-306a-10-1	24,158
U.S. Department of Interior			
Pass-through from:			
Alabama Historic Commission Historic Preservation Fund Grants	15.904	AL 10-020	2,288
U.S. Department of Justice			
Direct Programs:			
Federal Equitable Sharing funds	16.000	Justice Funds	29,971
Justice Assistance Grant Program			
2010 JAG Tactical Excellence	16.738	DJ-BX-1553	12,595
Edward Byrne Memorial Justice Assistance Grant Program	16.738	DJBX-1236	7,042
	16.738	Total	19,637
Public Safety Partnership and Community Policing Grants			
COPS Technology Program	16.710	CKWX 0329	22,185
ARRA - COPS Hiring Recovery Program (CHRP)	16.710	RKWX 0024	190,819
	16.710	Total	213,004
Pass-through from:			
Baldwin County Sherrif's Department			
Federal Equitable Sharing funds	16.000	Justice Funds	10,000
Alabama Department of Economic and Community Affairs			
Law Enforcement & Traffic Safety Division (LETS)	16.738	DH 01 024	25,000
United Way of South Alabama			
Anti-Gang Initiative	16.744	N/A	6,900
Project Safe Neighborhood	16.609	N/A	10,000
Alabama Department of Public Safety			
ARRA - High Intensity Drug Trafficking Area Task Force (HIDTA)	16.809	G09GC00002A	941
Federal Bureau of Investigation			
Congressionally Recommended Awards			
Mobile Safe Streets Task Force	16.753	281D-MO-36048	12,155

(Continued)

City of Foley, Alabama
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Year Ended September 30, 2011

Federal Agency Pass-Through Entity Federal Program	Federal CFDA Number	Contract/Grant Number	Expenditures
U.S. Department of Transportation			
Pass-through from:			
Alabama Department of Transportation			
Airport Improvement Program	20.106	3-01-0031-008	253,062
Airport Improvement Program	20.106	3-01-0031-009	30,526
	20.106	Total	283,588
Alabama Department of Transportation			
Highway Planning and Construction	20.205	STPTE-TE09 (956)	232,079
U.S. Environmental Protection Agency			
Direct Programs:			
Comprehensive Water Infrastructure Assessment	66.202	XP97486704	30,907
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 900,628

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Foley, Alabama under programs of the federal government for the year ended September 30, 2011. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City of Foley, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Foley.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
2. Pass-through entity identifying numbers are presented where available.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Foley, Alabama (“the City”), as of and for the year ended September 30, 2011, which collectively comprise the City’s basic financial statements and have issued our report thereon dated April 9, 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 the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’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 misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be 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 the City'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

Honorable Mayor and Members of the City Council
City of Foley, Alabama
Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
Government Audit Standards (Continued)

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 and use of the management, others within the organization, city council, and federal and state awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Warren Averett, LLC

April 9, 2012
Foley, Alabama

Warren Averett O'Sullivan Creel Division

**AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the City of Foley, Alabama ("the City"), with the types of compliance requirements described in the *United States Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2011. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Honorable Mayor and Members of the City Council
City of Foley, Alabama
Report on Compliance with Requirements Applicable to
Each Major Project and on Internal Control over Compliance in
Accordance with *OMB Circular A-133* (Continued)

A deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the organization, City Council, and 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.

Warren Averett, LLC

April 9, 2012
Foley, Alabama

**CITY OF FOLEY, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2011**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

We have issued a report with an unqualified opinion on the financial statements.

Internal control over financial reporting:

Material weakness (es) identified?	<u>Yes</u>	<u>No</u>	<u>X</u>
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Significant deficiency (ies) identified that are not considered to be material weaknesses?	<u>Yes</u>	<u>None Reported</u>	<u>X</u>
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Noncompliance material to financial statements noted?	<u>Yes</u>	<u>No</u>	<u>X</u>
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FEDERAL AWARDS

Internal control over major programs:

Material weakness (es) identified?	<u>Yes</u>	<u>No</u>	<u>X</u>
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Significant deficiency (ies) identified that are not considered to be material weaknesses?	<u>Yes</u>	<u>None Reported</u>	<u>X</u>
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We have issued a report with an unqualified opinion on compliance with requirements applicable to each major program.

There were no audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133.

The City of Foley, Alabama's major programs are as follows:

U.S. Department of Justice – ARRA - Public Safety Partnership and Community Policing Grants	CFDA #16.710
U.S. Department of Transportation – Airport Improvement Program	CFDA #20.106

CITY OF FOLEY, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
SEPTEMBER 30, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS (Continued)

The dollar threshold used to distinguish Type A and Type B programs is \$300,000.

The City of Foley, Alabama did not qualify for consideration as a low risk auditee.

SECTION II - FINANCIAL STATEMENT FINDINGS

There are no findings which were required to be reported in accordance with government auditing standards generally accepted in the United States of America.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no audit findings required to be reported in accordance with section 510(a) of Circular A-133.