

CITY OF GULF SHORES, ALABAMA

Comprehensive Annual Financial Report

For the Fiscal Year Ended
December 31, 2011



Gulf State Park Pier

Prepared By: Finance and Administration Department,
City of Gulf Shores, Alabama



THE CITY OF GULF SHORES, ALABAMA
FINANCIAL STATEMENTS
DECEMBER 31, 2011

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ROBERT CRAFT - Mayor
STEVE GARMAN - City Administrator

April 20, 2012

To the Honorable Mayor, members of the City Council and the Citizens of Gulf Shores:

The City of Gulf Shores financial statements are presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants: Grant, Sanders and Taylor, P.C.. The City of Gulf Shores issues the comprehensive annual financial report of the City for the fiscal year ended December 31, 2011.

The comprehensive annual financial report consists of management's representations concerning the finances of the City of Gulf Shores. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Gulf Shores has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Gulf Shores' financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh the benefits, the City of Gulf Shores' framework of internal controls provides reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Gulf Shores' financial statements have been audited by Grant, Sanders and Taylor, P.C. a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Gulf Shores for the fiscal year ended December 31, 2011 are free of material misstatement. The independent audit involved 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; and evaluating the overall financial statement presentation. The independent auditor concluded, based on the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Gulf Shore's financial statements for the fiscal year ended December 31, 2011, are presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of the Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Gulf Shores' MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City, incorporated in 1957, is located on the southern border of Baldwin County on the Gulf of Mexico. The coastal town is situated on Alabama State Highway 182, approximately 36 miles west of Pensacola, Florida, and approximately 47 miles southeast of Mobile, Alabama.

COUNCILMEN

CAROLYN M. DOUGHTY - JASON DYKEN - JOE GARRIS - PHILIP HARRIS - STEPHEN E. JONES
P.O. Box 299 • Gulf Shores, Alabama 36547 • 251-968-2425

Profile of the Government (continued)

The City is a tourist-oriented resort area. City facilities, which also serve the large visitor population that is vital to Gulf Shores' economy, include a municipal complex and a 10,000-square-foot Civic Center. A 6,000-square-foot library sponsors activities for all ages and is surrounded by an Adult Activity Center, a Fitness and Recreation Center, which includes an indoor heated swimming pool, and a municipal park with lighted tennis courts and ball fields. Four additional major parks are maintained by the City, one at Lagoon Pass on West Beach, one in the eastern residential area of the City, one at the Public Beach, which features a beach front boardwalk and pavilion and Wade Ward Nature Park featuring a boardwalk with observation points to provide the public with access to view tidally influenced wetland areas for recreation and education purposes.

The City is a municipal corporation incorporated under the Constitution and laws of the State of Alabama. The City is governed by a Council consisting of a mayor and five council members elected for terms of four years. Members of the City Council serve part-time and are responsible for adopting ordinances, resolutions and setting the policies of the City, including the appropriation of money. The Mayor, who is a member of the City Council, is elected for a four-year term and is the chief administrative officer of the City.

The financial reporting entity (the City) includes all the funds of the primary government (i.e., the City of Gulf Shores, Alabama as legally defined), as well as the discretely presented component units of the Jack Edwards Airport and Airport Authority of the City of Gulf Shores, Alabama. The City provides, among other things, police protection, fire protection, and park and recreation facilities.

The annual budget or spending plan serves as the foundation for the City of Gulf Shores' financial planning and control. All departments of the City of Gulf Shores are required to present a departmental plan for appropriation to the City Administrator by the end of October each year. The City Manager uses these requests as a starting point for developing a proposed budget for review by the Council for review prior to December 1. The Council holds public hearings and adopts the budget by December 31, the close of the City of Gulf Shores' fiscal year. Budget-to-actual comparisons are provided in this report for governmental funds.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the environment specific to the City of Gulf Shores.

Long-term financial planning

The City and the surrounding Gulf Coast area suffered significant damages as a result of Hurricane Ivan in September 2004. During August 2005, the Gulf Coast area was also impacted by Hurricane Katrina. Following an audit of the Office of Inspector General (OIG), Department of Homeland Security an estimated overpayment of \$9,892,337 was recorded in the 2008 Financial Statement Notes. The City successfully appealed the findings of the OIG audits with a net repayment to the Federal Emergency Management Agency (FEMA) of \$1,364,427 for uncontested overpayments following the close of the Fiscal Year 2009. The City has adopted formal Financial Policies which provide for operating and stabilization reserve funds in the event of another major disaster or economic downturn. Included in the City's Financial Policies is the establishment of a Beach Renourishment Fund to provide match funds for FEMA authorized future beach repairs due to storms occurring in 2008 and 2009 as well as for future storms. In April 2010 the BP Oil Spill, a spill of National Significance occurred 100 miles in the Gulf of Mexico south of Gulf Shores. The City suffered substantial economic losses from the BP Oil Spill and is still trying to recover economically.

Major Initiatives

The City has entered a public-private partnership with Pelican Place developers for an outdoor shopping center that includes a major department store retail chain, movie theater, book store and other stores. A Publix Grocery store was opened in the spring of 2010 and is part of the Pelican Place development. The development has been a tremendous asset to the city promoting job growth and keeping dollars spent locally.

Federal grant dollars of approximately \$6 million were secured in early 2010 for a dry dock basin expansion that is another public-private partnership designed to bring additional jobs and economic benefits to the local economy. Construction began in 2011 on the dry dock basin expansion.

Current Economic Condition

The City is sound financially. A target fund balance is commonly considered to be between 5 to 15 percent of expenditures; the City's General Fund balance is 25 per cent with an additional 20 percent reserved for Beach Renourishment resulting in a combined fund balance target of 45 percent. The City has adopted Financial Policies consistent with sound financial management enabling it to maintain current operations in the event of economic downturns or natural disasters.

Cash Management Policies and Practices

Cash temporarily idle during the year was invested in demand deposits, savings accounts, certificates of deposit, and short term investments with maturities of three months or less. The Governmental funds earned interest revenue of \$91,545 on investments for the year ended December 31, 2011. The City of Gulf Shores considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Gulf Shores for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2010. This represented the first year the City achieved this prestigious award. In order to be awarded a Certificate of Achievement for Excellence in Financial Reporting from the GFOA a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

In addition, the City also received for the first time the GFOA Award for Distinguished Budget Presentation for its annual appropriated budget dated January 1, 2011 for fiscal year 2011. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories including policy documentation, financial planning and organization.

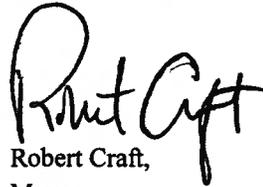
Acknowledgements

The preparation of this report could not have been accomplished without the efficient and dedicated services of the Accounting Division of the Finance and Administrative Services Department and all city employees. Each member of the department has our sincere appreciation for their contributions made in the preparation of this report. Without the leadership and support of the governing body of the City, preparation of this report would not have been possible.

Sincerely,

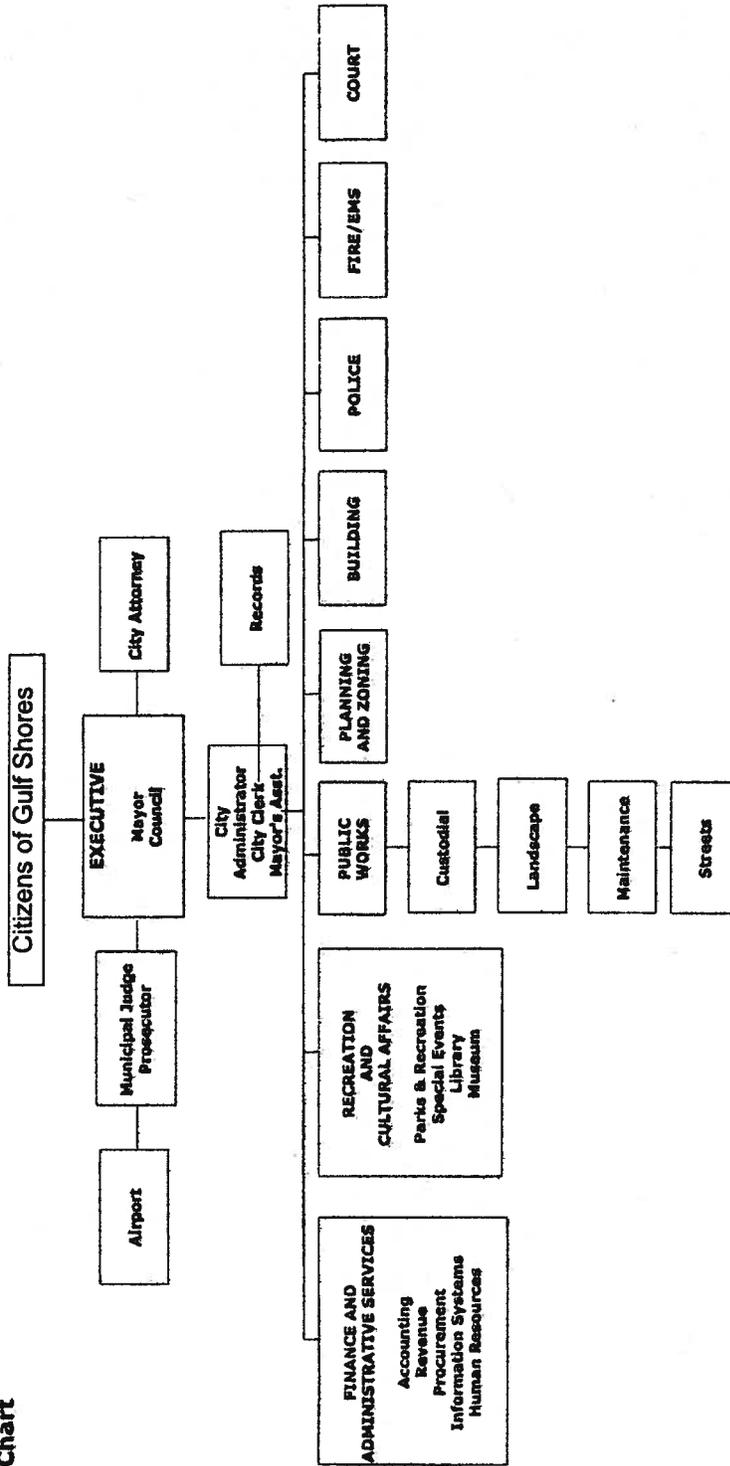


Steve Garman,
City Administrator



Robert Craft,
Mayor

**City of Gulf Shores
Organizational Chart**



CITY OF GULF SHORES, ALABAMA

LIST OF PRINCIPAL OFFICIALS

December 31, 2011

Legislative Branch

Mayor	Robert Craft
Council Member	Joe Garris
Council Member	Carolyn M. Doughty
Council Member	Philip Harris
Council Member	Jason Dyken
Council Member	Stephen E. Jones

Management Staff

City Administrator	Steve Garman
City Clerk	Wanda Parris
Building Official	Brandan Franklin
Finance and Administration Director	Cynthia A. King
Fire Chief	Hartly Brokenshaw
Municipal Court Clerk	Ken McKenzie
Planning and Zoning Director	Andy Bauer
Police Chief	Ed Delmore
Public Works Director	Mark Acreman
Recreation and Cultural Affairs Director	Grant Brown

GRANT, & SANDERS & TAYLOR, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

ROBERT E. GRANT, JR., CPA
BERTRAM L. SANDERS, II, CPA
MATTHEW R. TAYLOR, CPA
JASON B. JACKSON, CPA

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Members
American Institute of Certified
Public Accountants
Alabama Society of Certified
Public Accountants
Florida Institute of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
Gulf Shores, Alabama

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gulf Shores, Alabama (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements of the primary government as listed in the table of contents. We have audited the discretely presented component units of the City - The Jack Edwards Airport Proprietary Fund and Airport Authority of the City of Gulf Shores, Alabama for the year ended September 30, 2011. These financial statements are the responsibility of the City of Gulf Shores, Alabama's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the primary government of the City of Gulf Shores, Alabama, as of December 31, 2011, and the discretely presented component units of the City - The Jack Edwards Airport Proprietary Fund and Airport Authority of the City of Gulf Shores, Alabama, as of September 30, 2011 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2012, on our consideration of the City of Gulf Shores, Alabama's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information on pages 3 through 10 and page 45 should be presented to supplement the basic financial statements. Such information, although not a required 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 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 performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Gulf Shores, Alabama's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Gulf Shores, Alabama. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and budgetary comparison schedules, the schedule of federal awards are the responsibility of management, and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 basic financial statements as a whole.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Gulf Shores, Alabama's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



Gulf Shores, Alabama

April 20, 2012

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(MD&A)**

Management's Discussion and Analysis

Overview of the Financial Statements

This section of the annual financial report represents our discussion and analysis of the City of Gulf Shores' financial performance and an overview of its financial activities for the fiscal year that ended on December 31, 2011. Please read it in conjunction with the financial statements which follow this section.

The City's basic financial statements are comprised of three components:

- (1) Government-wide Financial Statements
- (2) Fund Financial Statements
- (3) Notes to the Basic Financial Statements

The basic financial statements also contain other supplementary information.

Government-wide Financial Statements

The two Government-wide financial statements, the Statement of Net Assets and the Statement of Activities, provide a broad overview of the City's finances and report information about the City as a whole using a government-wide focus. These statements provide both long-term and short-term information about the City's overall financial status. The information is presented in a manner similar to a private-sector business.

One of the most important questions asked about the Municipality's finances is: "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Municipality as a whole and about its activities in a way that helps answer this question.

The Statement of Net Assets provides information on all of the City's assets and liabilities. The difference between the two is reported as net assets. The Municipality's net assets can be thought of as one way to measure its financial position or health. Over time, increases or decreases in net assets are one indicator of whether the Municipality's financial health is improving or deteriorating. Other non-financial factors, for example, changes in sales tax base and the condition of infrastructure need to be considered to assess the overall health of the Municipality.

All of the current year's revenues and expenditures are accounted for in the Statement of Activities and it provides information on how the City's net assets changed during the fiscal year.

Fund Financial Statements

A fund is a group of related accounts used to maintain control over resources that have been segregated for specific objectives or activities. State Law requires some funds and City Management establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants. The City of Gulf Shores uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund Financial Statements report the City's operations in more detail than the Government-wide Financial Statements. All of the funds of the City are either governmental or proprietary.

Governmental Funds

Governmental Funds provide information, which may be useful in evaluating and determining a government's near-term financing requirements. The financial statements focus on near-term inflows and outflows of spendable resources and on fiscal year end available balances of spendable resources. Readers of the financial statements may better understand the long-term impact of the government's near-term financial decisions.

Overview of the Financial Statements (continued)

Proprietary Funds

The City of Gulf Shores reports one enterprise fund and two proprietary fund type discretely presented component units: Jack Edwards Airport Fund, Airport Authority Fund, and the Public Education Building Authority Fund. The Jack Edwards Airport Fund and Airport Authority are discretely presented component units of the primary government of the City of Gulf Shores. For 2011 comparative statements are presented for Governmental Activities, Business-Type Activities and Component Units. Separately issued audited financial statements of the two component units can be obtained from the Airport Authority at 3190 Airport Drive, Gulf Shores, AL 36542.

Notes to the Basic Financial Statements

The notes provide additional information and are essential to the full understanding of the data provided in the Government-wide and Fund Financial Statements. Please refer to the notes to the Financial Statements for more detailed information.

Government-wide Financial Analysis

As previously noted, over time, net assets may serve as a useful indicator of a government's financial condition. At December 31, 2011, the City of Gulf Shores' assets exceeded its liabilities by \$54,387,204, an increase of \$10,010,724 from 2010 primarily due to a receivable of \$6.5 million settlement owed by BP due to the 2010 oil spill. Other capital improvement projects to be paid from bond funds were postponed due to the BP Oil Spill but the debt service payments were still made, resulting in a decrease of \$3,854,699 in bonds payable. The largest portion of the City's net assets reflects its investment in capital assets (property, plant and equipment), less debt outstanding that was used for acquisition. These assets are used to provide services to the citizens and are not available for future spending. Since the capital assets cannot be used to liquidate the outstanding debt, resources needed to repay the debt must be provided from other sources. As of December 31, 2011, the City of Gulf Shores is able to report positive balances in all three categories of total net assets. The net assets of the primary government increased \$10,010,724 as a result of the BP settlement and debt service payments.

Table 1 below represents the City's Condensed Statement of Net Assets as of December 31, 2011 and is derived from the Government-wide Statement of Net Assets. For more detailed information see the **Statement of Net Assets** on Page 11.

	Governmental Activities		Business-Type Activities		Total Primary Government		Component Units	Component Units
	2011	2010	2011	2010	2011	2010	2011	2010
Current & Other Assets	\$ 36,154,923	\$ 28,465,347	\$ 69,858	\$ 69,694	\$ 36,224,781	\$ 28,535,041	\$ 3,295,036	\$ 832,356
Capital Assets	69,902,221	66,381,021	2,070,760	2,097,881	71,972,981	68,478,902	14,137,336	14,937,845
Total Assets	\$ 106,057,144	\$ 94,846,368	\$ 2,140,618	\$ 2,167,575	\$ 108,197,762	\$ 97,013,943	\$ 17,432,372	\$ 15,770,201
Long-term Liabilities	\$ 41,308,551	\$ 44,648,059	\$ -	\$ -	\$ 41,308,551	\$ 44,648,059	\$ 128,691	\$ 164,278
Other Liabilities	12,502,007	7,989,404	-	-	12,502,007	7,989,404	1,098,320	829,258
Total Liabilities	\$ 53,810,558	\$ 52,637,463	\$ -	\$ -	\$ 53,810,558	\$ 52,637,463	\$ 1,227,011	\$ 993,536
Net Assets	\$ 52,246,586	\$ 42,208,905	\$ 2,140,618	\$ 2,167,575	\$ 54,387,204	\$ 44,376,480	\$ 16,205,361	\$ 14,776,665
Invested in Capital Assets,								
Net of Related Debt	\$ 25,129,660	\$ 32,443,514	\$ 2,097,881	\$ 2,097,881	\$ 27,227,541	\$ 34,541,395	\$ 14,137,336	\$ 14,736,563
Restricted	4,674,869	-	-	-	4,674,869	-	-	-
Unrestricted	22,442,057	9,765,391	42,737	69,694	22,484,794	9,835,085	2,068,025	40,102
Total Net Assets	\$ 52,246,586	\$ 42,208,905	\$ 2,140,618	\$ 2,167,575	\$ 54,387,204	\$ 44,376,480	\$ 16,205,361	\$ 14,776,665

Government-wide Financial Analysis (continued)

Table 2 below represents the City's Condensed Statement of Activities for the year ending December 31, 2011, and is derived from the Government-wide Statement of Activities on Page 12.

	Governmental		Business-Type		Total		Component Units	
	Activities		Activities		Primary Government			
	2011	2010	2011	2010	2011	2010	2011	2010
PRIMARY GOVERNMENT:								
Revenues:								
Charges for Services	\$ 4,096,446	\$ 3,628,411	\$ 161,565	\$ 164,245	\$ 4,258,011	\$ 3,792,656	\$ 427,739	\$ 393,958
Operating grants and Contributions	659,443	1,355,967	-	-	659,443	1,355,967	-	-
Capital grants and Contributions	2,992,714	806,079	-	-	2,992,714	806,079	2,064,375	139,783
General Revenues:								
Property Taxes	3,444,058	2,874,858	-	-	3,444,058	2,874,858	-	-
Local Taxes	18,385,150	14,090,126	-	-	18,385,150	14,090,126	-	-
Franchise Taxes	1,172,815	1,135,118	-	-	1,172,815	1,135,118	-	-
State Taxes	321,933	296,473	-	-	321,933	296,473	-	-
Interest income	91,545	300,395	164	539	91,709	300,934	191	64
Miscellaneous income	278,677	369,997	-	-	278,677	369,997	20	-
BP Settlement	6,402,323	5,476,579	-	-	6,402,323	5,476,579	-	-
Gain (loss) on asset sales	28,342	8,803	-	-	28,342	8,803	-	-
Total Revenues	\$ 37,873,446	\$ 30,342,806	\$ 161,729	\$ 164,784	\$ 38,035,175	\$ 30,507,590	\$ 2,492,325	\$ 533,805
Expenses:								
Executive	3,646,526	3,557,756	-	-	3,646,526	3,557,756	-	-
Municipal Court	320,136	315,489	-	-	320,136	315,489	-	-
Police	4,542,844	3,961,753	-	-	4,542,844	3,961,753	-	-
Fire	3,545,999	3,158,784	-	-	3,545,999	3,158,784	-	-
Community and Economic Affairs								
Affairs	5,904,452	5,203,873	-	-	5,904,452	5,203,873	-	-
Public Works	4,948,565	5,796,817	-	-	4,948,565	5,796,817	-	-
Litigation Settlement	3,800,455	-	-	-	3,800,455	-	-	-
Interest on Long-Term Debt	2,215,788	2,330,140	-	-	2,215,788	2,330,140	-	-
Public Education Building Authority	-	-	188,686	191,366	188,686	191,366	-	-
Total Expenses	28,924,765	24,324,612	188,686	191,366	29,113,451	24,515,978	-	-
COMPONENT UNITS:								
Expenses:								
Jack Edwards Airport	-	-	-	-	-	-	773,337	775,831
Airport Authority	-	-	-	-	-	-	385,429	391,118
Total Expenses	-	-	-	-	-	-	1,158,766	1,166,949
Increase Decrease) in Net Assets								
Before Transfers	8,948,681	6,018,194	(26,957)	(26,582)	8,921,724	5,991,612	1,333,559	(633,144)
Transfers	(96,000)	(96,000)	-	-	(96,000)	(96,000)	96,000	96,000
Change in Net Assets	8,852,681	5,922,194	(26,957)	(26,582)	8,825,724	5,895,612	1,429,559	(537,144)
Net Assets - Beginning	42,208,905	36,286,711	2,167,575	2,194,157	44,376,480	38,480,868	14,776,665	15,316,556
Prior Period Adjustment	1,185,000	-	-	-	1,185,000	-	(863)	(2,747)
Net Assets - Ending	\$ 52,246,586	\$ 42,208,905	\$ 2,140,618	\$ 2,167,575	\$ 54,387,204	\$ 44,376,480	\$ 16,205,361	\$ 14,776,665

Overall Analysis

Financial highlights for the City of Gulf Shores as a whole during the fiscal year ended December 31, 2011 include the following:

The assets of the City exceeded its liabilities (net assets) at the close of the fiscal year by \$52,246,586 for Governmental Activities and by \$2,140,618 for Business-type Activities of the primary government. The total primary government's net assets are \$54,387,204 as of December 31, 2011, up from \$44,376,480. For the year ended December 31, 2011 there was a \$10,037,681 increase in the net assets for governmental activities due to the BP settlement which increased net assets and debt service payments that lowered liabilities. Business-type activities net assets were \$2,140,618 as of December 31, 2011 a decrease of \$26,957 from 2010 reflecting expenses in excess of revenue. (See Table 2-Condensed Statement of Activities)

Financial Analysis of the Government's Funds

The City of Gulf Shores uses fund accounting to ensure and demonstrate compliance with finance related requirements. Funds that experienced significant changes in Fund Balance during the year are as follows:

Governmental Funds

At the close of the fiscal year, the City's Governmental Funds showed a combined ending fund balance of \$27,318,813 with \$13,763,851 designated as committed and \$8,579,387 unassigned, \$4,674,869 restricted and \$300,707 nonspendable. \$8,107,115 of the committed fund balance is designated by the Council for emergencies and is funded by Certificates of Deposit and Money Market funds.

General Fund

The fund balance at December 31, 2011, totaled \$17,683,620 an increase of \$3,948,551 from the fund balance at December 31, 2010, which was \$13,735,069. The increase in Fund Balance for Fiscal Year 2011 is attributable to conservative spending practices resulted in positive income from operations of \$3,948,551.

Debt Service Fund

The fund balance is decreased \$64,338 as a result of reductions for Transfers In, exceeding debt service payments during the fiscal year.

2008 A GO Warrant Fund

This fund (referred to as the Building Fund) was established in Fiscal Year 2007 for recording the proceeds, issuance costs, and capital expenditures for a new bond issue. With reimbursement resolutions adopted, the General Fund made interfund loans to the fund for priority projects until the issue was closed in April, 2008. Upon receipt of the proceeds, the interfund loans from the General Fund were repaid. At the close of Fiscal Year 2011, some projects had been completed; others were in progress, while others were in the planning and/or design process. The purchase and renovation of the City Hall Annex was funded by the proceeds of this issue. The Annex is located on Clubhouse Drive across the street from the existing City Hall. The Annex provided much needed additional space for the Municipal Court offices and court chambers, administrative offices for the Police Department, and offices for the Community Development and Building Departments.

Additional projects either completed or in process with the bond issue proceeds are: the Adult Activities Center Renovation, Fire Station 1 and Fire Station #3; Meyer Park Improvements; and various other capital expenditures to renovate and improve existing City assets.

In addition to providing funds for capital projects, the 2008-A issue refunded two existing bond issues: the unrefunded portion of the 1996 G. O. Warrant and the 1998-C G. O. Warrant. The refunding of these two issues resulted in a substantial interest savings to the City.

Financial Analysis of the Government's Funds (Continued)

Capital Improvements Fund

This fund shows the City's practice of loaning money to this fund from other funds (usually the General Fund) to finance grant-funded projects and assessment projects. The interfund loans are repaid when grant funds and assessment principal and interest payments are received. The Capital Improvements fund was established by City management to record capital expenditures with funding from one or more of the following sources: Federal and State grants, property owner assessments, property owner or developer contributions, and/or transfers from other funds.

Storm Damage Fund

The fund balance increased \$48,626 during 2011. The Storm Damage Fund is used to record costs incurred by the City for storm damage. These costs may or may not be eligible for reimbursement by FEMA and/or the State of Alabama. In the past, expenditures have been funded in two different ways. One option is by interfund loans from the General Fund. After Hurricanes Ivan and Katrina, bond proceeds for the specific purpose of beach restoration were on deposit to pay for these costs as the project progressed. After Hurricane Ivan, the beach restoration project came to an immediate halt.

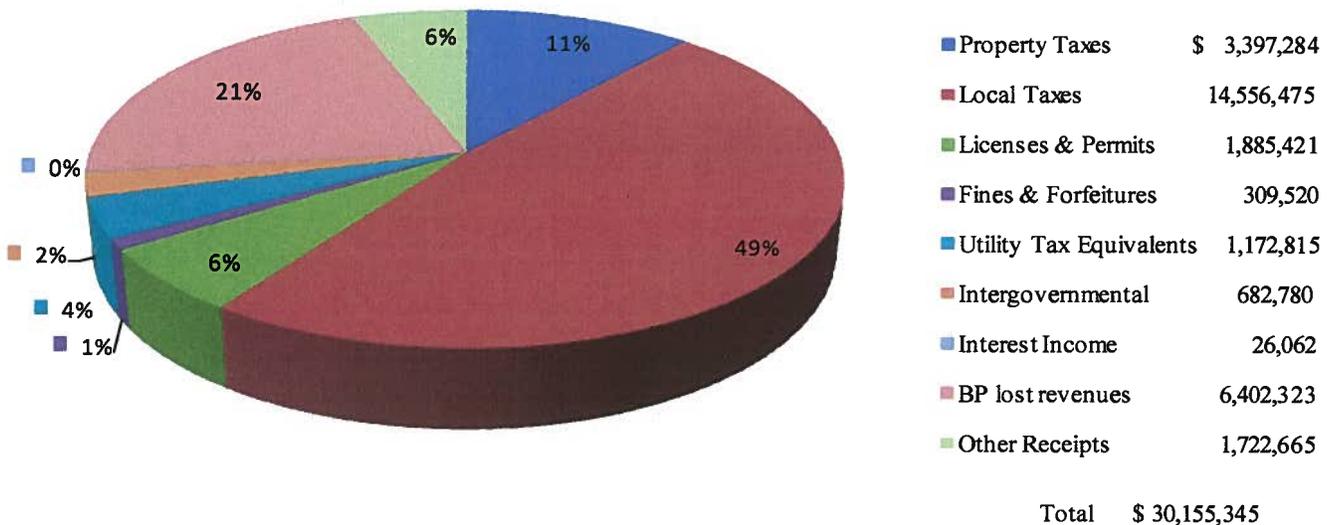
Because Gulf Shores was in a declared disaster area and was operating in an emergency situation, the City was allowed to "borrow" from the bond proceeds on deposit to fund hurricane damage expenditures until FEMA reimbursement funds were received. Upon receipt of FEMA funds, loans from the bond issue proceeds were repaid.

If storm damage costs are FEMA and State reimbursable, these revenues are recorded in the Storm Damage Fund and are used to repay the interfund loans. Non-reimbursable costs are covered by transfers from the General Fund to the Storm Damage Fund.

Debt Service Fund

The Debt Service Fund is used to record principal and interest payments on debt which include bond issues, general obligation warrants with banks, notes payable, and lease/purchases. The expense for Fiscal Agent Fees for bond issues is also recorded in this fund. Funding for most payments is provided by a transfer from the General Fund. Currently, one issue for Beach Restoration-Phase III is outstanding and it is funded with a transfer from the 2% Lodging Tax Fund. Payments on the 2005-C G. O. Warrant that provided funds to purchase the Pinnacle Mall property are funded by: the City's share of Property Taxes or payments in lieu of taxes paid by the developer/owner to Baldwin County; Sales and Use Taxes paid to the City by the merchants located in the mall; and rent paid to the City by the developer/owner.

Exhibit 1: Governmental Revenue Sources for Fiscal Year 2011



Budget Variances in the General Fund

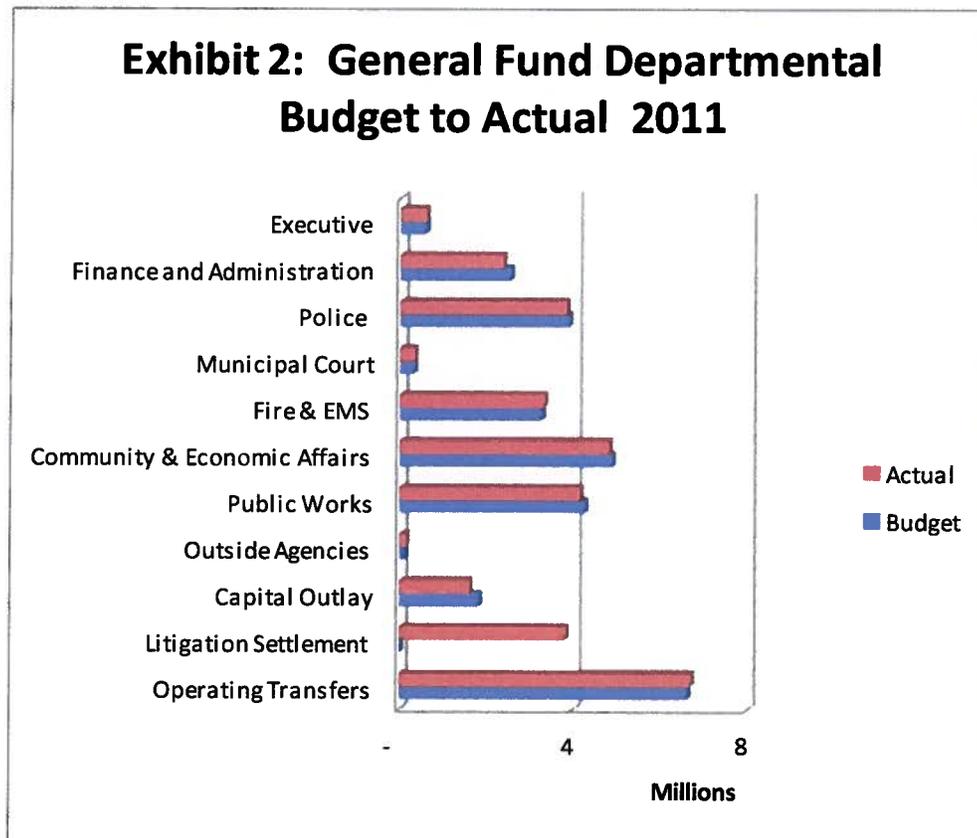
A schedule of General Fund Revenues, Expenditures and Changes in Fund Balances can be found on page 45. Revenues were different than the Budget in the following major categories with an overall \$6,181,734 in actual collections more than budget:

- Property Taxes - \$687,008 more due to property assessments on new developments
- Local Taxes - \$546,549 less due to Sales & Lodging Tax collections less than anticipated in the final 2011 quarter
- Licenses and Permits - \$118,079 less due to reduced collections for building permits
- Fines and Forfeitures - \$14,520 more due to enhanced enforcement efforts
- Utility Tax Collections - \$131,285 decreased collections Baldwin EMC due to reduced consumption
- Federal and State transfers - \$22,220 less than budgeted due to reduced tax collections
- Income on investments \$81,938 less than budgeted due to continued decline in investment rates
- BP Lost Revenues \$6,402,323 more than budget due to BP settlement
- Other - \$22,045 less than budget

Expenditures were significantly less than the budget in the following departments:

- Executive Department - \$168,116 postponing filling positions (Finance & Admin)
- Police Department - \$60,599 due to less use of operating expenses than anticipated
- Community and Economic Affairs - \$71,222 expenses less due to decline in development
- Public Works - \$99,884 expenses less due to unfilled positions
- Capital Outlay - \$215,885 due to branding campaign and signage not being completed in 2011

The City Council approved revisions to the original adopted General Fund budget three times during the fiscal year prior to the fiscal year end on December 31, 2011.



General Fund Departmental Budget to Actual 2011

	Budget	Actual	% of total expenses
Operating Transfers (Debt Service)	6,612,890	6,702,544	21%
Litigation Settlement	-	3,800,455	12%
Capital Outlay	1,804,825	1,588,940	5%
Outside Agencies	80,000	137,974	0%
Public Works	4,243,401	4,143,517	13%
Community & Economic Affairs	4,881,734	4,810,513	15%
Fire & EMS	3,244,895	3,311,662	10%
Municipal Court	314,556	320,136	1%
Police	3,878,325	3,817,726	12%
Finance and Administration	2,523,960	2,353,925	7%
Executive	569,765	571,685	2%
Total	28,154,351	31,559,077	100%

Capital Asset and Long-term Debt Activity

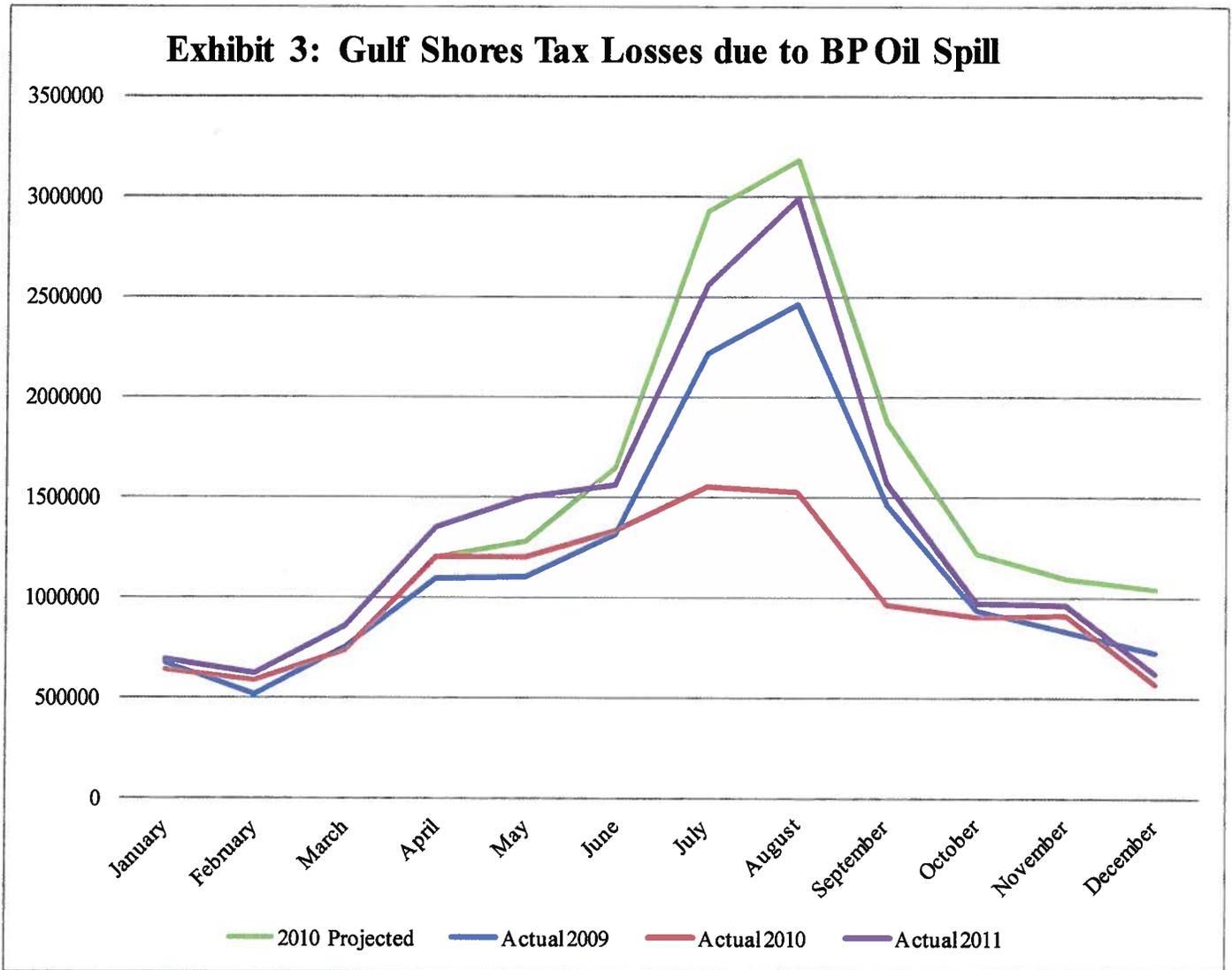
Capital Asset Activity

At December 31, 2011, the City of Gulf Shores reported net capital assets of \$52,246,586 from governmental activities, an increase of \$10,037,681 from December 31, 2010. Net capital assets from business-type activities are reported as \$2,140,618, which is a decrease of \$26,957 from December 31, 2010. Refer to **Note 3.D.** to the financial statements for additional information on capital assets.

Long-term Debt Activity

As of year-end, the City had \$45,709,655 in debt outstanding (which includes long term compensated absences) compared to \$48,610,426 last year. All debt service payments were made timely. Refer to **Note 3.E.** to the financial statements for additional information on long-term debt activity.

Exhibit 3: Gulf Shores Tax Losses due to BP Oil Spill



Future Events Impacting the City's Financial Condition

City businesses that managed to stay in business despite the 2010 BP Oil Spill continue to rebound from the loss of tourists. The first three months of 2012 show continued strong tourist Sales and Lodging Tax revenue. New stores have opened in the Pelican Place Mall resulting in greater economic activity in the City. Also, a grant was approved in early 2010 for a public private partnership - Saunders Gulf Shores Drydock Basin Project expansion of an existing dry dock basin for maintenance of ocean going vessels on the IntraCoastal Waterway. Construction on the project began in 2011 and should be completed by mid-year 2012. This project will provide for high skill high wage jobs.

BASIC FINANCIAL STATEMENTS

THE CITY OF GULF SHORES, ALABAMA
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Jack Edwards Airport	Airport Authority
ASSETS					
Current Cash and Cash Equivalents	\$ 3,335,646	\$ 69,858	\$ 3,405,504	\$ -	\$ 170,215
Reserve Current Cash and Cash Equivalents	8,107,115	-	8,107,115	-	-
Receivables (Net)	10,997,988	-	10,997,988	50,153	442
Due from component units	779,274	-	779,274	-	-
Inventories	52,089	-	52,089	718,623	-
Prepays and Other Assets	248,618	-	248,618	2,338,853	4,067
Restricted Assets:					
Cash and Cash Equivalents	11,682,639	-	11,682,639	7,690	4,993
Capital Assets:					
Non - Depreciable	32,780,728	1,650,000	34,430,728	6,346,391	93,938
Depreciable (Net)	37,121,493	420,760	37,542,253	7,548,571	148,436
Bond issuance expenses (Net)	951,554	-	951,554	-	-
Total Assets	\$106,057,144	\$ 2,140,618	\$ 108,197,762	\$17,010,281	\$ 422,091
LIABILITIES					
Accounts Payable	\$ 963,956	\$ -	\$ 963,956	\$ -	\$ 2,927
Accrued Liabilities	1,617,655	-	1,617,655	272,996	2,567
Accrued Interest Payable	216,348	-	216,348	-	3,552
Litigation Settlement Payable	3,800,455	-	3,800,455	-	-
Unearned Revenue	1,495,258	-	1,495,258	-	-
Due to primary government	-	-	-	-	779,274
Non - Current Liabilities					
Due Within One Year:					
Compensated absences	121,971	-	121,971	-	-
Loans and Leases Payable	461,364	-	461,364	-	-
Bonds Payable	3,825,000	-	3,825,000	-	37,004
Due In More than One Year:					
Compensated absences	712,341	-	712,341	-	-
Loans and Leases Payable	595,815	-	595,815	-	-
Bonds Payable	40,000,395	-	40,000,395	-	128,691
Total Liabilities	53,810,558	-	53,810,558	272,996	954,015
NET ASSETS:					
Investment in Capital Assets (net of related debt)	25,129,660	2,070,760	27,200,420	13,894,962	242,374
Restricted	4,674,869	-	4,674,869	-	-
Unrestricted	22,442,057	69,858	22,511,915	2,842,323	(774,298)
Total Net Assets	\$ 52,246,586	\$ 2,140,618	\$ 54,387,204	\$16,737,285	\$ (531,924)

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

THE CITY OF GULF SHORES, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Functions/Programs	Program Revenues			Primary Government			Component Units	
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business type Activities	Total	Jack Edwards Airport	Airport Authority
PRIMARY GOVERNMENT:								
Governmental Activities:								
Executive	\$ 3,646,526	\$ -	\$ -	\$ (3,641,070)	\$ -	\$ (3,641,070)		
Municipal Court	320,136	-	-	78,665	-	78,665		
Police	4,542,844	518,903	-	(4,015,668)	-	(4,015,668)		
Fire	3,545,999	-	-	(3,538,531)	-	(3,538,531)		
Community and Economic Affairs	5,904,452	120,634	-	(2,224,650)	-	(2,224,650)		
Public Works	5,044,565	19,906	2,992,714	(1,914,665)	-	(1,914,665)		
Litigation Settlement	3,800,455	-	-	(3,800,455)	-	(3,800,455)		
Interest on Long - Term Debt	2,215,788	-	-	(2,215,788)	-	(2,215,788)		
Total governmental activities	29,020,765	659,443	2,992,714	(21,272,162)	-	(21,272,162)		
Business-type activities:								
Public Education Building Authority	188,686	-	-	-	(27,121)	(27,121)		
Total primary government	\$ 29,209,451	\$ 659,443	\$ 2,992,714	\$ (21,272,162)	\$ (27,121)	\$ (21,299,283)		
COMPONENT UNITS:								
Jack Edwards Airport	\$ 773,337	\$ -	\$ 2,064,375				\$ 1,291,038	\$ -
Aiport Authority	385,429	96,000	-				-	138,310
Total component units	\$ 1,158,766	\$ 96,000	\$ 2,064,375				1,291,038	138,310
General revenues:								
Property Taxes				\$ 3,444,058	-	\$ 3,444,058	\$ -	\$ -
Local Taxes:								
Sales taxes								
Lodging taxes				10,526,164	-	10,526,164	-	-
Other local taxes				5,738,625	-	5,738,625	-	-
Franchise Taxes				2,120,361	-	2,120,361	-	-
State Taxes				1,172,815	-	1,172,815	-	-
Interest Income				321,933	-	321,933	-	-
Miscellaneous				91,545	164	91,709	47	144
BP Settlement				278,677	-	278,677	20	-
Gain on Disposal of Assets				6,402,323	-	6,402,323	-	-
Transfers				28,342	-	28,342	-	-
Total general revenues, special items and transfers				30,124,843	164	30,125,007	32,751	(32,751)
Change in net assets				8,852,681	(26,957)	8,825,724	1,323,856	(32,607)
Prior Period Adjustment				1,185,000	-	1,185,000	(863)	105,703
Net assets - beginning				42,208,905	2,167,575	44,376,480	15,414,292	(637,627)
Net assets - ending				\$ 52,246,586	\$ 2,140,618	\$ 54,387,204	\$ 16,737,285	\$ (531,924)

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

THE CITY OF GULF SHORES, ALABAMA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	General Fund	Debt Service Fund	2008 A GO Building Fund	Capital Improvements Fund	Storm Damage Fund	Other Governmental Funds	Total
ASSETS							
Current Cash and Equivalents	\$ 3,205,602	\$ -	\$ -	\$ 130,044	\$ -	\$ -	\$ 3,335,646
Reserved Cash and Equivalents	8,107,115	-	-	-	-	-	8,107,115
Restricted Cash and Equivalents	104,525	2,593,021	5,506,995	44,263	1,594,045	1,839,790	11,682,639
Receivables (Net)							
Accounts	50,477	41,575	-	14,832	-	990	107,874
BP settlement	6,500,000	-	-	-	-	-	6,500,000
Taxes	2,774,558	-	-	-	-	-	2,774,558
Due From Other Funds	451,125	590	5,262	-	37,992	111,642	606,611
Due From Other Governments	383,758	-	17,406	1,083,156	131,235	-	1,615,555
Due From Component Units	779,274	-	-	-	-	-	779,274
Prepays and Other Assets	248,618	-	-	-	-	-	248,618
Inventories	52,089	-	-	-	-	-	52,089
Total Assets	\$ 22,657,141	\$ 2,635,186	\$ 5,529,663	\$ 1,272,295	\$ 1,763,272	\$ 1,952,422	\$ 35,809,979
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 289,841	\$ 1,453	\$ 56,497	616,102	\$ -	\$ 63	\$ 963,956
Litigation settlement payable	3,800,455	-	-	-	-	-	3,800,455
Payroll taxes & benefits payable	90,466	-	-	-	-	-	90,466
Accrued wages	240,709	-	-	-	-	-	240,709
Other liabilities	390,528	-	-	-	903,182	-	1,293,710
Unearned revenue	6,036	12,307	-	632,236	844,679	-	1,495,258
Due to other funds	155,486	419,000	-	32,125	-	-	606,611
Total Liabilities	4,973,521	432,760	56,497	1,280,463	1,747,861	63	8,491,165
Fund Balances:							
Nonspendable	300,707	-	-	-	-	-	300,707
Spendable:							
Restricted	488,283	2,202,426	17,406	-	15,411	1,951,343	4,674,869
Committed	8,307,075	-	5,455,760	-	-	1,016	13,763,851
Unassigned	8,587,555	-	-	(8,168)	-	-	8,579,387
Total Fund Balances	17,683,620	2,202,426	5,473,166	(8,168)	15,411	1,952,359	27,318,814
Total Liabilities and Fund Balance	\$ 22,657,141	\$ 2,635,186	\$ 5,529,663	\$ 1,272,295	\$ 1,763,272	\$ 1,952,422	\$ 35,809,979

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

**The City of Gulf Shores, Alabama
Reconciliation of the Balance Sheet
To the Statement of Net Assets
Governmental Funds
For the Year Ended December 31, 2011**

Fund balances - total governmental funds \$ 27,318,814

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	\$ 87,459,499	
Less accumulated depreciation	<u>(17,557,278)</u>	69,902,221

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

Bond issue costs	1,371,508	
Loss on advance refunding	341,917	
Less accumulated amortization	<u>(761,871)</u>	951,554

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

Governmental bonds payable	(43,585,001)	
Premiums on bond issues	(448,109)	
Accumulated amortization	207,714	
Governmental loans and leases payable	(1,057,179)	
Compensated absences	<u>(827,080)</u>	(45,709,655)

Accrued interest payable on debt and the current portion of accrued compensated absences in the governmental funds are susceptible to full accrual on the entity wide basis.

Accrued Interest Payable	<u>(216,348)</u>	<u>(216,348)</u>
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Net assets of governmental activities		<u>\$ 52,246,586</u>
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The accompanying notes are an integral part of the financial statements.

THE CITY OF GULF SHORES, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	General Fund	Debt Service Fund	2008 A GO Building Fund	Capital Improvements Fund	Storm Damage Fund	Other Governmental Funds	Total
REVENUES							
Property taxes	\$ 3,397,284	\$ 46,774	\$ -	\$ -	\$ -	\$ -	\$ 3,444,058
Local taxes	14,556,475	1,513,202	-	-	-	2,315,474	18,385,151
Licenses and permits	1,885,421	-	-	-	-	-	1,885,421
Fines and forfeitures	309,520	-	-	-	-	-	309,520
Utility tax equivalents	1,172,815	-	-	-	-	-	1,172,815
Intergovernmental:							
State of Alabama	176,844	-	17,406	-	73,058	351,437	618,745
Federal Government	505,936	-	-	2,183,759	189,958	-	2,879,653
Interest income	26,062	152	60,525	312	2,147	2,347	91,545
Impact fees	-	-	-	-	-	96,108	96,108
BP Settlement	6,402,323	-	-	-	-	-	6,402,323
Rent Income	-	323,746	-	-	-	-	323,746
Other receipts	1,722,665	-	-	547,139	-	6,473	2,276,277
Total Revenues	30,155,345	1,883,874	77,931	2,731,210	265,163	2,771,839	37,885,362
EXPENDITURES							
Current Operating:							
Executive Department	2,925,610	-	-	-	-	-	2,925,610
Municipal Court	320,136	-	-	-	-	-	320,136
Police Department	3,817,726	-	-	-	-	-	3,817,726
Fire and Emergency Services	3,311,662	-	-	-	-	53,184	3,364,846
Community and Eco. Affairs	4,810,513	-	-	-	-	3,280	4,813,793
Public Works	4,143,517	-	-	-	254,529	-	4,398,046
Appropriations	233,974	-	-	-	-	-	233,974
Capital outlay	1,588,940	-	425,550	2,729,699	-	627,098	5,371,287
Beach restoration	-	-	-	-	-	37,688	37,688
Principal and interest	-	6,255,714	-	-	-	-	6,255,714
Miscellaneous	-	6,550	-	104	-	21,235	27,889
Litigation Settlement	3,800,455	-	-	-	-	-	3,800,455
Total Expenditures	24,952,533	6,262,264	425,550	2,729,803	254,529	742,485	35,367,164
Excess (Deficiency) of revenues							
Over Expenditures	\$ 5,202,812	\$ (4,378,390)	\$ (347,619)	\$ 1,407	\$ 10,634	\$ 2,029,354	\$ 2,518,198
OTHER FINANCING SOURCES (USES)							
Installment Loan Proceeds	1,204,825	-	-	-	-	-	1,204,825
Transfers In	310,000	4,314,052	-	-	37,992	-	4,662,044
Transfers Out	(2,769,086)	-	-	-	-	(1,892,958)	(4,662,044)
Total Other Financing Sources and (Uses)	(1,254,261)	4,314,052	-	-	37,992	(1,892,958)	1,204,825
Net Change in Fund Balance	3,948,551	(64,338)	(347,619)	1,407	48,626	136,396	3,723,023
Fund Balances - Beginning	13,735,069	2,266,764	5,820,785	(9,575)	(33,215)	1,815,963	23,595,791
Fund Balances - Ending	\$ 17,683,620	\$ 2,202,426	\$ 5,473,166	\$ (8,168)	\$ 15,411	\$ 1,952,359	\$ 27,318,814

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

The City of Gulf Shores, Alabama
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Activities
For the Year Ended December 31, 2011

Net change in fund balances \$ 3,723,023

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

Expenditures for capital assets	4,347,906	
Less current year depreciation	<u>(1,999,765)</u>	2,348,141

When recognizing the sale of capital assets, the governmental funds report the total proceeds of the sale. Only the gain or loss on the sale is reported on the statement of activities.

Proceeds from the disposal of assets	(40,283)	
Gain on disposal of assets	<u>28,342</u>	(11,941)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.

Proceeds from Loan	(1,204,825)	
Principal payments on bonds and loans	<u>4,123,119</u>	2,918,294

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.

Decrease in interest accrued on long term debt	11,203	
Amortization of current year bond issue premiums	29,698	
Amortization of current year bond issue costs	(92,775)	
Amortization of loss on advanced refunding	(18,512)	
Increase in compensated absences	<u>(54,450)</u>	<u>(124,836)</u>

Change in net assets of governmental activities \$ 8,852,681

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

THE CITY OF GULF SHORES, ALABAMA
 ALL PROPRIETARY FUND TYPES
 STATEMENT OF NET ASSETS
 AS OF DECEMBER 31, 2011

	Business-type Activities
	Enterprise Funds
	Primary Government
	Non-major Fund
	Public Education
	Building Authority
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 69,858
Capital Assets:	
Land	1,650,000
Land improvements	203,088
Buildings	898,425
New terminal administration building	-
Hanger	-
Furniture and equipment	261,893
Runway, taxiway & improvements	-
Less: accumulated depreciation	(942,646)
Total Non-Current Assets	2,070,760
Total Assets	\$ 2,140,618
LIABILITIES	
NET ASSETS	
Invested in Capital Assets, net of related debt	2,070,760
Unrestricted	69,858
Total Net Assets	\$ 2,140,618

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

THE CITY OF GULF SHORES, ALABAMA
 ALL PROPRIETARY FUND TYPES
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND ASSETS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-type Activities
	Enterprise Funds
	Primary Government
	Non-major Fund
	Public Education
	Building Authority
Operating Revenues	
FSCC Rent	\$ 161,565
Operating Expenses	
Depreciation	27,121
Rent	161,565
Total Operating Expenses	188,686
Operating Income (Loss)	(27,121)
Non-Operating Revenues (Expenses)	
Interest income	164
Income (Loss) before Contributions and Transfers	(26,957)
Transfers and Contributions	
Change in Net Assets	(26,957)
Prior period adjustment	-
Net Assets - Beginning	2,167,575
Net Assets - Ending	\$ 2,140,618

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

THE CITY OF GULF SHORES, ALABAMA
 ALL PROPRIETARY FUND TYPES
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-type Activities
	Enterprise Funds
	Primary Government
	Non-major Fund
	Public Education
	Building Authority
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments from leases and other operating activities	\$ 161,565
Other operating expenses	(161,565)
Net cash provided (used) by operating activities	-
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest payments received	164
Net increase (decrease) in cash and cash equivalents	164
Cash balance - beginning of year	69,694
Cash balance - end of year	\$ 69,858
RECONCILIATION OF OPERATING INCOME (LOSS)	
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (27,121)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	27,121
Net cash provided (used) by operating activities	\$ -

Noncash Investing, Capital and Financing Activities: None

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

NOTES TO BASIC FINANCIAL STATEMENTS

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in accordance with Generally Accepted Accounting Principles (GAAP). GAAP statements include all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

In June 1999, the GASB approved Statement 34, *Basic Financial Statements and Management Discussion and Analysis-for State and Local Governments*. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.

Financial statements prepared using full accrual method of accounting for all of the City's activities.

The accounting and reporting framework and the more significant accounting principles and practices used by the City are discussed in subsequent sections of this Note. The remainders of the Notes to the Financial Statements are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ending December 31, 2011.

1.A. REPORTING ENTITY

The City of Gulf Shores, Alabama (the "City") was incorporated on February 5, 1957. The City operates under a Mayor-Council form of government with a City Council consisting of six council members including the mayor, elected at large by the qualified voters of the City for a four-year term. The Council has full legislative authority for the operations of the City.

For financial reporting purposes and in conformance with the criteria set forth by the Government Accounting Standards Board, Statement 14, *Defining the Governmental Reporting Entity*, the City includes those funds, agencies, boards, commissions and authorities for which the City provides financial and managerial assistance, which influence operations and tend to indicate control by or dependence on the City. Control by or dependence on the City is evidenced through budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the City, responsibility for the funding of any operating deficits that may occur and the scope of services provided to the City. Based on these criteria, this report includes financial statements of the funds required to account for those financial activities for which the City has the ability to influence and control through its legislative processes.

The Jack Edwards Airport and Airport Authority of the City of Gulf Shores, Alabama, are separate legal entities that are included as component units in the financial reporting entity. They are included as a result of being financially accountable and fiscally dependent. They receive an appropriation of \$96,000 annually. Without this appropriation they would not meet their operating budget. The Jack Edwards Airport and Airport Authority of the City of Gulf Shores, Alabama, do not provide services entirely or almost entirely to the City, nor do they exclusively benefit the City, therefore they do not meet the criterion for blending, and must be discretely presented in the basic financial statements of the primary government. The Airport Authority does not have substantially the same governing body as the City. The Jack Edwards Airport and Airport Authority of the City of Gulf Shores, Alabama have elected to continue to report on a September 30th year end, where as the City reports on December 31st year end. Generally accepted accounting principles allows the presentation of these component units as part of the reporting entity if the component unit's year end falls within the year end of the primary government. Significant interfund transfers and borrowings between the City and the component units that occurs from October 1 to December 31 each year will be disclosed in a later note. Separately issued audited financial statements of the two component units can be obtained from the Airport Authority at 3190 Airport Drive, Gulf Shores, AL 36542.

Excluded from the financial statements is the following board for which a lack of influence, control and dependency exist: The Utilities Board of the City of Gulf Shores, Alabama. This board is governed by its own board of directors, prepares and adopts an annual operating budget which is not influenced by the City, has the authority to issue debt securities which are not an obligation of the City and are not secured by City revenues, has responsibilities for any operating deficits which may occur and must fund such deficits through prior year surplus or other financial sources. These financial statements do not include other boards, agencies and authorities that operate within the boundaries of the City and Baldwin County. The establishment of these boards, agencies and authorities is provided in the statutes and codes of the State of Alabama.

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

1.B. BASIC FINANCIAL STATEMENTS

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

Government-wide financial statements display information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements focus on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Assets and the Statement of Activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund financial statements display information at the individual level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental or proprietary, or fiduciary. Currently, the City has only governmental and proprietary type funds. Major individual governmental funds and individual enterprise funds are reported as separate columns in the fund financial statements. An emphasis is placed on major funds within the governmental and proprietary categories. Non-major funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and are detailed in the supplemental information. The new GASB 34 model sets forth minimum criteria (percentage of the assets liabilities, revenues, or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type: and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds.

As a general rule the effect of interfund activity has been eliminated from the government wide financial statements. Exceptions to this general rule include charges between the City's business type activities/enterprise funds, as well as some special revenue funds, and the General Fund. The City allocates charges as reimbursement for services provided by the General Fund in support of those functions based on levels of service provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. These charges are included in direct program expenses.

1.C. BASIS OF PRESENTATION

The funds of the financial reporting entity are described below:

General Fund

This fund is established to account for resources devoted to financing the general services that the City performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the City are included in this fund. The fund is charged with all costs of operating the government for which a separate fund has not been established.

Debt Service Funds

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt, principal, interest, and related costs.

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

1.C. BASIS OF PRESENTATION (CONTINUED)

Capital Project Funds

These funds are used to account for financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by proprietary funds).

Enterprise Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The City reports the following major funds:

Governmental Funds:

General Fund

This fund is established to account for resources devoted to financing the general services that the City performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the City are included in this fund. The fund is charged with all costs of operating the government for which a separate fund has not been established.

Debt Service Funds

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt, principal, interest, and related costs.

2008 A GO Warrant Building Capital Projects Fund

This fund is used to account for financial resources from the 2008 A GO Warrant issue. The proceeds were used for the acquisition of the 200 Clubhouse Drive land and building, as well as various capital projects as determined by the City.

Capital Improvements Capital Projects Fund

This fund is used to account for financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by proprietary funds).

Storm Damage Capital Projects Fund

This fund is used to account for financial resources, such as Federal Emergency Management Agency and Alabama Emergency Management Agency grants, to be used for the beach restoration, debris removal, protective measure costs, and repairs/restoration of damaged roads, bridges, buildings, equipment, and parks associated with the aftermath of storms and the BP Horizon oil spill.

Major Proprietary Funds of Primary Government:

The primary government does not have any major proprietary funds.

Discretely Presented Component Units which are Major Proprietary Funds:

Jack Edwards Airport Enterprise Fund

Accounts for the maintenance and improvement of the Jack Edwards Airport, as well as the real estate transactions associated with the Industrial Park. This enterprise fund does not provide services entirely or almost entirely to the primary government, nor does it primarily benefit the primary government.

Airport Authority Enterprise Fund

This fund accounts for all operating revenues and expenditures of the Jack Edwards Airport. This enterprise fund does not provide services entirely or almost entirely to the primary government, nor does it primarily benefit the primary government. The vast majority of the governing board's are not the same.

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

1.C. BASIS OF PRESENTATION (CONTINUED)

Additionally, the City's reports the following non major funds:

Governmental Funds:

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes.

2006 B GO Warrant Capital Projects Fund

This fund is used to account for financial resources from the 2006 B GO Warrant issue. The proceeds were used for the purchase of the Lagoon park property formerly known as "Mo's Landing", as well as current and future capital projects.

Beach Restoration Capital Projects Fund

This fund is used to account for financial resources to be used for the restoration of the beaches.

Proprietary Funds:

Public Education Building Authority Enterprise Fund

Accounts for acquiring, purchasing, servicing the related debt, constructing, remodeling, altering, operating, maintaining, equipping and furnishing of public educational buildings and related facilities, as provided in Chapter 18 of Title 16 of the Code of Alabama 1975.

1.D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus refers to what is being measured: basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The Government-wide statements and fund financial statements for proprietary funds are reported using the *economic resources* measurement focus and the *full accrual* basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred regardless of the timing of related cash inflows and outflows.

Governmental fund financial statements are reported using *current financial resources* measurement focus and are accounted for using the *modified accrual* basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end. The revenues susceptible to accrual are property taxes, franchise fees, utility equivalents, licenses, charges for service, interest income, grants, and intergovernmental revenues. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenues. All other governmental fund revenues are recognized when received. Expenditures are recorded when the related fund liability incurred, as under accrual accounting.

Similar to the way its revenues are recorded, governmental funds only record those expenditures that affect current financial resources. Principal and interest on general long term debt are recorded as fund liabilities only when due, or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Vested compensated absences are recorded as expenditures only to the extent that they are normally expected to be liquidated with expendable financial resources. In the government-wide financial statements, however, with a full accrual basis of accounting, all expenditures affecting the economic resource status of the governments must be recognized. Thus, the expense and related accrued liability for long term and current portions of debt and compensated absences must be included.

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

1.D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the governmental column of the government-wide presentation. This reconciliation is part of the financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the Jack Edwards Airport, Airport Authority; are lease and rental income, Industrial Park lot sales, and some miscellaneous income. The Public Building Education Authority receives rent income from Faulkner State Community College to service the general obligation debt held by the City on the building and land. Operating expenses for the Jack Edwards Airport and Airport Authority include salaries and related expenses, depreciation, repairs and maintenance, the cost of sales for Industrial park lots, and a ground lease. The Public Education Building Authority only incurs debt service expenditures. All revenues and expenses not meeting this definition, most notably grants and interest income, are reported as non-operating revenues and expenses.

1.E. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand deposits, savings accounts, certificates of deposit, and short term investments with original or remaining maturities of three months or less when purchased. For purpose of the proprietary fund statement of cash flows, "cash and cash equivalents" include all demand and savings accounts, certificates of deposit, and short term investments with an original maturity of three months or less. Certificates of deposits are not considered investments. Investments are stated at fair value. The balances in the certificates of deposit at December 31, 2011 at the various financial institutions: \$500,000 at BB&T and \$5,000 at BBVA Compass Bank.

Reserve cash and equivalents

General fund cash and certificates of deposit totaling \$8,107,115 were designated as reserve by the City Council. The CD's and money market funds are to be used to fund a reserve for emergencies.

Restricted Assets

Assets whose use is restricted for construction, debt service or by other agreement are segregated on the fund level Balance Sheets, on Government – wide Statement of Net Assets and the Business Activity Statement of Net Assets.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "interfund receivables and payable." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include property taxes, local taxes, franchise taxes, and grants. There are no noted receivables in the proprietary funds in the current year.

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

1.E. ASSETS, LIABILITES, AND EQUITY (CONTINUED)

Receivables (continued)

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues that are usually both measurable and available. Nonexchange transactions collectible but not available are not deferred in the fund financial statements in accordance with modified accrual, but are deferred in the government-wide statements in accordance with accrual basis. The interest earnings are recorded when earned, only if paid within 60 days since they would be considered both measurable and available.

Inventories

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consists of expendable supplies held in the General Fund for consumption.

The cost is recorded as a expenditure at the time the individual items are used (consumption method). Reported inventories are equally offset by a fund balance reserve, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government wide or fund financial statements.

Government-wide Statement

In the government-wide financial statements, fixed assets that exceed the City's capitalization threshold by asset type are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for contributed capital assets which are recorded at their estimated fair value on the date received.

Capitalization thresholds of the City are: Land \$5,000, Buildings/Improvements \$100,000, Emergency/Fire/Police Vehicles & Equipment \$15,000, Other Vehicles & Equipment \$10,000, Parks & Recreational Facilities \$50,000, Office Equipment \$5,000.

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

Depreciation of all exhaustible capital assets 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' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of assets is as follows:

Infrastructure	30-40 years
Buildings	25-40 years
Building improvements	20-30 years
Machinery and equipment	5-15 years
Furniture and fixtures	3-15 years

Fund Financial Statements:

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in the proprietary fund operations are accounted for the same as in the government-wide statements.

GASB No.34 required the City to report and depreciate new infrastructure assets effective with the beginning of the fiscal year ending September 30, 2003. Infrastructure assets include roads, bridges, underground pipe (other than utilities), traffic signals, etc. The City accounted for \$2,260,019 in infrastructure from 1980 to September 30, 2002 that exceeded the City's capitalization threshold for infrastructure.

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

1.E. ASSETS, LIABILITES, AND EQUITY (CONTINUED)

Long-Term Debt

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. Bond premiums or discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are treated as period costs in the year of issue and are shown as other financing uses.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued and premiums are reported as other financing sources while discounts on debt issuances are reported as other financing uses. The payment of principle and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Accounting for the proprietary fund is the same in the fund financial statements as it is in the government-wide statements.

Compensated Absences

City employees earn vacation from twelve to twenty days per year depending upon past years of service. An employee can accumulate vacation days up to a maximum of 15 to 25 days based on their employment tenure. The City's policies regarding vacation, permit employees to accumulate earned but unused vacation leave and carryover up to a maximum 200 hours based on years of service. Vacation time above the allowed carryover, will lapse as of December 31st, unless extended by the Mayor to March 31st of the subsequent year. Employees may also accumulate up to 120 hours of comp time, and can elect for the unused portion that will lapse within one year of the date it was earned, to be paid out.

Compensated absences includes the early retirement service credit liability which allows an employee to accumulate and use up to 960 hours of sick leave toward an early retirement service credit once the employee reaches retirement eligibility. An employee is eligible when they reach 10 years of service and attains age 60, or 25 years of service with no age requirement. Refer to Note 4.I. for more information on the early retirement sick leave benefit.

All vested compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The total compensated absences liability for the governmental activities is \$834,312. \$121,971 is deemed the current portion on the government wide full accrual basis, of which \$7,133 is reported at the fund level at December 31, 2011.

Equity Classifications

Government Wide Level Financial Statements

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

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments: or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definiton of “restricted” or “invested in capital assets, net of related debt.”

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

1.E. ASSETS, LIABILITES, AND EQUITY (CONTINUED)

Equity Classifications

Fund Level Financial Statements

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Bureau classifies governmental fund balances as follows:

- Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Board of Directors.
- Unassigned includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The City commits fund balance through council action.

The City's General Fund Reserve policy is to maintain a minimum of 15% with a target of 25% of General Fund Expenditures. For 2011 expenses of \$28,924,765 the 15% minimum would be \$4,338,715 and the 25% target would be \$7,231,191.

The City does not have an established policy regarding use of unrestricted fund balance when both restricted and unrestricted fund balance are available. However the City does consider committed amounts would be reduced first, followed by any assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the City's unrestricted fund balance classifications are used.

A schedule of fund balances is as follows:

	<u>General</u> <u>Fund</u>	<u>Debt</u> <u>Service</u>	2008 A GO <u>Building</u> <u>Fund</u>	<u>Capital</u> <u>Improvements</u> <u>Fund</u>	<u>Storm</u> <u>Damage</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Fund Balances:							
Nonspendable							
Inventories	\$ 52,089	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 52,089
Prepaid expenses	248,618	-	-	-	-	-	248,618
Spendable							
Restricted for:							
Grants	383,757	-	17,406	-	15,411	-	416,574
Municipal Court	55,208	-	-	-	-	-	55,208
Debt service	-	2,202,426	-	-	-	-	2,202,426
Capital outlay	49,318	-	-	-	-	390,145	439,463
Beach restoration	-	-	-	-	-	1,561,198	1,561,198
Committed for:							
Emergencies	8,107,115	-	-	-	-	-	8,107,115
Capital outlay	199,960	-	5,455,760	-	-	-	5,655,720
Assigned :	-	-	-	-	-	1,016	1,016
Unassigned :	8,587,555	-	-	(8,168)	-	-	8,579,387
Total Fund Balance	<u>\$ 17,683,620</u>	<u>\$ 2,202,426</u>	<u>\$ 5,473,166</u>	<u>\$ (8,168)</u>	<u>\$ 15,411</u>	<u>\$ 1,952,359</u>	<u>\$ 27,318,814</u>

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

1.E. ASSETS, LIABILITES, AND EQUITY (CONTINUED)

Use of Estimates

In preparing the City of Gulf Shores' financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1.F. REVENUES, EXPENDITURES, AND EXPENSES

Property Tax

All ad valorem taxes levied by the state, county and any municipality in Baldwin County are assessed by the Tax Assessor and collected by the Tax Collector of Baldwin County. The Baldwin County property tax calendar requires the Tax Assessor to assess and attach taxes as enforceable liens on property as of September 30, and taxes are due October 1 through December 31 of the subsequent year. Property taxes that have not been paid by January 1 are considered delinquent. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end. Due to the immaterial amount of any additional property taxes receivable after the 60 day period, no additional accrual is made in the government-wide financial statements. All amounts paid to the City within the bill paying period are included in revenues. The Council has the authority to increase property taxes at its discretion, within certain statutory limits.

Sales, Use, and Lodgings Taxes

The City, through its revenue department collects sales, use and lodging taxes monthly. Under this arrangement, revenues from sales, use and lodging taxes are recognized when they become susceptible to accrual.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds include all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities. In the fund financial statements, expenditures are classified as follows:

Governmental Funds- By Character:	Current (further classified by function)
	Debt Service
	Capital Outlay

Proprietary Funds- By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

BUDGETARY INFORMATION

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

1. On or before November 1, Department heads update in the City's software system proposed operational budgets along with requested capital purchases for the fiscal year commencing the following January 1 for review by the City Administrator and Finance And Administration Director.
2. The City Administrator and Finance Director makes appropriate revisions and prepares the General Fund Operating Budget, Debt Service and Appropriations Budgets, which include proposed expenditures and the means of financing them.

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

BUDGETARY INFORMATION (CONTINUED)

3. Prior to January 1, the budget is legally enacted through passage of a resolution by the City Council.
4. The City Administrator and Finance and Administration Director are authorized to transfer budgeted amounts within operating departments within any fund; however, any revisions that alter the total expenditures of a fund must be formally approved by the Mayor and City Council.
5. Formal budgetary integration is employed as a management control device during the year for all governmental funds. Budgets for the City of Gulf Shores are adopted on a basis consistent with generally accepted accounting principles.
6. Each department of the City of Gulf Shores is funded through allocations provided by the adopted General Fund Budget. Total appropriations may not exceed current year's cash surplus and projected revenues. The budget for the current year was amended, provided adequate funds were available at the time of the amendment, as needed throughout the year by the City Council.
7. All unused appropriations automatically lapse at year-end.
8. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

Annual budgets were not legally adopted for the Library Board special revenue fund, or the Beach Restoration capital projects fund.

NOTE 3 – DETAIL NOTES ON TRANSACTION CLASSES

3.A. CASH AND INVESTMENTS

The City pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments and in securities sold under agreement to repurchase (repurchase agreements) which are collateralized by government securities, therefore, bearing minimal risk. These securities have original maturity dates not exceeding three months, usually maturing within one business day. Such investments are stated at cost, which approximates fair value.

The City's deposits at year end were held by financial institutions that participate in the State of Alabama's Security of Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged failed to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

At December 31, 2011, the carrying amount of the City's total deposits was \$23,113,594. Amounts in excess of FDIC coverage of \$250,000 of each financial institution are further secured by a pledge of securities from various institutions to the Alabama State Treasurer's Office in accordance with the Security for Alabama Funds Enhancement (SAFE) Act.

Restricted cash reported in the Special Revenue Funds represents proceeds from the collection of Fire Fighter Ad Valorem Taxes which are designated for Fire Department capital purchases in accordance with State Law, State Excise Gas Taxes which are designated for improvement, maintenance or lighting of streets and/or roads in accordance with State Law Corrections Funds which are designated for operation and maintenance of the municipal jail, Law Enforcement Funds which may be used to enhance future investigations, for law enforcement training, equipment, detention facilities and drug education and awareness programs, Parking Ordinance Funds which are restricted to upgrade, improve or increase public parking areas, Library Advisory Funds which are restricted to upgrade or improve public library resources.

For the purpose of the statement of cash flows in the proprietary funds, the City considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

3.B RECEIVABLES

Receivables as of year end for the City's individual major, and total non-major governmental funds in the aggregate, net of applicable allowances for uncollectible accounts, are as follows:

	General	Debt Service Fund	2008 A GO Building Fund	Capital Improvements Fund	Other Governmental Funds	Total
Taxes	\$ 2,774,558	\$ -	\$ -	\$ -	\$ -	\$ 2,774,558
Accounts receivable	50,477	41,575	-	14,832	990	107,874
BP settlement	6,500,000	-	-	-	-	6,500,000
Due from other governments	383,758	-	17,406	1,083,156	131,236	1,615,556
Total Receivables	\$ 9,708,793	\$ 41,575	\$ 17,406	\$ 1,097,988	\$ 132,226	\$ 10,997,988

3.C. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivable and payable balances at December 31, 2011 consisted of the following:

<u>Due From (Interfund Payable)</u>						
<u>Due To (Interfund Receivable)</u>	General Fund	Debt Service Fund	2008 A GO Building Fund	Capital Improvements Fund	Storm Damage Fund	Total
General Fund	\$ -	\$ 419,000	\$ -	\$ 32,125	\$ -	\$ 451,125
Nonmajor Governmental Funds	111,642	590	5,262	-	37,992	155,486
Total	\$ 111,642	\$ 419,590	\$ 5,262	\$ 32,125	\$ 37,992	\$ 606,611

The above balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers for the year ended December 31, 2011, consisted of the following:

<u>Transfer From (Other Financing Use)</u>			
	General Fund	Nonmajor Governmental Funds	Total
<u>Transfer To (Other Financing Source)</u>			
General Fund	\$ -	\$ 310,000	\$ 310,000
Debt Service Fund	2,731,094	1,582,958	4,314,052
Storm Damage	37,992	-	37,992
Total	\$ 2,769,086	\$ 1,892,958	\$ 4,662,044

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

3.C. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

3.D. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended December 31, 2011, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reclass- ifications</u>	<u>Ending Balance</u>
Governmental Activities					
Non-Depreciable Assets:					
Land	\$ 31,557,728	\$ 1,223,000	\$ -	\$ -	\$ 32,780,728
Depreciable Assets:					
Buildings, parks facilities, & improvements	34,188,024	3,496,716	219,485	-	37,465,255
Motor vehicles and equipment	9,515,747	813,190	150,003	-	10,178,934
Infrastructure	7,034,582	-	-	-	7,034,582
Totals at historical cost	<u>82,296,081</u>	<u>5,532,906</u>	<u>369,488</u>	<u>-</u>	<u>87,459,499</u>
Less accumulated depreciation for:					
Buildings and improvements	8,174,882	911,647	212,989	-	8,873,540
Motor vehicles and equipment	7,150,446	903,557	144,558	-	7,909,445
Infrastructure	589,732	184,561	-	-	774,293
Total accumulated depreciation	<u>15,915,060</u>	<u>1,999,765</u>	<u>357,547</u>	<u>-</u>	<u>17,557,278</u>
Governmental activities capital assets, net	<u>\$ 66,381,021</u>				<u>\$ 69,902,221</u>

Depreciation expense was charged to governmental functions as follows:

Executive Offices	\$ 399,970
Police	187,062
Fire	179,011
Public Works	451,306
Community and Economic Affairs	782,416
Total depreciation for governmental activities	<u>\$ 1,999,765</u>

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

3.D. CAPITAL ASSETS (CONTINUED)

Capital asset activity for the business-type activities of the primary government for the year ended December 31, 2011 is as follows:

Description	Beginning Balance	Additions	Retirements	Reclass- ifications	Ending Balance
Non-Depreciable Assets:					
Land	\$ 1,650,000	\$ -	\$ -	\$ -	\$ 1,650,000
Depreciable Assets					
Land improvements	203,088	-	-	-	203,088
Buildings	898,425	-	-	-	898,425
Equipment	261,893	-	-	-	261,893
Totals at historical cost	<u>3,013,406</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,013,406</u>
Less accumulated depreciation for:					
Land improvements	86,876	13,539	-	-	100,415
Buildings	566,756	13,582	-	-	580,338
Equipment	261,893	-	-	-	261,893
Total accumulated depreciation	<u>915,525</u>	<u>27,121</u>	<u>-</u>	<u>-</u>	<u>942,646</u>
Business-type activities capital assets, net	<u>\$ 2,097,881</u>				<u>\$ 2,070,760</u>

Capital asset activity for the discretely presented component units, the Jack Edwards Airport and the Airport Authority of the City of Gulf Shores, AL., is as follows:

Description	Beginning Balance	Additions	Retirements	Reclass- ifications	Ending Balance
Non-Depreciable Assets:					
Land	\$ 6,440,329	\$ -	\$ -	\$ -	\$ 6,440,329
Depreciable Assets					
Runways, taxiways, and improvements	15,551,460	-	-	-	15,551,460
Buildings and improvements	2,683,252	-	-	-	2,683,252
Motor vehicles and equipment	121,474	-	-	-	121,474
Totals at historical cost	<u>24,796,515</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,796,515</u>
Less accumulated depreciation for:					
Runways, taxiways, and improvements	9,222,810	718,923	-	-	9,941,733
Buildings and improvements	536,125	7,799	-	-	543,924
Motor vehicles and equipment	99,735	73,787	-	-	173,522
Total accumulated depreciation	<u>9,858,670</u>	<u>800,509</u>	<u>-</u>	<u>-</u>	<u>10,659,179</u>
Business-type activities capital assets, net	<u>\$ 14,937,845</u>	<u>\$ (800,509)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,137,336</u>

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

3.E. LONG-TERM DEBT

The reporting entities long-term debt results from the City's governmental activities, and are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds, loans, and leases payable:					
General obligation bonds	\$ 47,380,001	\$ -	\$ 3,795,000	\$ 43,585,001	\$ 3,825,000
Loans payable	-	1,204,825	262,278	942,547	\$ 405,290
Leases payable	180,473	-	65,841	114,632	56,074
Total bonds, loans and leases, less premiums	<u>47,560,474</u>	<u>1,204,825</u>	<u>4,123,119</u>	<u>44,642,180</u>	<u>4,286,364</u>
Plus bond premiums	<u>270,093</u>	<u>-</u>	<u>29,698</u>	<u>240,395</u>	<u>-</u>
 Total bonds, loans and leases payable	 47,830,567	 1,204,825	 4,152,817	 44,882,575	 4,286,364
 Other liabilities: Compensated Absences	 <u>779,862</u>	 <u>540,733</u>	 <u>486,283</u>	 <u>834,312</u>	 <u>121,971</u>
 Governmental activities long term liabilities	 <u>\$ 48,610,429</u>	 <u>\$ 1,745,558</u>	 <u>\$ 4,639,100</u>	 <u>\$ 45,716,887</u>	 <u>\$ 4,408,335</u>

The primary government had no business activity long-term debt as of December 31, 2011.

The long term-debt of the discretely presented component units of the Jack Edwards Airport and the Airport Authority of the City of Gulf Shores, AL., is as follows:

Discretely Presented Component Units

Bonds and loans payable:					
1996 B Airport Authority bond	\$ 160,000	\$ -	\$ 20,000	\$ 140,000	\$ 20,000
1993 Series A Revenue bonds	<u>41,282</u>	<u>-</u>	<u>15,587</u>	<u>25,695</u>	<u>17,004</u>
Business-type activities long term liabilities	<u>\$ 201,282</u>	<u>\$ -</u>	<u>\$ 35,587</u>	<u>\$ 165,695</u>	<u>\$ 37,004</u>

As of December 31, 2011 the governmental long term debt consisted of the following:

General Obligation Warrants:

\$1,475,000, Series 1998-A General Obligation Warrants dated March 1, 1998 due in annual installments from \$30,000 to \$170,000 plus interest varying from 3.90% to 4.85% per annum payable May 15 and November 15, final payment due November 15, 2012.	\$ 170,000
\$1,595,000, Series 2000-B General Obligation Warrants, dated December 1, 2000 due in annual installment of \$60,000 to \$180,000 plus interest varying from 4.40% to 5.35% per annum payable May 15 and November 15, final payment due November 2016	320,000
\$5,355,000, Series 2002 General Obligation Warrants, dated January 1, 2002 due in annual installment from \$885,000 to \$160,000 plus interest varying from 1.80% to 4.45% per annum payable March 1 and September 1, final payment due September 1, 2014	455,000
\$9,220,000, Series 2003-C General Obligation Warrants, dated July 1, 2003 due in annual installment from \$415,000 to \$1,510,000 plus interest varying from 1.45% to 5% per annum payable July 1 and January 1, with a final payment due July 1, 2013	2,970,000

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

3.E. LONG-TERM DEBT (CONTINUED)

<p>\$3,775,000, Series 2004 General Obligation Warrants, dated March 1, 2004 due in annual installment from \$150,000 to \$215,000 plus interest varying from 2.00% to 4.10% per annum payable August 1 and February 1, with a final payment due August 1, 2021</p>	1,825,000
<p>\$11,560,000, Series 2005-C General Obligation Warrants, dated December 15, 2006 due in annual installments from \$1,210,000 to 1,705,000 beginning on December 15, 2008, with a final payment due December 15, 2016. Interest varying from 4.80% to 5.05% per annum payable June 15 and December 15, first payment June 15, 2006 and last payment December 15, 2015.</p>	6,345,000
<p>\$2,465,000, Series 2006-A General Obligation Warrants, dated February 1, 2006 due in 2 annual installments. The first on \$1,215,000 on December 15, 2016, with a final payment due December 15, 2017 of \$1,250,000. Beginning June 15, 2006 interest varying from 5.10% to 5.15% per annum payable on June 15 and December 15, with a final payment due December 15, 2017.</p>	2,465,000
<p>\$12,665,000, Series 2006-B General Obligation Warrants, dated February 1, 2006 due in annual principal installments of \$560,000 to \$2,275,000 beginning on December 15, 2018, with a final payment due Decembert 15, 2025. Interest varying from of 4.00% to 4.35% per annum payable June 15 and December 15, first payment due June 15, 2006 and last December 15, 2025.</p>	12,665,000
<p>\$17,050,000, Series 2008-A General Obligation Warrants, dated April 1, 2008 due in annual principal installments of \$100,000 increasing to \$2,890,000 beginning on December 15, 2008, with a final payment due Decembert 15, 2028. Interest varying from of 3.00% to 4.5% per annum payable June 15 and December 15, first payment due December 15, 2008 and last December 15, 2028.</p>	16,370,000
<p>Total Unamortized General Obligation Warrant Issue Premiums</p>	240,395
Notes payable:	
<p>\$586,825 Installment financing with RBC Bank, Inc. dated February 17, 2011 due in monthly installments of \$16,790 on the 17th of each month, beginning in March 2011, final payment due February 17, 2014.</p>	427,209
<p>\$618,000 Installment financing with RBC Bank, Inc. dated May 27, 2011 due in monthly installments of \$18,202 on the 27th of each month, beginning in July 2011, final payment due May 27, 2014.</p>	515,338
Notes leases payable:	
<p>\$178,956 Lease Payable to Key Government Finance, Inc, dated May 3, 2010 due in annual installments of \$37,531 on November 1, final payment due November 1, 2013.</p>	70,578
<p>\$102,863 Lease Payable to Bancorp South, dated October 15, 2008 due in semiannual installments of \$11,673 due April 15 and October 15, with the final payment due October 15, 2013</p>	44,055
<p>Total Long Term Debt</p>	<u>\$ 44,882,575</u>

THE CITY OF GULF SHORES, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

3.E. LONG-TERM DEBT (CONTINUED)

As of December 31, 2011 the long term debt payable for the discretely presented component unit, the Airport Authority of the City of Gulf Shores, AL consisted of the following:

Revenue bonds:

\$340,000, Airport Revenue Bonds, Series A issued to Regions Bank dated March 4, 1993 for the purchase of and secured by the Fixed Base Operation building and equipment at Jack Edwards Airport. Principal and interest shall be payable monthly beginning March 5, 1993 and continuing until and including January 5, 2013, in installments of \$1,417 principal plus accrued interest at a per annum rate of 8.50%. Final payment shall be an amount equal to the entire unpaid principal balance of the bond, plus accrued interest to such date, payable on February 5, 2013. Rate of interest may be adjusted on the anniversary of the date of issuance of the bond in each of the years, 1998, 2003 and 2008 to Regions Commercial Base Rate in effect on such date.

\$ 25,695

\$325,000, Series 1996-B, General Obligation Warrants, dated November 1, 1996, due in annual installments serially from \$50,000 to \$120,000 on November 1 of each year, plus interest from 5.375% to 6.125% per annum payable on May 1 and November 1.

140,000

Total

\$ 165,695

Annual debt service requirements to maturity, including principle and interest, for the governmental activities long-term debt as of December 31, 2011, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 4,286,364	\$ 1,992,240
2013	4,451,740	1,797,869
2014	2,879,075	1,611,906
2015	2,720,000	1,489,216
2016	2,205,000	1,360,535
2017-2021	10,360,000	5,394,500
2022-2028	<u>17,740,000</u>	<u>3,342,249</u>
Total	<u>\$ 44,642,180</u>	<u>\$ 16,988,514</u>

Annual debt service requirements to maturity, including principle and interest, for the discretely presented component units, the Airport Authority of the City of Gulf Shores, AL and the Jack Edwards Airport is as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 37,004	\$ 9,378
2013	28,691	7,188
2014	25,000	5,359
2015	25,000	3,828
2016	25,000	2,297
Thereafter	<u>25,000</u>	<u>766</u>
Total	<u>\$ 165,695</u>	<u>\$ 28,816</u>

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

3.E. LONG-TERM DEBT (CONTINUED)

The principal of and interest on the 1993 Bonds of the Airport Authority of the City of Gulf Shores, AL, a discretely presented component unit, are payable solely out of the revenues, rentals, receipts, profits and income derived by the Issuer from the Lease Agreement or any successor agreement entered into in substitution for or in continuation of the Lease Agreement with respect to the Leased Airport Property (as defined in the Lease Agreement) (the "Pledged Revenues"). Pursuant to the Indenture, as security for the payment of the Bonds, the Issuer has assigned and pledged to the Bondholder all rights, title and interest of the Insurer in and to the Pledged Revenues and the Lease Agreement and any of such other agreements (except for certain rights to indemnification and reimbursement of expenses granted to the Issuer). As additional security for the payment of the Series A Bonds pursuant to a Bond Guaranty Agreement dated as of January 1, 1993 (the "Guaranty") to the bondholder. In accordance with its obligations under the Lease Agreement, the Corporation has caused Regions Bank to issue an irrevocable letter of credit (the "Letter of Credit") in favor of the Bondholder authorizing the Bondholder to draw on said bank in an amount not exceeding \$150,000 (subject to reduction by each principal payment on the Series A Bonds as provided in the Letter of Credit) for application to the payment of the principal of and interest on the Series A Bonds.

Except as aforesaid, the Bonds shall never constitute an indebtedness of the City of Gulf Shores, Alabama (the "City") within the meaning of any constitutional provision or statutory limitation and shall never constitute nor give rise to a pecuniary liability of the City or a charge against its general credit or taxing powers.

The 1996 B General Obligation Warrants were issued for the purpose of constructing a new terminal building at the Jack Edwards Airport. The principal and interest payments are to be paid from proceeds received by the Airport Authority in connection with the lease of the terminal building per a lease agreement dated October 31, 1996. The indebtedness is to be repaid by revenues of the Airport Authority and therefore is reported as a liability of the Airport Authority. However, the City is contingently liable for principal and interest payments on the warrants should the lease proceeds prove insufficient.

3.F. UNEARNED REVENUE

The City has unearned revenues of \$6,036 in the general fund from receiving advance funds from developers', for future environmental impact studies (EIS) to be conducted by these developers' for proposed projects. The EIS is required by the US Army Corps of Engineers, to study the impact from development on the environment. The City serves as the facilitator for the study between the developers and a subcontracted company to conduct the EIS.

As of December 31, 2011 the City has unearned revenues of \$844,679 reported in the Storm Damage fund. The City was advanced Federal Emergency Management Agency and Alabama Emergency Management Agency Hurricane Ike and Gustav public assistance awards in anticipation of expending these awards on eligible expenditures. These revenues will be recognized as the City incurs eligible expenditures for these public assistance grants.

As of December 31, 2011 the City has unearned revenues of \$574,693 reported in the Capital Improvements Fund. The City has received funds from Saunders Yachtworks as reimbursement for the City's yet to be incurred match obligation related to an Department of Commerce's Economic Development grant to build a Dry Dock Basin. The remaining \$57,543 are derived from various sundry assessments for capital projects which are deferred and included in revenue, when the receivables become available.

3.G. PENSION EXPENSE

The City maintains a pension plan which covers substantially all employees. The plan is funded by making monthly contributions as they accrue. See Note 4.A for details.

3.H. ACCUMULATED DEFICIT

At December 31, 2011, the Capital Improvements fund of the City of Gulf Shores had an accumulated total fund balance deficit of \$8,168. It is anticipated that this deficit will be eliminated by future excess revenues over expenses. The Airport Authority of the City of Gulf Shores, a component unit of the primary government, had an accumulated total net assets deficit of \$531,924 at September 30, 2011.

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

3.I. DEBT LIMIT AND TAXING AUTHORITY

According to the Baldwin County Revenue Commissioner's Office, the total aggregate assessed valuation of the property in the City as of December 31, 2011, was \$487,433,360 resulting in a debt limit of \$97,486,672. The City Council has the authority to raise sales, use and lodgings taxes at its discretion. The City currently imposes a three-percent sales tax, a five-percent lodging tax within Corporate Limits of the Municipality, and a two and one half percent lodgings tax outside the corporate limits.

3.J. CONTINGENCIES

The City is subject to losses from damages to buildings, equipment, and vehicles and injuries incurred to or by their employees on the job. The City has attempted to mitigate their risk of loss by purchasing insurance from several third-party vendors. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The City purchases Workman's Compensation Insurance from the Municipal Workers Compensation Fund, Inc. The policy premiums are based on estimated annual payroll. The premiums are adjusted retrospectively based on actual annual payroll.

NOTE 4 – OTHER INFORMATION

4. A. RETIREMENT PLAN

The Employee Retirement System (ERS) is a defined benefit plan qualified under Section 401(a) of the Internal Revenue Code. A defined benefit plan provides the employee with a specific benefit at retirement by calculating the retirement benefit based on an established formula. The plan is a cost-sharing multiple employer plan. Participating in the ERS was not mandatory by employees eligible as of December 1, 2006, however if the employee chooses to participate in the plan then their assets in the previous pension plan must be transferred to the ERS. Participation in the ERS is mandatory for all employees hired after December 1, 2006, who are eligible. Employees are eligible to participate if employed in a full time position, as well as part time positions working at least 20 hours per week and earning at least the federal minimum wage. Once enrolled, the member must continue participation until employment is terminated.

The Employees' Retirement System was established as of October 1, 1945, under the provisions of Act 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for State employees, State police, and on an elective basis to all cities, counties, towns and quasi-public organizations. The responsibility for general administration and operation of the Employees' Retirement System is vested in the Board of Control.

Benefit provisions are established by the Code of Alabama 1975, Sections 36-27-1 through 36-27-103, as amended, Sections 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Commission authority to accept or reject various Cost-Of-Living-Adjustments (COLAs) granted to retirees.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, P.O. Box 302150, Montgomery, Alabama 36130-2150.

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 4 – OTHER INFORMATION

4. A. RETIREMENT PLAN (CONTINUED)

The following is information taken from the Employees' Retirement System of Alabama, Actuarial Valuation Summary as of September 30, 2010; the latest date for which a valuation was available. The valuation sets the rate for the period beginning October 1, 2012.

Summary of Employee Census Data

Number of active members:	212
Annual compensation:	\$ 9,237,271

<u>Required Employer Contribution Rates</u>	Retain Current Member Contribution Rates	Elect to Increase Member Contribution Rates Under Act 2011-676
Normal cost	5.72%	3.58%
Accrued Liability	4.10%	4.17%
Pre-retirement death benefit	0.15%	0.15%
Administrative expense	0.18%	0.18%
Total	10.15%	8.08%
5% Employer contribution factor (10.15%/5%)	2.030%	
6% Employer contribution factor (10.15%/6%)	1.692%	
7.5% Employer contribution factor (8.08%/7.5%)		1.077%
8.5% Employer contribution factor (8.08%/8.5%)		0.951%

Comments on Employer Contribution Rates:

1. These rates included contributions for cost of living benefit increases granted on or after October 1, 1978 through the valuation date.
2. Employer contributions may increase due to the granting of pay raises in excess of the expected and for any future cost of living adjustments granted to retirees.
3. These contribution rates are determined under the parameters of GASB 25 and 27. Any contributions above the required employer contribution rate, such as lump sum payments, will result in negative Net Pension Obligation, which will be disclosed in the audit report.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Act. Liability Entry Age (b) ¹	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
9/30/2007	\$ 8,801,789	\$ 11,050,026	\$1,912,931	82.1%	\$ 8,186,268	23.4%
9/30/2008	\$ 10,382,700	\$ 13,155,797	\$4,330,054	70.6%	\$ 9,871,622	43.9%
9/30/2009	\$ 10,944,616 *	\$ 16,360,595	\$5,415,979	66.9%	\$ 9,319,904	58.1%
9/30/2010 ³	\$ 11,654,622	\$ 18,981,372	\$7,326,750	61.4%	\$ 9,237,271	79.3%
9/30/2010 ⁴	\$ 11,654,622	\$ 19,113,449	\$7,458,827	61.0%	\$ 9,237,271	80.7%

- ¹ Reflects liability for cost of living benefit increases granted on or after October 1, 1978.
 - ² Reflects changes in actuarial assumption.
 - ³ Reflects the impact of Act 2011-27, which closes the DROP program to new applicants after March 24, 2011
 - ⁴ Reflects the impact of Act 2011-27 as well as Act 2011-26, which increases the member contribution rates by 2.25% beginning October 1, 2011 and by an additional 0.25% beginning October 1, 2012
- * Market Value of Assets as of September 30, 2010: \$9,912,213

THE CITY OF GULF SHORES, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

NOTE 4 – OTHER INFORMATION (CONTINUED)

4. A. RETIREMENT PLAN (CONTINUED)

Valuation date	9/30/2010
Actuarial cost method	Entry Age
Amortization method	Level percent open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	8.00%
Projected salary increases*	4.61 - 7.75%
*Includes inflation at	4.50%
Cost-of-living adjustments	None

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)
9/30/2008	\$ 567,200	100%	\$ -
9/30/2009	\$ 567,366	100%	\$ -
9/30/2010	\$ 730,375	100%	\$ -

4.B. DEFEASED DEBT

On January 1, 2002 the City issued \$5,355,000 Series 2002 General Obligation Warrants, which was used to advance refund the Series 1994 General Obligation Warrants and the Series 1997 General Obligation Warrants, and currently refund the Series 1993-B General Obligation Warrants. In accordance with the refunding agreement, the City deposited with the National Bank of Commerce funds from the Series 2002 Warrants into escrow accounts, which along with the earnings therefrom, are sufficient to pay the principal and interest of the bonds when due and on such date to redeem and retire the Series 1994 and 1997 Warrants including early redemption premiums of \$26,050.

The City also deposited with the Bank of New York funds from the Series 2002 Warrants into the 1993-B Warrant Fund, and used them to currently refund on February 25, 2002 the City's General Obligation Warrants, Series 1993-B including an early redemption premium of \$66,600.

As a result of the above action, the refunding meets the requirements of a current refunding and the bonds were removed from the City's debt.

The refunding was undertaken to provide more favorable repayment terms and interest rates. The advance refunding has decreased debt service payments relative to the refunded debt by \$170,229 (\$6,219,011- \$6,389,240) over the next twelve years and resulted in an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$191,986.

On March 10, 2004 the City issued \$3,775,000 Series 2004 General Obligation Warrants, which were used to currently refund the Series 1993 General Obligation Warrants, and to advance refund and redeem on March 1, 2007 a portion of the Series 1996 General Obligation Warrants.

THE CITY OF GULF SHORES, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

4.B. DEFEASED DEBT (CONTINUED)

In accordance with the refunding agreement, the City deposited with the Bank of New York Trust Company, N.A., funds from the Series 2004 Warrants into an escrow account, which along with the earnings there from, are sufficient to pay the principal and interest on the 1996 Warrants to and including on March 1, 2007 on such date, shall be applied to the redemption of the Series 1996 Refunded Warrants maturing on September 1, 2007 and thereafter. The City also deposited funds from the Series 2004 Warrants into the 1993 Warrant Fund, and used them to currently refund on April 9, 2004 the City's General Obligation Warrants, Series 1993 A.

The refunding was undertaken to provide more favorable repayment terms and interest rates. The advance refunding has decreased debt service payments relative to the refunded debt by \$304,839 (\$4,854,110- \$5,158,949) over the next seventeen years and resulted in an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$247,274. As a result of the above action, the refunding meets the requirements of a current refunding. The 1993 bonds and a portion of the 1996 bonds were removed from the debt.

In April, 2008 the City issued \$17,050,000 Series 2008 A General Obligation Warrants, which were used to advance refund the Series 1996 and 1998 C General Obligation Warrants, acquire the 200 Clubhouse Drive land and building, and to construct various capital projects. In accordance with the refunding agreement, the City deposited with Regions Bank funds from the Series 2008 A Warrants into two escrow accounts which along with the earnings there from, are sufficient to pay the principal and interest of the bonds. These escrowed funds will be used to currently refund on May 29, 2008 the City's General Obligation Warrants, Series 1996 and 1998 C.

As a result of the above action, the refunding meets the requirements of a current refunding and the bonds were removed from the debt. The refunding was undertaken to provide more favorable repayment terms and interest rates.

The advance refunding has decreased debt service payments relative to the refunded debt by \$512,095 (\$9,553,346-\$9,041,251) over the next 13 years and resulted in an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$428,325.

4.C. COMMITMENTS AND CONTINGENCIES

Construction, engineering, and design contracts for material public works project commitments at December 31, 2011 are as follows:

Contractor/Engineer	Construction/Professional Services Project	Contract Amount Including Change Orders	Approximate Expenditures Incurred To Date	Approximate Balance of Contract
White Spinner Construction	Saunders Gulf Shores Turning/Drydock Basin	\$ 5,144,000	\$ 2,636,589	\$ 2,507,411
Olsen & Associates, Inc	Beach Renourishment Phase IV	526,110	260,278	265,832

Health Self Insurance Plan

Beginning October 1, 2009 the City changed Blue Cross Blue Shield health insurance coverage from a fully insured plan to a self insured plan up to \$1,700,000. The self insurance policy is administered through Occidental, an American United Life insurance company. Anticipated savings from self insuring were estimated to be \$250,000 per year; savings for the first two years averaged \$140,000.

4.D. LEASE OBLIGATIONS

The City is obligated under certain leases accounted for as operating leases. The City entered into various agreements for the lease of copiers and other equipment that are accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the City's debt. For 2011, rentals approximated \$57,500 for such leases. Approximately \$59,000, \$30,000, and \$10,000 in minimum rental payments are due in 2012, 2013, and 2014 respectively. These leases are primarily supported by the governmental fund activities.

THE CITY OF GULF SHORES, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

4.E. AIRPORT LEASES

The Airport Authority's, a component unit of the primary government, investment in property on operating leases is as follows:

Land	\$ 93,938
Buildings	540,578
Equipment	<u>38,994</u>
	673,510
Less accumulated depreciation	<u>(431,136)</u>
Net investment in operating leases	<u>\$ 242,374</u>

In addition to the above lease terms, the lease agreements call for non-cancelable lease payments through December 31, 2049 as follows:

Year	Payment
2012	221,072
2013	221,259
2014	225,346
2015	229,928
2016	231,731
Thereafter	<u>5,626,356</u>
Total	<u>\$ 6,755,692</u>

Minimum Future lease payments do not include contingent rentals, which may be received as stipulated in the lease contracts. These contingent rental payments only occur if sales and activities of the lessee exceed certain levels. Contingent rentals were \$198,507 in 2011.

4.F. PUBLIC EDUCATION BUILDING AUTHORITY

On October 5, 1992, the City Council of the City of Gulf Shores, Alabama approved the Certificate of Incorporation establishing The Public Education Building Authority of the City of Gulf Shores, Alabama. The objects for which the corporation was organized are to acquire, purchase, construct, remodel, alter, operate, maintain, equip and furnish public educational buildings and related facilities, as provided in Chapter 18 of Title 16 of the Code of Alabama 1975. The Public Education Building Authority of the City of Gulf Shores, Alabama has been reflected as a proprietary fund of the City of Gulf Shores, Alabama.

The Public Education Building Authority (PEBA) has constructed educational facilities at a total cost of \$2,810,318 with contributions from the City of \$2,674,585 and from Faulkner State Community College of \$93,685. The PEBA entered into a lease agreement with Faulkner State Community College, whereby Faulkner agrees to use and occupy the premises as a community college for public educational purposes only and for no other object or purpose. The agreement calls for annual lease payments of \$10 to be paid to the PEBA, in addition to other amounts not specifically defined (e.g. insurance premium, taxes). On November 18, 1994, the original lease agreement was amended to include the new Hospitality and Tourism Management Center Building. The financing of the construction of the new building was provided by the City of Gulf Shores, Alabama's General Obligation Warrants dated July 1, 1994 totaling approximately \$1,820,000.

The lease amendment increases the amount of the basic rent payment to include the debt service payment to be made on the 1994 G.O. Warrant. Therefore, the amended lease agreement calls for non-cancelable lease payments through June 25, 2014 as follows:

Year	Payment
2012	163,502
2013	164,728
2014	<u>120,138</u>
Total	<u>\$ 448,368</u>

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

4.F. PUBLIC EDUCATION BUILDING AUTHORITY (CONTINUED)

On November 29, 1994, the PEBA entered into a ground lease with the City of Gulf Shores to lease the property where the above buildings are located under substantially the same terms and conditions as the above referenced lease.

On January 1, 2002, the City issued the Series 2002 General Obligation Warrant to refund the 1994 G.O. Warrant along with the 1993-B and 1997 G.O. Warrants. According to the refunding agreement, Faulkner State Community College will continue to make payments according to the original lease agreement as above.

4.G. INVESTMENTS

The City's investments consist of a U.S. Treasury Note with a face value of \$10,000 and a current value of \$9,993. The market value for this investment type is not materially different from its carrying amount.

4.H. POST-EMPLOYMENT HEALTH CARE BENEFITS

The City has a one time closed group of retirees covered under the employer's health benefits program. The City has four employees covered who are required to pay 100% of the blended premium and are only covered until age 65. No other employees are eligible for coverage in the future. This does not meet the definition of an Other Post Employment Benefit and therefore constitute a long term retiree health care liability. The city does not provide any other post-employment health care benefits except those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and the City incurs no direct costs.

4.I. POST RETIREMENT EMPLOYEE BENEFITS

A new sick leave policy placed into effect in fiscal year 2006 allows an employee to accumulate and use up to 960 hours of sick leave toward an early retirement service credit once the employee reaches retirement eligibility. An employee is eligible when they reach 10 years of service and attains age 60, or 25 years of service with no age requirement. The total actuarial accrued and unfunded liability according to Rebowe & Fontenot , LLC as of January 1, 2010 is \$378,215 at a 4.0% assumed annual investment.

The gross annual required contribution (current liability) assumed payable is \$56,645, which consists of an annual normal cost assumed payable of \$34,772, plus a 30 year actuarial accrued liability amortization contribution of \$21,873. The City has not funded this future liability, and plans to pay the early service retirement credit as an employee becomes eligible and utilizes the benefit. In 2011 there was \$49,807 in early retirement sick leave paid out by the City to eligible retirees.

4.J. CAFETERIA PLAN

Beginning in 1994, the City began providing an employer-sponsored benefit package (Cafeteria Plan) under Code Section 125 that offers employees a choice between taking cash or receiving qualified benefits (such as dental insurance and family coverage health insurance premiums). No amounts are included in the income of the Cafeteria Plan participant who chooses among the benefits of the plan; however, if a participant chooses cash it is includible in gross income as compensation. If qualified benefits are chosen, they are excludable to the extent allowed by law.

4.K. FUND BALANCE – COMMITTED

\$8,107,115 of the total \$8,307,075 committed fund balance of the General fund on the fund financial statements is committed for emergencies as designated by the City Council in the current year budget. The City has funded the committed for emergencies amount of \$8,107,115, as reflected in reserved cash and cash equivalents of the General fund.

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

4.L. COLONIAL PINNACLE AT CRAFT FARMS PROJECT

The City has entered into a Lease and Development Agreement and a Repurchase and Sale Agreement with Colonial Realty Limited Partnership. This agreement involves a public/private partnership to develop 68 acres on Highway 59, north of the intracoastal waterway. This project involved public financing, via the 2005-C GO warrant, with the related debt service being provided by future sales, use, and property taxes generated by the project. The City purchased half of the property for \$5,000,000 in 2006, with the purchase of the remaining \$5,000,000 in 2007. The City uses the sales and use tax generated by the Pinnacle retail and the property taxes collected by the County on the parcels listed in the agreement to service the 2005-C GO warrant. The shortfall between the local taxes and property taxes collected and the annual debt service, less incentive credits as determined in the lease agreement, is to be paid by Colonial Realty Limited Partnership.

4.M AEMA GRANT PAYABLE

On May 18, 2010 and July 6, 2010 the City of Gulf Shores, Alabama received grant funds in the amount of \$1,060,000 and \$237,000 respectively; totaling \$1,297,000. According to the grant documents, the purpose of the grant agreement was to transfer money from State of Alabama Emergency Management Agency (AEMA) to the City as provided by the \$25 million dollar grant from BP to the State of Alabama. These funds were to be used by the impacted governments in Baldwin and Mobile Counties to prevent, minimize or mitigate the damage from the Deepwater Horizon Incident including any project management costs and equipment cost associated therewith. The City has spent \$394,538 of the funds as of December 31, 2011. The remaining balance of unspent grant funds totaling \$903,182, are reported as a liability to AEMA in the storm damage fund. The City plans to submit requests for reallocation of the remaining grant funds to AEMA, and there is a possibility those funds can be reallocated subject to approval from AEMA.

4.N. PRIOR PERIOD ADJUSTMENT

The City has a prior period adjustment to restate beginning of the year net assets of the governmental activities for the addition of non depreciable fixed assets totaling \$1,185,000, as the result of the City being donated approximately 40 acres of land near Baldwin County Road 8, and Foley Beach express. The property was deeded to the City on June 21, 2010 by Estate of Betty Jane Craft. The land and contribution revenue were not reported in 2010. The fair market value of the land contributed was derived from the Baldwin County property appraisal.

4.O. BP PLC DEEPWATER HORIZON SETTLEMENT

On March 9, 2012 The City of Gulf Shores, received \$6,500,000 from BP PLC for full settlement of current and future claims in addition to the rights to sue, as a result of the Deepwater Horizon oil spill. The settlement was accrued as a receivable to the City at December 31, 2011, and was collected subsequent to year end. Claims revenue and expected reimbursements were previously accrued and recognized in 2010, and as a result the remaining amount of revenue recognized in 2011 is \$6,402,323.

4.P. PENDING LITIGATION

The City is party to various other legal proceedings, which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. They are vigorously protesting those actions. The details of the major cases are listed below:

Boltz & Pickard vs. City of Gulf Shores

This matter relates to twenty-four properties in Gulf Shores, Alabama inside or near Dolphin Subdivision that flooded on April 1, 2005, April 7, 2005 and October 19, 2007. The Plaintiffs claim the City negligently maintained the drainage system, negligently designed the system and was negligent in issuing building permits for construction in the neighborhood. The Plaintiffs also asserted an inverse condemnation claim. The City settled the claims of two Plaintiffs, and the claims of another couple have been dismissed. The City recently mediated the case and was able to reach a settlement agreement with the majority of the Plaintiffs on the inverse condemnation claim. The settlement of the inverse condemnation claims is a contingent liability for the City. The City has agreed to apply for a FEMA Hazard Mitigation grant as it concerns the individual properties. Due to the repetitive loss of these properties due to flooding, a grant can be requested for payment of up to 75% of the purchase price of the property plus up to 75% of remediating the property back to green space.

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

4.P. PENDING LITIGATION (CONTINUED)

Boltz & Pickard vs. City of Gulf Shores (Continued)

In addition to agreeing to apply for the grant, the City has agreed to pay \$753,175 in legal fees as well as reimburse the Plaintiffs for \$34,580 in costs. Should the grant not be approved by the federal government, then the City has agreed to purchase the properties outright. If all of the parcels are purchased through a FEMA grant, the amount the City will be required to pay is \$1,540,930. Under that scenario, the property will have to be retained by the City as green space and can not subsequently be sold. If the City does not obtain any FEMA grant money, the entire amount owing from the City will be \$3,800,455. However, if the City purchases the property, then they can in the future decide to sell that property in order to reduce the cost of the litigation. The City can either separate the properties into groups for grant applications, or apply for separate grants on each individual property. The likelihood of receiving the grant is unknown at this time. It is likely that at least some of the properties should be purchased, if not all. One other issue that may affect the amount of properties that will be purchased under the grant, concerns whether or not the City has other uses they would like to explore for the property. Since this piece of litigation ultimately concerned issues of drainage, the possibility of using some of these parcels to modify and upgrade the drainage system is possible. There are seven sets of property owners who still have an inverse condemnation claim, although none of the seven still own the property.

The claims of seventeen Plaintiffs who live outside Dolphin Subdivision are set for trial on April 9, 2012. The trial of the remaining Plaintiffs' claims has not been set yet. The City recently filed a motion for summary judgment which will be heard at a later date. If this matter does proceed to trial, there is a significant chance that a jury will find the City liable and award damages to the Plaintiffs. The maximum award should be limited to \$900,000 for mental anguish based on the applicable municipal cap. However, should the claims for negligent issuance of the various building permits be allowed to go forward, the City could be dealing with a new municipal cap for each house. That would be on top of the three times multiplier on the aggregate bodily injury cap due to the three alleged instances of negligent maintenance. In addition, the City has the possibility of damages being assessed for damage to property. Based upon Plaintiffs' disclosures, the City expects the claim to the jury to be that the entire group of Plaintiffs sustained \$375,000 in personal property damages and repair costs. Depending on how that is assessed, it could be subject to a municipal cap of \$100,000, or some multiple of that figure depending on how many occurrences of flooding were attributable to City conduct. The Plaintiffs argue that multiple caps apply and if successful, their aggregate would be under a cap scenario. The city contends either one cap applies, or a significantly reduced number of caps apply. The City's position will most likely only be successful, if at all, on appeal. Therefore, there is a possibility of a \$1-3 million dollar verdict being rendered against the City. It is the City's position that they are adequately insured (with no deductible) for the balance of the claims.

Bailey vs. City of Gulf Shores

This lawsuit was filed by two property owners in the Dolphin Pines subdivision and involves the same events as the *Boltz & Pickard* cases discussed above, and has been consolidated with that case.

Jones vs. City of Gulf Shores

This case involves the exact same fact scenario as the above discussed *Boltz & Pickard* matter, and has also been consolidated with that case.

The City has accrued a liability for the above litigation settlement in the amount of \$3,800,455, and will use reserve funds to pay the settlement.

The defense of the remaining undisclosed legal proceedings the City is involved with, is being provided by the City's liability insurer, Alabama Mutual Insurance Corporation, whose practice is to defend all matters under a standard "reservation of right" letter as to the issue of coverage.

REQUIRED SUPPLEMENTARY INFORMATION

THE CITY OF GULF SHORES, ALABAMA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Property Taxes	\$ 2,587,020	\$ 2,757,020	\$ 3,444,028	\$ 687,008
Local Taxes	18,581,700	18,931,700	18,385,151	(546,549)
Licenses and Permits	2,024,500	2,003,500	1,885,421	(118,079)
Fines and Forfeitures	265,000	295,000	309,520	14,520
Utility Tax Equivalents	1,274,100	1,304,100	1,172,815	(131,285)
Intergovernmental:				
Federal	350,000	514,000	505,936	(8,064)
State of Alabama - Taxes	191,000	191,000	176,844	(14,156)
Income on Investments	108,000	108,000	26,062	(81,938)
BP Settlement	-	-	6,402,323	6,402,323
Other	1,702,210	1,744,710	1,722,665	(22,045)
Total Revenues	<u>27,083,530</u>	<u>27,849,030</u>	<u>34,030,765</u>	<u>6,181,734</u>
EXPENDITURES				
Executive Department	3,563,581	3,093,725	2,925,610	168,116
Municipal Court	282,888	314,556	320,136	(5,579)
Police Department	3,829,988	3,878,325	3,817,726	60,599
Fire and Emergency Services	2,930,717	3,244,895	3,311,662	(66,767)
Community and Economic Affairs	4,794,270	4,881,734	4,810,513	71,222
Public Works	4,009,596	4,243,401	4,143,517	99,884
Appropriations	80,000	80,000	137,974	(57,974)
Capital Outlay	412,500	1,804,825	1,588,940	215,885
Litigation Settlement	-	-	3,800,455	(3,800,455)
Total Expenditures	<u>19,903,540</u>	<u>21,541,461</u>	<u>24,856,533</u>	<u>(3,315,071)</u>
Excess of revenues over expenditures	<u>7,179,990</u>	<u>6,307,569</u>	<u>9,174,232</u>	<u>2,866,664</u>
OTHER FINANCING SOURCES (USES)				
Installment Loan Proceeds	-	-	1,204,825	1,204,825
Transfers from Other Funds	298,500	1,503,325	310,000	(1,193,325)
Transfer to Other Funds	(5,712,890)	(6,612,890)	(6,702,544)	(89,654)
Total Other Financing Uses	<u>(5,414,390)</u>	<u>(5,109,565)</u>	<u>(5,187,719)</u>	<u>(78,154)</u>
Net Change in Fund Balances	<u>\$ 1,765,600</u>	<u>\$ 1,198,004</u>	<u>\$ 3,986,513</u>	<u>\$ 2,788,509</u>

Note to Budgetary Comparison Schedule:

The 2% lodgings tax revenue is budgeted in the general fund, in addition to the transfers to the corresponding 2% lodgings tax special revenue fund. The 2% lodgings tax revenue is presented for financial statement purposes in the 2% special revenue fund as local tax revenue. For budget to actual comparison purposes the 2% lodgings tax revenue will be included in the actual general fund local tax revenues and transfers out on this schedule.

The property, sales, and use tax segregated for the Pinnacle debt service is presented for financial statement purposes in the Debt Service fund, but is budgeted by the City in the General fund tax revenues and transfers to other funds. For comparison purposes the property and local tax previously segregated will be included in the actual General fund revenues and transfers out on this schedule.

The basis of budgeting is the same as GAAP.

OTHER SUPPLEMENTARY INFORMATION

**COMBINING FUND FINANCIAL
STATEMENTS AND SCHEDULES**

THE CITY OF GULF SHORES, ALABAMA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2011

	Special Revenue Funds				Capital Projects Funds			Total Nonmajor Governmental Funds
	2% Lodgings Tax Fund	Designated Taxes Fund	Impact Fees Fund	Library Board Fund	Beach Restoration Fund	2006 B GO Warrant Fund		
ASSETS								
Restricted Cash and Cash Equivalents	\$ 1,454,146	\$ 92,588	\$ 267,817	\$ 22,965	\$ 1,258	\$ 1,016	\$ 1,839,790	
Receivable (Net)	-	-	-	990	-	-	990	
Due From Other Funds	107,052	4,590	-	-	-	-	111,642	
Total Assets	<u>\$ 1,561,198</u>	<u>\$ 97,178</u>	<u>\$ 267,817</u>	<u>\$ 23,955</u>	<u>\$ 1,258</u>	<u>\$ 1,016</u>	<u>\$ 1,952,422</u>	
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	-	63	-	-	-	-	63	
Fund Balances:								
Spendable:								
Restricted	1,561,198	97,115	267,817	23,955	1,258	-	1,951,343	
Committed	-	-	-	-	-	1,016	1,016	
Total Fund Balances	<u>1,561,198</u>	<u>97,115</u>	<u>267,817</u>	<u>23,955</u>	<u>1,258</u>	<u>1,016</u>	<u>1,952,359</u>	
Total Liabilities and Fund Balance	<u>\$ 1,561,198</u>	<u>\$ 97,178</u>	<u>\$ 267,817</u>	<u>\$ 23,955</u>	<u>\$ 1,258</u>	<u>\$ 1,016</u>	<u>\$ 1,952,422</u>	

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

THE CITY OF GULF SHORES, ALABAMA
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Special Revenue Funds				Capital Projects Funds			Total Nonmajor Governmental Funds
	2% Lodgings Tax Fund	Designated Taxes Fund	Impact Fees Fund	Library Board Fund	Beach Restoration Fund	2006 B GO Warrant Fund		
REVENUES								
2% Lodgings Tax	\$ 2,315,474	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,315,474
Intergovernmental:								
State of Alabama	-	348,575	-	2,862	-	-	-	351,437
Federal Government	-	-	-	-	-	-	-	-
Interest income	1,649	375	72	45	1	205		2,347
Impact fees	-	-	96,108	-	-	-	-	96,108
Other receipts	-	-	-	6,473	-	-	-	6,473
Total Revenues	<u>2,317,123</u>	<u>348,950</u>	<u>96,180</u>	<u>9,380</u>	<u>1</u>	<u>205</u>		<u>2,771,839</u>
EXPENDITURES								
Current Operating:								
Community and Economic Affairs	-	-	3,280	-	-	-	-	3,280
Public Works	-	-	-	-	-	-	-	-
Fire	-	-	53,184	-	-	-	-	53,184
Capital Outlay	-	-	-	-	-	627,098	-	627,098
Land	-	-	-	-	-	37,688	-	37,688
Miscellaneous	-	10,000	-	4,697	-	6,538	-	21,235
Total Expenditures	-	<u>10,000</u>	<u>56,464</u>	<u>4,697</u>	-	<u>671,324</u>		<u>742,485</u>
Excess (Deficiency) of revenues Over Expenditures	<u>\$ 2,317,123</u>	<u>\$ 338,950</u>	<u>\$ 39,716</u>	<u>\$ 4,683</u>	<u>\$ 1</u>	<u>\$ (671,119)</u>		<u>\$ 2,029,354</u>
OTHER FINANCING SOURCES (USES)								
Transfers In	-	-	-	-	-	-	-	-
Transfers Out	(1,582,958)	(310,000)	-	-	-	-	-	(1,892,958)
Total Other Financing Sources (Uses)	<u>(1,582,958)</u>	<u>(310,000)</u>	-	-	-	-	-	<u>(1,892,958)</u>
Net Change in Fund Balance	734,165	28,950	39,716	4,683	1	(671,119)		136,396
Fund Balances - Beginning	827,033	68,165	228,101	19,272	1,257	672,135		1,815,963
Fund Balances - Ending	<u>\$ 1,561,198</u>	<u>\$ 97,115</u>	<u>\$ 267,817</u>	<u>\$ 23,955</u>	<u>\$ 1,258</u>	<u>\$ 1,016</u>		<u>\$ 1,952,359</u>

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

**CITY OF GULF SHORES, ALABAMA
 LODGING TAX SPECIAL REVENUE FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues				
Taxes:				
Lodging Tax 2% Beach	\$ 1,700,000	\$ 2,300,000	\$ 2,315,474	\$ 15,474
Interest Income	<u>5,000</u>	<u>5,000</u>	<u>1,650</u>	<u>(3,350)</u>
Total Revenue	<u>1,705,000</u>	<u>2,305,000</u>	<u>2,317,124</u>	<u>12,124</u>
Expenditures				
Current:				
General government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total general government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues over Total Expenditures	<u>1,705,000</u>	<u>2,305,000</u>	<u>2,317,124</u>	<u>(12,124)</u>
Other Financing Uses				
Transfers out:	<u>1,705,000</u>	<u>2,305,000</u>	<u>1,582,959</u>	<u>722,041</u>
Total Other Financing Uses	<u>1,705,000</u>	<u>2,305,000</u>	<u>1,582,959</u>	<u>722,041</u>
Net Change in Fund balances	-	-	734,165	734,165
Fund balances, beginning of year	<u>827,033</u>	<u>827,033</u>	<u>827,033</u>	<u>-</u>
Fund balances, end of year	<u>\$ 827,033</u>	<u>\$ 827,033</u>	<u>\$ 1,561,198</u>	<u>\$ 734,165</u>

**CITY OF GULF SHORES, ALABAMA
DESIGNATED TAXES SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues				
Taxes:				
Firefighters Ad Valorem	\$ 180,000	\$ 140,000	\$ 178,171	\$ 38,171
Law Enforcement:				
Federal Equity Sharing	3,600	1,000	11,585	10,585
State, Local & Other	35,000	10,000	6,370	(3,630)
Alabama Gasoline Excise				
Four per gallon	8,000	8,000	11,310	3,310
Five per gallon	4,500	4,500	5,564	1,064
Seven per gallon	14,000	14,000	19,474	5,474
Petroleum Inspection Fees	2,400	2,400	3,266	866
Motor Fuel Distribution	600	600	835	235
State Shared Capital				
Improvements Fund	38,000	38,000	33,786	(4,214)
Corrections Fund	80,000	80,000	78,214	(1,786)
Interest Income	-	-	376	376
Total Revenue	<u>366,100</u>	<u>298,500</u>	<u>348,951</u>	<u>50,451</u>
Expenditures				
Account Administration	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Uses				
Transfers Out - General Fund				
Corrections	80,000	80,000	70,000	10,000
Firefighters Ad Valorem	180,000	140,000	167,000	(27,000)
Law Enforcement Federal	3,600	-	10,000	(10,000)
Law Enforcement State, Local and Other	35,000	10,000	5,000	5,000
Alabama Gas Tax	31,500	31,500	34,000	(2,500)
State Capital Improvements	36,000	36,000	34,000	2,000
Parking Ordinance	-	-	-	-
Total Other Financing Uses	<u>366,100</u>	<u>297,500</u>	<u>320,000</u>	<u>(22,500)</u>
Net Changes in Fund Balances	-	1,000	28,951	27,951
Fund Balances, beginning of year	<u>68,164</u>	<u>68,164</u>	<u>68,164</u>	<u>-</u>
Fund Balances, end of year	<u>\$ 68,164</u>	<u>\$ 69,164</u>	<u>\$ 97,115</u>	<u>\$ 27,951</u>

CITY OF GULF SHORES, ALABAMA
IMPACT FEES SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues				
Park & Recreation	\$ 72,529	\$ 72,529	\$ 45,794	\$ (26,735)
Fire	55,274	55,274	7,468	(47,806)
Police	37,458	37,458	5,402	(32,056)
Public Works	58,031	58,031	37,444	(20,587)
Interest Income	-	-	72	72
Total Revenue	<u>223,292</u>	<u>223,292</u>	<u>96,180</u>	<u>(127,112)</u>
Expenditures				
Current:				
Fire Equipment	<u>43,000</u>	<u>43,000</u>	<u>41,953</u>	<u>1,047</u>
Total Current	<u>43,000</u>	<u>43,000</u>	<u>41,953</u>	<u>1,047</u>
Capital Outlay				
Recreation	72,892	72,892	3,280	69,612
Fire	12,000	12,000	11,231	769
Police	37,400	37,400	-	37,400
Public Works	58,000	58,000	-	58,000
Total Capital	<u>180,292</u>	<u>180,292</u>	<u>14,511</u>	<u>165,781</u>
Total Expense	<u>223,292</u>	<u>223,292</u>	<u>56,464</u>	<u>166,828</u>
Net Changes in Fund Balances	-	-	39,716	(293,940)
Fund Balances, beginning of year	<u>228,101</u>	<u>228,101</u>	<u>228,101</u>	<u>-</u>
Fund Balances, end of year	<u>\$ 228,101</u>	<u>\$ 228,101</u>	<u>\$ 267,817</u>	<u>\$ (293,940)</u>

CITY OF GULF SHORES, ALABAMA
2006 B WARRANT PROCEEDS CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues				
Bond Proceeds	\$ 1,000,000	\$ 1,000,000	\$ -	\$ (1,000,000)
Interest Income	-	-	205	205
Total Revenue	<u>1,000,000</u>	<u>1,000,000</u>	<u>205</u>	<u>(999,795)</u>
Expenditures				
Capital Outlay:				
Street Resurfacing	300,000	28,615	10,322	18,293
Public Works Maintenance Imp	-	-	183,358	(183,358)
Sportsplex Improvements	-	127,280	33,660	93,620
Skate Park-Sims Park	-	29,125	-	29,125
Lagoon Park	-	9,900	336	9,564
Renovate Adult Activity Center	-	-	5,791	(5,791)
Renovate 200 Clubhouse Drive	-	50,000	258,869	(208,869)
Police Improvements	-	288,500	72,569	215,931
Meyer Park Improvements	-	85,000	-	85,000
Civic Center Improvements	-	256,700	1,657	255,043
Beach Improvements	700,000	219,700	23,553	196,147
Property Purchase-FireStation#3	-	38,000	37,688	312
Renovate Fire Station #3	-	7,000	33,548	(26,548)
Library Improvements	-	102,000	3,433	98,567
Appraisal/Survey/Engineer/Legal	-	10,665	6,540	4,125
Total Capital	<u>1,000,000</u>	<u>1,252,485</u>	<u>671,324</u>	<u>581,161</u>
Total Expense	<u>1,000,000</u>	<u>1,252,485</u>	<u>671,324</u>	<u>581,161</u>
Net Changes in Fund Balance	-	(252,485)	(671,119)	418,634
Fund Balance, beginning of year	<u>672,135</u>	<u>672,135</u>	<u>672,135</u>	<u>-</u>
Fund Balance, end of year	<u>\$ 672,135</u>	<u>\$ 419,650</u>	<u>\$ 1,016</u>	<u>\$ 418,634</u>

CITY OF GULF SHORES, ALABAMA
2008 A WARRANT PROCEEDS CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues				
Grants requiring match funds				
ALDOT Multi-Use Trail	\$ 444,650	\$ 444,650	\$ -	\$ (444,650)
Safe Routes to School	150,520	150,520	-	(150,520)
Roadway & Signal Improvements	-	538,200	17,406	(520,794)
Interest Income	-	-	60,525	60,525
Bond Issue Proceeds	1,304,830	1,711,944	-	(1,711,944)
Total Revenue	<u>1,900,000</u>	<u>2,845,314</u>	<u>77,931</u>	<u>(2,767,383)</u>
Expenditures				
Capital Outlay Projects				
Recreation Improvements	-	278,700	120,290	158,410
Maintenance Improvements	600,000	1,675,000	30,040	1,644,960
Appraisal/Survey/Engineer/Legal	-	-	2,880	(2,880)
FEMA Beach Restoration/Disaster	150,000	150,000	-	150,000
Renovate 200 Clubhouse Drive	218,000	218,000	6,253	211,747
Renovate Adult Activity Center	44,000	44,000	4,007	39,993
Renovate Fire Station #3	64,275	61,815	26,943	34,872
New Fire Station #1	-	2,000,000	82,339	1,917,661
Police Improvements	-	48,314	112,048	(63,734)
Meyer Park Improvements - Ph I	-	-	3,000	(3,000)
Skate Park - Sims Park	-	-	3,817	(3,817)
Sportsplex Improvements	-	-	4,923	(4,923)
Grant Match				
ALDOT - Multi-Use Trail	594,650	594,650	-	594,650
ALDOT - Safe Routes to School	156,000	156,000	-	156,000
ALDOT - Roadway&Signal Imp	-	897,000	29,010	867,990
	<u>1,826,925</u>	<u>6,123,479</u>	<u>425,550</u>	<u>5,697,929</u>
Net change in fund balances	73,075	(3,278,165)	(347,619)	(2,930,546)
Fund balances, beginning of year	<u>5,820,785</u>	<u>5,820,785</u>	<u>5,820,785</u>	<u>-</u>
Fund balances, end of year	<u>\$ 5,893,860</u>	<u>\$ 2,542,620</u>	<u>\$ 5,473,166</u>	<u>\$ (2,930,546)</u>

**CITY OF GULF SHORES, ALABAMA
GRANTS CAPITAL IMPROVEMENTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues				
Grants				
EDA Saunders Dry Dock Minnow Lane	\$ -	\$ -	\$ 2,729,699	\$ (2,729,699)
Pavement Assessment Principal	-	-	1,199	(1,199)
Interest Income	-	-	312	(312)
Total Revenues	<u>-</u>	<u>-</u>	<u>2,731,210</u>	<u>(2,731,210)</u>
Expenditures				
Administrative Expenses	-	-	104	(104)
EDA - Dry Dock Basin	-	-	2,729,699	(2,729,699)
Total Expenses	<u>-</u>	<u>-</u>	<u>2,729,803</u>	<u>(2,729,803)</u>
Net change in fund balances	-	-	1,407	(1,407)
Fund balances, beginning of year	<u>(9,575)</u>	<u>(9,575)</u>	<u>(9,575)</u>	<u>-</u>
Fund balances, end of year	<u>\$ (9,575)</u>	<u>\$ (9,575)</u>	<u>\$ (8,168)</u>	<u>\$ (1,407)</u>

**CITY OF GULF SHORES, ALABAMA
 STORM DAMAGE CAPITAL IMPROVEMENTS FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues				
Intergovernmental	\$ 950,000	\$ 950,000	\$ 301,006	\$ (648,994)
Interest	-	-	2,147	2,147
Total Revenues	<u>950,000</u>	<u>950,000</u>	<u>303,153</u>	<u>(646,847)</u>
Expenditures				
Emergency Protective Measures	403,000	403,000	(7,980)	410,980
Engineering & Construction	-	-	70,421	(70,421)
Buildings & Equipment	547,000	547,000	-	547,000
Parks, Recreation & Other	-	-	192,086	(192,086)
Total Expenses	<u>950,000</u>	<u>950,000</u>	<u>254,527</u>	<u>695,473</u>
Net change in fund balances	-	-	48,626	(48,626)
Fund balances, beginning of year	<u>(33,215)</u>	<u>(33,215)</u>	<u>(33,215)</u>	<u>-</u>
Fund balances, end of year	<u>\$ (33,215)</u>	<u>\$ (33,215)</u>	<u>\$ 15,411</u>	<u>\$ (48,626)</u>

**CITY OF GULF SHORES, ALABAMA
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues				
Rent Income	\$ 752,540	\$ 752,540	\$ 323,746	\$ (428,794)
Transfers In	5,529,410	5,829,410	5,874,028	44,618
Interest	-	-	152	152
Total Revenues	<u>6,281,950</u>	<u>6,581,950</u>	<u>6,197,926</u>	<u>(384,024)</u>
Expenditures				
Transfers Out	<u>6,281,950</u>	<u>6,581,950</u>	<u>6,262,264</u>	<u>319,686</u>
Total Expenses	<u>6,281,950</u>	<u>6,581,950</u>	<u>6,262,264</u>	<u>319,686</u>
Net change in fund balances	-	-	(64,338)	64,338
Fund balances, beginning of year	<u>2,266,764</u>	<u>2,266,764</u>	<u>2,266,764</u>	<u>-</u>
Fund balances, end of year	<u>\$ 2,266,764</u>	<u>\$ 2,266,764</u>	<u>\$ 2,202,426</u>	<u>\$ 64,338</u>

STATISTICAL SECTION

THE CITY OF GULF SHORES, ALABAMA
STATISTICAL SECTION
DECEMBER 31, 2011

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

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the City of Gulf Shore's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the City of Gulf Shore's significant local tax sources.

Debt Capacity

These schedules present information to help the reader assess the affordability of the City of Gulf Shore's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City of Gulf Shore's financial report relates to the services the City provides and the activities it performs.

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

Schedule 1
City of Gulf Shores
Net Assets by Component
Last Ten Fiscal Years

	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental Activities					
Invested in capital assets, net of related debt	\$ 4,125,699	\$ 5,741,868	\$ 7,568,636	\$ 12,229,297	\$ 14,391,987
Restricted**	-	-	-	-	-
Unrestricted	15,123	1,573,408	3,444,156	2,029,950	2,312,622
Total governmental activities net assets	<u>4,140,822</u>	<u>7,315,276</u>	<u>11,012,792</u>	<u>14,259,247</u>	<u>16,704,609</u>
Business-type activities					
Invested in capital assets, net of related debt	14,070,108	15,287,812	15,218,754	15,158,543	14,463,612
Unrestricted	-	235,312	-	577,388	809,706
Total business-type activities net assets	<u>14,070,108</u>	<u>15,523,124</u>	<u>15,218,754</u>	<u>15,735,931</u>	<u>15,273,318</u>
Primary government					
Invested in capital assets, net of related debt	18,195,807	21,029,680	22,787,390	27,387,840	28,855,599
Restricted**	-	-	-	-	-
Unrestricted	15,123	1,808,720	3,444,156	2,607,338	3,122,328
Total primary government net assets	<u>\$ 18,210,930</u>	<u>\$ 22,838,400</u>	<u>\$ 26,231,546</u>	<u>\$ 29,995,178</u>	<u>\$ 31,977,927</u>

**Schedule 1
City of Gulf Shores
Net Assets by Component
Last Ten Fiscal Years**

	<u>2007</u>	<u>2008*</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Governmental Activities					
Invested in capital assets, net of related debt	\$ 23,092,192	\$ 27,718,754	\$ 26,875,334	\$ 32,443,514	\$ 25,129,660
Restricted**	-	-	-	-	4,674,869
Unrestricted	<u>(6,785,381)</u>	<u>(6,934,917)</u>	<u>9,411,377</u>	<u>9,765,391</u>	<u>22,442,057</u>
Total governmental activities net assets	<u>16,306,811</u>	<u>20,783,837</u>	<u>36,286,711</u>	<u>42,208,905</u>	<u>52,246,586</u>
Business-type activities					
Invested in capital assets, net of related debt	14,036,604	2,152,122	2,097,342	2,097,881	2,097,881
Unrestricted	<u>1,762,474</u>	<u>26,188</u>	<u>96,815</u>	<u>69,694</u>	<u>42,737</u>
Total business-type activities net assets	<u>15,799,078</u>	<u>2,178,310</u>	<u>2,194,157</u>	<u>2,167,575</u>	<u>2,140,618</u>
Primary government					
Invested in capital assets, net of related debt	37,128,796	29,870,876	28,972,676	34,541,395	27,227,541
Restricted**	-	-	-	-	4,674,869
Unrestricted	<u>(5,022,907)</u>	<u>(6,908,729)</u>	<u>9,508,192</u>	<u>9,835,085</u>	<u>22,484,794</u>
Total primary government net assets	<u>\$ 32,105,889</u>	<u>\$ 22,962,147</u>	<u>\$ 38,480,868</u>	<u>\$ 44,376,480</u>	<u>\$ 54,387,204</u>

*The City Fiscal Year was changed in 2008 from an October 1 start date to January 1; Fiscal Year 2008 is for 15 months of data

**2011 Restricted designation based on Governmental Accounting Standards Board Statement 54

Schedule 2
City of Gulf Shores
Changes in Net Assets, Last Nine Fiscal Years*
(accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
Expenses				
Governmental activities:				
Executive	\$ 1,926,656	\$ 1,904,853	\$ 2,248,096	\$ 2,330,383
Municipal Court	180,089	196,349	225,855	260,332
Police	2,214,918	2,442,142	2,691,472	3,078,638
Fire	1,170,314	1,295,357	1,620,814	1,806,966
Public Works	2,778,189	4,466,661	33,565,952	21,287,453
Community and Economic Affairs	2,606,306	2,545,954	2,705,503	3,731,930
Other	1,759,192	3,134,047	7,498	5,690
Total governmental activities expenses	<u>12,635,664</u>	<u>15,985,363</u>	<u>43,065,190</u>	<u>32,501,392</u>
Business-type activities:				
Public Education Authority	214,629	217,845	220,382	193,967
Total business-type activities expenses	<u>214,629</u>	<u>217,845</u>	<u>220,382</u>	<u>193,967</u>
Total primary government expenses	<u>12,850,293</u>	<u>16,203,208</u>	<u>43,285,572</u>	<u>32,695,359</u>
Program Revenues				
Governmental activities:				
Charges for services:				
Executive	5,697	69,979	11,361	14,572
Municipal Court	233,118	244,799	310,157	368,833
Police	2,201	2,165	2,270	2,657
Fire	-	-	-	-
Community and Economic Affairs	2,462,632	3,157,082	4,650,195	5,141,249
Public Works	21,736	41,147	168,385	112,050
Operating Grants and Contributions	224,829	55,920	81,543	376,503
Capital Grants and Contributions	725,081	2,070,099	25,173,774	10,099,423
Total governmental activities program revenues	<u>3,675,294</u>	<u>5,641,191</u>	<u>30,397,685</u>	<u>16,115,287</u>
Business-type activities				
Charges for services				
Public Education Building Authority	164,895	165,255	205,240	-
Total business-type activities program revenues	<u>164,895</u>	<u>165,255</u>	<u>205,240</u>	<u>-</u>
Total primary government program revenues	<u>3,840,189</u>	<u>5,806,446</u>	<u>30,602,925</u>	<u>16,115,287</u>
Net (Expense)/Revenue				
Governmental activities	(8,960,370)	(10,344,172)	(12,667,505)	(16,386,105)
Business-type activities	(49,734)	(52,590)	(15,142)	(193,967)
Total primary government net expense	<u>(9,010,104)</u>	<u>(10,396,762)</u>	<u>(12,682,647)</u>	<u>(16,580,072)</u>
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Taxes				
Property taxes	1,297,384	1,647,890	1,675,718	2,257,901
Local taxes	9,849,269	12,233,350	13,724,852	16,283,821
Franchise taxes	690,219	681,462	642,003	689,245
State taxes	280,687	339,395	364,712	509,960
Investment earnings	169,752	231,761	365,030	1,075,784
Miscellaneous	495,306	315,750	78,627	122,637
Contributions	-	-	-	-
Gain/(Loss) on Disposal of Assets	28,633	(39,086)	47,271	43,172
Transfers	(222,933)	(44,615)	(66,434)	(54,303)
Total governmental activities	<u>12,588,317</u>	<u>15,365,907</u>	<u>16,831,779</u>	<u>20,928,217</u>
Business-type activities:				
Investment earnings	1,631	279	1,824	8,605
Miscellaneous	-	-	-	-
Transfers	-	-	66,434	54,303
Total business-type activities	<u>1,631</u>	<u>279</u>	<u>68,258</u>	<u>62,908</u>
Total primary government	<u>12,589,948</u>	<u>15,366,186</u>	<u>16,900,037</u>	<u>20,991,125</u>
Changes in Net Assets				
Governmental activities	2,200,488	3,697,516	2,949,852	2,453,103
Business-type activities	(48,103)	(52,311)	517,177	(462,613)
Total primary government	<u>\$ 2,152,385</u>	<u>\$ 3,645,205</u>	<u>\$ 3,467,029</u>	<u>\$ 1,990,490</u>

**Governmental Revenues not broken out by Department prior to 2003

Schedule 2
City of Gulf Shores
Changes in Net Assets, Last Nine Fiscal Years*
(accrual basis of accounting)

	Fiscal Year				
	2007	2008**	2009	2010	2011
Expenses					
Governmental activities:					
Executive	\$ 3,118,424	\$ 3,876,306	\$ 3,337,227	\$ 3,557,756	\$ 3,646,526
Municipal Court	256,691	350,461	264,323	315,489	320,136
Police	3,868,179	5,590,850	3,610,001	3,961,753	4,542,844
Fire	2,010,918	4,154,573	3,031,788	3,158,784	3,545,999
Public Works	5,574,241	6,875,071	4,553,330	5,796,817	4,948,565
Community and Economic Affairs	5,233,237	6,234,581	4,836,883	5,203,873	5,904,452
Other	234,914	8,706	5,676	-	-
Total governmental activities expenses	20,296,604	27,090,548	19,639,228	21,994,472	22,908,522
Business-type activities:					
Public Education Authority	193,282	198,674	190,751	191,366	188,686
Total business-type activities expenses	193,282	198,674	190,751	191,366	188,686
Total primary government expenses	20,489,886	27,289,222	19,829,979	22,185,838	23,097,208
Program Revenues					
Governmental activities:					
Charges for services:					
Executive	7,224	9,405	1,039	20,975	5,456
Municipal Court	412,609	443,103	364,946	381,667	398,801
Police	3,542	21,125	16,688	5,426	8,273
Fire	1,596	33,189	22,885	7,442	7,468
Community and Economic Affairs	430,164	3,882,347	3,187,112	3,120,094	3,559,168
Public Works	4,589,675	2,425,557	161,962	92,807	117,280
Operating Grants and Contributions	707,337	690,116	332,825	1,355,967	659,443
Capital Grants and Contributions	388,028	997,050	93,976	806,079	2,992,714
Total governmental activities program revenues	6,540,175	8,501,892	4,181,433	5,790,457	7,748,603
Business-type activities					
Charges for services					
Public Education Building Authority	204,045	242,844	161,230	164,245	161,565
Total business-type activities program revenues	204,045	242,844	161,230	164,245	161,565
Total primary government program revenues	6,744,220	8,744,736	4,342,663	5,954,702	7,910,168
Net (Expense)/Revenue					
Governmental activities	(13,756,429)	(18,588,656)	(15,457,795)	(16,204,015)	(15,159,919)
Business-type activities	10,763	44,170	(29,521)	(27,121)	(27,121)
Total primary government net expense	(13,745,666)	(18,544,486)	(15,487,316)	(16,231,136)	(15,187,040)
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Taxes					
Property taxes	3,002,915	4,055,825	4,829,741	2,874,858	3,444,058
Local taxes	17,229,278	19,124,991	16,099,252	14,090,126	18,385,150
Franchise taxes	922,973	1,358,036	1,173,166	1,135,118	1,172,815
State taxes	572,822	376,213	507,597	296,473	321,933
Investment earnings	1,334,581	999,710	415,465	300,395	91,545
Miscellaneous	117,782	683,025	341,266	369,997	278,677
Contributions/BP Settlement	2,150,000	-	-	5,476,579	6,402,323
Gain/(Loss) on Disposal of Assets	(6,826)	5,158	(28,116)	8,803	28,342
Transfers	(101,951)	(147,969)	(96,000)	(96,000)	(96,000)
Total governmental activities	25,221,574	26,454,989	23,242,371	24,456,349	30,028,843
Business-type activities:					
Investment earnings	13,581	1,143	228	539	164
Miscellaneous	-	-	61,709	-	-
Transfers	101,951	-	102,000	-	-
Total business-type activities	115,532	1,143	163,937	539	164
Total primary government	25,337,106	26,456,132	23,406,308	24,456,888	30,029,007
Changes in Net Assets					
Governmental activities	9,123,986	4,477,026	5,454,367	5,922,194	10,037,681
Business-type activities	525,759	45,313	1,769,133	(26,582)	(26,957)
Total primary government	\$ 9,649,745	\$ 4,522,339	\$ 7,223,500	\$ 5,895,612	\$ 10,010,724

**The City Fiscal Year was changed in 2008 from an October 1 start date to January 1;
Fiscal Year 2008 represents 15 months of data

Schedule 3
City of Gulf Shores
Fund Balances, Governmental Funds
Past Ten Fiscal Years
(Modified accrual basis of accounting)

	Fiscal Year				
	2002	2003	2004	2005	2006
General Fund					
Reserved	\$ 930,130	\$ 1,077,746	\$ 1,584,260	\$ 1,632,455	\$ 1,600,000
Unreserved	2,508,160	2,884,796	6,120,341	10,183,539	9,315,082
Total general fund	<u>3,438,290</u>	<u>3,962,542</u>	<u>7,704,601</u>	<u>11,815,994</u>	<u>10,915,082</u>
Other Governmental Funds					
Reserved	-	-	-	-	-
Unreserved, reported in:					
Storm Damage Fund	-	-	-	(781,825)	-
Debt Service fund	153,093	15,385	10,533	10,245	2,492,601
Capital Projects funds	2,151,422	9,103,310	7,253,155	1,700,747	14,999,644
Special Revenue funds	75,939	1,604,715	581,283	264,624	121,405
Total - governmental funds	<u>\$ 5,818,744</u>	<u>\$ 14,685,952</u>	<u>\$ 15,549,572</u>	<u>\$ 13,009,785</u>	<u>\$ 28,528,732</u>

Schedule 3
City of Gulf Shores
Fund Balances, Governmental Funds
Past Ten Fiscal Years
(Modified accrual basis of accounting)

	Fiscal Year				
	2007	2008*	2009	2010	2011**
General Fund					
Reserved	\$ 1,750,000	\$ 6,069,660	\$ 5,587,449	\$ 4,947,340	\$ -
Unreserved	138,260	(7,566,741)	7,996,836	8,787,729	-
Nonspendable**					300,707
Spendable:**					
Restricted**					488,283
Committed**					8,307,075
Unassigned**					8,587,555
Total general fund	<u>1,888,260</u>	<u>(1,497,081)</u>	<u>13,584,285</u>	<u>13,735,069</u>	<u>17,683,620</u>
Other Governmental Funds					
Reserved	-	-	-	-	
Unreserved, reported in:					
Storm Damage Fund	-	-	-	-	
Debt Service fund	2,654,399	2,726,194	2,401,966	2,266,764	
Capital Projects funds	7,121,853	8,053,171	7,470,961	6,451,384	
Special Revenue funds	426,661	1,516,194	1,516,019	1,142,547	
Nonspendable**					-
Spendable:**					
Restricted**					4,186,586
Committed** 2008A GO					5,456,776
Unassigned**					(8,168)
Total - governmental funds	<u>\$ 12,091,173</u>	<u>\$ 10,798,478</u>	<u>\$ 24,973,231</u>	<u>\$ 23,595,764</u>	<u>\$ 27,318,814</u>

* The Fiscal Year changed in 2008 from a September 30 year end, to December 31 year end.

**2011 Fund Balance designations based on Governmental Accounting Standards Board Statement 54

Schedule 4
City of Gulf Shores
Changes in Fund Balances, Governmental Funds,
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year				
	2002	2003	2004	2005	2006
Revenues					
Taxes					
Property	\$ 1,257,588	\$ 1,297,384	\$ 1,647,890	\$ 1,675,718	\$ 2,257,901
Local	9,298,107	9,969,179	12,355,908	13,724,852	16,283,821
Licenses, fees and permits	1,104,333	1,440,528	2,180,492	3,788,460	3,848,980
Fines and forfeitures	208,112	225,991	236,513	262,380	317,114
Utility tax equivalents	521,531	570,309	556,659	642,417	689,245
Intergovernmental	290,992	766,434	2,465,414	25,715,862	11,022,349
Investment earnings	345,277	169,752	231,761	365,030	1,143,670
Impact fees	-	-	-	83,259	-
BP lost revenues	-	-	-	-	-
Assessments/Rental Income	107,403	247,746	28,668	222,368	-
Other revenues	1,321,770	1,340,616	1,405,840	1,064,469	1,541,924
Total Revenues	<u>14,455,113</u>	<u>16,027,939</u>	<u>21,109,145</u>	<u>47,544,815</u>	<u>37,105,004</u>
Expenditures					
General government	1,638,436	1,841,076	1,810,077	2,035,079	2,108,493
Police	2,164,496	2,256,388	2,508,781	2,777,054	3,116,044
Fire	1,072,342	1,044,982	1,184,439	1,284,497	1,548,227
Community and Economic Affairs	2,228,150	2,338,546	2,269,784	2,621,001	11,964,474
Public Works	2,443,913	2,549,922	2,662,113	3,032,286	3,995,690
Appropriations	27,146	29,638	33,294	39,720	64,095
Hurricane damage	-	-	1,566,615	25,619,481	15,025,803
Capital outlay	1,455,510	2,753,191	4,329,807	8,492,074	5,348,064
Non capitalized equipment	-	-	-	-	-
Beach restoration	-	-	-	-	778,563
Principal	2,009,093	2,684,844	6,280,727	2,909,701	3,148,961
Interest	1,330,292	1,128,554	1,336,595	1,199,714	1,655,566
Miscellaneous	164,005	180,837	370,131	7,497	14,492
Litigation Settlement	-	-	-	-	-
Total Expenditures	<u>14,533,383</u>	<u>16,807,978</u>	<u>24,352,363</u>	<u>50,018,104</u>	<u>48,768,472</u>
Excess(Deficiency) of revenues over (under) expenditures	<u>(78,270)</u>	<u>(780,039)</u>	<u>(3,243,218)</u>	<u>(2,473,289)</u>	<u>(11,663,468)</u>
Other Financing Sources (Uses)					
Bond Issue Proceeds	5,355,000	9,870,179	4,151,526	-	27,236,717
Transfers In	3,556,280	6,504,361	5,625,507	5,492,424	11,503,560
Transfers Out	(8,708,446)	(6,727,291)	(5,670,122)	(5,558,858)	(11,557,863)
Total Other Financing Sources and (Uses)	<u>202,834</u>	<u>9,647,249</u>	<u>4,106,911</u>	<u>(66,434)</u>	<u>27,182,414</u>
Net change in Fund Balance	\$ 124,564	\$ 8,867,210	\$ 863,693	\$ (2,539,723)	\$ 15,518,946
Debt service as a percentage of noncapital expenditures	23%	23%	31%	8%	10%

Schedule 4
City of Gulf Shores
Changes in Fund Balances, Governmental Funds,
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year				
	2007	2008*	2009	2010	2011
Revenues					
Taxes					
Property	\$ 3,002,915	\$ 4,055,825	\$ 4,829,741	\$ 2,874,858	\$ 3,444,058
Local	17,229,278	19,124,991	16,099,252	14,090,126	18,385,151
Licenses, fees and permits	3,254,980	2,282,137	1,774,814	1,793,733	1,885,421
Fines and forfeitures	357,709	339,901	283,025	287,012	309,520
Utility tax equivalents	922,973	1,358,036	1,173,166	1,135,118	1,172,815
Intergovernmental	1,760,784	2,175,825	1,002,180	1,354,240	3,498,398
Investment earnings	1,286,450	972,545	415,242	300,394	91,545
Impact fees	21,789	274,998	171,943	59,313	96,108
BP lost revenues/settlements	-	-	-	5,476,579	6,402,323
Assessments/Rental Income	249,646	2,138,702	461,372	477,759	323,746
Other revenues	1,658,320	2,417,430	1,397,759	1,422,399	2,276,277
Total Revenues	<u>29,744,844</u>	<u>35,140,390</u>	<u>27,608,494</u>	<u>29,271,531</u>	<u>37,885,362</u>
Expenditures					
General government	3,013,172	3,843,238	3,047,993	3,484,930	3,245,746
Police	3,647,436	5,163,685	3,707,762	3,737,845	3,817,726
Fire	2,277,696	3,737,052	2,812,995	4,140,832	3,364,846
Community and Economic Affairs	11,481,639	12,039,585	4,119,314	4,465,315	4,813,793
Public Works	5,923,290	9,251,581	4,098,407	4,708,135	4,398,046
Appropriations	117,962	203,569	61,000	57,000	137,974
Hurricane damage	-	-	-	-	-
Capital outlay	2,307,074	4,981,553	286,290	3,845,653	4,347,906
Non capitalized equipment**	-	-	-	-	1,023,381
Beach restoration	129,365	97,439	69,576	83,028	37,688
Principal	2,848,471	10,448,915	3,745,338	3,684,476	4,039,926
Interest	2,601,500	3,473,511	2,335,885	2,330,140	2,215,788
Miscellaneous	268,054	409,503	5,666	8,988	27,889
Litigation Settlement	-	-	-	-	3,800,455
Total Expenditures	<u>34,615,659</u>	<u>53,649,631</u>	<u>24,290,226</u>	<u>30,546,342</u>	<u>35,271,164</u>
Excess(Deficiency) of revenues over (under) expenditures	<u>(4,870,815)</u>	<u>(18,509,241)</u>	<u>3,318,268</u>	<u>(1,274,811)</u>	<u>2,614,198</u>
Other Financing Sources (Uses)					
Bond Issue/Loan Proceeds	316,984	17,364,514	-	-	1,204,825
Transfers In	18,315,874	15,690,435	16,164,963	4,574,279	4,662,044
Transfers Out	(18,417,825)	(15,838,404)	(16,260,399)	(4,670,279)	(4,758,044)
Total Other Financing Sources and (Uses)	<u>215,033</u>	<u>17,216,545</u>	<u>(95,436)</u>	<u>(96,000)</u>	<u>1,108,825</u>
Net change in Fund Balance	\$ (4,655,782)	\$ (1,292,696)	\$ 3,222,832	\$ (1,370,811)	\$ 3,723,023
Debt service as a percentage of noncapital expenditures	16%	26%	25%	20%	18%

*The City Fiscal Year was changed in 2008 from an October 1 start date to January 1;
 Fiscal Year 2008 represents 15 months of data

**Equipment purchases less than threshold

Schedule 5
City of Gulf Shores
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Class I Utility Property	Class II Commercial	Class III Residential	Less Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Taxable Assessed Value as a Percentage of Actual Taxable Value
2011	\$ 6,541,220	\$ 770,319,340	\$ 107,113,420	\$ 396,846,640	\$ 487,127,340	5.00	\$ 4,944,534,967	9.85%
2010	6,645,900	811,758,280	114,403,860	408,995,140	523,812,900	4.80	\$ 5,224,983,000	10.03%
2009	8,227,000	904,067,980	132,666,200	409,919,100	635,042,080	5.00	\$ 5,874,425,233	10.81%
2008	6,549,040	1,032,675,040	167,018,680	451,824,920	754,417,840	5.00	\$ 6,855,392,133	11.00%
2007	11,591,860	1,142,992,256	193,938,160	482,282,280	866,239,996	5.00	\$ 7,692,982,413	11.26%
2006	9,609,660	830,292,100	120,871,280	333,735,340	627,037,700	5.00	\$ 5,392,205,500	11.63%
2005	8,570,220	644,187,540	90,022,040	264,608,520	478,171,280	4.87	\$ 4,149,725,500	11.52%
2004	8,678,300	435,375,041	71,969,940	182,186,100	333,837,181	4.71	\$ 2,925,502,272	11.41%
2003	7,753,780	433,098,572	66,518,520	181,887,660	325,483,212	4.60	\$ 2,856,523,993	11.39%
2002	6,674,800	337,833,778	53,749,400	143,573,680	254,684,298	4.39	\$ 2,248,912,223	11.32%

Source: State of Alabama - Abstract of Assessment, Exemptions and Ad Valorem Taxes.

Notes: The county assesses property at 30 percent of actual value for utility property and 10 percent for residential property. All other property, including commercial is assessed at 20%.

**Schedule 6
City of Gulf Shores
Property Tax Levies and Collections (Unaudited)
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Taxes Levied for the Year</u>	<u>Taxable Property Assessed Valuation*</u>
2002	1,274,208	254,841,558
2003	1,628,063	325,612,672
2004	1,669,678	333,935,681
2005	2,391,170	478,235,060
2006	3,135,189	627,037,700
2007	4,331,916	866,383,116
2008	3,773,216	754,643,100
2009	3,176,680	635,336,040
2010	2,620,773	524,154,540
2011	2,437,167	487,433,360
		Levy Rate
State of Alabama		6.5 mills
City of Gulf Shores		5 mills
Baldwin County:		
General		5 mills
Schools		9 mills
Roads and Bridges		2.5 mills
Special School District		3 mills
Fire		1.5 mills
Health		.5 mills
Total		33 Mills

*8% Decline in property tax base due to County adjusted valuations.

Property taxes are collected by Baldwin County. As of publication date, information for collections, subsequent years adjustments, and total collections to date requested but not yet received from Baldwin County

**Schedule 7
City of Gulf Shores
Principal Property Tax Payers
Current Year and Ten Years Ago**

<u>Taxpayer</u>	2011			2001		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>
The Links at Gulf Shores	\$ 4,583,680	1	15.78%	\$ -	-	-
Baldwin County EMC	4,316,100	2	14.86%	4,652,080	1	21.34%
Gulf Shores Multi-Family Partners	3,957,360	3	13.62%			
TA-Colonial Traditions LLC	3,075,920	4	10.59%			-
Wal-Mart Real Estate Business	2,865,260	5	9.86%			-
Beach Place Development	2,251,580	6	7.75%			-
Gulf Shores Multi-Family Partners	2,187,900	7	7.53%			-
Howard Resort Inns, Inc.	1,953,480	8	6.73%	1,789,500	5	8.21%
Vision Bank	1,896,840	9	6.53%			-
Gulf Telephone Company	1,957,100	10	6.74%			
Lighthouse Motel Inc	-	-	-	3,472,660	2	15.93%
Inn at Gulf Shores Ltd.	-	-	-	2,376,060	3	10.90%
Craft Development Corporation	-	-	-	2,104,900	4	9.65%
Meyer, Erie H	-	-	-	1,714,220	6	7.86%
Honours-Peninsula Golf Club LLC	-	-	-	1,572,040	7	7.21%
Meyer Properties, Inc.	-	-	-	1,439,820	8	6.60%
Tri-Tel LLC	-	-	-	1,412,420	9	6.48%
Waterville USA, Inc.	-	-	-	1,269,980	10	5.82%
Total	\$ 29,045,220		100.00%	\$ 21,803,680		100.00%

Source: Baldwin County Revenue Commissioner's Office.

Schedule 8
City of Gulf Shores
Principal Sales Tax Remitters
Current Year and Ten Years Ago

Tax Remitter Classification	2011			2001		
	Tax Liability	Rank	Percentage of Total	Tax Liability	Rank	Percentage of Total
Retail Trade	\$ 2,103,956	1	39.85%	\$ -	-	-
Retail Trade	643,218	2	12.18%	-	-	-
Accommodation & Food Services	495,143	3	9.38%	-	-	-
Retail Trade	463,422	4	8.78%	344,633	1	23.83%
Retail Trade	351,257	5	6.65%	-	-	-
Accommodation & Food Services	283,474	6	5.37%	-	-	-
Retail Trade	283,474	7	5.37%	-	-	-
Accommodation & Food Services	244,503	8	4.63%	-	-	-
Art, Entertainment, & Recreation	220,827	9	4.18%	126,752	3	8.76%
Retail Trade	190,861	10	3.61%	222,847	2	15.41%
Retail Trade	-	-	-	122,401	4	8.46%
Art, Entertainment, & Recreation	-	-	-	121,512	5	8.40%
Art, Entertainment, & Recreation	-	-	-	113,419	6	7.84%
Retail Trade	-	-	-	111,750	7	7.73%
Art, Entertainment, & Recreation	-	-	-	98,486	8	6.81%
Retail Trade	-	-	-	93,613	9	6.47%
Retail Trade	-	-	-	91,087	10	6.30%
Total	\$ 5,280,135		100.00%	\$ 1,446,500		100%

(sales quarterly, festival, vending)

Schedule 9
City of Gulf Shores
Direct and Overlapping Sales Tax Rates
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>City Direct Rate</u>	<u>Baldwin County</u>
2002	3.00%	2.00%
2003	3.00%	2.00%
2004	3.00%	2.00%
2005	3.00%	2.00%
2006	3.00%	2.00%
2007	3.00%	2.00%
2008	3.00%	2.00%
2009	3.00%	2.00%
2010	3.00%	2.00%
2011 *	3.00%	3.00%

Source: Alabama Department of Revenue, www.revenue.alabama.gov

* Includes 1% Sales & Use Tax for Schools

Schedule 10
City of Gulf Shores
Direct and Overlapping Debt
As of December 31, 2011

	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt(1)</u>
Direct General Obligation Debt	\$44,882,575	100.00%	<u>\$ 44,882,575</u>
Overlapping General Obligation Debt:			
Airport Authority General Obligation Warrants:	140,000	100.00%	140,000
Baldwin County Warrants	109,964,393	13.32%	<u>14,652,704</u>
Total Overlapping General Obligation Debt			<u>14,792,704</u>
Total Direct and Overlapping General Obligation Debt			<u><u>59,675,279</u></u>
Overlapping Guaranteed Revenue Debt			
Airport Revenue Bonds	25,695	100%	<u>25,695</u>
Total Overlapping Guaranteed Revenue Debt			<u>25,695</u>
Total Direct and Overlapping General Obligation Debt, and Overlapping Guaranteed Revenue Debt			<u><u>\$ 59,700,974</u></u>
Debt per Capita			
Direct General Obligation Debt			\$ 4,607.59
Overlapping General Obligation Debt			1,518.60
Overlapping Guaranteed Revenue Debt			<u>2.64</u>
			<u><u>\$ 6,128.83</u></u>

Source: Baldwin County 2010

(1) Calculation of the Overlapping debt was determined by allocating the percentage of Net Assessments for the city versus the total for the county.

Schedule 11
City of Gulf Shores
Ratios of Outstanding Debt by Type (Unaudited)
Last Ten Fiscal Years

Fiscal Year	Governmental Activities	Business Type Activities		Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Airport Revenue Bonds	Terminal Building Lease			
2002	24,942,880	177,045	275,000	25,394,925	20.7%	5,035
2003	31,752,645	160,041	265,000	32,177,686	26.2%	6,379
2004	29,623,444	143,037	250,000	30,016,481	24.4%	5,951
2005	26,936,111	126,033	235,000	27,297,144	22.2%	5,412
2006	51,103,389	109,029	220,000	51,432,418	20.0%	5,693
2007	48,232,336	92,025	205,000	48,529,361	18.8%	5,371
2008	55,118,237	75,021	190,000	55,383,258	21.5%	6,130
2009	51,425,824	58,017	175,000	51,658,841	20.0%	5,718
2010	47,830,566	41,282	160,000	48,031,848	17.3%	4,931
2011	44,882,575	25,695	140,000	45,048,270	16.2%	4,625

Schedule 12
City of Gulf Shores
Ratios of General Bonded Debt Outstanding (Unaudited)
Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	% of Actual Taxable Value of Property	Per Capita
2002	24,942,880	-	24,942,880	1.11%	4,945
2003	31,752,645	-	31,752,645	1.11%	6,295
2004	29,623,444	-	29,623,444	1.01%	5,873
2005	26,936,111	-	26,936,111	0.65%	5,340
2006	51,103,389	2,448,952	48,654,437	0.90%	5,385
2007	48,232,336	2,448,952	45,783,384	0.60%	5,067
2008	55,118,237	2,448,952	52,669,285	0.77%	5,829
2009	51,425,824	2,448,952	48,976,872	0.83%	5,421
2010	47,830,566	2,448,952	45,381,614	0.87%	4,659
2011	44,882,575	2,448,952	42,433,623	0.86%	4,356

Schedule 13
City of Gulf Shores
Full-time Equivalent City Government Employees by Function/Program
Past Ten Years

	Full-Time Equivalent by Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Government										
City Hall	17	18	19	17	19	21	25	20	20	20
Community Development/ Building*	7	7	8	9	11	12	4	4	4	4
Building*							5	5	4	4
Court	3	3	3	3	3	3	3	3	3	3
Police	38	38	41	40	53	52	54	51	53	54
Fire	15	15	17	17	24	36	47	40	42	43
Public Works	40	40	44	44	45	63	59	51	51	51
Recreation	15	14	15	16	20	23	37	33	33	35
Total	<u>135</u>	<u>135</u>	<u>147</u>	<u>146</u>	<u>175</u>	<u>210</u>	<u>234</u>	<u>207</u>	<u>210</u>	<u>214</u>

*Community Development and Building combined count until 2008

Schedule 14
City of Gulf Shores
Operating Indicators by Function/Program
Past Ten Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government										
Building permits issued	599	812	1,984	1,771	872	572	459	422	385	566
Building inspections conducted	3,417	5,406	8,774	9,902	8,222	3,172	1,763	1,065	1,016	1,263
Business Licenses issued*	-	-	-	3,901	8,677	7,566	7,083	7,491	7,554	10,016
Police										
Physical arrests	1,039	1,008	1,092	1,249	1,529	1,558	1,604	1,423	1,394	1,527
Traffic violations	2,898	1,830	2,180	1,603	1,726	2,008	1,858	1,268	1,484	1,641
Officers	28	28	30	32	36	35	40	39	39	41
Fire										
Emergency responses*	-	-	-	-	-	-	2,108	2,280	2,307	2,790
Fires extinguished*	-	-	-	-	-	-	59	52	30	70
Inspections*	-	-	-	-	-	-	413	335	467	920
Full time staff*	-	-	-	-	-	-	48	39	42	43
Part time staff*	-	-	-	-	-	-	6	-	-	-
Volunteer Firefighters*	-	-	-	-	-	-	17	17	8	8
Public Works										
Street resurfacing (linear feet)*	-	26,323	17,779	-	50,020	-	12,491	-	19,380	-

*Information not available for prior years

Schedule 15
City of Gulf Shores
Capital Asset Statistics by Function/Program
Past Ten Years

Function/Program	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Fire Stations	3	3	3	3	3	4	4	4	4	4
Parks and recreation*										
Football/Track Stadium							1	1	1	1
Softball fields							2	2	2	2
Baseball fields							13	13	13	13
Soccer field							1	1	1	1
Parks							8	8	8	8
Tennis Courts							18	18	18	18
Basketball Courts							2	2	2	2
Swimming Pool							1	1	1	1
Gymnasium							1	1	1	1
Transit - minibusses							5	5	5	5
Public Works										
Maintained Streets (miles)	57.5	58.8	58.8	60.8	61.9	62.9	63	64	65.05	67.22
Traffic Signals*							24	24	24	24
Streetlights*							2,201	2,201	2,234	2,234

*Information not available for the prior years

Schedule 16
City of Gulf Shores
Population

Census Year	City of Gulf Shores
1960	356
1970	909
1980	1,349
1990	3,261
2000	5,044
2010	9,741

Per Capita Income

	1979	1989	1999	2010
Gulf Shores	7,761	17,414	24,356	28,522
State of Alabama	5,894	11,486	18,189	22,984

Median Family Income

	1989	1999	2010
Gulf Shores	34,257	51,862	45,801
State of Alabama	28,688	41,657	42,081

Source: United States Bureau of the Census Quick Facts

Schedule 17
Unemployment Rates

	2010
Baldwin County	8.90%
Alabama	9.50%

Source: Alabama Department of Industrial Relations - data not available for the City of Gulf Shores, only Baldwin County

COMPLIANCE AND INTERNAL CONTROL SECTION

THE CITY OF GULF SHORES, ALABAMA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 DECEMBER 31, 2011

Federal Grantor/Pass-through Grantor Program Title	Federal CFDA Number (1)	Pass-through Grantors Number	Expenditures of Federal Awards
DEPARTMENT OF HOMELAND SECURITY			
Public Assistance Grants	97.036	-	189,958
U.S. DEPARTMENT OF TRANSPORTATION			
FAA- Special Federal Airport Allocation	20.106	-	2,012,955
U.S. DEPARTMENT OF JUSTICE			
Public Safety Partnership and Community Policing	16.710	-	505,936
U.S. DEPARTMENT OF COMMERCE			
Investment for Public Works and Economic Development Facilities	11.300	-	2,183,759
DEPARTMENT OF COMMERCE			
Coastal Management	11.419	-	<u>75,000</u>
Total Expenditures of Federal Awards			<u>\$ 4,967,608</u>

(1) Catalog of Federal Domestic Assistance Number

THE CITY OF GULF SHORES, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2011

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Gulf Shores, Alabama.
2. There were no material weaknesses related to the audit of the basic financial statements which are reported in the 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*.
3. No instances of noncompliance material to the financial statements of the City of Gulf Shores, Alabama which would be required to be reported in accordance with *Governmental Auditing Standards* were disclosed during the audit.
4. No matters were reported during the audit of internal control over the major federal award program.
5. The auditor's report on compliance for the major federal award programs for the City of Gulf Shores, Alabama expresses an unqualified opinion on the major federal award program.
6. There were no audit findings relative to the major federal award programs for the City of Gulf Shores, Alabama required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as a major programs were the Department of Commerce-Investment for Public Works and Economic Development Facilities- CFDA No. 11.300, Department of Justice-Public Safety Partnership and Community Policing Grant-CFDA No. 16,710, and Department of Transportation-FAA- Special Airport Allocation Grant- CFDA No. 20,106.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Gulf Shores, Alabama qualifies as a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

- No matters were reported in the current year.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

- No matters were reported in the current year.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

- No matters were reported in the prior year.

GRANT, & SANDERS & TAYLOR, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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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*

To the Honorable Mayor and Members of the
City Council of Gulf Shores, Alabama

We have audited the financial statements of the City of Gulf Shores, Alabama, for the year ended December 31, 2011, which collectively comprise the City of Gulf Shores, Alabama's basic financial statements and have issued our report thereon dated April 20, 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 of Gulf Shores, Alabama's internal control over financial reporting as an basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Gulf Shores, Alabama's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is 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 of Gulf Shores, Alabama's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of management, the Mayor and 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.

A handwritten signature in black ink, appearing to read "Grant Sanders & Pugh". The signature is written in a cursive, flowing style.

April 20, 2012

GRANT, & SANDERS & TAYLOR, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

To the Honorable Mayor and Members of the
City Council of Gulf Shores, Alabama

Compliance

We have audited the compliance of the City of Gulf Shores, Alabama, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have an effect on each of The City of Gulf Shores, Alabama's major federal programs for the year ended December 31, 2011. The City of Gulf Shores, Alabama'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 of Gulf Shores, Alabama's management. Our responsibility is to express an opinion on the City of Gulf Shores, Alabama'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 of Gulf Shores' 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 of Gulf Shores, Alabama's compliance with those requirements.

In our opinion, the City of Gulf Shores, Alabama, complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

The management of the City of Gulf Shores, Alabama, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs.

Internal Control Over Compliance (continued)

In planning and performing our audit, we considered the City of Gulf Shores, Alabama's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 of Gulf Shores, Alabama's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, 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 the internal control over compliance would not necessarily disclose all matters in the internal control that might be 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 for the information of management, the Mayor and City Council, 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. However, this report is a matter of public record.



April 20, 2012