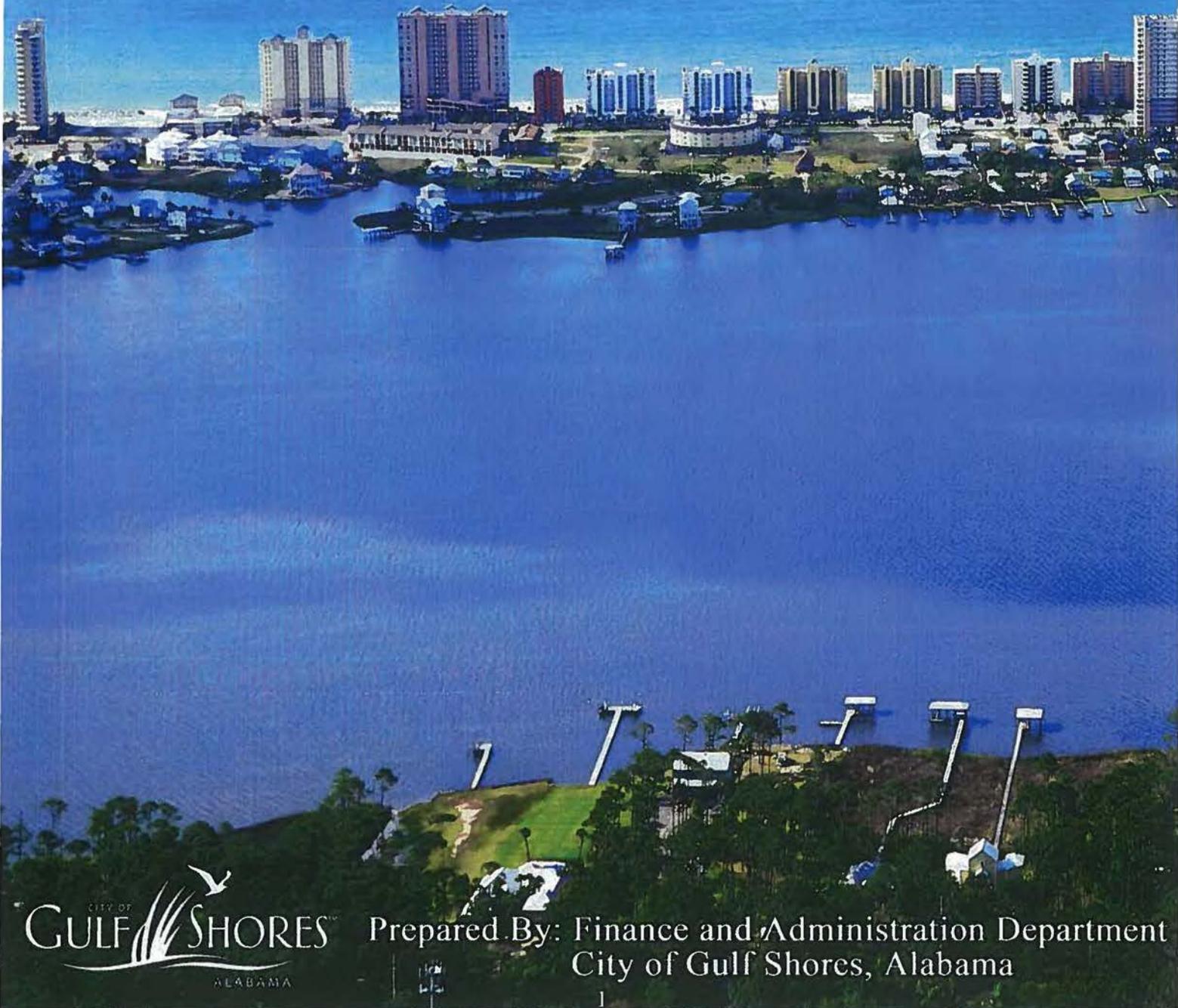


CITY OF GULF SHORES, ALABAMA

Comprehensive Annual Financial Report

For the Fiscal Year Ended
December 31, 2012



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

THE CITY OF GULF SHORES, ALABAMA
 FINANCIAL STATEMENTS
 DECEMBER 31, 2012

TABLE OF CONTENTS

	Page
I. INTRODUCTORY SECTION	5
Letter of Transmittal	6-9
Organizational Chart	10
List of Principal Officials	11
Certificate of Achievement for Excellence in Financial Reporting 2011	12
II. FINANCIAL SECTION	13
Report of Independent Certified Public Accountants	4-15
Management's Discussion and Analysis	16-24
Basic Financial Statements:	25
Government –Wide Financial Statements:	26
Statement of Net Position	27
Statement of Activities	28
Fund Financial Statements:	
Governmental Fund Financial Statements:	29
Balance Sheet	30
Reconciliation of the Balance Sheet to the Statement of Net Assets	31
Statement of Revenues, Expenditures and Changes in Fund Balance	32
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances to the Statement of Activities	33
Proprietary Fund Financial Statements:	34
Statement of Net Position	35
Statement of Revenues, Expenses and Changes in Fund Balance	36
Statement of Cash Flows	37
Notes to the Basic Financial Statements	38-63
Required Supplementary Information:	64
Budgetary Comparison Schedule – General Fund	65
Other Supplementary Information:	66
Combining Financial Statements and Schedules:	67
Combining Balance Sheet – Nonmajor Governmental Funds	68

THE CITY OF GULF SHORES, ALABAMA
 FINANCIAL STATEMENTS
 DECEMBER 31, 2012

TABLE OF CONTENTS

Other Supplementary Information:

Combining Financial Statements and Schedules:

Combining Statement of Revenues, Expenditures and Changes In Fund Balances- Nonmajor Governmental Funds	69
Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual- Lodgings Tax Special Revenue Fund	70
Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual- Designated Taxes Special Revenue Fund	71
Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual- Impact Fees Special Revenue Fund	72
Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual- Library Board Special Revenue Fund	73
Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual- Beach Restoration Capital Projects Fund	74
Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual- 2008 A Warrant Proceeds Capital Improvements Fund	75
Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual- Grants Capital Improvements Fund	76
Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual- Debt Service Fund	77
Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual- Debt Service Fund	78
Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual- Debt Service Fund	79
IV. STATISTICAL SECTION	80
Statistical section narrative	81
Schedule 1 – Net Assets by Component	82-83
Schedule 2 – Change in Net Assets	84-85
Schedule 3– Fund Balances, Governmental Funds	86-87
Schedule 4– Changes in Fund Balances, Governmental Funds	88-89
Schedule 5– Assessed Value and Estimated Actual Value of Taxable Property	90
Schedule 6 – Property Tax Levies and Assessed Valuation	91

THE CITY OF GULF SHORES, ALABAMA
FINANCIAL STATEMENTS
DECEMBER 31, 2012

TABLE OF CONTENTS

Schedule 7 – Principal Property Tax Payers	92
Schedule 8– Principal Sales Tax Returns	93
Schedule 9– Direct and Overlapping Sales Tax Rates	94
Schedule 10 – Direct and Overlapping Debt	95
Schedule 11– Rations of Outstanding Debt by Type	96
Schedule 12– Ratios of General Bonded Debt Outstanding	97
Schedule 13 – Full Time Equivalent City Government Employees by Function/Program	98
Schedule 14– Operating Indicators by Function/Program	99
Schedule 15– Capital Assets Statistics by Function/Program	100
Schedule 16– Population	101
V. COMPLIANCE AND INTERNAL CONTROL SECTION	102
Schedule of Expenditures of Federal Awards	103
Schedule of Findings and Questioned Costs	104
Independent Auditor's Report on Compliance and on Internal Control and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	105-106
Independent Auditor's Report on Compliance with requirements applicable to each major program and Internal Control over Compliance in accordance with OMB Circular A-133.	107-108

INTRODUCTORY SECTION



May 8, 2013

To the 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, 2012.

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, 2012 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, 2012, 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.

City of Gulf Shores

Transmittal Letter – continued

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.

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 Administrator 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 adopted formal Financial Policies in 2010 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 recovering 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 and was completed by January 2013.

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's adopted Financial Policies are 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 \$37,187 on investments for the year ended December 31, 2012. 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, 2011. 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.

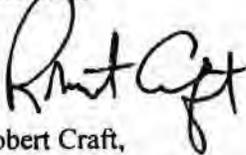
A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

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. The City received the GFOA Award for Distinguished Budget Presentation for its annual appropriated budget dated January 1, 2012 for fiscal year 2012.

Acknowledgements

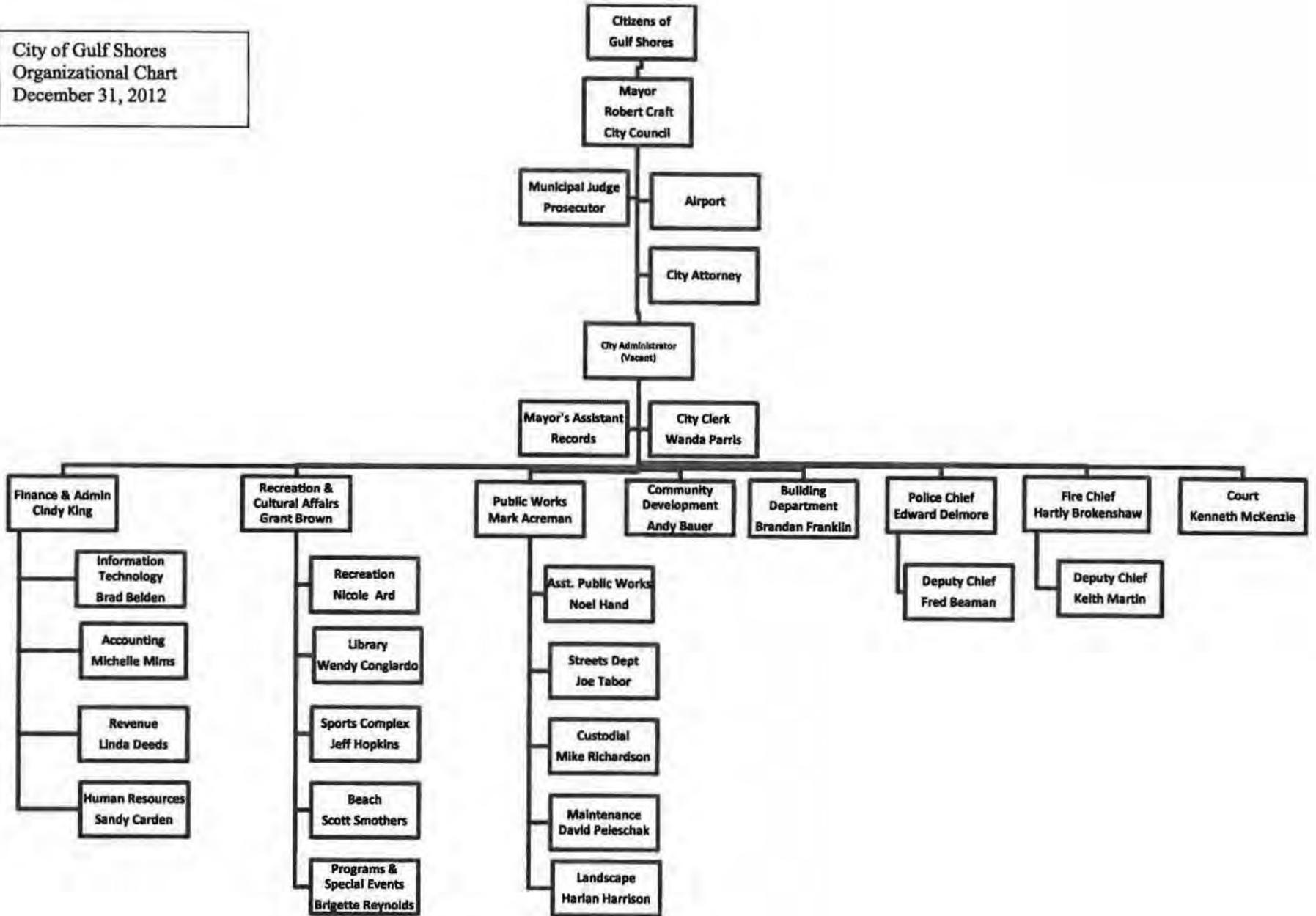
The preparation of this report could not have been accomplished without the efficient and dedicated services of the Accounting Division of the Finance and Administrative Services Department and all city employees. Each member of the department has our sincere appreciation for their contributions made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

A handwritten signature in black ink, appearing to read "Robert Craft". The signature is written in a cursive, somewhat stylized font.

Robert Craft,
Mayor

City of Gulf Shores
Organizational Chart
December 31, 2012



CITY OF GULF SHORES, ALABAMA

LIST OF PRINCIPAL OFFICIALS

December 31, 2012

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	Vacant
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

Certificate of Achievement for Excellence in Financial Reporting

Presented to

**City of Gulf Shores
Alabama**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2011

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



Christopher P. Mouill

President

Jeffrey R. Emer

Executive Director

FINANICAL SECTION

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

1530 W. 2ND STREET
POST OFFICE BOX 2109
GULF SHORES, ALABAMA 36547-2109
TELEPHONE 251.968.2727
FACSIMILE 251.968.7430
www.grantsandersytaylor.com

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, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Jack Edwards Airport Proprietary Fund and the Airport Authority General Fund, which represent 13 percent, 21 percent, and 2 percent, respectively, of the assets, net position, and revenues of the business-type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Jack Edwards Airport Proprietary Fund and the Airport Authority General Fund is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Gulf Shores, Alabama, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 45 through 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

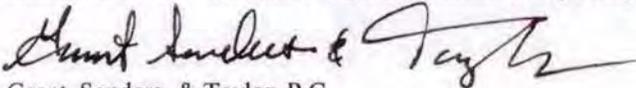
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gulf Shores, Alabama's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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 the schedule of expenditures 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2013, on our consideration of the City of Gulf Shores, Alabama's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Gulf Shores, Alabama's internal control over financial reporting and compliance.



Grant, Sanders, & Taylor, P.C
Gulf Shores, Alabama
May 8, 2013

**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, 2012. 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 Position 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 Position 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 Position 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 types 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 2012 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, 2012, the City of Gulf Shores' assets exceeded its liabilities by \$60,785,004, an increase of \$6,397,800 from 2011 due to receipt of \$3.2 million due a bond refinancing and a prior period adjustment of \$1.3 million for resale of homes held from the East Gulf Shores settlement. 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, 2012, 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 \$6,397,800 as a result of debt refinancing and gain on sale of houses held in inventory for the prior year East Gulf Shores settlement.

Table 1 below represents the City's Condensed Statement of Net Position as of December 31, 2012 and is derived from the Government-wide Statement of Net Position. For more detailed information see the **Statement of Net Position** on Page 11.

	Governmental Activities		Business-Type Activities		Total Primary Government		Component Units	Component Units
	2012	2011	2012	2011	2012	2011	2012	2011
Current & Other Assets	\$ 42,103,666	\$ 36,154,923	\$ 38,534	\$ 69,858	\$ 42,142,200	\$ 36,224,781	\$ 3,795,317	\$ 3,295,036
Capital Assets	74,556,708	69,902,221	2,043,639	2,070,760	76,600,347	71,972,981	13,238,258	14,137,336
Total Assets	\$ 116,660,374	\$ 106,057,144	\$ 2,082,173	\$ 2,140,618	\$ 118,742,547	\$ 108,197,762	\$ 17,033,575	\$ 17,432,372
Long-term Liabilities	\$ 42,217,549	\$ 41,308,551	\$ -	\$ -	\$ 42,217,549	\$ 41,308,551	\$ 100,000	\$ 128,691
Other Liabilities	15,739,994	12,502,007	-	-	15,739,994	12,502,007	932,297	1,098,320
Total Liabilities	\$ 57,957,543	\$ 53,810,558	\$ -	\$ -	\$ 57,957,543	\$ 53,810,558	\$ 1,032,297	\$ 1,227,011
Net Assets	\$ 58,702,831	\$ 52,246,586	\$ 2,082,173	\$ 2,140,618	\$ 60,785,004	\$ 54,387,204	\$ 16,001,278	\$ 16,205,361
Invested in Capital Assets,								
Net of Related Debt	\$ 30,068,504	\$ 25,129,660	\$ 2,043,639	\$ 2,097,881	\$ 32,112,143	\$ 27,227,541	\$ 13,358,258	\$ 14,137,336
Restricted	18,604,002	4,674,869	-	-	18,604,002	4,674,869	-	-
Unrestricted	10,030,325	22,442,057	38,534	42,737	10,068,859	22,484,794	2,643,020	2,068,025
Total Net Position	\$ 58,702,831	\$ 52,246,586	\$ 2,082,173	\$ 2,140,618	\$ 60,785,004	\$ 54,387,204	\$ 16,001,278	\$ 16,205,361

Government-wide Financial Analysis (continued)

Table 2 below represents the City's Condensed Statement of Activities for the year ending December 31, 2012, and is derived from the **Government-wide Statement of Activities** on Page 12.

	Governmental		Business-Type		Total		Component Units	
	Activities		Activities		Primary Government			
	2012	2011	2012	2011	2012	2011	2012	2011
PRIMARY GOVERNMENT:								
Revenues:								
Charges for Services	\$ 4,786,549	\$ 4,096,446	\$ 163,503	\$ 161,565	\$ 4,950,052	\$ 4,258,011	\$ 446,787	\$ 427,739
Operating grants and Contributions	348,819	659,443	-	-	348,819	659,443	-	-
Capital grants and Contributions	8,965,656	2,992,714	-	-	8,965,656	2,992,714	398,545	2,064,375
General Revenues:								
Property Taxes	2,500,195	3,444,058	-	-	2,500,195	3,444,058	-	-
Local Taxes	19,962,896	18,385,150	-	-	19,962,896	18,385,150	-	-
Franchise Taxes	1,162,351	1,172,815	-	-	1,162,351	1,172,815	-	-
State Taxes	329,770	321,933	-	-	329,770	321,933	-	-
Interest income	37,187	91,545	32	164	37,219	91,709	913	191
Miscellaneous income	145,782	278,677	-	-	145,782	278,677	-	20
BP Settlement	1,336	6,402,323	-	-	1,336	6,402,323	-	-
Gain (loss) on asset sales	13,615	28,342	-	-	13,615	28,342	-	-
Sale of house inventory, net	(28,132)	-	-	-	(28,132)	-	-	-
Total Revenues	\$ 38,226,024	\$ 37,873,446	\$ 163,535	\$ 161,729	\$ 38,389,559	\$ 38,035,175	\$ 846,245	\$ 2,492,325
Expenses:								
Executive	3,492,747	3,646,526	-	-	3,492,747	3,646,526	-	-
Municipal Court	324,188	320,136	-	-	324,188	320,136	-	-
Police	4,301,242	4,542,844	-	-	4,301,242	4,542,844	-	-
Fire	3,397,974	3,545,999	-	-	3,397,974	3,545,999	-	-
Community and Economic								
Affairs	7,354,432	5,904,452	-	-	7,354,432	5,904,452	-	-
Public Works	11,933,063	4,948,565	-	-	11,933,063	4,948,565	-	-
Litigation Settlement	15,374	3,800,455	-	-	15,374	3,800,455	-	-
Miscellaneous	4,599	-	-	-	4,599	-	-	-
Loss on Refunding	290,865	-	-	-	290,865	-	-	-
Bond cost/premium amortization	196,158	-	-	-	196,158	-	-	-
Interest on Long-Term Debt	1,675,013	2,215,788	-	-	1,675,013	2,215,788	-	-
Public Education Building Authority	-	-	221,980	188,686	221,980	188,686	-	-
Total Expenses	32,985,655	28,924,765	221,980	188,686	33,207,635	29,113,451	-	-
COMPONENT UNITS:								
Expenses:								
Jack Edwards Airport	-	-	-	-	-	-	777,741	773,337
Airport Authority	-	-	-	-	-	-	368,587	385,429
Total Expenses	-	-	-	-	-	-	1,146,328	1,158,766
Increase Decrease) in Net Position								
Before Transfers	5,240,369	8,948,681	(58,445)	(26,957)	5,181,924	8,921,724	(300,083)	1,333,559
Transfers	(96,000)	(96,000)	-	-	(96,000)	(96,000)	96,000	96,000
Change in Net Position	5,144,369	8,852,681	(58,445)	(26,957)	5,085,924	8,825,724	(204,083)	1,429,559
Net Position - Beginning	52,246,586	42,208,905	2,140,618	2,167,575	54,387,204	44,376,480	16,205,361	14,776,665
Prior Period Adjustment	1,311,876	1,185,000	-	-	1,311,876	1,185,000	-	(863)
Net Position - Ending	\$ 58,702,831	\$ 52,246,586	\$ 2,082,173	\$ 2,140,618	\$ 60,785,004	\$ 54,387,204	\$ 16,001,278	\$ 16,205,361

Overall Analysis

Financial highlights for the City of Gulf Shores as a whole during the fiscal year ended December 31, 2012 include the following:

The assets of the City exceeded its liabilities (net position) at the close of the fiscal year by \$58,702,831 for Governmental Activities and by \$2,082,173 for Business-type Activities of the primary government. The total primary government's net position are \$60,785,004 as of December 31, 2012, up from \$54,387,204. For the year ended December 31, 2012 there was a \$6,397,800 increase in the net position for governmental activities due to refinancing of bond debt and sale of houses held in inventory for the prior year East Gulf Shores settlement. Business-type activities net position were \$2,082,173 as of December 31, 2012 a decrease of \$58,445 from 2011 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 \$28,735,015 with \$12,980,417 designated as committed, \$10,018,560 unassigned, \$4,384,900 restricted and \$1,351,138 nonspendable. The unassigned amount of \$10,018,560 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, 2012, totaled \$18,604,609 an increase of \$920,989 from the fund balance at December 31, 2011, which was \$17,683,620. The increase in Fund Balance for Fiscal Year 2012 is attributable to conservative spending practices resulted in positive income from operations of \$1,344,045.

Debt Service Fund

The fund balance decreased \$16,528 as a result of debt service payments exceeding transfers in 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 2012, 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.

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.

Financial Analysis of the Government's Funds (Continued)

Storm Damage Fund

The fund balance increased \$461 during 2012. 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.

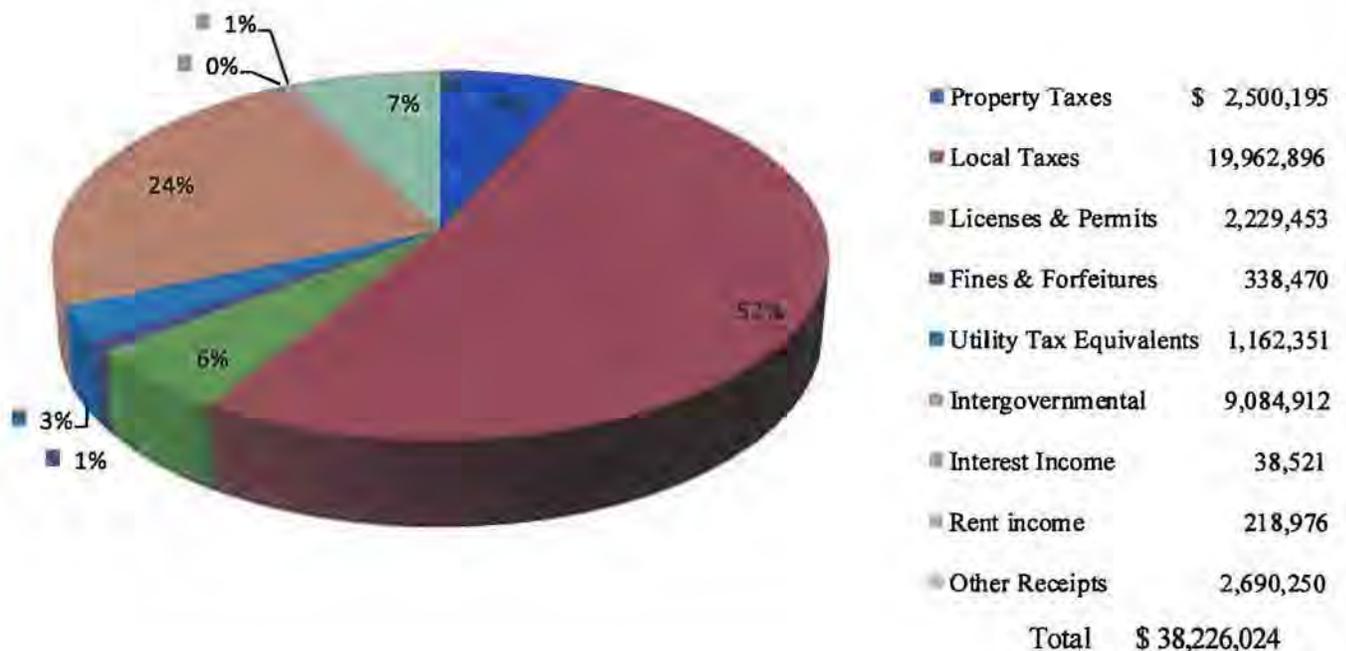
Because Gulf Shores was in a declared disaster area and was operating in an emergency situation, the City was allowed to "borrow" from the bond proceeds on deposit to fund hurricane damage expenditures until FEMA reimbursement funds were received. Upon receipt of FEMA funds, loans from the bond issue 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 2012



Budget Variances in the General Fund

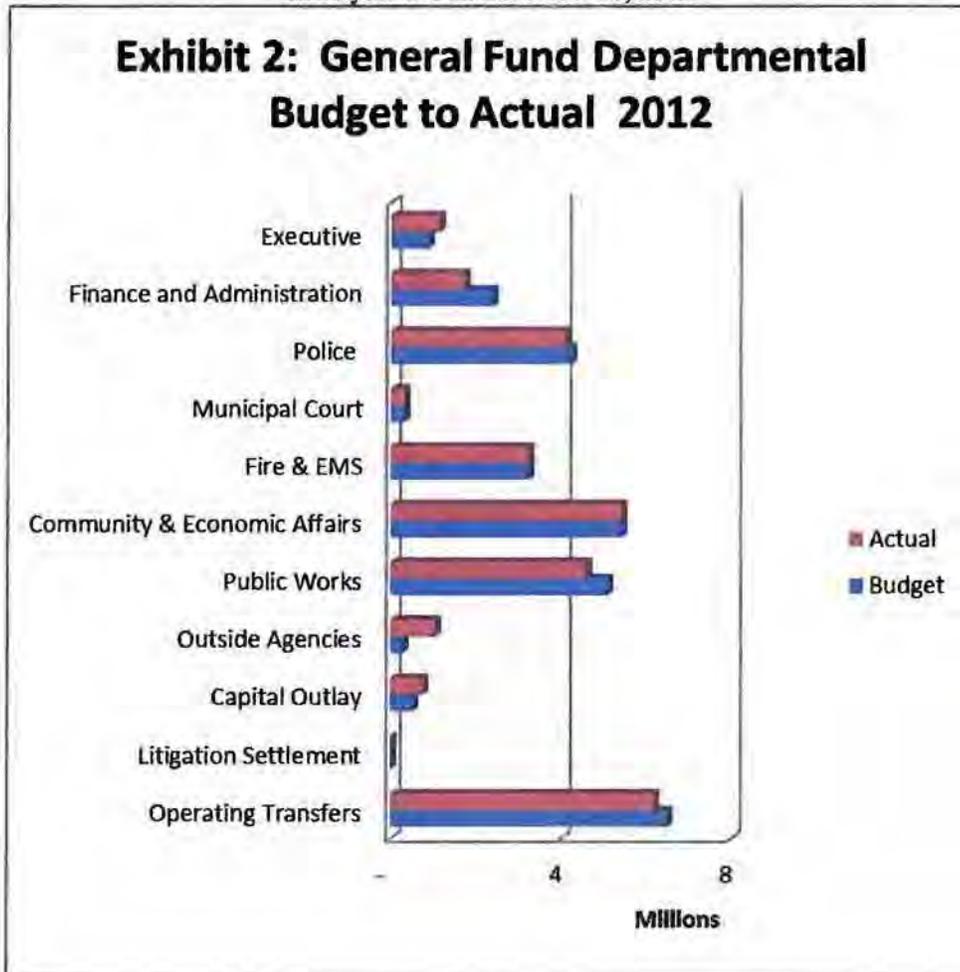
A schedule of General Fund Revenues, Expenditures and Changes in Fund Balances can be found on page 45. Revenues were different than the Budget in the following major categories with an overall \$396,250 budget more than collections:

- Property Taxes - \$17,195 more due to property assessments on new developments
- Local Taxes - \$127,789 more due to increased collections for Lodging Taxes
- Licenses and Permits - \$21,953 more due to increased collections for building permits
- Fines and Forfeitures - \$53,470 more due to enhanced enforcement efforts
- Utility Tax Collections - \$145,649 decreased collections Baldwin EMC due to reduced consumption
- Federal and State transfers - \$5,859 more than budgeted due to increased federal transfers
- Income on investments \$1,048 less than budgeted due to continued decline in investment rates
- Other - \$475,819 less than budget

Expenditures were significantly different from the budget in the following departments:

- Executive Department - \$256,033 more due to increased legal expense
- Finance Department - \$650,898 less due to postponing filling positions (Finance & Admin)
- Police Department - \$145,724 due to less use of operating expenses than anticipated
- Public Works - \$483,670 expenses less due to unfilled positions
- Capital Outlay - \$239,029 more 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, 2012.



General Fund Departmental Budget to Actual 2012			
	Budget	Actual	% of total expenses
Operating Transfers	6,499,401	6,187,382	22%
Litigation Settlement	-	15,374	0%
Capital Outlay	528,023	767,052	3%
Outside Agencies	277,806	1,052,747	4%
Public Works	5,091,211	4,607,540	16%
Community & Economic Affairs	5,430,433	5,428,099	19%
Fire & EMS	3,234,941	3,243,879	11%
Municipal Court	326,690	323,015	1%
Police	4,244,550	4,098,826	14%
Finance and Administration	2,392,215	1,741,317	6%
Executive	887,552	1,143,585	4%
Total	28,912,822	28,608,816	100%

Capital Asset and Long-term Debt Activity

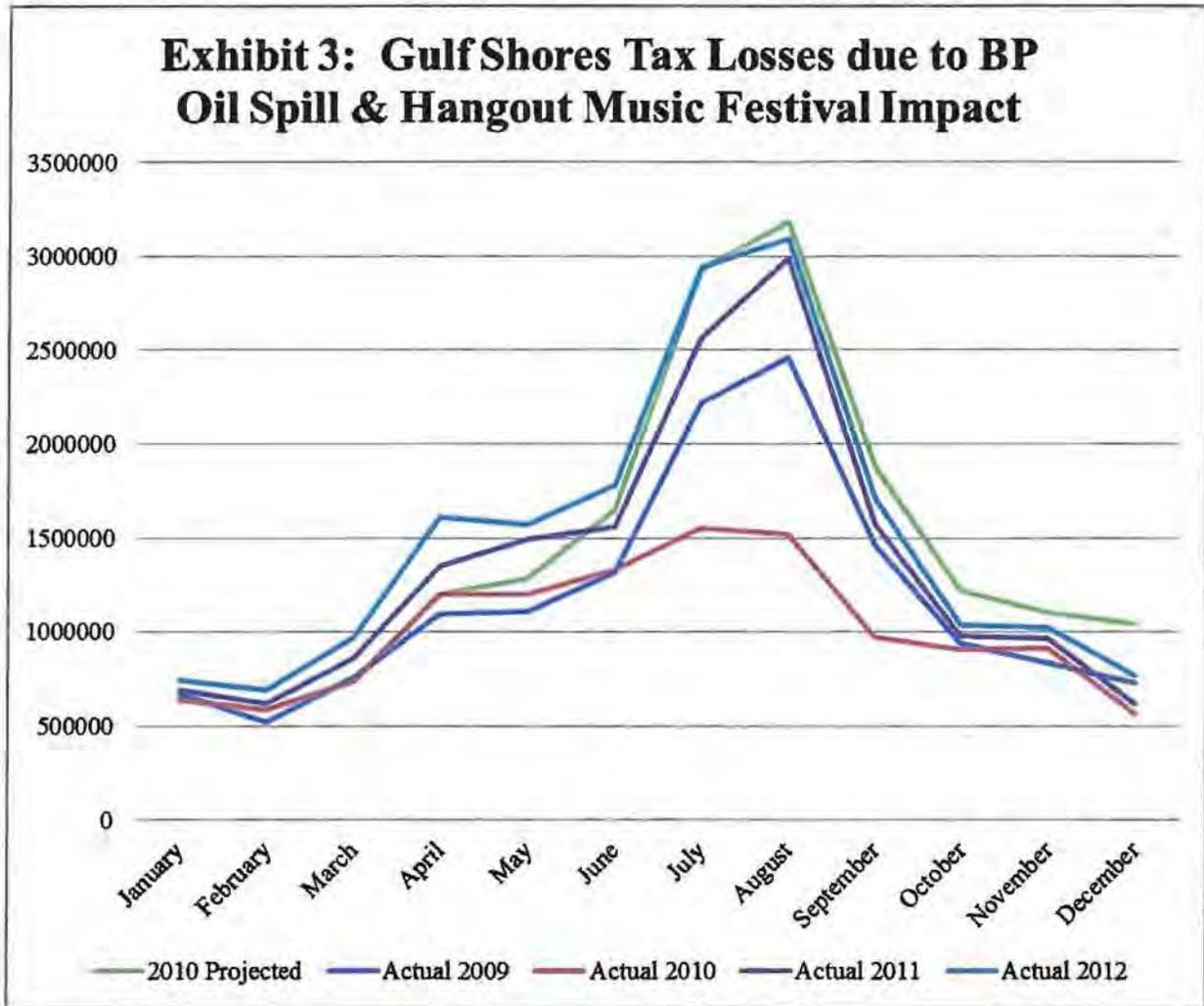
Capital Asset Activity

At December 31, 2012, the City of Gulf Shores reported net capital assets of \$58,702,831 from governmental activities, an increase of \$6,456,245 from December 31, 2011. Net capital assets from business-type activities are reported as \$2,082,173 which is a decrease of \$58,445 from December 31, 2011. 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 \$46,917,333 in debt outstanding (which includes long term compensated absences) compared to \$45,709,655 for the prior 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 & Hangout Music Festival Impact



Future Events Impacting the City's Financial Condition

The City of Gulf Shores' business community recovered in 2012 with revenues almost equal to pre 2010 BP Oil Spill revenue projection levels. The first three months of 2013 show continued strong tourist Sales and Lodging Tax revenue. Exhibit 3 also shows the economic impact of the Hangout Music Festival ticket sales leading up to the May event. National Sand Volleyball competitions that have begun to be held in April also contribute to the increase revenues during the spring. More state sports competitions have also begun to be held in Gulf Shores, increasing Sales and Lodging Tax Revenues as well.

New stores continue to open 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 was completed by first quarter 2013. This project will provide for high skill high wage jobs.

BASIC FINANCIAL STATEMENTS

GOVERNMENT WIDE FINANICAL STATEMENTS

THE CITY OF GULF SHORES, ALABAMA
STATEMENT OF NET POSITION
DECEMBER 31, 2012

	<u>Primary Government</u>			<u>Component Units</u>	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Jack Edwards Airport</u>	<u>Airport Authority</u>
ASSETS					
Current Cash and Cash Equivalents	\$ 6,845,158	\$ 38,534	\$ 6,883,692	\$ -	\$ 299,367
Reserve Current Cash and Cash Equivalents	7,083,449	-	7,083,449	-	-
Receivables (Net)	9,375,678	-	9,375,678	-	4,198
Due from component units	779,274	-	779,274	-	-
Inventories	1,086,833	-	1,086,833	718,623	-
Prepays and Other Assets	264,305	-	264,305	2,639,730	5,557
Restricted Assets:					
Cash and Cash Equivalents	14,235,801	-	14,235,801	2,897	4,945
Capital Assets:					
Non - Depreciable	33,335,707	1,650,000	34,985,707	6,346,391	93,938
Depreciable (Net)	41,221,001	393,639	41,614,640	6,784,568	133,361
Bond issuance expenses (Net)	2,433,168	-	2,433,168	-	-
Total Assets	\$116,660,374	\$ 2,082,173	\$ 118,742,547	\$16,492,209	\$ 541,366
LIABILITIES					
Accounts Payable	\$ 7,632,040	\$ -	\$ 7,632,040	\$ -	\$ 2,868
Accrued Liabilities	1,340,434	-	1,340,434	117,803	2,286
Accrued Interest Payable	104,727	-	104,727	-	3,061
Litigation Settlement Payable	350,000	-	350,000	-	-
Due to primary government	-	-	-	-	779,274
Non - Current Liabilities					
Due Within One Year:					
Compensated absences	75,539	-	75,539	-	-
Loans and Leases Payable	58,558	-	58,558	-	-
Bonds Payable	4,569,726	-	4,569,726	-	27,005
Due In More than One Year:					
Compensated absences	790,770	-	790,770	-	-
Bonds Payable	41,426,779	-	41,426,779	-	100,000
Total Liabilities	56,348,573	-	56,348,573	117,803	914,494
DEFERRED INFLOW OF RESOURCES					
Unearned Revenue	1,608,970	-	1,608,970	-	-
NET POSITION:					
Investment in Capital Assets (net of related debt)	30,068,504	2,043,639	32,112,143	13,130,959	227,299
Restricted for:					
Grants	62,525	-	62,525	-	-
Municipal Court	67,576	-	67,576	-	-
Environment Study	6,057	-	6,057	-	-
Debt service	2,185,900	-	2,185,900	-	-
Capital outlay	482,941	-	482,941	-	-
Beach restoration	15,799,003	-	15,799,003	-	-
Unrestricted	10,030,325	38,534	10,068,859	3,243,447	(600,427)
Total Net Position	\$ 58,702,831	\$ 2,082,173	\$ 60,785,004	\$16,374,406	\$ (373,128)

THE CITY OF GULF SHORES, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

Functions/Programs	Program Revenues			Primary Government			Component Units		
	Expenses	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	\$ 3,492,747	\$ 15,208	\$ -	\$ -	\$ (3,477,539)	\$ -	\$ (3,477,539)		
Municipal Court	324,188	456,488	-	-	132,300	-	132,300		
Police	4,301,242	19,949	42,380	-	(4,238,913)	-	(4,238,913)		
Fire	3,397,974	25,493	-	-	(3,372,481)	-	(3,372,481)		
Community and Economic Affairs	7,354,432	4,006,776	153,441	-	(3,194,215)	-	(3,194,215)		
Public Works	12,029,063	262,635	152,998	8,965,656	(2,647,774)	-	(2,647,774)		
Litigation Settlement	15,374	-	-	-	(15,374)	-	(15,374)		
Miscellaneous	4,599	-	-	-	(4,599)	-	(4,599)		
Loss on Refunding	290,865	-	-	-	(290,865)	-	(290,865)		
Bond cost/premium amortization	196,158	-	-	-	(196,158)	-	(196,158)		
Interest on Long - Term Debt	1,675,013	-	-	-	(1,675,013)	-	(1,675,013)		
Total governmental activities	33,081,655	4,786,549	348,819	8,965,656	(18,980,631)	-	(18,980,631)		
Business-type activities:									
Public Education Building Authority	221,980	163,503	-	-	-	(58,477)	(58,477)		
Total primary government	\$ 33,303,635	\$ 4,950,051	\$ 348,819	\$ 8,965,656	\$ (18,980,631)	\$ (58,477)	\$ (19,039,108)		
COMPONENT UNITS:									
Jack Edwards Airport	\$ 777,741	\$ -	\$ -	\$ 398,545			\$ (379,196)	\$ -	
Airport Authority	368,587	446,787	96,000	-			-	174,200	
Total component units	\$ 1,146,328	\$ 446,787	\$ 96,000	\$ 398,545			\$ (379,196)	\$ 174,200	
General revenues:									
Property Taxes					\$ 2,500,195	\$ -	\$ 2,500,195	\$ -	\$ -
Local Taxes:									
Sales taxes					11,318,308	-	11,318,308	-	-
Lodging taxes					6,611,300	-	6,611,300	-	-
Other local taxes					2,033,288	-	2,033,288	-	-
Franchise Taxes					1,162,351	-	1,162,351	-	-
State Taxes					329,770	-	329,770	-	-
Interest Income					37,187	32	37,219	-	913
Miscellaneous					145,782	-	145,782	-	-
BP Settlement					1,336	-	1,336	-	-
Gain on Disposal of Assets					13,615	-	13,615	-	-
Sale of house inventory - net					(28,132)	-	(28,132)	-	-
Transfers					-	-	-	16,317	(16,317)
Total general revenues, special items and transfers					24,125,000	32	24,125,032	16,317	(15,404)
Change in net position					5,144,369	(58,445)	5,085,924	(362,879)	158,796
Prior Period Adjustment					1,311,876	-	1,311,876	-	-
Net position - beginning					52,246,586	2,140,618	54,387,204	16,737,285	(531,924)
Net position - ending					\$ 58,702,831	\$ 2,082,173	\$ 60,785,004	\$ 16,374,406	\$ (373,128)

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

GOVERNMENT FUND FINANCIAL STATEMENTS

THE CITY OF GULF SHORES, ALABAMA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General Fund	Debt Service Fund	2012 C & D GO Warrant Fund	Storm Damage Fund	Other Governmental Funds	Total
ASSETS						
Current Cash and Equivalents	\$ 6,845,158	\$ -	\$ -	\$ -	\$ -	\$ 6,845,158
Reserved Cash and Equivalents	7,083,449	-	-	-	-	7,083,449
Restricted Cash and Equivalents	73,632	2,622,433	3,165,764	1,922,106	6,451,866	14,235,801
Receivables (Net)						
Accounts	166,155	12,306	-	-	498,883	677,344
Taxes	3,386,934	-	-	-	-	3,386,934
Due From Other Funds	2,585,898	-	-	1,007,631	655,689	4,249,218
Due From Other Governments	46,652	-	-	5,264,748	-	5,311,400
Due From Component Units	779,274	-	-	-	-	779,274
Prepays and Other Assets	264,305	-	-	-	-	264,305
Inventories	1,086,833	-	-	-	-	1,086,833
Total Assets	\$ 22,318,290	\$ 2,634,739	\$ 3,165,764	\$ 8,194,485	\$ 7,606,438	\$ 43,919,716
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 654,621	\$ 2,534	\$ -	\$ 5,812,459	\$ 1,162,426	\$ 7,632,040
Litigation settlement payable	350,000	-	-	-	-	350,000
Payroll taxes & benefits payable	151,426	-	-	-	-	151,426
Accrued wages	308,362	-	-	-	-	308,362
Other liabilities	884,685	-	-	-	-	884,685
Unearned revenue	236,768	12,307	-	1,303,182	56,713	1,608,970
Due to other funds	1,127,819	434,000	100	1,062,972	1,624,327	4,249,218
Total Liabilities	3,713,681	448,841	100	8,178,613	2,843,466	15,184,701
Fund Balances:						
Nonspendable	1,351,138	-	-	-	-	1,351,138
Spendable:						
Restricted	120,285	2,185,898	-	15,872	2,062,845	4,384,900
Committed	7,108,782	-	3,165,664	-	2,705,971	12,980,417
Unassigned	10,024,404	-	-	-	(5,844)	10,018,560
Total Fund Balances	18,604,609	2,185,898	3,165,664	15,872	4,762,972	28,735,015
Total Liabilities and Fund Balance	\$ 22,318,290	\$ 2,634,739	\$ 3,165,764	\$ 8,194,485	\$ 7,606,438	\$ 43,919,716

**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, 2012**

Fund balances - total governmental funds \$ 28,735,015

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	\$ 93,941,385	
Less accumulated depreciation	<u>(19,384,677)</u>	74,556,708

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

Bond issue costs	1,207,114	
Loss on advance refunding	1,862,948	
Less accumulated amortization	<u>(636,894)</u>	2,433,168

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	(45,930,986)	
Discounts on bond issue	177,011	
Premiums on bond issues	(368,469)	
Accumulated amortization	125,939	
Governmental loans and leases payable	(58,558)	
Compensated absences	<u>(862,270)</u>	(46,917,333)

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>(104,727)</u>	<u>(104,727)</u>
--------------------------	------------------	------------------

Net position of governmental activities \$ 58,702,831

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, 2012

	General Fund	Debt Service Fund	2012 C & D GO Warrant Fund	Storm Damage Fund	Other Governmental Funds	Total
REVENUES						
Property taxes	\$ 2,461,738	\$ 38,456	\$ -	\$ -	\$ -	\$ 2,500,194
Local taxes	15,644,903	1,679,103	-	-	2,638,890	19,962,896
Licenses and permits	2,229,453	-	-	-	-	2,229,453
Fines and forfeitures	338,470	-	-	-	-	338,470
Utility tax equivalents	1,162,351	-	-	-	-	1,162,351
Intergovernmental:						
State of Alabama	212,566	-	-	747,339	534,910	1,494,815
Federal Government	27,893	-	-	5,264,909	2,297,295	7,590,097
Interest income	18,952	12,731	88	461	4,953	37,185
Impact fees	-	-	-	-	280,032	280,032
BP Settlement	1,336	-	-	-	-	1,336
Rent Income	-	218,977	-	-	-	218,977
Other receipts	1,763,817	-	-	-	658,175	2,421,992
Total Revenues	23,861,479	1,949,267	88	6,012,709	6,414,255	38,237,798
EXPENDITURES						
Current Operating:						
Executive Department	2,884,902	-	-	-	-	2,884,902
Municipal Court	323,015	-	-	-	-	323,015
Police Department	4,098,826	-	-	-	42,866	4,141,692
Fire and Emergency Services	3,243,879	-	-	-	2,201	3,246,080
Community and Eco. Affairs	5,428,099	-	-	-	114,895	5,542,994
Public Works	4,607,540	-	-	7,019,879	-	11,627,419
Appropriations	1,148,747	-	-	-	-	1,148,747
Capital outlay	767,052	-	-	-	5,788,317	6,555,369
Beach restoration	-	-	-	-	57,095	57,095
Principal and interest	-	25,454,532	-	-	-	25,454,532
Miscellaneous	-	4,553	16	-	3,446	8,015
Litigation Settlement	15,374	-	-	-	-	15,374
Total Expenditures	22,517,434	25,459,085	16	7,019,879	6,008,820	61,005,234
Excess (Deficiency) of revenues Over Expenditures	\$ 1,344,045	\$ (23,509,818)	\$ 72	\$ (1,007,170)	\$ 405,435	\$ (22,767,436)
OTHER FINANCING SOURCES (USES)						
Bond issue proceeds	5,371,169	-	19,647,857	-	-	25,019,026
Bond premium/ (discount), net	-	-	(17,958)	-	-	(17,958)
Bond issue cost	-	-	(266,359)	-	-	(266,359)
Loss on bond refunding	-	-	(1,862,948)	-	-	(1,862,948)
Transfers In	1,502,419	23,493,290	-	1,007,631	58,101	26,061,441
Transfers Out	(8,608,520)	-	(14,335,000)	-	(3,117,921)	(26,061,441)
Total Other Financing Sources and (Uses)	(1,734,932)	23,493,290	3,165,592	1,007,631	(3,059,820)	22,871,761
Net Change in Fund Balance	(390,887)	(16,528)	3,165,664	461	(2,654,385)	104,325
Prior Period Adjustment	1,311,876	-	-	-	-	1,311,876
Fund Balances - Beginning	17,683,620	2,202,426	-	15,411	7,417,357	27,318,814
Fund Balances - Ending	\$ 18,604,609	\$ 2,185,898	\$ 3,165,664	\$ 15,872	\$ 4,762,972	\$ 28,735,015

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, 2012

Net change in fund balances \$ 104,325

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	6,588,871	
Less current year depreciation	<u>(1,922,607)</u>	4,666,264

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	(25,392)	
Loss on disposal of assets	<u>13,615</u>	(11,777)

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 Bond	(25,019,026)	
Bond premium/ discount (net) on 2012 issues	17,958	
Loss on unamortized bond issue cost and premium/ discount (net) of refunded	1,862,948	
Bond issue cost	266,359	
Principal payments on bonds and loans	<u>23,667,897</u>	796,136

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	111,622	
Loss on refunding	(290,865)	
Amortization of current year bond issue premiums	33,714	
Amortization of current year bond discounts	(12,789)	
Amortization of current year bond issue costs	(109,781)	
Amortization of loss on advanced refunding	(107,301)	
Increase in compensated absences	<u>(35,179)</u>	<u>(410,579)</u>

Change in net position of governmental activities \$ 5,144,369

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

PROPRIETARY FUND FINANCIAL STATEMENTS

THE CITY OF GULF SHORES, ALABAMA
 ALL PROPRIETARY FUND TYPES
 STATEMENT OF NET POSITION
 AS OF DECEMBER 31, 2012

	Business-type Activities
	Enterprise Funds
	Primary Government
	Non-major Fund
	Public Education
	Building Authority
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 38,534
Capital Assets:	
Land	1,650,000
Land improvements	203,088
Buildings	898,425
Furniture and equipment	261,893
Less: accumulated depreciation	(969,767)
Total Non-Current Assets	2,043,639
Total Assets	\$ 2,082,173
LIABILITIES	
NET POSITION	
Invested in Capital Assets, net of related debt	2,043,639
Unrestricted	38,534
Total Net Position	\$ 2,082,173

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, 2012

	Business-type Activities
	Enterprise Funds
	Primary Government
	Non-major Fund
	Public Education
	Building Authority
Operating Revenues	
FSCC Rent	\$ 163,503
Operating Expenses	
Depreciation	27,121
Miscellaneous	31,356
Rent	163,503
Total Operating Expenses	221,980
Operating Income (Loss)	(58,477)
Non-Operating Revenues (Expenses)	
Interest income	32
Income (Loss) before Contributions and Transfers	(58,445)
Change in Net Position	(58,445)
Net Position - Beginning	2,140,618
Net Position - Ending	\$ 2,082,173

THE CITY OF GULF SHORES, ALABAMA
 ALL PROPRIETARY FUND TYPES
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2012

	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	\$ 163,503
Other operating expenses	(194,859)
Net cash provided (used) by operating activities	(31,356)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest payments received	32
Net increase (decrease) in cash and cash equivalents	(31,324)
Cash balance - beginning of year	69,858
Cash balance - end of year	\$ 38,534
RECONCILIATION OF OPERATING INCOME (LOSS)	
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (58,477)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	27,121
Net cash provided (used) by operating activities	\$ (31,356)
Noncash Investing, Capital and Financing Activities: None	

NOTES TO BASIC FINANCIAL STATEMENTS

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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, 2012.

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 allow 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 occur 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, 2012

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 Position 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, 2012

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.

2012 D GO Warrant Building Capital Projects Fund

This fund is used to account for financial resources from the 2012 D GO Warrant issue. The proceeds were used to refund the 2004 & 2006.

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, 2012

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.

Beach Restoration Capital Projects Fund

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

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).

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.

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 position. 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.

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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

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.

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, LIABILITES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Position, "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 balance in the certificates of deposit at December 31, 2012 at the financial institutions is \$5,000 at BBVA Compass Bank.

Reserve cash and equivalents

General fund cash and certificates of deposit totaling \$7,083,449 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 Position and the Business Activity Statement of Net Position.

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

I. E. ASSETS, LIABILITIES, AND EQUITY (CONTINUED)

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 Position. 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.

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 of supplies is valued at the cost. Inventory held for resale 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 and houses held for sale that were purchased due to the East Gulf Shores litigation in 2011.

The cost is recorded as 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:

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

E. ASSETS, LIABILITIES, AND EQUITY (CONTINUED)

Capital Assets (continued)

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 depreciates 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.

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 Position. 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 \$866,309. \$75,539 is deemed the current portion on the government wide full accrual basis, of which \$4,033 is reported at the fund level at December 31, 2012.

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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

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 definition of “restricted” or “invested in capital assets, net of related debt.”

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. The policy established by the City pursuant to which the authorization to assign fund balance to a specific purpose is given is for the Finance Committee to approve, followed by Council action to accept and the Mayor’s signature to authorize.
- 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 government’s highest level of decision-making authority. Formal Council action in a form of a resolution is required to establish, modify, or rescind a fund balance commitment is needed.

The City’s General Fund Reserve policy is to maintain a minimum of 15% with a target of 25% of General Fund Expenditures. For 2012 expenses of \$25,517,434 the 15% minimum would be \$3,812,616 and the 25% target would be \$6,379,359.

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.

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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

A schedule of fund balances is as follows:

Nonspendable:						
Inventories	\$ 1,086,833	\$ -	\$ -	\$ -	\$ -	\$ 1,086,833
Prepaid expenses	264,305	-	-	-	-	264,305
Restricted for:						
Grants	46,652	-	-	15,872	-	62,524
Municipal Court	67,576	-	-	-	-	67,576
Environment Study	6,057	-	-	-	-	6,057
Debt service	-	2,185,898	-	-	-	2,185,898
Capital outlay	-	-	-	-	482,942	482,942
Beach restoration	-	-	-	-	1,579,903	1,579,903
Committed to:						
Emergencies	7,083,449	-	-	-	-	7,083,449
Capital outlay	25,333	-	3,165,664	-	2,705,971	5,896,968
Assigned to:						
	-	-	-	-	-	-
Unassigned :						
	10,024,404	-	-	-	(5,844)	10,018,560
Total Fund Balance	<u>\$ 18,604,609</u>	<u>\$2,185,898</u>	<u>\$ 3,165,664</u>	<u>\$ 15,872</u>	<u>\$ 4,762,972</u>	<u>\$ 28,735,015</u>

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.

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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.

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 make appropriate revisions and prepare the General Fund Operating Budget, Debt Service and Appropriations Budgets, which include proposed expenditures and the means of financing them.
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 OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

3. A. CASH AND INVESTMENTS (CONTINUED)

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, 2012, the carrying amount of the City's total deposits was \$28,313,199. 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.

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	Storm Damage Fund	Other Governmental Funds	Total
Taxes	\$ 3,386,934	\$ -	\$ -	\$ -	\$ 3,386,934
Accounts receivable	166,155	12,306	-	498,883	677,344
Due from other governments	46,652	-	5,264,748	-	5,311,400
Total Receivables	\$ 3,599,741	\$ 12,306	\$ 5,264,748	\$ 498,883	\$ 9,375,678

3. C. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivable and payable balances at December 31, 2012 consisted of the following:

Due To (Interfund Receivable)	Due From (Interfund Payable)					Total
	General	Debt Service Fund	2012 D GO Warrant Fund	Storm Damage Fund	Other Governmental Funds	
General Fund	\$ -	\$ 434,000	\$ 100	\$ 527,472	\$ 1,624,326	\$ 2,585,898
Storm Damage Fund	1,007,631	-	-	-	-	1,007,631
Nonmajor Governmental Funds	-	-	-	535,500	120,189	655,689
Total Receivables	\$ 1,007,631	\$ 434,000	\$ 100	\$ 1,062,972	\$ 1,744,515	\$ 4,249,218

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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

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, 2012, consisted of the following:

	<u>Transfers From (Other Financing Use)</u>			
	<u>General</u>	<u>2012 D GO Warrant Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Transfers To (Other Financing Source)				
General Fund	\$ -	\$ -	\$ 1,502,420	\$ 1,502,420
Debt Service Fund	7,600,890	14,335,000	1,557,400	23,493,290
Storm Damage Fund	1,007,630	-	-	1,007,630
Nonmajor Governmental Funds	-	-	58,101	58,101
Total Receivables	<u>\$ 8,608,520</u>	<u>\$ 14,335,000</u>	<u>\$ 3,117,921</u>	<u>\$ 26,061,441</u>

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, 2012, 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	\$ 32,780,728	\$ 554,979	\$ -	\$ -	\$ 33,335,707
Depreciable Assets:					
Buildings, parks facilities, & improvements	37,465,255	5,703,191	8,850	-	43,159,596
Motor vehicles and equipment	10,178,934	330,702	98,135	-	10,411,501
Infrastructure	7,034,582	-	-	-	7,034,582
Totals at historical cost	<u>87,459,499</u>	<u>6,588,872</u>	<u>106,985</u>	<u>-</u>	<u>93,941,386</u>
Less accumulated depreciation for:					
Buildings and improvements	8,873,540	935,872	8,850	-	9,800,562
Motor vehicles and equipment	7,909,445	802,174	86,357	-	8,625,262
Infrastructure	774,293	184,561	-	-	958,854
Total accumulated depreciation	<u>17,557,278</u>	<u>1,922,607</u>	<u>95,207</u>	<u>-</u>	<u>19,384,678</u>
Governmental activities capital assets, net	<u>\$ 69,902,221</u>				<u>\$ 74,556,708</u>

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

3. D. CAPITAL ASSETS (CONTINUED)

Capital asset activity for the business-type activities of the primary government for the year ended December 31, 2012 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	100,415	13,539	-	-	113,954
Buildings	580,338	13,582	-	-	593,920
Equipment	261,893	-	-	-	261,893
Total accumulated depreciation	<u>942,646</u>	<u>27,121</u>	<u>-</u>	<u>-</u>	<u>969,767</u>
Business-type activities capital assets, net	<u>\$ 2,070,760</u>				<u>\$ 2,043,639</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	9,941,733	710,435	-	-	10,652,168
Buildings and improvements	609,915	67,081	-	-	676,996
Motor vehicles and equipment	107,532	1,561	-	-	109,093
Total accumulated depreciation	<u>10,659,180</u>	<u>779,077</u>	<u>-</u>	<u>-</u>	<u>11,438,257</u>
Business-type activities capital assets, net	<u>\$ 14,137,335</u>				<u>\$ 13,358,258</u>

THE CITY OF GULF SHORES, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

3. E. LONG-TERM DEBT

The reporting entities long-term debts 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	\$ 43,585,001	\$ 25,016,169	\$ 22,669,286	\$ 45,931,884	\$ 4,569,726
Loans payable	942,547	-	942,547	-	-
Leases payable	114,632	-	56,074	58,558	58,558
Total bonds, loans and leases, less premiums/discounts	<u>44,642,180</u>	<u>25,016,169</u>	<u>23,667,907</u>	<u>45,990,442</u>	<u>4,628,284</u>
Plus bond premiums/discounts	209,247	80,281	224,907	64,621	-
Total bonds, loans, and leases payable	44,851,427	25,096,450	23,892,814	46,055,063	4,628,284
Other liabilities: Compensated Absences					
	<u>834,312</u>	<u>78,429</u>	<u>46,432</u>	<u>866,309</u>	<u>75,539</u>
Governmental activities long term liabilities	<u>\$ 45,685,739</u>	<u>\$ 25,174,879</u>	<u>\$ 23,939,246</u>	<u>\$ 46,921,372</u>	<u>\$ 4,703,823</u>

The primary government had no business activity long-term debt as of December 31, 2012.

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:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Discretely Presented Component Units					
Bonds and loans payable:					
1996 B Airport Authority Bond	\$ 140,000	\$ -	\$ 20,000	\$ 120,000	\$ 20,000
1993 Series A Revenue Bond	25,695	-	18,690	7,005	7,005
Business-type activities long term liabilities	<u>\$ 165,695</u>	<u>\$ -</u>	<u>\$ 38,690</u>	<u>\$ 127,005</u>	<u>\$ 27,005</u>

As of December 31, 2012 the governmental long term debt consisted of the following:

General Obligation Warrants:

\$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	\$ 310,000
\$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	1,510,000

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

3. E. LONG-TERM DEBT (CONTINUED)

<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>	4,875,000
<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>\$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 December 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>	16,075,000
<p>\$738,283, Series 2012 General Obligation Warrants, dated April 2, 2012 due in annual installments of \$189,981 plus interest varying of 1.95% per annum payable on April 9th of each year, beginning in July 2012, final payment due April 9, 2015.</p>	548,332
<p>\$4,000,000, Series 2012-A General Obligation Warrants, dated July 13, 2012 and matures four years for the date of delivery. Interest only quarterly payments bear a fixed rate of 2.83% are due January 15, April 15, July 15 and October 15, first payment due October 15, 2012 and last December July 13, 2016.</p>	1,000
<p>\$800,000, Series 2012-B General Obligation Warrants, dated August 16, 2012 due in monthly installments of \$22,649 including interest of 1.22% per annum payable on the 16th of each month, beginning in September 2012, final payment due August 16, 2015.</p>	712,552
<p>\$9,000,000, Series 2012-C General Obligation Warrants, dated October 1, 2012 due in annual principal installments of \$500,000 increasing to \$2,315,000 beginning on December 15, 2021, with a final payment due December 15, 2025. Interest varying from of 2.00% to 2.55% per annum payable June 15 and December 15, first payment due December 15, 2012 and last December 15, 2025.</p>	9,000,000
<p>\$10,645,000, Series 2012-D General Obligation Warrants, dated October 1, 2012 due in annual principal installments of \$210,000 increasing to \$1,910,000 beginning on December 15, 2012, with a final payment due December 15, 2021. Interest varying from of 2.00% to 2.55% per annum payable June 15 and December 15, first payment due December 15, 2012 and last December 15, 2021.</p>	10,435,000
<p>Total Unamortized General Obligation Warrant Issue Premiums</p>	64,621

THE CITY OF GULF SHORES, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

3. E. LONG-TERM DEBT (CONTINUED)

Notes leases payable:

\$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.	36,016
\$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	<u>22,542</u>
Total Long Term Debt	<u>\$ 46,055,063</u>

As of December 31, 2012 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.	\$ 7,005
\$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.	<u>120,000</u>
Total	<u>\$ 127,005</u>

Annual debt service requirements to maturity, including principle and interest, for the governmental activities long-term debt as of December 31, 2012, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 4,628,284	\$ 1,559,760
2014	3,345,512	1,407,331
2015	3,211,672	1,279,944
2016	3,755,000	1,149,010
2017	3,835,000	1,024,905
2018-2022	11,415,000	3,770,375
2023-2028	15,800,000	2,268,087
Total	<u>\$ 45,990,468</u>	<u>\$ 12,459,413</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:

THE CITY OF GULF SHORES, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

3. E. LONG-TERM DEBT (CONTINUED)

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 27,005	\$ 6,878
2014	25,000	5,359
2015	25,000	3,828
2016	25,000	2,297
2017	25,000	766
Thereafter	-	-
Total	<u>\$ 127,005</u>	<u>\$ 19,128</u>

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 \$6,056 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. The remaining \$230,000 is derived from a donation received from the Erin Hall Meyer Charitable Fund in anticipation of expending the donation to replace the roof of the Erin Hall Meyer Civic Center. These revenues will be recognized as the City incurs these expenditures

As of December 31, 2012 the City has unearned revenues of \$903,182 reported in the Storm Damage fund. The City was advanced Alabama Emergency Management Agency BP Deepwater Horizon Oil Spill assistance in anticipation of expending these awards on eligible expenditures. These revenues will be recognized as the City incurs eligible expenditures for this grant. The remaining \$400,000 is derived from a grant received from the Deepwater Horizon Economic Claims Administration, BP & the Plaintive Steering Committee in anticipation of expending these awards on eligible expenditures. These revenues will be recognized as the City incurs eligible expenditures for this grant

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

3. F. UNEARNED REVENUE (CONTINUED)

As of December 31, 2012 the City has unearned revenues of \$369 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 a Department of Commerce's Economic Development grant to build a Dry Dock Basin. The remaining \$56,344 is 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, 2012, the Capital Improvements fund of the City of Gulf Shores had an accumulated total fund balance deficit of \$5,844. 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 position deficit of \$373,128 at September 30, 2012.

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, 2012, was \$468,268,740 resulting in a debt limit of \$93,653,748. 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.

THE CITY OF GULF SHORES, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

NOTE 4 – OTHER INFORMATION

4. A. RETIREMENT PLAN (CONTINUED)

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 following is information taken from the Employees' Retirement System of Alabama, Actuarial Valuation Summary as of September 30, 2011; the latest date for which a valuation was available. The valuation sets the rate for the period beginning October 1, 2013.

Summary of Employee Census Data

Number of active members:	221
Annual compensation:	\$ 10,376,800
Number of retired members and beneficiaries:	21
Annual retirement allowances:	\$ 731,248

Required Employer Contribution Rates	Retain Current Member Contribution Rates	Elect to Increase Member Contribution Rates Under Act 2011-676
Tier 1 Employees (Applies to all members hired before January 1, 2013)		
Normal cost	4.03%	1.94%
Accrued Liability	4.70%	4.78%
Pre-retirement death benefit	0.14%	0.14%
Administrative expense	0.21%	0.21%
Total	9.08%	7.07%
5% Employer contribution factor (9.08%/5%)	1.816%	
6% Employer contribution factor (9.08%/6%)	1.513%	
7.5% Employer contribution factor (7.07%/7.5%)		0.943%
8.5% Employer contribution factor (7.07%/8.5%)		0.832%

Tier 2 Employees (Applies to all members hired on or after January 1, 2013)

Total Employer Contribution Rate	6.78%
6% Employer contribution factor (6.78%/6%)	1.130%
7% Employer contribution factor (6.78%/7%)	0.969%

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.

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 4 – OTHER INFORMATION (CONTINUED)

4. A. RETIREMENT PLAN (CONTINUED)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets *	Accrued Act. Liability Entry Age	Unfunded AAL (UAAL)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
	(a)	(b) ₁	(b-a)			
9/30/2007	\$ 8,801,789	\$ 10,714,720	\$1,912,931	82.1%	\$ 8,186,268	23.4%
9/30/2008	\$ 10,382,700	\$ 14,712,754	\$4,330,054	70.6%	\$ 9,871,622	43.9%
9/30/2009	\$ 10,944,617	\$ 16,360,595	\$5,415,978	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 _{3,4}	\$ 11,654,622	\$ 19,113,449	\$7,458,827	61.0%	\$ 9,237,271	80.7%
9/30/2011 ₅	\$ 12,339,073	\$ 20,398,217	\$8,059,144	60.5%	\$ 10,376,800	77.7%
9/30/2011 _{4,5}	\$ 12,339,073	\$ 20,527,450	\$8,188,377	60.1%	\$ 10,376,800	78.9%

- 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 2011-676 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
- ₅ Reflects changes in actuarial assumption.
- Market Value of Assets as of September 30, 2011: \$10,829,385

Valuation date	9/30/2011
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*	3.75 - 7.25%
*Includes inflation at	3.00%
Cost-of-living adjustments	None

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)
9/30/2009	\$ 567,366	100%	\$ -
9/30/2010	\$ 730,375	100%	\$ -
9/30/2011	\$ 909,040	100%	\$ -

THE CITY OF GULF SHORES, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

NOTE 4 – OTHER INFORMATION (CONTINUED)

4. B. DEFEASED 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.

In October 2012 the City issued \$9,000,000 Series 2012-C General Obligation Warrants and \$10,645,000 Series 2012-D General Obligation Warrants, which were used to advance refund the Series 2004 and 2006 B General Obligation Warrants, constructing certain capital improvements within the City and paying issuance expense. In accordance with the refunding agreement, the City deposited with Regions Bank funds from the Series 2012 C and 2012 D Warrants into two escrow accounts which along with the earnings there from, are sufficient to pay the principal and interest of the bonds. A portion of these escrowed funds were used to currently refund on November 10, 2012 the City's General Obligation Warrants, Series 2004 and the remaining escrowed funds will be used to currently refund on December 15, 2015 the City's General Obligation Warrants, Series 2006B.

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 increased debt service payments relative to the refunded debt by \$2,575,707 (\$20,878,215-23,453,922) over the next 14 years and resulted in an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$890,238 (PV of savings from cash flows \$2,275,282 less cash refunding on hand \$3,165,521).

4. C. COMMITMENTS AND CONTINGENCIES

Construction, engineering, and design contracts for material public works project commitments at December 31, 2012 are as follows:

Contractor/Engineer	Construction/Professional Services Project	Contract Amount Including Change Orders	Approximate Expenditures Incurred To Date	Approximate Balance of Contract
Skipper Consulting	Traffic Signal Design	\$ 48,600	\$ 2,920	\$ 45,680
Skipper Consulting	Traffic Signal System Retiming	13,700	8,220	5,480
DMD Engineers	Gulf State Park Multi-Use Trail	70,800	-	70,800
Adams Stewart Architect	New Firestation #1 Design	109,272	101,081	8,191
Bayshore Construction	New Firestation #1	1,781,000	1,342,275	438,725
R&S Paving & Grading	Hwy 59/Clubhouse Drive Intersection Improvements	315,736	143,057	172,679
Preble-Rish Engineering	East 7th Street for Drainage Project	42,550	23,997	18,553
Preble-Rish Engineering	Stormwater Study for 5th Street	65,200	62,960	2,240
Thompson Engineering	County Road 4 Widening	211,600	201,250	10,350

THE CITY OF GULF SHORES, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

4. C. COMMITMENTS AND CONTINGENCIES (CONTINUED)

<u>Contractor/Engineer</u>	<u>Construction/Professional Services Project</u>	<u>Contract Amount Including Change Orders</u>	<u>Approximate Expenditures Incurred To Date</u>	<u>Approximate Balance of Contract</u>
W.R. Mitchell Contractor	Drainage Improvement Project, East 5th & 7th Streets	509,756	290,676	219,080
Holcombe Norton Partners	Sportsplex Track Resurfacing Design	23,400	11,821	11,579
Precision Sports Surfaces	Sportsplex Track Resurfacing Construction	482,155	161,178	320,977
Hatch Mott McDonald	Sims Park Concession Stand	19,500	6,725	12,775
Olsen Associates Task	Beach Restoration Design	526,110	364,175	161,935
Manson Construction	Beach Restoration	8,742,514	6,753,869	1,988,645
Olsen Associates Task	H. Isaac Post-Disaster Asst.	15,360	11,008	4,352
Fabre Engineering & Surveying	Fort Morgan Road Evaluation	16,350	15,518	833
Amerson Roofing	Bodenhamer Recreation Center Roof Repair	385,000	-	385,000
Amerson Roofing	Civic Center Roof Repair	448,000	-	448,000
McClaren, Wilson & Lawrie	Police Facilities Space & Site Needs Assessment	48,314	39,554	8,760

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 2012, rentals approximated \$57,500 for such leases. Approximately \$62,500, in minimum rental payments are due in 2013. These leases are primarily supported by the governmental fund activities.

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	38,994
	<u>673,510</u>
Less accumulated depreciation	<u>(446,211)</u>
Net investment in operating leases	<u>\$ 227,299</u>

THE CITY OF GULF SHORES, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

4. E. AIRPORT LEASES (CONTINUED)

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

Year	Payment
2013	233,764
2014	225,759
2015	225,509
2016	222,759
2017	222,759
Thereafter	13,478,678
Total	\$ 14,609,228

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 \$95,701 in 2012.

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
2013	164,728
2014	120,138
Total	\$ 284,866

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.

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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 \$9,990. 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, 2012 is \$426,574 at a 4.0% assumed annual investment.

4. I. POST RETIREMENT EMPLOYEE BENEFITS (CONTINUED)

The gross annual required contribution (current liability) assumed payable is \$63,387, which consists of an annual normal cost assumed payable of \$38,721, plus a 30 year actuarial accrued liability amortization contribution of \$24,666. 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 2012 there was \$48,332 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

\$7,083,449 of the total \$7,108,782 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 \$7,083,449, as reflected in reserved cash and cash equivalents of the General fund.

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.

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

4. M. PRIOR PERIOD ADJUSTMENT

The general fund financial statements reflect a prior period adjustment in the amount of \$ 1,311,876. Amount represents the East Gulf Shores home purchased and held for sale by the City. During 2011, the City expensed the settlement cost of purchasing the properties involved in the East Gulf Shores lawsuit. In 2012 the City recorded in the houses in inventory and began selling the properties. In the current year, an entry was made to record \$3,000,000 in beginning inventory and \$1,338,124 to adjust the beginning inventory to fair market value. Subsequent to year end, the city reached a settlement of \$350,000 on the remaining litigation. Total adjustment increases fund balance by \$1,311,876.

4. M. SUBSEQUENT EVENTS

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:

Pickard vs. City of Gulf Shores

On April 11, 2013, the City reached a settlement resulting in the City agreeing to pay the total amount of \$350,000 to the Plaintiffs in this litigation in exchange for full and complete releases as it concerns the claims asserted in the Plaintiffs complaint. The full amount of the settlement has been accrued in the City's financial statements as of December 31, 2012.

REQUIRED SUPPLEMENTARY INFORMATION

THE CITY OF GULF SHORES, ALABAMA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Property Taxes	\$ 2,483,000	\$ 2,483,000	\$ 2,500,195	\$ 17,195
Local Taxes	21,890,078	19,835,107	19,962,896	127,789
Licenses and Permits	2,009,500	2,207,500	2,229,453	21,953
Fines and Forfeitures	285,000	285,000	338,470	53,470
Utility Tax Equivalents	1,308,000	1,308,000	1,162,351	(145,649)
Intergovernmental:				
Federal	107,273	5,100	27,893	22,793
State of Alabama - Taxes	141,500	229,500	212,566	(16,934)
Income on Investments	20,000	20,000	18,952	(1,048)
BP Settlement	-	-	1,336	1,336
Other	1,701,500	2,239,924	1,763,817	(476,107)
Total Revenues	<u>29,945,851</u>	<u>28,613,131</u>	<u>28,217,929</u>	<u>(395,202)</u>
EXPENDITURES				
Executive Department	3,247,767	3,279,767	2,884,902	(394,866)
Municipal Court	302,439	326,690	323,015	(3,675)
Police Department	4,388,751	4,244,550	4,098,826	(145,724)
Fire and Emergency Services	3,234,941	3,234,941	3,243,879	8,939
Community and Economic Affairs	5,259,232	5,430,433	5,428,099	(2,334)
Public Works	4,610,462	5,091,211	4,607,540	(483,670)
Appropriations	80,000	277,806	1,052,747	774,941
Capital Outlay	71,450	528,023	767,052	239,029
Litigation Settlement	-	-	15,374	15,374
Total Expenditures	<u>21,195,042</u>	<u>22,413,421</u>	<u>22,421,434</u>	<u>8,013</u>
Excess of revenues over expenditures	<u>8,750,809</u>	<u>6,199,710</u>	<u>5,796,495</u>	<u>(403,215)</u>
OTHER FINANCING SOURCES (USES)				
Bond issue proceeds	-	4,120,705	5,371,169	1,250,464
Transfers from Other Funds	346,000	505,789	1,502,419	996,630
Transfer to Other Funds	(6,449,431)	(11,125,895)	(13,060,970)	(1,935,075)
Total Other Financing Uses	<u>(6,103,431)</u>	<u>(6,499,401)</u>	<u>(6,187,382)</u>	<u>312,019</u>
Net Change in Fund Balances	<u>\$ 2,647,378</u>	<u>\$ (299,691)</u>	<u>\$ (390,887)</u>	<u>\$ (91,196)</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, 2012

	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	2008 A GO Building Fund	Capital Improvements Fund		2006 B GO Warrant Fund
ASSETS									
Restricted Cash and Cash Equivalents	\$ 1,941,321	\$ 60,561	\$ 388,030	\$ 22,632	\$ 1,253	\$ 3,467,105	\$ 570,964	\$ -	\$ 6,451,866
Receivable (Net)	-	-	-	990	-	2,723	495,170	-	498,883
Due From Other Funds	646,213	9,476	-	-	-	-	-	-	655,689
Total Assets	<u>2,587,534</u>	<u>70,037</u>	<u>388,030</u>	<u>23,622</u>	<u>1,253</u>	<u>3,469,828</u>	<u>1,066,134</u>	<u>-</u>	<u>7,606,438</u>
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable	-	-	-	-	-	763,857	398,569	-	1,162,426
Unearned revenue	-	-	-	-	-	-	56,713	-	56,713
Due to Other Funds	1,007,631	-	-	-	-	-	616,696	-	1,624,327
Total Liabilities	<u>1,007,631</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>763,857</u>	<u>1,071,978</u>	<u>-</u>	<u>2,843,466</u>
Fund Balances:									
Spendable:									
Restricted	1,579,903	70,037	388,030	23,622	1,253	-	-	-	2,062,845
Committed	-	-	-	-	-	2,705,971	-	-	2,705,971
Unassigned	-	-	-	-	-	-	(5,844)	-	(5,844)
Total Fund Balances	<u>1,579,903</u>	<u>70,037</u>	<u>388,030</u>	<u>23,622</u>	<u>1,253</u>	<u>2,705,971</u>	<u>(5,844)</u>	<u>-</u>	<u>4,762,972</u>
Total Liabilities and Fund Balance	<u>\$ 2,587,534</u>	<u>\$ 70,037</u>	<u>\$ 388,030</u>	<u>\$ 23,622</u>	<u>\$ 1,253</u>	<u>\$ 3,469,828</u>	<u>\$ 1,066,134</u>	<u>\$ -</u>	<u>\$ 7,606,438</u>

THE CITY OF GULF SHORES, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	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	2008 A GO Building Fund	Capital Improvements Fund	
REVENUES								
2% Lodgings Tax	\$ 2,638,890	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental:								
State of Alabama	-	385,870	-	2,970	-	146,070	-	-
Federal Government	-	-	-	-	-	-	2,297,295	-
Interest income	1,931	156	143	4	5	2,417	297	-
Impact fees	-	-	280,032	-	-	-	-	-
Other receipts	-	-	-	-	-	-	658,175	-
Total Revenues	<u>2,640,821</u>	<u>386,026</u>	<u>280,175</u>	<u>2,974</u>	<u>5</u>	<u>148,487</u>	<u>2,955,767</u>	<u>-</u>
EXPENDITURES								
Current Operating:								
Community and Economic Affairs	-	-	114,895	-	-	-	-	-
Police	-	-	42,866	-	-	-	-	-
Fire	-	-	2,201	-	-	-	-	-
Capital Outlay	-	-	-	-	-	2,916,698	2,871,619	-
Beach restoration	-	-	-	-	57,095	-	-	-
Miscellaneous	-	104	-	3,307	-	-	35	-
Total Expenditures	<u>-</u>	<u>104</u>	<u>159,962</u>	<u>3,307</u>	<u>57,095</u>	<u>2,916,698</u>	<u>2,871,654</u>	<u>-</u>
Excess (Deficiency) of revenues Over Expenditures	<u>2,640,821</u>	<u>385,922</u>	<u>120,213</u>	<u>(333)</u>	<u>(57,090)</u>	<u>(2,768,211)</u>	<u>84,113</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)								
Transfers In	-	-	-	-	57,085	1,016	-	-
Transfers Out	(2,622,116)	(413,000)	-	-	-	-	(81,789)	(1,016)
Total Other Financing Sources (Uses)	<u>(2,622,116)</u>	<u>(413,000)</u>	<u>-</u>	<u>-</u>	<u>57,085</u>	<u>1,016</u>	<u>(81,789)</u>	<u>(1,016)</u>
Net Change in Fund Balance	18,705	(27,078)	120,213	(333)	(5)	(2,767,195)	2,324	(1,016)
Fund Balances - Beginning	<u>1,561,198</u>	<u>97,115</u>	<u>267,817</u>	<u>23,955</u>	<u>1,258</u>	<u>5,473,166</u>	<u>(8,168)</u>	<u>1,016</u>
Fund Balances - Ending	<u>\$ 1,579,903</u>	<u>\$ 70,037</u>	<u>\$ 388,030</u>	<u>\$ 23,622</u>	<u>\$ 1,253</u>	<u>\$ 2,705,971</u>	<u>\$ (5,844)</u>	<u>\$ -</u>

THE CITY OF GULF SHORES, ALABAMA
 LODGING TAX SPECIAL REVENUE FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Taxes:				
Interest income	\$ 1,000	\$ 1,000	\$ 1,931	\$ 931
Total Revenues	<u>1,000</u>	<u>1,000</u>	<u>1,931</u>	<u>931</u>
EXPENDITURES				
Current:				
General government	-	-	-	-
Total General government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	<u>1,000</u>	<u>1,000</u>	<u>1,931</u>	<u>931</u>
OTHER FINANCING SOURCES (USES)				
Transfer from Other Funds	2,419,000	2,419,000	2,638,890	219,890
Transfer to Other Funds	<u>(2,420,000)</u>	<u>(2,420,000)</u>	<u>(2,622,116)</u>	<u>(202,116)</u>
Total Other Financing Uses	<u>(1,000)</u>	<u>(1,000)</u>	<u>16,774</u>	<u>17,774</u>
Net Change in Fund Balances	-	-	18,705	18,706
Fund Balance, beginning	<u>1,561,198</u>	<u>1,561,198</u>	<u>1,561,198</u>	<u>-</u>
Fund Balance, ending	<u>\$ 1,561,198</u>	<u>\$ 1,561,198</u>	<u>\$ 1,579,903</u>	<u>\$ 18,706</u>

THE CITY OF GULF SHORES, ALABAMA
DESIGNATED TAXES SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Taxes:				
Firefighters Ad Valorem	\$ 140,000	\$ 140,000	\$ 125,058	\$ (14,942)
Law Enforcement:				
Federal Equity Sharing	1,000	1,000	-	(1,000)
State, Local & Other	10,000	10,000	12,141	2,141
Alabama Gasoline Excise Tax				
Four per gallon	8,000	8,000	15,535	7,535
Five per gallon	4,500	4,500	7,642	3,142
Seven per gallon	14,000	14,000	26,751	12,751
Petroleum Inspection Fees	2,400	2,400	4,444	2,044
Motor Fuel Distribution	600	600	1,162	562
State Shared Capital Improvement Fund	38,000	38,000	84,072	46,072
Corrections Fund	80,000	80,000	93,904	13,904
Municipal Court Judicial Administrative Fund	-	-	15,161	15,161
Interest income	-	-	156	156
Total Revenues	<u>298,500</u>	<u>298,500</u>	<u>386,026</u>	<u>87,526</u>
EXPENDITURES				
Account Administration	-	-	104	(104)
Total Expenditures	<u>-</u>	<u>-</u>	<u>104</u>	<u>(104)</u>
Excess of revenues over expenditures	<u>298,500</u>	<u>298,500</u>	<u>385,922</u>	<u>87,422</u>
OTHER FINANCING SOURCES (USES)				
Transfer to General Fund				
Corrections	(80,000)	(80,000)	(98,000)	(18,000)
Firefighters Ad Valorem	(140,000)	(140,000)	(160,000)	(20,000)
Law Enforcement Federal	(1,000)	(1,000)	-	1,000
Law Enforcement State, Local & Other	(10,000)	(10,000)	(15,000)	(5,000)
Alabama Gasoline Excise Tax	(31,500)	(31,500)	(56,000)	(24,500)
State Capital Improvements	(36,000)	(36,000)	(84,000)	(48,000)
Total Other Financing Uses	<u>(298,500)</u>	<u>(298,500)</u>	<u>(413,000)</u>	<u>(114,500)</u>
Net Change in Fund Balances	-	-	(27,078)	(27,078)
Fund Balance, beginning	<u>97,115</u>	<u>97,115</u>	<u>97,115</u>	<u>-</u>
Fund Balance, ending	<u>\$ 97,115</u>	<u>\$ 97,115</u>	<u>\$ 70,037</u>	<u>\$ (27,078)</u>

THE CITY OF GULF SHORES, ALABAMA
IMPACT FEES SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Parks & Recreation	\$ 47,957	\$ 182,457	\$ 117,816	\$ (64,641)
Fire	-	-	25,493	25,493
Police	-	42,500	17,410	(25,090)
Public Works	81,000	98,300	119,313	21,013
Interest income	-	-	143	143
Total Revenues	<u>128,957</u>	<u>323,257</u>	<u>280,175</u>	<u>(43,081)</u>
EXPENDITURES				
Current				
Fire	-	-	2,201	2,201
Recreation	47,957	182,457	114,895	(67,562)
Public Works	81,000	98,300	-	(98,300)
Total Current	<u>128,957</u>	<u>280,757</u>	<u>117,095</u>	<u>(163,662)</u>
Capital Outlay				
Police	-	42,500	42,866	366
Total Capital Outlay	<u>-</u>	<u>42,500</u>	<u>42,866</u>	<u>366</u>
Total Expenditures	<u>128,957</u>	<u>323,257</u>	<u>159,962</u>	<u>(163,296)</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>120,213</u>	<u>(206,376)</u>
OTHER FINANCING SOURCES (USES)				
Transfer to Other Funds	-	-	-	-
Total Other Financing Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>-</u>	<u>-</u>	<u>120,213</u>	<u>(206,376)</u>
Fund Balance, beginning	<u>267,817</u>	<u>267,817</u>	<u>267,817</u>	<u>-</u>
Fund Balance, ending	<u>\$ 267,817</u>	<u>\$ 267,817</u>	<u>\$ 388,030</u>	<u>\$ (206,376)</u>

THE CITY OF GULF SHORES, ALABAMA
LIBRARY BOARD SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
State of Alabama - Public Library Service	\$ -	\$ -	\$ 2,970	\$ 2,970
Interest income	-	-	4	4
Total Revenues	<u>-</u>	<u>-</u>	<u>2,974</u>	<u>2,974</u>
EXPENDITURES				
Account Administration	-	-	3,307	(3,307)
Total Expenditures	<u>-</u>	<u>-</u>	<u>3,307</u>	<u>(3,307)</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(333)</u>	<u>(333)</u>
OTHER FINANCING SOURCES (USES)				
Transfer to Other Funds	-	-	-	-
Total Other Financing Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	-	-	(333)	(333)
Fund Balance, beginning	<u>23,955</u>	<u>23,955</u>	<u>23,955</u>	<u>-</u>
Fund Balance, ending	<u>\$ 23,955</u>	<u>\$ 23,955</u>	<u>\$ 23,622</u>	<u>\$ (333)</u>

THE CITY OF GULF SHORES, ALABAMA
 BEACH RESTORATION CAPITAL PROJECTS FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Interest income	\$ -	\$ -	\$ 5	\$ 5
Total Revenues	<u>-</u>	<u>-</u>	<u>5</u>	<u>5</u>
EXPENDITURES				
Beach restoration	-	1,052,001	57,095	(994,906)
Total Expenditures	<u>-</u>	<u>1,052,001</u>	<u>57,095</u>	<u>(994,906)</u>
Excess of revenues over expenditures	<u>-</u>	<u>(1,052,001)</u>	<u>(57,090)</u>	<u>994,911</u>
OTHER FINANCING SOURCES (USES)				
Transfer from Other Funds	-	1,052,001	57,085	(994,916)
Total Other Financing Uses	<u>-</u>	<u>1,052,001</u>	<u>57,085</u>	<u>(994,916)</u>
Net Change in Fund Balances	-	-	(5)	(5)
Fund Balance, beginning	<u>1,258</u>	<u>1,258</u>	<u>1,258</u>	<u>-</u>
Fund Balance, ending	<u>\$ 1,258</u>	<u>\$ 1,258</u>	<u>\$ 1,253</u>	<u>\$ (5)</u>

THE CITY OF GULF SHORES, ALABAMA
 2008 A WARRANT PROCEEDS CAPITAL PROJECTS FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Grants requiring matching 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	538,200	146,070	(392,130)
Interest income	-	-	2,417	2,417
Bond Issue Proceeds	5,347,769	5,156,969	-	(5,156,969)
Total Revenues	<u>6,481,139</u>	<u>6,290,339</u>	<u>148,487</u>	<u>(6,141,852)</u>
EXPENDITURES				
Capital Outlay Projects				
Recreation Improvements	149,000	149,000	33,553	(115,447)
Street Resurfacing	17,300	217,000	201,250	(15,750)
Maintenance Improvements	1,500,000	1,500,000	702,446	(797,554)
Appraisal/Survey/Engineer/Legal	5,000	5,000	2,426	(2,574)
FEMA Beach Restoration/Disaster	150,000	-	-	-
Renovate 200 Clubhouse Drive	-	3,735	3,735	-
Renovate Adult Activity Center	44,000	44,000	44,013	13
Branding/Way finding/Signage	200,000	7,765	-	(7,765)
Renovate Fire Station # 3	8,335	13,335	5,536	(7,799)
New Fire Station # 1	1,952,415	1,952,415	1,311,132	(641,283)
Police Improvements	48,314	100,314	93,250	(7,064)
Meyer Park Improvements - PH I	85,000	85,000	2,000	(83,000)
Skate Park - Sims Park	29,125	29,125	21,770	(7,355)
Lagoon Park	9,500	9,500	2,526	(6,974)
Concession Improvements	255,000	255,000	19,430	(235,570)
Sportsplex Improvements	86,000	86,000	30,122	(55,878)
Track Resurfacing	-	180,000	159,273	(20,727)
Beach Improvements	196,000	22,500	29,840	7,340
Grant Match				
ALDOT - Multi-Use Trail	594,650	594,650	7,600	(587,050)
ALDOT - Safe Routes to School	156,000	156,000	320	(155,680)
ALDOT - Roadway & Signal Improvements	897,000	897,000	246,476	(650,524)
Total Expenditures	<u>6,382,639</u>	<u>6,307,339</u>	<u>2,916,698</u>	<u>(3,390,641)</u>
Excess of revenues over expenditures	<u>98,500</u>	<u>(17,000)</u>	<u>(2,768,211)</u>	<u>(9,532,493)</u>
OTHER FINANCING SOURCES (USES)				
Transfer from Other Funds	-	-	1,016	(1,016)
Total Other Financing Uses	<u>-</u>	<u>-</u>	<u>1,016</u>	<u>(1,016)</u>
Net Change in Fund Balances	<u>98,500</u>	<u>(17,000)</u>	<u>(2,767,195)</u>	<u>(9,531,477)</u>
Fund Balance, beginning	<u>5,473,166</u>	<u>5,473,166</u>	<u>5,473,166</u>	<u>-</u>
Fund Balance, ending	<u>\$ 5,571,666</u>	<u>\$ 5,456,166</u>	<u>\$ 2,705,971</u>	<u>\$ (9,531,477)</u>

THE CITY OF GULF SHORES, ALABAMA
GRANTS CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Grants				
EDA Saunders Dry Dock	\$ -	\$ -	\$ 2,871,619	\$ 2,871,619
Minnow Lane				
Paving Assessment Principal	-	-	1,199	1,199
Paving Assessment Interest	-	-	863	863
Other	-	-	81,789	81,789
Interest income	-	-	297	297
Total Revenues	<u>-</u>	<u>-</u>	<u>2,955,767</u>	<u>2,955,767</u>
EXPENDITURES				
Administrative	-	-	35	35
Dry Dock Basin	-	-	2,871,619	2,871,619
Total Expenditures	<u>-</u>	<u>-</u>	<u>2,871,654</u>	<u>2,871,654</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>84,113</u>	<u>84,114</u>
OTHER FINANCING SOURCES (USES)				
Transfer to Other Funds	-	-	(81,789)	81,789
Total Other Financing Uses	<u>-</u>	<u>-</u>	<u>(81,789)</u>	<u>81,789</u>
Net Change in Fund Balances	-	-	2,324	2,325
Fund Balance, beginning	<u>(8,168)</u>	<u>(8,168)</u>	<u>(8,168)</u>	<u>-</u>
Fund Balance, ending	<u>\$ (8,168)</u>	<u>\$ (8,168)</u>	<u>\$ (5,844)</u>	<u>\$ 2,325</u>

THE CITY OF GULF SHORES, ALABAMA
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Rent Income	\$ 472,800	\$ 472,800	\$ 218,977	\$ (253,823)
Interest income	-	13,000	12,731	(269)
Total Revenues	<u>472,800</u>	<u>485,800</u>	<u>231,708</u>	<u>(254,092)</u>
EXPENDITURES				
Miscellaneous	7,500	7,500	4,553	(2,947)
Principal	4,286,400	9,066,822	23,667,897	14,601,075
Interest	1,992,300	2,114,664	1,786,635	(328,029)
Total Expenditures	<u>6,286,200</u>	<u>11,188,986</u>	<u>25,459,085</u>	<u>14,270,099</u>
Excess of revenues over expenditures	<u>(5,813,400)</u>	<u>(10,703,186)</u>	<u>(25,227,377)</u>	<u>(14,524,191)</u>
OTHER FINANCING SOURCES (USES)				
Transfer from Other Funds	5,813,400	10,703,186	25,210,849	(14,507,663)
Total Other Financing Uses	<u>5,813,400</u>	<u>10,703,186</u>	<u>25,210,849</u>	<u>(14,507,663)</u>
Net Change in Fund Balances	-	-	(16,528)	(16,528)
Fund Balance, beginning	<u>2,202,426</u>	<u>2,202,426</u>	<u>2,202,426</u>	<u>-</u>
Fund Balance, ending	<u>\$ 2,202,426</u>	<u>\$ 2,202,426</u>	<u>\$ 2,185,898</u>	<u>\$ (16,528)</u>

THE CITY OF GULF SHORES, ALABAMA
 STORM DAMAGE CAPITAL PROJECTS FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Grants				
State of Alabama	\$ -	\$ -	\$ 747,339	\$ 747,339
Federal Government	-	-	5,264,909	5,264,909
Interest income	-	-	461	461
Total Revenues	<u>-</u>	<u>-</u>	<u>6,012,709</u>	<u>6,012,710</u>
EXPENDITURES				
Emergency Protective Measures	-	-	121,785	121,785
Parks, Recreation & Other	-	-	5,595,218	5,595,218
Debris Removal	-	-	1,419	1,419
Engineering & Construction	-	-	1,301,457	1,301,457
Total Expenditures	<u>-</u>	<u>-</u>	<u>7,019,879</u>	<u>7,019,879</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(1,007,170)</u>	<u>(1,007,170)</u>
OTHER FINANCING SOURCES (USES)				
Transfer from Other Funds	-	-	1,007,631	(1,007,631)
Total Other Financing Uses	<u>-</u>	<u>-</u>	<u>1,007,631</u>	<u>(1,007,631)</u>
Net Change in Fund Balances	-	-	461	461
Fund Balance, beginning	<u>15,412</u>	<u>15,412</u>	<u>15,411</u>	<u>-</u>
Fund Balance, ending	<u>\$ 15,412</u>	<u>\$ 15,412</u>	<u>\$ 15,872</u>	<u>\$ 461</u>

THE CITY OF GULF SHORES, ALABAMA
 2012 D GO WARRANT CAPITAL IMPROVEMENTS FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Interest income	\$ -	\$ -	\$ 88	\$ 88
Total Revenues	<u>-</u>	<u>-</u>	<u>88</u>	<u>88</u>
EXPENDITURES				
Miscellaneous	-	-	16	16
Total Expenditures	<u>-</u>	<u>-</u>	<u>16</u>	<u>16</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>72</u>	<u>72</u>
OTHER FINANCING SOURCES (USES)				
Bond Issue Proceeds	-	-	19,647,857	19,647,857
Bond Premium/ (Discount), Net	-	-	(17,958)	(17,958)
Bond Issue Cost	-	-	(266,359)	(266,359)
Loss on Bond Refunding	-	-	(1,862,948)	(1,862,948)
Transfer from Other Funds	-	-	(14,335,000)	(14,335,000)
Total Other Financing Uses	<u>-</u>	<u>-</u>	<u>3,165,592</u>	<u>3,165,592</u>
Net Change in Fund Balances	-	-	3,165,664	3,165,664
Fund Balance, beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,165,664</u>	<u>\$ 3,165,664</u>

STATISTICAL SECTION

THE CITY OF GULF SHORES, ALABAMA
STATISTICAL SECTION
DECEMBER 31, 2012

This part of the City of Gulf Shores' 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 Shores' financial performance and well-being have changed over time.

Revenue Capacity

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

Debt Capacity

These schedules present information to help the reader assess the affordability of the City of Gulf Shores' 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 Shores' 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

	<u>2003</u>	<u>2004</u>	<u>Fiscal Year 2005</u>	<u>2006</u>	<u>2007</u>
Governmental Activities					
Invested in capital assets, net of related debt	\$ 5,741,868	\$ 7,568,636	\$ 12,229,297	\$ 14,391,987	\$ 23,092,192
Restricted**	-	-	-	-	-
Unrestricted	<u>1,573,408</u>	<u>3,444,156</u>	<u>2,029,950</u>	<u>2,312,622</u>	<u>(6,785,381)</u>
Total governmental activities net assets	<u><u>7,315,276</u></u>	<u><u>11,012,792</u></u>	<u><u>14,259,247</u></u>	<u><u>16,704,609</u></u>	<u><u>16,306,811</u></u>
Business-type activities					
Invested in capital assets, net of related debt	15,287,812	15,218,754	15,158,543	14,463,612	14,036,604
Unrestricted	<u>235,312</u>	<u>-</u>	<u>577,388</u>	<u>809,706</u>	<u>1,762,474</u>
Total business-type activities net assets	<u><u>15,523,124</u></u>	<u><u>15,218,754</u></u>	<u><u>15,735,931</u></u>	<u><u>15,273,318</u></u>	<u><u>15,799,078</u></u>
Primary government					
Invested in capital assets, net of related debt	21,029,680	22,787,390	27,387,840	28,855,599	37,128,796
Restricted**	-	-	-	-	-
Unrestricted	<u>1,808,720</u>	<u>3,444,156</u>	<u>2,607,338</u>	<u>3,122,328</u>	<u>(5,022,907)</u>
Total primary government net assets	<u><u>\$ 22,838,400</u></u>	<u><u>\$ 26,231,546</u></u>	<u><u>\$ 29,995,178</u></u>	<u><u>\$ 31,977,927</u></u>	<u><u>\$ 32,105,889</u></u>

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

	Fiscal Year				
	2008*	2009	2010	2011	2012
Governmental Activities					
Invested in capital assets, net of related debt	\$ 27,718,754	\$ 26,875,334	\$ 32,443,514	\$ 25,129,660	\$ 30,068,504
Restricted**	-	-	-	4,674,869	18,604,002
Unrestricted	(6,934,917)	9,411,377	9,765,391	22,442,057	10,030,325
Total governmental activities net assets	20,783,837	36,286,711	42,208,905	52,246,586	58,702,831
Business-type activities					
Invested in capital assets, net of related debt	2,152,122	2,097,342	2,097,881	2,097,881	2,043,639
Unrestricted	26,188	96,815	69,694	42,737	38,534
Total business-type activities net assets	2,178,310	2,194,157	2,167,575	2,140,618	2,082,173
Primary government					
Invested in capital assets, net of related debt	29,870,876	28,972,676	34,541,395	27,227,541	32,112,143
Restricted**	-	-	-	4,674,869	18,604,002
Unrestricted	(6,908,729)	9,508,192	9,835,085	22,484,794	10,068,859
Total primary government net assets	\$ 22,962,147	\$ 38,480,868	\$ 44,376,480	\$ 54,387,204	\$ 60,785,004

*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 Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2003	2004	2005	2006	2007
Expenses					
Governmental activities:					
Executive	\$ 1,926,656	\$ 1,904,853	\$ 2,248,096	\$ 2,330,383	\$ 3,118,424
Municipal Court	180,089	196,349	225,855	260,332	256,691
Police	2,214,918	2,442,142	2,691,472	3,078,638	3,868,179
Fire	1,170,314	1,295,357	1,620,814	1,806,966	2,010,918
Public Works	2,778,189	4,466,661	33,565,952	21,287,453	5,574,241
Community and Economic Affairs	2,606,306	2,545,954	2,705,503	3,731,930	5,233,237
Other	1,759,192	3,134,047	7,498	5,690	234,914
Total governmental activities expenses	12,635,664	15,985,363	43,065,190	32,501,392	20,296,604
Business-type activities:					
Public Education Authority	214,629	217,845	220,382	193,967	193,282
Total business-type activities expenses	214,629	217,845	220,382	193,967	193,282
Total primary government expenses	12,850,293	16,203,208	43,285,572	32,695,359	20,489,886
Program Revenues					
Governmental activities:					
Charges for services:					
Executive	5,697	69,979	11,361	14,572	7,224
Municipal Court	233,118	244,799	310,157	368,833	412,609
Police	2,201	2,165	2,270	2,657	3,542
Fire	-	-	-	-	1,596
Community and Economic Affairs	2,462,632	3,157,082	4,650,195	5,141,249	430,164
Public Works	21,736	41,147	168,385	112,050	4,589,675
Operating Grants and Contributions	224,829	55,920	81,543	376,503	707,337
Capital Grants and Contributions	725,081	2,070,099	25,173,774	10,099,423	388,028
Total governmental activities program revenues	3,675,294	5,641,191	30,397,685	16,115,287	6,540,175
Business-type activities					
Charges for services					
Public Education Building Authority	164,895	165,255	205,240	-	204,045
Total business-type activities program revenues	164,895	165,255	205,240	-	204,045
Total primary government program revenues	\$ 3,840,189	\$ 5,806,446	\$ 30,602,925	\$ 16,115,287	\$ 6,744,220
Net (Expense)/Revenue					
Governmental activities	\$ (8,960,370)	\$ (10,344,172)	\$ (12,667,505)	\$ (16,386,105)	\$ (13,756,429)
Business-type activities	(49,734)	(52,590)	(15,142)	(193,967)	10,763
Total primary government net expense	(9,010,104)	(10,396,762)	(12,682,647)	(16,580,072)	(13,745,666)
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	3,002,915
Local taxes	9,849,269	12,233,350	13,724,852	16,283,821	17,229,278
Franchise taxes	690,219	681,462	642,003	689,245	922,973
State taxes	280,687	339,395	364,712	509,960	572,822
Investment earnings	169,752	231,761	365,030	1,075,784	1,334,581
Miscellaneous	495,306	315,750	78,627	122,637	117,782
Contributions	-	-	-	-	2,150,000
Gain/(Loss) on Disposal of Assets	28,633	(39,086)	47,271	43,172	(6,826)
Transfers	(222,933)	(44,615)	(66,434)	(54,303)	(101,951)
Total governmental activities	12,588,317	15,365,907	16,831,779	20,928,217	25,221,574
Business-type activities:					
Investment earnings	1,631	279	1,824	8,605	13,581
Miscellaneous	-	-	-	-	-
Transfers	-	-	66,434	54,303	101,951
Total business-type activities	1,631	279	68,258	62,908	115,532
Total primary government	12,589,948	15,366,186	16,900,037	20,991,125	25,337,106
Changes in Net Assets					
Governmental activities	2,200,488	3,697,516	2,949,852	2,453,103	9,123,986
Business-type activities	(48,103)	(52,311)	517,177	(462,613)	525,759
Total primary government	\$ 2,152,385	\$ 3,645,205	\$ 3,467,029	\$ 1,990,490	\$ 9,649,745

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

	Fiscal Year				
	2008*	2009	2010	2011	2012
Expenses					
Governmental activities:					
Executive	\$ 3,876,306	\$ 3,337,227	\$ 3,557,756	\$ 3,646,526	\$ 3,492,747
Municipal Court	350,461	264,323	315,489	320,136	324,188
Police	5,590,850	3,610,001	3,961,753	4,542,844	4,301,242
Fire	4,154,573	3,031,788	3,158,784	3,545,999	3,397,974
Public Works	6,875,071	4,553,330	5,796,817	4,948,565	12,029,063
Community and Economic Affairs	6,234,581	4,836,883	5,203,873	5,904,452	7,354,432
Other	8,706	5,676	-	-	2,182,009
Total governmental activities expenses	27,090,548	19,639,228	21,994,472	22,908,522	33,081,655
Business-type activities:					
Public Education Authority	198,674	190,751	191,366	188,686	221,980
Total business-type activities expenses	198,674	190,751	191,366	188,686	221,980
Total primary government expenses	27,289,222	19,829,979	22,185,838	23,097,208	33,303,635
Program Revenues					
Governmental activities:					
Charges for services:					
Executive	9,405	1,039	20,975	5,456	15,208
Municipal Court	443,103	364,946	381,667	398,801	456,488
Police	21,125	16,688	5,426	8,273	19,949
Fire	33,189	22,885	7,442	7,468	25,493
Community and Economic Affairs	3,882,347	3,187,112	3,120,094	3,559,168	4,006,776
Public Works	2,425,557	161,962	92,807	117,280	262,635
Operating Grants and Contributions	690,116	332,825	1,355,967	659,443	348,819
Capital Grants and Contributions	997,050	93,976	806,079	2,992,714	8,965,656
Total governmental activities program revenues	8,501,892	4,181,433	5,790,457	7,748,603	14,101,024
Business-type activities					
Charges for services					
Public Education Building Authority	242,844	161,230	164,245	161,565	163,503
Total business-type activities program revenues	242,844	161,230	164,245	161,565	163,503
Total primary government program revenues	\$ 8,744,736	\$ 4,342,663	\$ 5,954,702	\$ 7,910,168	\$ 14,264,527
Net (Expense)/Revenue					
Governmental activities	\$ (18,588,656)	\$ (15,457,795)	\$ (16,204,015)	\$ (15,159,919)	\$ (18,980,631)
Business-type activities	44,170	(29,521)	(27,121)	(27,121)	(58,477)
Total primary government net expense	(18,544,486)	(15,487,316)	(16,231,136)	(15,187,040)	(19,039,108)
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Taxes					
Property taxes	4,055,825	4,829,741	2,874,858	3,444,058	2,500,195
Local taxes	19,124,991	16,099,252	14,090,126	18,385,150	19,962,896
Franchise taxes	1,358,036	1,173,166	1,135,118	1,172,815	1,162,351
State taxes	376,213	507,597	296,473	321,933	329,770
Investment earnings	999,710	415,465	300,395	91,545	37,187
Miscellaneous	683,025	341,266	369,997	278,677	145,782
Contributions/BP Settlement	-	-	5,476,579	6,402,323	1,336
Gain/(Loss) on Disposal of Assets	5,158	(28,116)	8,803	28,342	13,615
Transfers	(147,969)	(96,000)	(96,000)	(96,000)	(28,132)
Total governmental activities	26,454,989	23,242,371	24,456,349	30,028,843	24,125,000
Business-type activities:					
Investment earnings	1,143	228	539	164	32
Miscellaneous	-	61,709	-	-	-
Transfers	-	102,000	-	-	-
Total business-type activities	1,143	163,937	539	164	32
Total primary government	26,456,132	23,406,308	24,456,888	30,029,007	24,125,032
Changes in Net Assets					
Governmental activities	4,477,026	5,454,367	5,922,194	10,037,681	6,456,245
Business-type activities	45,313	1,769,133	(26,582)	(26,957)	(58,445)
Total primary government	\$ 4,522,339	\$ 7,223,500	\$ 5,895,612	\$ 10,010,724	\$ 6,397,800

*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				
	2003	2004	2005	2006	2007
General Fund					
Reserved	\$ 1,077,746	\$ 1,584,260	\$ 1,632,455	\$ 1,600,000	\$ 1,750,000
Unreserved	2,884,796	6,120,341	10,183,539	9,315,082	138,260
Total general fund	<u>3,962,542</u>	<u>7,704,601</u>	<u>11,815,994</u>	<u>10,915,082</u>	<u>1,888,260</u>
Other Governmental Funds					
Reserved	-	-	-	-	-
Unreserved, reported in:					
Storm Damage Fund	-	-	(781,825)	-	-
Debt Service fund	15,385	10,533	10,245	2,492,601	2,654,399
Capital Projects funds	9,103,310	7,253,155	1,700,747	14,999,644	7,121,853
Special Revenue funds	1,604,715	581,283	264,624	121,405	426,661
Total - governmental funds	<u>\$ 14,685,952</u>	<u>\$ 15,549,572</u>	<u>\$ 13,009,785</u>	<u>\$ 28,528,732</u>	<u>\$ 12,091,173</u>

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

	Fiscal Year				
	2008*	2009	2010	2011**	2012
General Fund					
Reserved	\$ 6,069,660	\$ 5,587,449	\$ 4,947,340		
Unreserved	(7,566,741)	7,996,836	8,787,729		
Nonspendable**				300,707	1,351,138
Spendable:**					
Restricted**				488,283	120,285
Committed**				8,307,075	7,108,782
Unassigned**				8,587,555	10,024,404
Total general fund	<u>(1,497,081)</u>	<u>13,584,285</u>	<u>13,735,069</u>	<u>17,683,620</u>	<u>18,604,609</u>
Other Governmental Funds					
Reserved	-	-	-		
Unreserved, reported in:					
Storm Damage Fund	-	-	-		
Debt Service fund	2,726,194	2,401,966	2,266,764		
Capital Projects funds	8,053,171	7,470,961	6,451,384		
Special Revenue funds	1,516,194	1,516,019	1,142,547		
Nonspendable**				-	-
Spendable:**					
Restricted**				4,186,586	4,264,615
Committed** 2008A GO				5,456,776	5,871,635
Unassigned**				(8,168)	(5,844)
Total - governmental funds	<u>\$ 10,798,478</u>	<u>\$ 24,973,231</u>	<u>\$ 23,595,764</u>	<u>\$ 27,318,814</u>	<u>\$ 28,735,015</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				
	2003	2004	2005	2006	2007
Revenues					
Taxes					
Property	\$ 1,297,384	\$ 1,647,890	\$ 1,675,718	\$ 2,257,901	\$ 3,002,915
Local	9,969,179	12,355,908	13,724,852	16,283,821	17,229,278
Licenses, fees and permits	1,440,528	2,180,492	3,788,460	3,848,980	3,254,980
Fines and forfeitures	225,991	236,513	262,380	317,114	357,709
Utility tax equivalents	570,309	556,659	642,417	689,245	922,973
Intergovernmental	766,434	2,465,414	25,715,862	11,022,349	1,760,784
Investment earnings	169,752	231,761	365,030	1,143,670	1,286,450
Impact fees	-	-	83,259	-	21,789
BP lost revenues	-	-	-	-	-
Assessments/Rental Income	247,746	28,668	222,368	-	249,646
Other revenues	1,340,616	1,405,840	1,064,469	1,541,924	1,658,320
Total Revenues	16,027,939	21,109,145	47,544,815	37,105,004	29,744,844
Expenditures					
General government	1,841,076	1,810,077	2,035,079	2,108,493	3,013,172
Police	2,256,388	2,508,781	2,777,054	3,116,044	3,647,436
Fire	1,044,982	1,184,439	1,284,497	1,548,227	2,277,696
Community and Economic Affairs	2,338,546	2,269,784	2,621,001	11,964,474	11,481,639
Public Works	2,549,922	2,662,113	3,032,286	3,995,690	5,923,290
Appropriations	29,638	33,294	39,720	64,095	117,962
Hurricane damage	-	1,566,615	25,619,481	15,025,803	-
Capital outlay	2,753,191	4,329,807	8,492,074	5,348,064	2,307,074
Non capitalized equipment	-	-	-	-	-
Beach restoration	-	-	-	778,563	129,365
Principal	2,684,844	6,280,727	2,909,701	3,148,961	2,848,471
Interest	1,128,554	1,336,595	1,199,714	1,655,566	2,601,500
Miscellaneous	180,837	370,131	7,497	14,492	268,054
Litigation Settlement	-	-	-	-	-
Total Expenditures	16,807,978	24,352,363	50,018,104	48,768,472	34,615,659
Excess(Deficiency) of revenues over (under) expenditures	(780,039)	(3,243,218)	(2,473,289)	(11,663,468)	(4,870,815)
Other Financing Sources (Uses)					
Bond Issue Proceeds	9,870,179	4,151,526	-	27,236,717	316,984
Transfers In	6,504,361	5,625,507	5,492,424	11,503,560	18,315,874
Transfers Out	(6,727,291)	(5,670,122)	(5,558,858)	(11,557,863)	(18,417,825)
Total Other Financing Sources and (Uses)	9,647,249	4,106,911	(66,434)	27,182,414	215,033
Net change in Fund Balance	\$ 8,867,210	\$ 863,693	\$ (2,539,723)	\$ 15,518,946	\$(4,655,782)
Prior Period Adjustment					
Debt service as a percentage of noncapital expenditures	27%	38%	10%	11%	17%

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

	Fiscal Year				
	2008*	2009	2010	2011	2012
Revenues					
Taxes					
Property	\$ 4,055,825	\$ 4,829,741	\$ 2,874,858	\$ 3,444,058	\$ 2,500,194
Local	19,124,991	16,099,252	14,090,126	18,385,151	19,962,896
Licenses, fees and permits	2,282,137	1,774,814	1,793,733	1,885,421	2,229,453
Fines and forfeitures	339,901	283,025	287,012	309,520	338,470
Utility tax equivalents	1,358,036	1,173,166	1,135,118	1,172,815	1,162,351
Intergovernmental	2,175,825	1,002,180	1,354,240	3,498,398	9,084,912
Investment earnings	972,545	415,242	300,394	91,545	37,185
Impact fees	274,998	171,943	59,313	96,108	280,032
BP lost revenues/settlements	-	-	5,476,579	6,402,323	1,336
Assessments/Rental Income	2,138,702	461,372	477,759	323,746	218,977
Other revenues	2,417,430	1,397,759	1,422,399	2,276,277	2,421,992
Total Revenues	35,140,390	27,608,494	29,271,531	37,885,362	38,237,798
Expenditures					
General government	3,843,238	3,047,993	3,484,930	3,245,746	3,207,917
Police	5,163,685	3,707,762	3,737,845	3,817,726	4,141,692
Fire	3,737,052	2,812,995	4,140,832	3,364,846	3,246,080
Community and Economic Affairs	12,039,585	4,119,314	4,465,315	4,813,793	5,542,994
Public Works	9,251,581	4,098,407	4,708,135	4,398,046	11,627,419
Appropriations	203,569	61,000	57,000	137,974	1,148,747
Hurricane damage	-	-	-	-	-
Capital outlay	4,981,553	286,290	3,845,653	4,347,906	6,555,369
Non capitalized equipment**	-	-	-	1,023,381	-
Beach restoration	97,439	69,576	83,028	37,688	57,095
Principal	10,448,915	3,745,338	3,684,476	4,039,926	23,667,897
Interest	3,473,511	2,335,885	2,330,140	2,215,788	1,786,635
Miscellaneous	409,503	5,666	8,988	27,889	8,015
Litigation Settlement	-	-	-	3,800,455	15,374
Total Expenditures	53,649,631	24,290,226	30,546,342	35,271,164	61,005,234
Excess(Deficiency) of revenues over (under) expenditures	(18,509,241)	3,318,268	(1,274,811)	2,614,198	(22,767,436)
Other Financing Sources (Uses)					
Bond Issue/Loan Proceeds	17,364,514	-	-	1,204,825	22,871,761
Transfers In	15,690,435	16,164,963	4,574,279	4,662,044	26,061,441
Transfers Out	(15,838,404)	(16,260,399)	(4,670,279)	(4,758,044)	(26,061,441)
Total Other Financing Sources and (Uses)	17,216,545	(95,436)	(96,000)	1,108,825	22,871,761
Net change in Fund Balance	\$ (1,292,696)	\$ 3,222,832	\$ (1,370,811)	\$ 3,723,023	\$ 104,325
Prior Period Adjustment					\$ 1,311,876
Debt service as a percentage of noncapital expenditures	29%	25%	23%	20%	47%

*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
2012	\$ 7,072,560	\$ 731,499,600	\$ 107,914,580	\$ 371,593,860	474,892,880	4.93	\$ 4,760,219,000	9.98%
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	5.00	\$ 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%

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

Fiscal Year	Taxes Levied for the Year	Taxable Property Assessed Valuation*
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
2012	2,341,344	468,268,740
		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

*4% 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>	<u>2012</u>			<u>2002</u>		
	<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>
Baldwin County EMC	\$ 4,991,640	1	18.10%	\$ 5,035,040	1	22.97%
The Links at Gulf Shores	4,624,560	2	16.77%	-		-
Colonial Realty Limited Partnership	3,209,780	3	11.64%			
Wal-Mart Real Estate Business	2,773,760	4	10.06%			-
Target Corporation	2,396,580	5	8.69%			
Beach Place Development	2,253,940	6	8.17%			-
Howard Resort Inns, Inc.	1,951,820	7	7.08%			-
Alcort Gulf Shores LLC	1,831,360	8	6.64%			-
Gulf Telephone Company	1,808,700	9	6.56%			-
Seawind Development Co. LLC	1,729,440	10	6.27%			
Lighthouse Motel Inc	-		-	3,505,680	2	15.99%
Inn at Gulf Shores Ltd.	-		-	2,378,700	3	10.85%
Craft Development Corporation	-		-	2,183,480	4	9.96%
Howard Resort Inns, Inc.	-		-	1,789,500	5	8.16%
Honours-Peninsula Golf Club LLC	-		-	1,572,040	6	7.17%
Meyer Properties, Inc.	-		-	1,536,060	7	7.01%
Tri-Tel LLC	-		-	1,412,420	8	6.44%
E & J Realty Co.	-		-	1,282,260	9	5.85%
Gulf Market Development Co.	-		-	1,228,020	10	5.60%
Total	\$ 27,571,580		100.00%	\$ 21,923,200		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	2012			2002		
	Tax Liability	Rank	Percentage of Total	Tax Liability	Rank	Percentage of Total
Retail Trade	\$ 2,088,567	1	39.51%	\$ -		
Retail Trade	670,301	2	12.68%	-		-
Retail Trade	559,758	3	10.59%	-		-
Accomodation & Food Services	479,761	4	9.08%	-		-
Accomodation & Food Services	348,588	5	6.59%	-		-
Art, Entertainment, & Recreation	287,523	6	5.44%	-		-
Retail Trade	221,235	7	4.18%	115,169	7	7.09%
Retail Trade	220,761	8	4.18%	244,726	2	15.07%
Accomodation & Food Services	215,913	9	4.08%	137,571	3	8.47%
Retail Trade	194,081	10	3.67%	461,286	1	28.40%
Retail Trade	-		-	126,452	4	7.79%
Retail Trade	-		-	122,850	5	7.56%
Art, Entertainment, & Recreation	-		-	118,931	6	7.32%
Retail Trade	-		-	104,944	8	6.46%
Art, Entertainment, & Recreation	-		-	98,486	9	6.06%
Art, Entertainment, & Recreation	-		-	93,613	10	5.76%
Total (sales quarterly, festival, vending)	<u>\$ 5,286,489</u>		<u>100.00%</u>	<u>\$ 1,624,027</u>		<u>100.00%</u>

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

Fiscal Year	City Direct Rate	Baldwin County
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%
2012 *	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, 2012

	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt(1)</u>
Direct General Obligation Debt	\$ 46,055,063	100.00%	<u>\$ 46,055,063</u>
Overlapping General Obligation Debt:			
Airport Authority General Obligation Warrants:	120,000	100.00%	120,000
Baldwin County Warrants	103,142,209	5.48%	<u>5,648,729</u>
Total Overlapping General Obligation Debt			<u>5,768,729</u>
Total Direct and Overlapping General Obligation Debt			<u><u>51,823,792</u></u>
Overlapping Guaranteed Revenue Debt			
Airport Revenue Bonds	7,005	100%	<u>7,005</u>
Total Overlapping Guaranteed Revenue Debt			<u><u>7,005</u></u>
Total Direct, Overlapping and Overlapping Guaranteed Revenue Debt			<u><u>\$ 51,830,797</u></u>
Debt per Capita			
Direct General Obligation Debt			\$ 4,613.81
Overlapping General Obligation Debt			577.91
Overlapping Guaranteed Revenue Debt			<u>0.70</u>
			<u><u>\$ 5,192.43</u></u>

Source: Baldwin County 2011 Audit

(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			
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
2012	46,055,063	7,005	120,000	46,182,068	15.7%	4,627

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

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Less: Amounts Available in Debt Service Fund</u>	<u>Total</u>	<u>% of Actual Taxable Value of Property</u>	<u>Per Capita</u>
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
2012	46,921,372	2,448,952	44,472,420	0.93%	4,455

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

	Full-Time Equivalent by Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Government										
City Hall	18	19	17	19	21	25	20	20	20	20
Community Development/ Building*	7	8	9	11	12	4	4	4	4	4
Building*						5	5	4	4	4
Court	3	3	3	3	3	3	3	3	3	3
Police	38	41	40	53	52	54	51	53	54	58
Fire	15	17	17	24	36	47	40	42	43	43
Public Works	40	44	44	45	63	59	51	51	51	51
Recreation	14	15	16	20	23	37	33	33	35	37
Total	135	147	146	175	210	234	207	210	214	220

*Community Development and Building combined count until 2008

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government										
Building permits issued	812	1,984	1,771	872	572	459	422	385	566	589
Building inspections conducted	5,406	8,774	9,902	8,222	3,172	1,763	1,065	1,016	1,263	1,570
Business Licenses issued*	-	-	3,901	8,677	7,566	7,083	7,491	7,554	10,016	10,281
Police										
Physical arrests	1,008	1,092	1,249	1,529	1,558	1,604	1,423	1,394	1,527	1,387
Traffic violations	1,830	2,180	1,603	1,726	2,008	1,858	1,268	1,484	1,641	1,824
Officers	28	30	32	36	35	40	39	39	41	43
Fire										
Emergency responses*	-	-	-	-	-	2,108	2,280	2,307	2,790	2,785
Fires extinguished*	-	-	-	-	-	59	52	30	70	92
Inspections*	-	-	-	-	-	413	335	467	920	1,071
Full time staff*	15	17	17	24	36	48	39	42	43	43
Part time staff*	-	-	-	-	-	6	-	-	-	-
Volunteer Firefighters*	-	-	-	-	-	17	17	8	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>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>	<u>2012</u>
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Fire Stations	3	3	3	3	4	4	4	4	4	4
Parks and recreation*										
Football/Track Stadium						1	1	1	1	1
Softball fields						2	2	2	2	2
Baseball fields						13	13	13	13	13
Soccer field						1	1	1	1	1
Parks						8	8	8	8	8
Tennis Courts						18	18	18	18	18
Basketball Courts						2	2	2	2	2
Swimming Pool						1	1	1	1	1
Gymnasium						1	1	1	1	1
Transit - minibusses						5	5	5	5	5
Public Works										
Maintained Streets (miles)	58.8	58.8	60.8	61.9	62.9	63	64	65.05	67.22	69.27
Traffic Signals*						24	24	24	24	24
Streetlights*						2,201	2,201	2,234	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
2011	9,982

Per Capita Income

	1979	1989	1999	2010	2011
Gulf Shores	7,761	17,414	24,356	28,522	29,516
State of Alabama	5,894	11,486	18,189	22,984	23,483

Median Family Income

	1989	1999	2010	2011
Gulf Shores	34,257	51,862	45,801	47,262
State of Alabama	28,688	41,657	42,081	42,934

Source: United States Bureau of the Census Quick Facts

Schedule 17
Unemployment Rates

	2011
Baldwin County	8.10%
Alabama	9.00%

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, 2012

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	-	5,264,909
U.S. DEPARTMENT OF TRANSPORTATION FAA- Special Federal Airport Allocation	20.106	-	398,545
U.S. DEPARTMENT OF JUSTICE Public Safety Partnership and Community Policing	16.710	-	27,893
U.S. DEPARTMENT OF COMMERCE Investment for Public Works and Economic Development Facilities	11.300	-	2,297,295
DEPARTMENT OF COMMERCE Coastal Management	11.419	-	161,035
LAW ENFORCEMENT & TRAFFIC SAFETY Bay Area Selective Traffic Enforcement Program	20.600	-	<u>14,787</u>
Total Expenditures of Federal Awards			<u>\$ 8,164,464</u>

(1) Catalog of Federal Domestic Assistance Number

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Gulf Shores, Alabama under programs of the federal government for the year ended December 31, 2012. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Gulf Shores, Alabama, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City of Gulf Shores, Alabama.

NOTE 2 – Summary of Significant Accounting Policies

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

THE CITY OF GULF SHORES, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2012

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.

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Gulf Shores, Alabama, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise City of Gulf Shores, Alabama's basic financial statements, and have issued our report thereon dated May 8, 2013.

Internal Control Over Financial Reporting

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

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

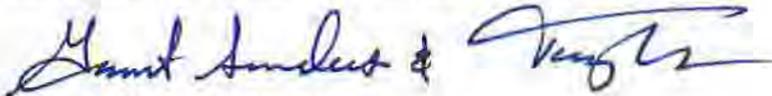
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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

The image shows two handwritten signatures in blue ink. The signature on the left is more legible and appears to read 'Grant Sanders & Taylor'. The signature on the right is more stylized and less legible.

Grant, Sanders, & Taylor, P.C.
Gulf Shores, Alabama
May 8, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited City of Gulf Shores, Alabama's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Gulf Shores, Alabama's major federal programs for the year ended December 31, 2012. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Gulf Shores, Alabama's major federal programs based on our audit of the types of compliance requirements referred to above. 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 City of Gulf Shores, Alabama's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Gulf Shores, Alabama's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Gulf Shores, Alabama, complied, in all material respects, with the types of compliance 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, 2012.

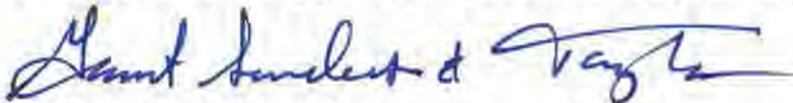
Report on Internal Control Over Compliance

Management of City of Gulf Shores, Alabama, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Gulf Shores, Alabama's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Grant, Sanders, & Taylor, P.C.
Gulf Shores, Alabama
May 8, 2013