

CITY OF GULF SHORES, ALABAMA

Comprehensive Annual Financial Report

**For the Fiscal Year Ended
December 31, 2010**

Gulf Shores Public Beach

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

THE CITY OF GULF SHORES, ALABAMA
FINANCIAL STATEMENTS
DECEMBER 31, 2010

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ROBERT CRAFT - Mayor
STEVE GARMAN - City Administrator

March 29, 2011

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

The City of Gulf Shores financial statements are presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants: Grant, Sanders and Taylor, P.C.. The City of Gulf Shores issues the comprehensive annual financial report of the City for the fiscal year ended December 31, 2010.

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, 2010 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, 2010, 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.

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.

Profile of the Government

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. Six additional major parks are maintained by the City: 1) at Lagoon Pass on West Beach, 2) in the eastern residential area of the City, 3) 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, 4) at Lagoon Park, 5) at the Sportsplex which includes a the High School football field, soccer field, and 5-Plex softball fields, and 6) at the Wetlands park

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 and account groups of the primary government (i.e., the City of Gulf Shores, Alabama as legally defined), as well as the 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 has adopted formal Financial Policies which provide for operating and stabilization reserve funds in the event of another major disaster or economic downturn. Included in the City's Financial Policies is the establishment of a Beach Renourishment Fund to provide match funds for FEMA authorized future beach repairs due to storms occurring in 2008 and 2009 as well as for future storms. In April 2010 the BP Oil Spill, a spill of National Significance occurred 100 miles in the Gulf of Mexico south of Gulf Shores. The City suffered substantial economic losses from the BP Oil Spill and is still trying to recover economically.

Major Initiatives

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

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

Current Economic Condition

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

Cash Management Policies and Practices

Cash temporarily idle during the year was invested in demand deposits, savings accounts, certificates of deposit, and short term investments with maturities of three months or less. The Governmental funds earned interest revenue of \$300,394 on investments for the year ended December 31, 2010. 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.

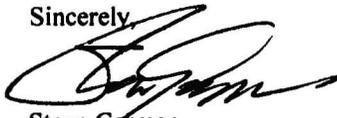
Awards

The City intends to submit this report to the Government Finance Officers Association (GFOA) for its consideration for awarding the Certificate of Achievement for Excellence in Financial Reporting. We believe the report meets the Certificate of Achievement Program's requirements for the highest standards in government accounting and financial reporting. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards.

Acknowledgements

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

Sincerely,



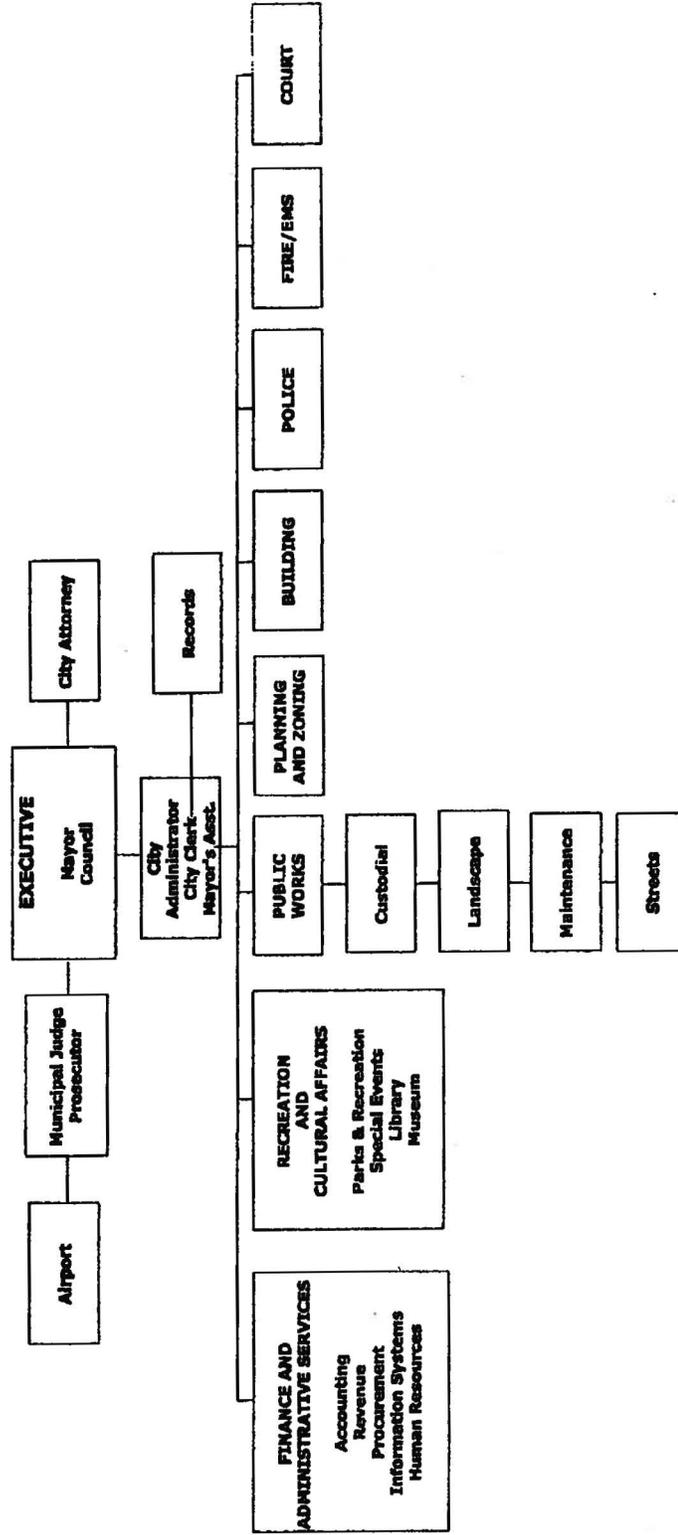
Steve Garman,
City Administrator

Robert Craft,
Mayor



**City of Gulf Shores
Organizational Chart**

October 1, 2009



CITY OF GULF SHORES, ALABAMA

LIST OF PRINCIPAL OFFICIALS

December 31, 2010

Legislative Branch

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

Management Staff

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

GRANT, & SANDERS & TAYLOR, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gulf Shores, Alabama (the City), as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements of the primary government as listed in the table of contents. We have audited the component units of the City - The Jack Edwards Airport Proprietary Fund and Airport Authority of the City of Gulf Shores, Alabama for the year ended September 30, 2010. The component units are blended into the primary government. These financial statements are the responsibility of the City of Gulf Shores, Alabama's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the primary government of the City of Gulf Shores, Alabama, as of December 31, 2010, and the component units of the City - The Jack Edwards Airport Proprietary Fund and Airport Authority of the City of Gulf Shores, Alabama, as of September 30, 2010 and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended, respectively, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2011, on our consideration of the City of Gulf Shores, Alabama's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information on pages 3 through 10 and page 44 are not a required part of the basic financial statement but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Gulf Shores, Alabama's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Gulf Shores, Alabama. The combining and individual nonmajor fund financial statements and the schedule of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly we express no opinion on them.

A handwritten signature in black ink, appearing to read "Hunt Sundeet & Taylor". The signature is written in a cursive, flowing style.

Gulf Shores, Alabama

May 12, 2011

**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, 2010. Please read it in conjunction with the financial statements which follow this section.

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

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

The basic financial statements also contain other supplementary information.

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

Governmental Funds

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

Overview of the Financial Statements (continued)

Proprietary Funds

The City of Gulf Shores maintains three enterprise funds: 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 2010 comparative statements are presented for Governmental Activities, Business-Type Activities and Component Units.

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, 2010, the City of Gulf Shores' assets exceeded its liabilities by \$44,376,480, an increase of \$5,895,612 from 2009 primarily due to property acquisition in 2010 in key locations. Other capital improvement projects to be paid from bond funds were put on hold due to the BP Oil Spill but the debt service payments were still made, resulting in a decrease of \$3,824,698 in bonds payable. The largest portion of the City's net assets reflects its investment in capital assets (property, plant and equipment), less debt outstanding that was used for acquisition. These assets are used to provide services to the citizens and are not available for future spending. Since the capital assets cannot be used to liquidate the outstanding debt, resources needed to repay the debt must be provided from other sources. As of December 31, 2010, 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 \$5,895,612 as a result of land acquisition and debt service payments.

Table 1 below represents the City's Condensed Statement of Net Assets as of December 31, 2010 and is derived from the Government-wide Statement of Net Assets. For more detailed information see the Statement of Net Assets on Page 11.

	Governmental		Business-Type		Total		Component	Component
	Activities		Activities		Primary Government		Units	Units
	2010	2009	2010	2009	2010	2009	2010	2009
Current & Other Assets	\$ 28,465,347	\$ 28,227,505	\$ 69,694	\$ 69,155	\$ 28,535,041	\$ 28,296,660	\$ 832,356	\$ 1,409,987
Capital Assets	66,381,021	63,715,086	2,097,881	2,125,002	68,478,902	65,840,088	14,937,845	15,485,191
Total Assets	\$ 94,846,368	\$ 91,942,591	\$ 2,167,575	\$ 2,194,157	\$ 97,013,943	\$ 94,136,748	\$ 15,770,201	\$ 16,895,178
Long-term Liabilities	\$ 44,648,059	\$ 48,465,717	\$ -	\$ -	\$ 44,648,059	\$ 48,465,717	\$ 164,278	\$ 201,013
Other Liabilities	7,989,404	7,190,163	-	-	7,989,404	7,190,163	829,258	1,377,609
Total Liabilities	\$ 52,637,463	\$ 55,655,880	\$ -	\$ -	\$ 52,637,463	\$ 55,655,880	\$ 993,536	\$ 1,578,622
Net Assets	\$ 42,208,905	\$ 36,286,711	\$ 2,167,575	\$ 2,194,157	\$ 44,376,480	\$ 38,480,868	\$ 14,776,665	\$ 15,316,556
Invested in Capital Assets,								
Net of Related Debt	\$ 32,443,514	\$ 26,875,334	\$ 2,097,881	\$ 2,125,002	\$ 34,541,395	\$ 29,000,336	\$ 14,736,563	\$ 15,485,191
Restricted	-	-	-	-	-	-	-	-
Unrestricted	9,765,391	9,411,377	69,694	69,155	9,835,085	9,480,532	40,102	(168,635)
Total Net Assets	\$ 42,208,905	\$ 36,286,711	\$ 2,167,575	\$ 2,194,157	\$ 44,376,480	\$ 38,480,868	\$ 14,776,665	\$ 15,316,556

Government-wide Financial Analysis (continued)

Table 2 below represents the City's Condensed Statement of Activities for the year ending December 31, 2010, and is derived from the Government-wide Statement of Activities on Page 12.

	Governmental		Business-Type		Total		Component Units	
	Activities		Activities		Primary Government			
	2010	2009	2010	2009	2010	2009	2010	2009
PRIMARY GOVERNMENT:								
Revenues:								
Charges for Services	\$ 3,628,411	\$ 3,754,632	\$ 164,245	\$ 161,230	\$ 3,792,656	\$ 3,915,862	\$ 393,958	\$ 310,894
Operating grants and Contributions	1,355,967	332,825	-	-	1,355,967	332,825	-	-
Capital grants and Contributions	806,079	93,976	-	-	806,079	93,976	139,783	2,222,767
General Revenues:								
Property Taxes	2,874,858	4,829,741	-	-	2,874,858	4,829,741	-	-
Local Taxes	14,090,126	16,099,252	-	-	14,090,126	16,099,252	-	-
Franchise Taxes	1,135,118	1,173,166	-	-	1,135,118	1,173,166	-	-
State Taxes	296,473	507,597	-	-	296,473	507,597	-	-
Interest income	300,395	415,465	539	54	300,934	415,519	64	174
Miscellaneous income	369,997	341,266	-	-	369,997	341,266	-	61,709
BP lost revenues	4,831,704	-	-	-	4,831,704	-	-	-
BP reimbursed expenses	644,875	-	-	-	644,875	-	-	-
Gain (loss) on asset sales	8,803	(28,116)	-	-	8,803	(28,116)	-	-
Total Revenues	\$ 30,342,806	\$ 27,519,804	\$ 164,784	\$ 161,284	\$ 30,507,590	\$ 27,681,088	\$ 533,805	\$ 2,595,544
Expenses:								
Executive	3,557,756	3,337,227	-	-	3,557,756	3,337,227	-	-
Municipal Court	315,489	264,323	-	-	315,489	264,323	-	-
Police	3,961,753	3,610,001	-	-	3,961,753	3,610,001	-	-
Fire	3,158,784	3,031,788	-	-	3,158,784	3,031,788	-	-
Community and Economic Affairs	5,203,873	4,836,883	-	-	5,203,873	4,836,883	-	-
Public Works	5,796,817	4,553,330	-	-	5,796,817	4,553,330	-	-
Interest on Long-Term Debt	2,330,140	2,335,885	-	-	2,330,140	2,335,885	-	-
Public Education Building Authority	-	-	191,366	190,751	191,366	190,751	-	-
Total Expenses	24,324,612	21,969,437	191,366	190,751	24,515,978	22,160,188	-	-
COMPONENT UNITS:								
Expenses:								
Jack Edwards Airport	-	-	-	-	-	-	775,831	594,242
Airport Authority	-	-	-	-	-	-	391,118	304,702
Total Expenses	-	-	-	-	-	-	1,166,949	898,944
Increase Decrease) in Net Assets								
Before Transfers	6,018,194	5,550,367	(26,582)	(29,467)	5,991,612	5,520,900	(633,144)	1,696,600
Transfers	(96,000)	(96,000)	-	-	(96,000)	(96,000)	96,000	102,000
Change in Net Assets	5,922,194	5,454,367	(26,582)	(29,467)	5,895,612	5,424,900	(537,144)	1,798,600
Net Assets - Beginning	36,286,711	20,783,837	2,194,157	2,223,624	38,480,868	23,007,461	15,316,556	13,517,956
Prior Period Adjustment	-	10,048,507	-	-	-	10,048,507	(2,747)	-
Net Assets - Ending	\$ 42,208,905	\$ 36,286,711	\$ 2,167,575	\$ 2,194,157	\$ 44,376,480	\$ 38,480,868	\$ 14,776,665	\$ 15,316,556

Overall Analysis

Financial highlights for the City of Gulf Shores as a whole during the fiscal year ended December 31, 2010 include the following:

The assets of the City exceeded its liabilities (net assets) at the close of the fiscal year by \$42,208,905 for Governmental Activities and by \$2,167,575 for Business-type Activities of the primary government. The total primary government's net assets are \$44,376,480 as of December 31, 2010, down from \$53,797,424 due to the Component Units being presented separately at \$14,776,665. For the year ended December 31, 2010 there was a \$5,895,612 increase in the net assets for governmental activities due to a land purchase which increased net assets and debt service payments that lowered liabilities. Business-type activities net assets were \$2,167,575 as of December 31, 2010 an increase of \$26,582 from 2009 reflecting land and improvement assets in excess of liabilities. (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 \$23,595,764 with \$4,947,340 reported as reserved fund balance. The reserved amount of \$4,947,340 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, 2010, totaled \$13,735,069 an increase of \$150,784 from the fund balance at December 31, 2009, which was \$13,584,285. The increase in Fund Balance for Fiscal Year 2010 is attributable to conservative spending practices resulted in positive income from operations of \$150,784.

Debt Service Fund

The fund balance is decreased \$135,202 as a result of reductions for Transfers In, exceeding debt service payments during the fiscal year.

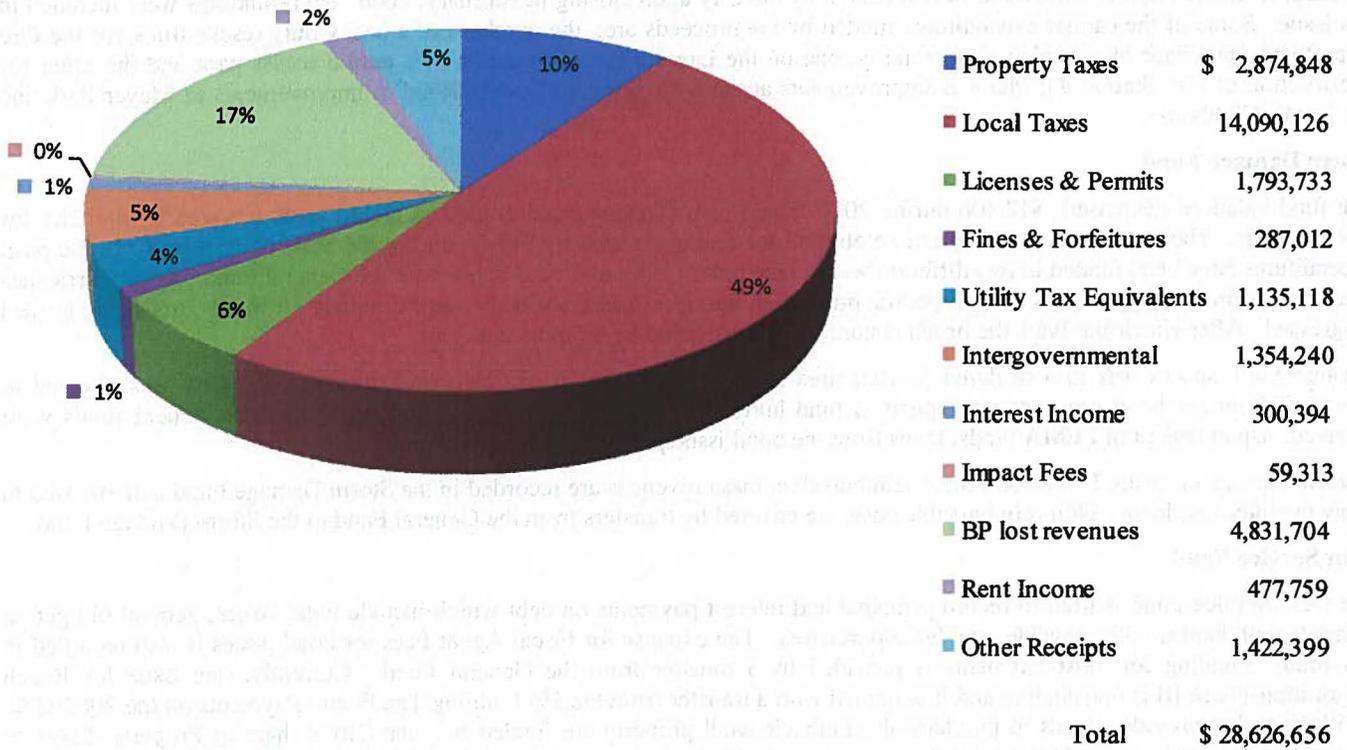
2008 A GO Warrant Fund

This fund (referred to as the Building Fund) was established in Fiscal Year 2007 for recording the proceeds, issuance costs, and capital expenditures for a new bond issue. With reimbursement resolutions adopted, the General Fund made interfund loans to the fund for priority projects until the issue was closed in April, 2008. Upon receipt of the proceeds, the interfund loans from the General Fund were repaid. At the close of Fiscal Year 2008, some projects had been completed; others were in progress, while others were in the planning and/or design process. The following projects will be funded by the proceeds of this issue: purchase of the property, two buildings, and renovation of the buildings, for the City Hall Annex. The Annex is located on Clubhouse Drive across the street from the existing City Hall. The Annex will provide 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 to be completed with the bond issue proceeds are: renovation of the existing City Hall building, the Adult Activities Center, and Fire Station #3; Phase I of Meyer Park Improvements; and various other capital expenditures to renovate and improve existing City assets. Proceeds will also be used to provide supplemental funding for projects that were anticipated to be fully funded by the proceeds of the 2006-B issue.

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.

Exhibit 1: Governmental Revenue Sources for Fiscal Year 2010



Budget Variances in the General Fund

A schedule of General Fund Revenues, Expenditures and Changes in Fund Balances can be found on page 44. Revenues were different than the Budget in the following major categories with an overall \$306,651 in actual collections less than budget:

- Property Taxes - \$545,268 less due to property assessment declines
- Local Taxes - \$1,103,809 due to Sales & Lodging Tax collections better than anticipated in the final 2010 quarter
- Utility Tax Collections - \$17,582 decreased collections Baldwin EMC due to reduced consumption with declines of tourists due to the BP Oil Spill
- Federal and State transfers \$624,241 less than budgeted due to decreased tax collections
- Income on investments \$242,330 less than budgeted due to decline in investment rates
- BP Lost Revenues 168,296 less than budget due to refusal of BP to pay all growth projected but lost due to oil spill
- Other - Fees \$151,512 over budget partially due to increased event hosting by Recreation.

Financial Analysis of the Government's Funds (Continued)

Capital Improvements Fund

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

2006 B G O Warrant Fund

Proceeds from the 2006-B bond issue were received by the City upon closing in February, 2006. No refundings were included in this issue. Some of the capital expenditures funded by the proceeds are: the purchase of a heavy-duty rescue truck for the Fire Department; purchase of two pieces of property, one on the Lagoon for construction of a public access park and the other for construction of Fire Station #3; Phase II Improvements at the Sportsplex on County Road 6; improvements to Meyer Park and the Tennis Clubhouse.

Storm Damage Fund

The fund balanced decreased \$18,406 during 2010. 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.

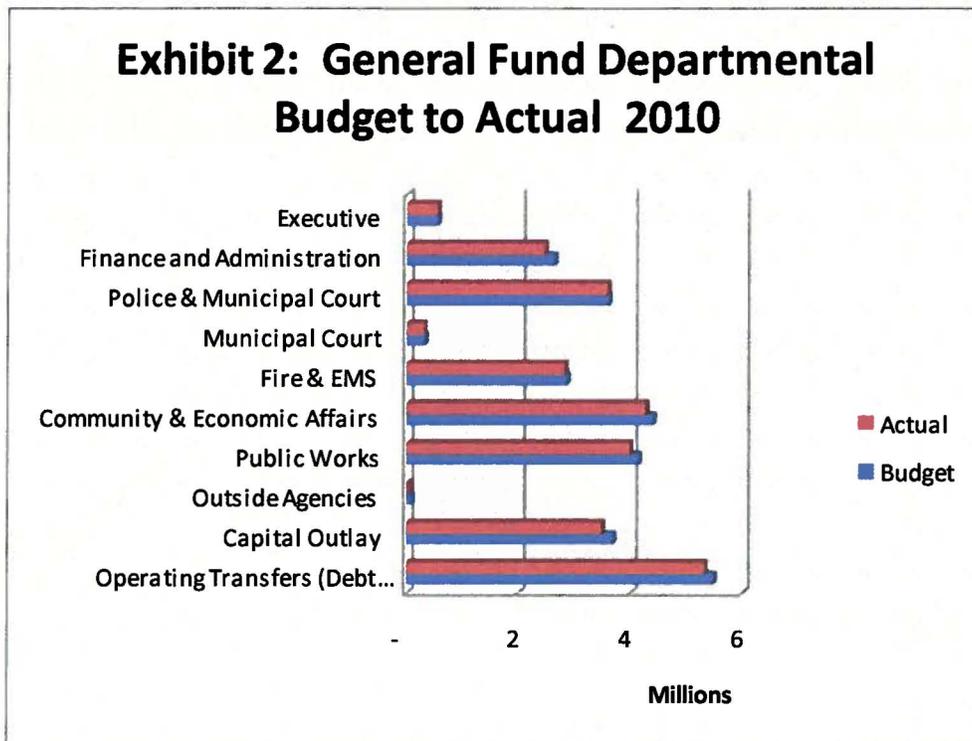
Financial Analysis of the Government's Funds (Continued)

Budget Variances in the General Fund (continued)

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

- Executive Department - \$168,065 personnel reduction
- Fire and Emergency Services- \$41,589 expenses deferred due to BP oil spill
- Community and Economic Affairs - \$120,199 expenses less due to decline in development
- Public Works - \$148,417 expenses less due to projects deferred due to BP Oil Spill

The City Council approved revisions to the original adopted General Fund budget four times during the fiscal year prior to the fiscal year end on December 31, 2010.



General Fund Departmental Budget to Actual 2010

	Budget	Actual	% of total
Operating Transfers (Debt Service)	5,480,489	5,327,965	20%
Capital Outlay	3,688,946	3,495,027	13%
Outside Agencies	80,000	57,000	0%
Public Works	4,148,341	3,999,924	15%
Community & Economic Affairs	4,403,439	4,283,240	16%
Fire & EMS	2,875,546	2,833,957	11%
Municipal Court	322,540	309,633	1%
Police & Municipal Court	3,615,124	3,602,956	13%
Finance and Administration	2,649,998	2,481,751	9%
Executive	554,196	554,378	2%
Total	27,818,619	26,945,831	100%

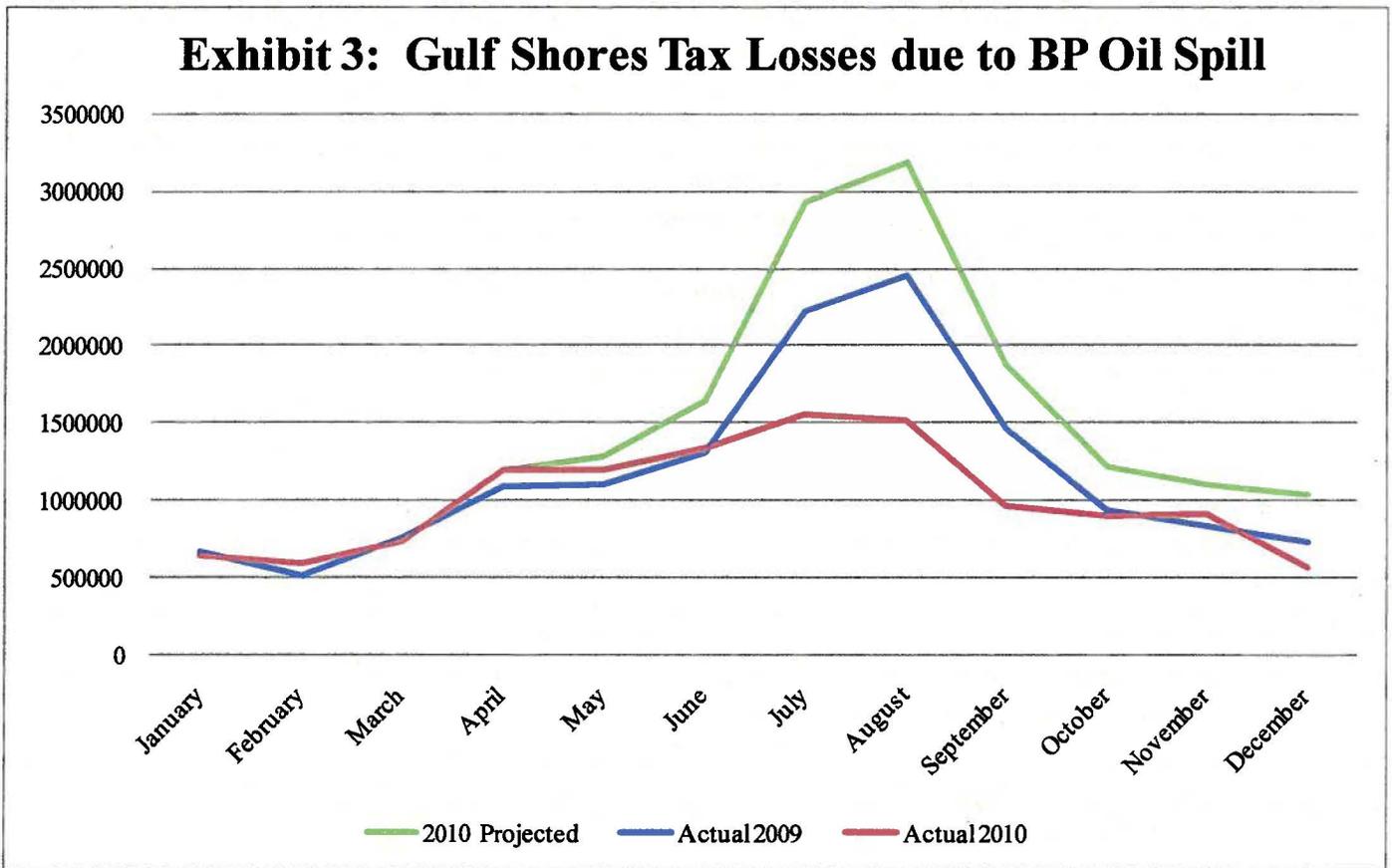
Capital Asset and Long-term Debt Activity

Capital Asset Activity

At December 31, 2010, the City of Gulf Shores reported net capital assets of \$42,208,905 from governmental activities, an increase of \$5,992,194 from December 31, 2009. Net capital assets from business-type activities are reported as \$2,167,575, which is a decrease of \$26,582 from December 31, 2010. Refer to Note 3.D. to the financial statements for additional information on capital assets.

Long-term Debt Activity

As of year-end, the City had \$48,610,426 in debt outstanding (which includes long term compensated absences) compared to \$52,134,492 last year. All debt service payments were made timely. Refer to Note 3.E. to the financial statements for additional information on long-term debt activity.



Future Events Impacting the City's Financial Condition

City businesses that managed to stay in business despite the 2010 BP Oil Spill are rebounding quickly from the loss of tourists. The first three months of 2011 are showing increases in tourists in excess of anticipation. New stores have opened in the Pelican Place Mall resulting in greater economic activity in the City. Also, a grant was approved in early 2010 for a public private partnership for the Saunders Gulf Shores Drydock Basin Project that will allow for expansion of an existing dry dock basin for maintenance of ocean going vessels on the IntraCoastal Waterway. Construction on the project will begin in early 2011. This project will provide for high skill high wage jobs.

THE CITY OF GULF SHORES, ALABAMA
STATEMENT OF NET ASSETS
DECEMBER 31, 2010

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Current Cash and Cash Equivalents	\$ 5,756,875	\$ 69,694	\$ 5,826,569	\$ 71,385
Reserve Current Cash and Cash Equivalents	4,947,340	-	4,947,340	-
Receivables (Net)	2,965,868	-	2,965,868	29,693
Due from component units	779,274	-	779,274	-
Inventories	58,883	-	58,883	718,623
Prepays and Other Assets	238,551	-	238,551	-
Restricted Assets:				
Cash and Cash Equivalents	12,648,461	-	12,648,461	12,655
Capital Assets:				
Non - Depreciable	31,557,728	1,650,000	33,207,728	6,440,329
Depreciable (Net)	34,823,293	447,881	35,271,174	8,497,516
Bond issuance expenses (Net)	1,070,095	-	1,070,095	-
Total Assets	\$ 94,846,368	\$ 2,167,575	\$ 97,013,943	\$ 15,770,201
LIABILITIES				
Accounts Payable	\$ 896,753	\$ -	\$ 896,753	\$ 4,394
Accrued Liabilities	1,526,598	-	1,526,598	2,770
Accrued Interest Payable	227,551	-	227,551	5,816
Unearned Revenue	1,376,132	-	1,376,132	-
Due to primary government	-	-	-	779,274
Non - Current Liabilities				
Due Within One Year:				
Compensated absences	101,529	-	101,529	-
Loans and Leases Payable	65,841	-	65,841	-
Bonds Payable	3,795,000	-	3,795,000	37,004
Due In More than One Year:				
Compensated absences	678,333	-	678,333	-
Loans and Leases Payable	114,632	-	114,632	-
Bonds Payable	43,855,094	-	43,855,094	164,278
Total Liabilities	52,637,463	-	52,637,463	993,536
NET ASSETS:				
Investment in Capital Assets (net of related debt)	32,443,514	2,097,881	34,541,395	14,736,563
Unrestricted	9,765,391	69,694	9,835,085	40,102
Total Net Assets	\$ 42,208,905	\$ 2,167,575	\$ 44,376,480	\$ 14,776,665

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

THE CITY OF GULF SHORES, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

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	
PRIMARY GOVERNMENT:							
Governmental activities:							
Executive	\$ 3,557,756	\$ 20,975	\$ -	\$ -	\$ (3,536,781)	\$ -	\$ (3,536,781)
Municipal Court	315,489	381,667	-	-	66,178	-	66,178
Police	3,961,753	5,426	6,646	30,695	(3,918,986)	-	(3,918,986)
Fire	3,158,784	7,442	149,040	-	(3,002,302)	-	(3,002,302)
Community and Economic Affairs	5,203,873	3,120,094	1,200,281	-	(883,498)	-	(883,498)
Public Works	5,796,817	92,807	-	775,384	(4,928,626)	-	(4,928,626)
Interest on Long - Term Debt	2,330,140	-	-	-	(2,330,140)	-	(2,330,140)
Total governmental activities	<u>24,324,612</u>	<u>3,628,411</u>	<u>1,355,967</u>	<u>806,079</u>	<u>(18,534,155)</u>	<u>-</u>	<u>(18,534,155)</u>
Business-type activities:							
Public Education Building Authority	191,366	164,245	-	-	-	(27,121)	(27,121)
Total primary government	<u>\$ 24,515,978</u>	<u>\$ 3,792,656</u>	<u>\$ 1,355,967</u>	<u>\$ 806,079</u>	<u>\$ (18,534,155)</u>	<u>\$ (27,121)</u>	<u>\$(18,561,276)</u>
COMPONENT UNIT:							
Jack Edwards Airport	\$ 775,831	\$ -	\$ -	\$ 139,783			\$ (636,048)
Airport Authority	391,118	393,958	-	-			2,840
Total component units	<u>\$ 1,166,949</u>	<u>\$ 393,958</u>	<u>\$ -</u>	<u>\$ 139,783</u>			<u>(633,208)</u>
General revenues:							
Taxes							
Property taxes					\$ 2,874,858	-	\$ 2,874,858
Local Taxes					14,090,126	-	14,090,126
Franchise Taxes					1,135,118	-	1,135,118
State Taxes					296,473	-	296,473
Interest income					300,395	539	300,934
Miscellaneous					369,997	-	369,997
BP lost revenues					4,831,704	-	4,831,704
BP reimbursed expenses					644,875	-	644,875
Gain on Disposal of Assets					8,803	-	8,803
Transfers					(96,000)	-	(96,000)
Total general revenues, special items and transfers					<u>24,456,349</u>	<u>539</u>	<u>24,456,888</u>
Change in net assets					5,922,194	(26,582)	5,895,612
Prior Period Adjustment					-	-	(2,747)
Net assets - beginning					36,286,711	2,194,157	38,480,868
Net assets - ending					<u>\$ 42,208,905</u>	<u>\$ 2,167,575</u>	<u>\$ 44,376,480</u>
							<u>\$ 14,776,665</u>

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

BASIC FINANCIAL STATEMENTS

THE CITY OF GULF SHORES, ALABAMA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	General Fund	Debt Service Fund	2008 A GO Building Fund	Capital Improvements Fund	Storm Damage Fund	Other Governmental Funds	Total
ASSETS							
Current Cash and Equivalents	\$ 5,595,174	\$ -	\$ -	\$ 142,586	\$ -	\$ -	\$ 5,737,760
Reserved Cash and Equivalents	4,947,340	-	-	-	-	-	4,947,340
Restricted Cash and Equivalents	133,606	2,575,105	5,852,188	43,323	1,846,425	2,216,929	12,667,576
Receivables (Net)							
Accounts	192,861	55,465	-	16,031	-	-	264,357
Taxes	2,330,266	-	-	-	-	-	2,330,266
Special Assessments	-	-	-	-	-	-	-
Due From Other Funds	1,080,598	-	-	-	-	112,747	1,193,345
Due From Other Governments	56,196	-	-	255,032	60,015	-	371,243
Prepays and Other Assets	238,551	-	-	-	-	-	238,551
Inventories	58,883	-	-	-	-	-	58,883
Total Assets	\$ 14,633,475	\$ 2,630,570	\$ 5,852,188	\$ 456,972	\$ 1,906,440	\$ 2,329,676	\$ 27,809,321
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 167,886	\$ 65,499	\$ 31,403	137,448	\$ 950,912	\$ 513,737	\$ 1,866,885
Payroll taxes & benefits payable	161,267	-	-	-	-	-	161,267
Accrued wages	177,905	-	-	-	-	-	177,905
Other liabilities	217,293	-	-	-	-	-	217,293
Unearned revenue	61,308	12,307	-	313,775	988,745	-	1,376,135
Due to other funds	112,747	286,000	-	15,325	-	-	414,072
Total Liabilities	898,406	363,806	31,403	466,548	1,939,657	513,737	4,213,557
Fund Balances:							
Reserved for:							
Emergencies	4,947,340	-	-	-	-	-	4,947,340
Unreserved, reported in:							
General Fund	8,787,729	-	-	-	-	-	8,787,729
Debt Service Fund	-	2,266,764	-	-	-	-	2,266,764
Capital Projects Funds	-	-	5,820,785	(9,576)	(33,217)	673,392	6,451,384
Special Revenue Funds	-	-	-	-	-	1,142,547	1,142,547
Total Fund Balances	13,735,069	2,266,764	5,820,785	(9,576)	(33,217)	1,815,939	23,595,764
Total Liabilities and Fund Balance	\$ 14,633,475	\$ 2,630,570	\$ 5,852,188	\$ 456,972	\$ 1,906,440	\$ 2,329,676	\$ 27,809,321

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

**The City of Gulf Shores, Alabama
Reconciliation of the Balance Sheet
To the Statement of Net Assets
Governmental Funds
For the Year Ended December 31, 2010**

Fund balances - total governmental funds		\$ 23,595,764
 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	\$ 82,296,081	
Less accumulated depreciation	<u>(15,915,060)</u>	66,381,021
 Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Bond issue costs	1,371,508	
Loss on advance refunding	341,917	
Less accumulated amortization	<u>(643,330)</u>	1,070,095
 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	(47,380,001)	
Premiums on bond issues	(448,109)	
Accumulated amortization	178,019	
Governmental loans and leases payable	(180,473)	
Compensated absences	<u>(779,862)</u>	(48,610,426)
 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>(227,549)</u>	<u>(227,549)</u>
 Net assets of governmental activities		 <u>\$ 42,208,905</u>

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

THE CITY OF GULF SHORES, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	General Fund	Debt Service Fund	2008 A GO Building Fund	Capital Improvements Fund	Storm Damage Fund	Other Governmental Funds	Total
REVENUES							
Property taxes	\$ 2,828,257	\$ 46,601	\$ -	\$ -	\$ -	\$ -	\$ 2,874,858
Local taxes	11,371,426	1,293,964	-	-	-	1,424,736	14,090,126
Licenses and permits	1,793,733	-	-	-	-	-	1,793,733
Fines and forfeitures	287,012	-	-	-	-	-	287,012
Utility tax equivalents	1,135,118	-	-	-	-	-	1,135,118
Intergovernmental:							
State of Alabama	135,763	-	-	-	366,134	320,470	822,367
Federal Government	155,686	-	-	285,727	90,460	-	531,873
Interest income	105,900	384	162,903	274	7,584	23,349	300,394
Impact fees	-	-	-	-	-	59,313	59,313
BP lost revenues	4,831,704	-	-	-	-	-	4,831,704
BP reimbursed expenses	644,875	-	-	-	-	-	644,875
Rent Income	-	477,759	-	-	-	-	477,759
Other receipts	1,346,192	-	-	76,207	-	-	1,422,399
Total Revenues	<u>24,635,666</u>	<u>1,818,708</u>	<u>162,903</u>	<u>362,208</u>	<u>464,178</u>	<u>1,827,868</u>	<u>29,271,531</u>
EXPENDITURES							
Current Operating:							
Executive Department	3,173,553	-	-	-	-	-	3,173,553
Municipal Court	311,377	-	-	-	-	-	311,377
Police Department	3,737,845	-	-	-	-	-	3,737,845
Fire and Emergency Services	2,925,078	-	-	-	-	1,215,754	4,140,832
Community and Eco. Affairs	4,430,391	-	6,780	-	-	28,144	4,465,315
Public Works	4,132,470	-	-	81,832	445,861	47,972	4,708,135
Appropriations	57,000	-	-	-	-	-	57,000
Capital outlay	3,495,027	-	1,141	349,485	-	-	3,845,653
Beach restoration	-	-	-	-	-	83,028	83,028
Principal and interest	-	6,014,616	-	-	-	-	6,014,616
Miscellaneous	-	5,573	-	-	-	3,415	8,988
Total Expenditures	<u>22,262,741</u>	<u>6,020,189</u>	<u>7,921</u>	<u>431,317</u>	<u>445,861</u>	<u>1,378,313</u>	<u>30,546,342</u>
Excess (Deficiency) of revenues Over Expenditures	<u>\$ 2,372,925</u>	<u>\$(4,201,481)</u>	<u>\$ 154,982</u>	<u>\$ (69,109)</u>	<u>\$ 18,317</u>	<u>\$ 449,555</u>	<u>\$ (1,274,811)</u>
OTHER FINANCING SOURCES (USES)							
Transfers In	347,211	4,066,279	-	81,789	-	79,000	4,574,279
Transfers Out	(2,562,664)	-	-	-	-	(2,107,615)	(4,670,279)
Total Other Financing Sources and (Uses)	<u>(2,215,453)</u>	<u>4,066,279</u>	<u>-</u>	<u>81,789</u>	<u>-</u>	<u>(2,028,615)</u>	<u>(96,000)</u>
Net Change in Fund Balance	157,472	(135,202)	154,982	12,680	18,317	(1,579,060)	(1,370,811)
Fund Balances - Beginning	13,577,597	2,401,966	5,665,803	(22,256)	(51,534)	3,394,999	24,966,575
Fund Balances - Ending	<u>\$ 13,735,069</u>	<u>\$ 2,266,764</u>	<u>\$5,820,785</u>	<u>\$ (9,576)</u>	<u>\$ (33,217)</u>	<u>\$ 1,815,939</u>	<u>\$ 23,595,764</u>

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

The City of Gulf Shores, Alabama
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Activities
For the Year Ended December 31, 2010

Net change in fund balances \$ (1,370,811)

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

Expenditures for capital assets	4,799,257	
Capital assets contributed	1,113,814	
Less current year depreciation	<u>(2,023,166)</u>	3,889,905

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	(44,137)	
Gain on disposal of assets	<u>8,803</u>	(35,334)

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

Proceeds from Loan	(173,743)	
Principal payments on bonds and loans	<u>3,739,302</u>	3,565,559

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	39,568	
Amortization of current year bond issue premiums	29,698	
Amortization of current year bond issue costs	(107,215)	
Amortization of loss on advanced refunding	(18,512)	
Increase in compensated absences	<u>(70,664)</u>	<u>(127,125)</u>

Change in net assets of governmental activities		<u>5,922,194</u>
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The accompanying notes are an integral part of the financial statements.

THE CITY OF GULF SHORES, ALABAMA
 ALL PROPRIETARY FUND TYPES
 STATEMENT OF NET ASSETS
 AS OF DECEMBER 31, 2010

**Business-type Activities
 Enterprise Funds**

	<u>Primary Government</u>		<u>Component Units</u>	
	<u>Non-major Fund</u>		<u>Major Funds</u>	
	<u>Public Education Building Authority</u>	<u>Jack Edwards Airport</u>	<u>Airport Authority of the City of Gulf Shores</u>	<u>Totals for Component Units</u>
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 69,694	\$ -	\$ 71,385	\$ 71,385
Restricted cash and cash equivalents	-	7,664	4,991	12,655
Accounts receivable, net	-	-	9,933	9,933
Grant receivable	-	19,760	-	19,760
Industrial Park Inventory	-	718,623	-	718,623
Total Current Assets	<u>69,694</u>	<u>746,047</u>	<u>86,309</u>	<u>832,356</u>
Capital Assets:				
Land	1,650,000	6,346,391	93,938	6,440,329
Land improvements	203,088	-	-	-
Buildings	898,425	55,000	540,578	595,578
New terminal administration building	-	1,124,477	-	1,124,477
Hanger	-	963,197	-	963,197
Furniture and equipment	261,893	82,480	38,994	121,474
Runway, taxiway & improvements	-	15,551,460	-	15,551,460
Less: accumulated depreciation	<u>(915,525)</u>	<u>(9,454,760)</u>	<u>(403,910)</u>	<u>(9,858,670)</u>
Total Non-Current Assets	<u>2,097,881</u>	<u>14,668,245</u>	<u>269,600</u>	<u>14,937,845</u>
Total Assets	<u>\$ 2,167,575</u>	<u>\$ 15,414,292</u>	<u>\$ 355,909</u>	<u>\$ 15,770,201</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ -	\$ -	\$ 4,394	\$ 4,394
Other accrued expenses	-	-	2,770	2,770
Interest payable	-	-	5,816	5,816
Due to other funds	-	-	779,274	779,274
Current maturities of long-term debt	-	-	37,004	37,004
Total Current Liabilities	<u>-</u>	<u>-</u>	<u>829,258</u>	<u>829,258</u>
Non-Current Liabilities:				
Revenue bonds payable - Series A	-	-	41,282	41,282
Revenue bonds payable - 1996 B	-	-	160,000	160,000
Less: current maturities	-	-	<u>(37,004)</u>	<u>(37,004)</u>
Total Non-Current Liabilities	<u>-</u>	<u>-</u>	<u>164,278</u>	<u>164,278</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>993,536</u>	<u>993,536</u>
NET ASSETS				
Invested in Capital Assets, net of related debt	2,097,881	14,668,245	269,600	14,937,845
Unrestricted	<u>69,694</u>	<u>746,047</u>	<u>(907,227)</u>	<u>(161,180)</u>
Total Net Assets	<u>\$ 2,167,575</u>	<u>\$ 15,414,292</u>	<u>\$ (637,627)</u>	<u>\$ 14,776,665</u>

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

THE CITY OF GULF SHORES, ALABAMA
 ALL PROPRIETARY FUND TYPES
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND ASSETS
 FOR THE YEAR ENDED DECEMBER 31, 2010

	Business-type Activities Enterprise Funds			
	Primary Government	Component Units		
	Non-major Fund	Major Funds		
	Public Education Building Authority	Jack Edwards Airport	Airport Authority of the City of Gulf Shores	Totals for Component Units
Operating Revenues				
Terminal leases	\$ -	\$ -	\$ 128,042	\$ 128,042
Industrial park lots lease	-	-	48,000	48,000
Gulf Air lease	-	-	150,189	150,189
Gulf Air fuel flowage	-	-	27,412	27,412
FSCC Rent	164,245	-	-	-
Vendor revenues	-	-	29,416	29,416
Miscellaneous	-	-	10,899	10,899
Total Operating Revenues	<u>164,245</u>	<u>-</u>	<u>393,958</u>	<u>393,958</u>
Operating Expenses				
Depreciation expense	27,121	775,223	23,228	798,451
Insurance	-	-	5,108	5,108
Legal and professional	-	-	20,583	20,583
Office and other expenses	-	608	21,479	22,087
Repairs and maintenance - AWOS and NAV	-	-	69,797	69,797
Repairs and maintenance - general	-	-	51,976	51,976
Salaries, wages, & employee benefits	-	-	105,792	105,792
Supplies	-	-	42,156	42,156
Travel	-	-	10,174	10,174
Rent	164,245	-	-	-
Utilities	-	-	29,080	29,080
Total Operating Expenses	<u>191,366</u>	<u>775,831</u>	<u>379,373</u>	<u>1,155,204</u>
Operating Income (Loss)	<u>(27,121)</u>	<u>(775,831)</u>	<u>14,585</u>	<u>(761,246)</u>
Non-Operating Revenues (Expenses)				
Interest income	539	61	3	64
Interest expense	-	-	(11,745)	(11,745)
Total Non-Operating Revenue (Expense)	<u>539</u>	<u>61</u>	<u>(11,742)</u>	<u>(11,681)</u>
Income (Loss) before Contributions and Transfers	<u>(26,582)</u>	<u>(775,770)</u>	<u>2,843</u>	<u>(772,927)</u>
Transfers and Contributions				
Grants	-	139,783	-	139,783
Transfers from City of Gulf Shores	-	-	96,000	96,000
Transfers from (to) JEAP and Airport Authority	-	56,934	(56,934)	-
Total Transfers and Contributions	<u>-</u>	<u>196,717</u>	<u>39,066</u>	<u>235,783</u>
Change in Net Assets	(26,582)	(579,053)	41,909	(537,144)
Prior period adjustment	-	(2,747)	-	(2,747)
Net Assets - Beginning	<u>2,194,157</u>	<u>15,996,092</u>	<u>(679,536)</u>	<u>15,316,556</u>
Net Assets - Ending	<u>\$ 2,167,575</u>	<u>\$ 15,414,292</u>	<u>\$ (637,627)</u>	<u>\$ 14,776,665</u>

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

THE CITY OF GULF SHORES, ALABAMA
 ALL PROPRIETARY FUND TYPES
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2010

	Business-type Activities			
	Primary Government Non-major Fund	Enterprise Funds		
		Component Units		
		Major Funds		
Public Education Building Authority	Jack Edwards Airport	Airport Authority of the City of Gulf Shores	Totals for Component Units	
CASH FLOWS FROM OPERATING ACTIVITIES				
Payments from leases and other operating activities	\$ 164,245	\$ -	\$ 393,958	\$ 393,958
Payments to employees for services	-	-	(105,792)	(105,792)
Payments from City of Gulf Shores	-	-	96,000	96,000
Other operating expenses	(164,245)	(608)	(250,353)	(250,961)
Other receipts (payments)	-	-	9	9
Net cash provided (used) by operating activities	-	(608)	133,822	133,214
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Prior period adjustment	-	(2,747)	-	(2,747)
Proceeds of capital grants	-	569,413	-	569,413
Transfers received for capital purposes	-	56,934	(56,934)	-
Interest paid on capital debt	-	-	(11,745)	(11,745)
Acquisition and construction of capital assets	-	(792,895)	(11,222)	(804,117)
Decrease in construction in progress	-	162,826	-	162,826
Principal repayments related to capital purposes	-	-	(31,735)	(31,735)
Net cash provided (used) by capital and related financing activities	-	(6,469)	(111,636)	(118,105)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest payments received	539	61	3	64
Net increase (decrease) in cash and cash equivalents	539	(7,016)	22,190	15,173
Cash balance - beginning of year	69,155	14,680	54,186	68,866
Cash balance - end of year	\$ 69,694	\$ 7,664	\$ 76,376	\$ 84,039
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (27,121)	\$ (775,831)	\$ 14,585	\$ (761,246)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	27,121	775,223	23,228	798,451
Operating subsidy from City of Gulf Shores	-	-	96,000	96,000
(Increase) decrease in:				
Accounts receivable	-	-	351	351
Increase (decrease) in:				
Accrued payroll taxes	-	-	(1,885)	(1,885)
Accounts payable	-	-	1,544	1,544
Total adjustments	27,121	775,223	119,238	894,461
Net cash provided (used) by operating activities	\$ -	\$ (608)	\$ 133,823	\$ 133,215

Noncash Investing, Capital and Financing Activities: None
 The accompanying notes are an integral part of the financial statements.

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NOTES TO BASIC FINANCIAL STATEMENTS

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

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, 2010.

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, account groups, 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 and account groups 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. Both entities are financially accountable and are fiscally dependant to the City. These component units do not meet the criterion for blending, and therefore are discretely presented in the basic financial statements. 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. The Airport Authority does not have substantially the same governing body as the City. The Jack Edwards Airport and Airport Authority of the City of Gulf Shores, Alabama have elected to continue to report on a September 30th year end, where as the City reports on December 31st year end. Generally accepted accounting principles allows the presentation of these component units as part of the reporting entity if the component unit's year end falls within the year end of the primary government. Significant interfund transfers and borrowings between the City and the component units that occurs from October 1 to December 31 each year will be disclosed in a later note.

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, 2010

1.B. BASIC FINANCIAL STATEMENTS

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

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

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

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

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

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

1.C. BASIS OF PRESENTATION

The funds of the financial reporting entity are described below:

General Fund

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

Debt Service Funds

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

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

1.C. BASIS OF PRESENTATION (continued)

Capital Project Funds

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

Enterprise Funds

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

The City reports the following major funds:

Governmental Funds:

General Fund

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

Debt Service Funds

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

2008 A GO Warrant Building Capital Projects Fund

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

Capital Improvements Capital Projects Fund

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

Storm Damage Capital Projects Fund

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

Major Proprietary Funds of Primary Government:

The primary government does not have any major proprietary funds.

Discretely Presented Component Units which are Major Proprietary Funds:

Jack Edwards Airport Enterprise Fund

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

Airport Authority Enterprise Fund

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

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

1.C. BASIS OF PRESENTATION (continued)

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

Governmental Funds:

Special Revenue Funds

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

2006 B GO Warrant Capital Projects Fund

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

Beach Restoration Capital Projects Fund

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

Proprietary Funds:

Public Education Building Authority Enterprise Fund

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

1.D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

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

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

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

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

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

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

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

1.E. ASSETS, LIABILITES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand deposits, savings accounts, certificates of deposit, and short term investments with original or remaining maturities of three months or less when purchased. For purpose of the proprietary fund statement of cash flows, "cash and cash equivalents" include all demand and savings accounts, certificates of deposit, and short term investments with an original maturity of three months or less. Certificates of deposits are not considered investments. Investments are stated at fair value. The balances in the certificates of deposit at December 31, 2010 at the various financial institutions: \$500,000 at BB&T and \$5,000 at BBVA Compass Bank.

Reserve cash and equivalents

General fund cash and certificates of deposit totaling \$4,947,340 were designated as reserve by the City Council. The CD's and money market funds are to be used to fund a reserve for emergencies.

Restricted Assets

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

Interfund Receivables and Payables

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

Receivables

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

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

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

Receivables (continued)

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

Inventories

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

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

Capital Assets

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

Government-wide Statement

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

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

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

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

Fund Financial Statements:

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

GASB No.34 requires the City to report and depreciate new infrastructure assets effective with the beginning of the fiscal year ending September 30, 2003. Infrastructure assets include roads, bridges, underground pipe (other than utilities), traffic signals, etc. The retroactive reporting of infrastructure was implemented in the current fiscal year as required by GASB No.34. The City has accounted for \$2,260,019 in infrastructure from 1980 to September 30, 2002 that exceeds the City's capitalization threshold for infrastructure of \$500,000.

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

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

Long-Term Debt

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

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

Compensated Absences

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

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

All vested compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The long term compensated absences liability for the governmental activities is \$678,333, of which \$101,529 is deemed the current portion at December 31, 2010.

Equity Classifications

Government Wide Level Financial Statements

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

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

Fund Level Financial Statements

Government fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide statements.

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

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

Use of Estimates

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

1.F. REVENUES, EXPENDITURES, AND EXPENSES

Property Tax

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

Sales, Use, and Lodgings Taxes

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

Operating Revenues and Expenses

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

Expenditures/Expenses

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

Governmental Funds- By Character:

Current (further classified by function)
Debt Service
Capital Outlay

Proprietary Funds- By Operating and Nonoperating

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

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

BUDGETARY INFORMATION

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

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

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

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

BUDGETARY INFORMATION (CONTINUED)

3. Prior to January 1, the budget is legally enacted through passage of a resolution by the City Council.
4. The City Administrator and Finance and Administration Director is 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.

NOTE 3 – DETAIL NOTES ON TRANSACTION CLASSES

3.A. CASH AND INVESTMENTS

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

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

At December 31, 2010, the carrying amount of the City's total deposits was \$22,375,755. Amounts in excess of FDIC coverage of \$250,000 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.

At December 31, 2010, the City's \$505,000 Certificates of Deposit (CD's) were maintained at BB&T and BVA Compass Bank.

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, and Hazardous Waste Amnesty Day Funds which are restricted to provide for the expenses from the Amnesty Day clean-up project co-sponsored by the City.

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

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

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	Capital Improvements Fund	Total
Taxes	\$ 2,330,266	\$ -	\$ -	\$ 2,330,266
Special assessments	-	-	16,031	16,031
Accounts Receivable	192,861	55,465	-	248,326
Due from other governments	56,196	-	-	56,196
Total Receivables	\$ 2,579,323	\$ 55,465	\$ 16,031	\$ 2,650,819

3.C. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivable and payable balances at December 31, 2010 consisted of the following:

<u>Due To (Interfund Receivable)</u>	<u>Due From (Interfund Payable)</u>				Total
	General Fund	Debt Service Fund	Capital Improvements Fund	Component Unit: Airport Authority	
General Fund	\$ -	\$ 286,000	\$ 15,325	\$ 779,273	\$ 1,080,598
Nonmajor Governmental Funds	112,747	-	-	-	112,747
Total	\$ 112,747	\$ 286,000	\$ 15,325	\$ 779,273	\$ 1,193,345

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, 2010, consisted of the following:

	<u>Transfer From (Other Financing Use)</u>		
	General Fund	Nonmajor Governmental Funds	Total
<u>Transfer To (Other Financing Source)</u>			
General Fund	\$ -	\$ 429,000	\$ 429,000
Debt Service Fund	2,466,664	1,599,615	4,066,279
Capital Improvements Fund	81,789	-	81,789
Airport Authority	96,000	-	96,000
Nonmajor Governmental Funds	-	79,000	79,000
Total	\$ 2,644,453	\$ 2,107,615	\$ 4,752,068

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

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

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

3.D. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended December 31, 2010, 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	\$ 27,647,538	\$ 3,910,190	\$ -	\$ -	\$ 31,557,728
Depreciable Assets:					
Buildings, parks facilities, & improvements	36,856,531	977,605	-	(3,646,112)	34,188,024
Motor vehicles and equipment	9,203,190	461,462	148,905	-	9,515,747
Infrastructure	<u>2,824,656</u>	<u>563,814</u>	<u>-</u>	<u>3,646,112</u>	<u>7,034,582</u>
Totals at historical cost	<u>76,531,915</u>	<u>5,913,071</u>	<u>148,905</u>	<u>-</u>	<u>82,296,081</u>
Less accumulated depreciation for:					
Buildings and improvements	7,314,086	860,796	-	-	8,174,882
Motor vehicles and equipment	6,286,208	977,809	113,571	-	7,150,446
Infrastructure	<u>405,171</u>	<u>184,561</u>	<u>-</u>	<u>-</u>	<u>589,732</u>
Total accumulated depreciation	<u>14,005,465</u>	<u>2,023,166</u>	<u>113,571</u>	<u>-</u>	<u>15,915,060</u>
Governmental activities capital assets, net	<u>\$ 62,526,450</u>				<u>\$ 66,381,021</u>

Depreciation expense was charged to governmental functions as follows:

Executive Offices	\$ 398,448
Police	192,263
Fire	217,283
Public Works	488,975
Community and Economic Affairs	<u>726,197</u>
Total depreciation for governmental activities	<u>\$ 2,023,166</u>

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

3.D. CAPITAL ASSETS (CONTINUED)

Capital asset activity for the business-type activities of the primary government for the year ended December 31, 2010 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	73,337	13,539	-	-	86,876
Buildings	553,174	13,582	-	-	566,756
Equipment	261,893	-	-	-	261,893
Total accumulated depreciation	<u>888,404</u>	<u>27,121</u>	<u>-</u>	<u>-</u>	<u>915,525</u>
Business-type activities capital assets, net	<u>\$ 2,125,002</u>				<u>\$ 2,097,881</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., for the year ended December 31, 2010 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	15,311,576	239,884	-	-	15,551,460
Buildings and improvements	2,683,252	-	-	-	2,683,252
Motor vehicles and equipment	110,253	11,221	-	-	121,474
Totals at historical cost	<u>24,545,410</u>	<u>251,105</u>	<u>-</u>	<u>-</u>	<u>24,796,515</u>
Less accumulated depreciation for:					
Runways, taxiways, and improvements	8,505,612	717,198	-	-	9,222,810
Buildings and improvements	466,149	69,976	-	-	536,125
Motor vehicles and equipment	88,458	11,277	-	-	99,735
Total accumulated depreciation	<u>9,060,219</u>	<u>798,451</u>	<u>-</u>	<u>-</u>	<u>9,858,670</u>
Business-type activities capital assets, net	<u>\$ 15,485,191</u>	<u>\$ (547,346)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,937,845</u>

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

3.E. LONG-TERM DEBT

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds, loans, and leases payable:					
General obligation bonds	\$ 51,006,149	\$ -	\$ 3,626,148	\$ 47,380,001	\$ 3,795,000
Leases payable	119,884	173,743	113,154	180,473	65,841
Total bonds, loans and leases, less premiums	<u>51,126,033</u>	<u>173,743</u>	<u>3,739,302</u>	<u>47,560,474</u>	<u>3,860,841</u>
Plus bond premiums	<u>299,791</u>	<u>-</u>	<u>29,698</u>	<u>270,093</u>	<u>-</u>
 Total bonds, loans and leases payable	 51,425,824	 173,743	 3,769,000	 47,830,567	 3,860,841
 Other liabilities: Compensated Absences	 <u>709,198</u>	 <u>494,153</u>	 <u>423,489</u>	 <u>779,862</u>	 <u>101,529</u>
 Governmental activities long term liabilities	 <u>\$ 52,135,022</u>	 <u>\$ 667,896</u>	 <u>\$ 4,192,489</u>	 <u>\$ 48,610,429</u>	 <u>\$ 3,962,370</u>

The primary government had no business activity long-term debt as of December 31, 2010.

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., for the year ended December 31, 2010 is as follows:

Business -Type Activities:					
Bonds and loans payable:					
Component Units:					
1996 B Airport Authority bond	\$ 175,000	\$ -	\$ 15,000	\$ 160,000	\$ 15,000
1993 Series A Revenue bonds	<u>58,017</u>	<u>-</u>	<u>17,004</u>	<u>41,013</u>	<u>17,004</u>
Business-type activities long term liabilities	<u>\$ 233,017</u>	<u>\$ -</u>	<u>\$ 32,004</u>	<u>\$ 201,013</u>	<u>\$ 32,004</u>

As of December 31, 2010 the governmental long term debt consisted of the following:

General Obligation Warrants:

\$1,475,000, Series 1998-A General Obligation Warrants dated March 1, 1998 due in annual installments from \$30,000 to \$170,000 plus interest varying from 3.90% to 4.85% per annum payable May 15 and November 15, final payment due November 15, 2012.	\$ 330,000
\$1,595,000, Series 2000-B General Obligation Warrants, dated December 1, 2000 due in annual installment of \$60,000 to \$180,000 plus interest varying from 4.40% to 5.35% per annum payable May 15 and November 15, final payment due November 2016	445,000
\$5,355,000, Series 2002 General Obligation Warrants, dated January 1, 2002 due in annual installment from \$885,000 to \$160,000 plus interest varying from 1.80% to 4.45% per annum payable March 1 and September 1, final payment due September 1, 2014	590,000
\$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	\$ 4,390,000

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

3.E. LONG-TERM DEBT (continued)

\$3,775,000, Series 2004 General Obligation Warrants, dated March 1, 2004 due in annual installment from \$150,000 to \$215,000 plus interest varying from 2.00% to 4.10% per annum payable August 1 and February 1, with a final payment due August 1, 2021	\$ 2,095,000
\$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.	7,745,000
\$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.	2,465,000
\$12,665,000, Series 2006-B General Obligation Warrants, dated February 1, 2006 due in annual principal installments of \$560,000 to \$2,275,000 beginning on December 15, 2018, with a final payment due Decembert 15, 2025. Interest varying from of 4.00% to 4.35% per annum payable June 15 and December 15, first payment due June 15, 2006 and last December 15, 2025.	12,665,000
\$17,050,000, Series 2008-A General Obligation Warrants, dated April 1, 2008 due in annual principal installments of \$100,000 increasing to \$2,890,000 beginning on December 15, 2008, with a final payment due Decembert 15, 2028. Interest varying from of 3.00% to 4.5% per annum payable June 15 and December 15, first payment due December 15, 2008 and last December 15, 2028.	\$ 16,655,000
Total Unamortized General Obligation Warrant Issue Premiums	\$ 270,093
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.	103,745
\$69,324 Lease Payable to Wachovia Financial Services, Inc, dated May 15, 2008 due in semiannual installments of \$12,394 due May 15 and November 15, final payment due May 15, 2011.	12,146
\$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	64,582
Total Long Term Debt	\$ <u>47,830,566</u>

THE CITY OF GULF SHORES, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2010

3.E. LONG-TERM DEBT (continued)

As of December 31, 2010 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:

<p>\$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.</p>	\$ 41,282
<p>\$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.</p>	<u>160,000</u>
Total	<u>\$ 201,282</u>

Annual debt service requirements to maturity, including principle and interest, for the governmental activities long-term debt as of December 31, 2010, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 3,860,841	\$ 2,146,817
2012	3,881,073	1,977,621
2013	4,038,558	1,791,142
2014	2,755,000	1,611,388
2015	2,720,000	1,489,216
2016-2020	10,245,000	5,847,500
2021-2028	<u>20,060,000</u>	<u>4,249,785</u>
Total	<u>\$ 47,560,472</u>	<u>\$ 19,113,469</u>

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 37,004	\$ 11,573
2012	37,004	9,378
2013	27,005	7,188
2014	25,000	5,359
2015	25,000	3,828
Thereafter	<u>50,269</u>	<u>3,063</u>
Total	<u>\$ 201,282</u>	<u>\$ 40,389</u>

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

3.E. LONG-TERM DEBT (continued)

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

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

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

3.F. UNEARNED REVENUE

The City has unearned revenues of \$49,252 in the general fund from receiving advance funds from developers', for future environmental impact studies (EIS) to be conducted by these developers' for proposed projects. The EIS is required by the US Army Corps of Engineers, to study the impact from development on the environment. The City serves as the facilitator for the study between the developers and a subcontracted company to conduct the EIS.

As of December 31, 2010 the City has unearned revenues of \$988,745 reported in the Storm Damage fund. The City was advanced Federal Emergency Management Agency and Alabama Emergency Management Agency Hurricane Ike and Gustav public assistance awards in anticipation of expending these awards on eligible expenditures. These revenues will be recognized as the City incurs eligible expenditures for these public assistance grants.

As of December 31, 2010 the City has unearned revenues of \$255,032 reported in the Capital Improvements Fund. The City has received funds from Saunders Yachtworks as reimbursement for the City's yet to be incurred match obligation related to an Department of Commerce's Economic Development grant to build a Dry Dock Basin.

Unearned revenues, not disclosed above, in the general fund and capital improvements funds are derived from various sundry assessments for capital projects which are deferred and included in revenue when the receivables become available.

3.G. PENSION EXPENSE

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

3.H. ACCUMULATED DEFICIT

At December 31, 2010, the Storm Damage fund of the City of Gulf Shores had an accumulated total net assets deficit of \$51,534. It is anticipated that this deficit will be eliminated by future excess revenues over expenses. The Airport Authority of the City of Gulf Shores, a component unit of the primary government, had an accumulated total net assets deficit of \$907,227 at September 30, 2010.

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

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, 2010, was \$524,154,540 resulting in a debt limit of \$104,830,890. 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. All employees hired after December 1, 2006, and who are eligible, participation in the ERS is mandatory. Employees are eligible to participate if employed in a full time position, as well as part time position working at least 20 hours per week and earning at least the federal minimum wage. Once enrolled, the member must continue participation until employment is terminated.

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

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

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

THE CITY OF GULF SHORES, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2010

NOTE 4 – OTHER INFORMATION

4. A. RETIREMENT PLAN (CONTINUED)

The following is information taken from the Employees' Retirement System of Alabama, Actuarial Valuation Summary as of September 30, 2009; the latest date for which a valuation was available. The valuation sets the rate for the period beginning October 1, 2011.

Summary of Employee Census Data

Number of active members:	216
Annual compensation:	\$ 9,319,904

Required Employer Contribution Rates

Normal cost	5.80%
Accrued Liability	3.10%
Pre-retirement death benefit	0.15%
Administrative expense	0.18%
Total	9.23%
5% Employer contribution factor (9.23%/5%)	1.846%
6% Employer contribution factor (9.23%/6%)	1.538%

Comments on Employer Contribution Rates:

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

Schedule of Funding Progress

Actuarial Valuation	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Date	(a)	(b) ₁	(b-a)	(a/b)	(c)	((b-a)/c)
9/30/2007	\$ 8,801,789	\$ 11,050,026	\$ 1,912,931	82.1%	\$ 8,186,268	23.4%
9/30/2008	\$ 10,382,700	\$ 13,155,797	\$ 4,330,054	70.6%	\$ 9,871,622	43.9%
9/30/2009	\$ 10,944,616 *	\$ 16,360,595	\$ 5,415,979	66.9%	\$ 9,319,904	58.1%

- ₁ Reflects liability for cost of living benefit increases granted on or after October 1, 1978.
- ₂ Reflects effect of DROP if unit elected to enroll prior to August 4, 2005.
- ₃ Reflects changes in actuarial assumption.
- * Market Value of Assets as of September 30, 2009: \$8,409,838

THE CITY OF GULF SHORES, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2010

NOTE 4 – OTHER INFORMATION (CONTINUED)

4. A. RETIREMENT PLAN (CONTINUED)

Valuation date	9/30/2009
Actuarial cost method	Entry Age
Amortization method	Level percent open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	8.00%
Projected salary increases*	4.61 - 7.75%
*Includes inflation at	4.50%
Cost-of-living adjustments	None

4.B. DEFEASED DEBT

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

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

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

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

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

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

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

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

4.B. DEFEASED DEBT (CONTINUED)

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

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

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

4.C. COMMITMENTS AND CONTINGENCIES

Construction, engineering, and design contracts for significant public works project commitments at December 31, 2010 are as follows:

Contractor/Engineer	Construction/Professional Services Project	Contract Amount Including Change Orders	Approximate Expenditures Incurred To Date	Approximate Balance of Contract
Olsen & Associates, Inc	Beach Renourishment Phase III	384,589	304,797	79,792
Olsen & Associates, Inc	Beach Renourishment Phase IV	526,110	8,513	517,597

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 are estimated to be \$250,000 per year.

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 2010, rentals approximated \$61,280 for such leases. Approximately \$56,500, \$41,700, \$29,200, and \$2,000 in minimum rental payments are due in 2010, 2011, 2012, 2013, and 2014 respectively. 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	(403,910)
Net investment in operating leases	<u>\$ 269,600</u>

THE CITY OF GULF SHORES, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2010

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
2010	221,187
2011	212,807
2012	170,807
2013	154,159
2014	149,828
Thereafter	4,220,582
Total	\$ 5,129,370

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 \$113,373 in 2010.

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
2011	161,565
2012	163,502
2013	164,728
2014	120,138
Total	\$ 609,933

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, 2010

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 \$9,981. The market value for this investment type is not materially different from its carrying amount.

4.H. POST-EMPLOYMENT HEALTH CARE BENEFITS

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

4.I. POST RETIREMENT EMPLOYEE BENEFITS

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

The gross annual required contribution (current liability) assumed payable is \$56,645, which consists of an annual normal cost assumed payable of \$34,772, plus a 30 year actuarial accrued liability amortization contribution of \$21,873. The City has not funded this future liability, and plans to pay the early service retirement credit as an employee becomes eligible and utilizes the benefit. During the year there was \$178,834 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 - RESERVED

The fund balance of the General Fund on the fund financial statements is reserved for emergencies in the amount of \$4,947,340 as designated by the City Council in the current year budget. The City has funded the reserve amount of \$4,947,340 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, 2010

4.M GRANT PAYABLE

On May 18, 2010 and July 6, 2010 the City of Gulf Shores, Alabama received grant funds in the amount of \$1,060,00 and \$237,000 respectively; totaling \$1,297,000. According to the grant documents, the purpose of the grant agreement was to transfer money from AEMA to the City as provided by the \$25 million dollar grant from BP to the State of Alabama. These funds were to be used by the impacted governments in Baldwin and Mobile Counties to prevent, minimize or mitigate the damage from the Deepwater Horizon Incident including any project management costs and equipment cost associated therewith. The City spent \$346,087 of the funds as of December 31, 2010. The remaining balance on the grant totaling \$950,913 is recorded as a liability to AEMA. As of the report date the City is currently awaiting a determination from AEMA on whether or not the remaining funds will be able to be used on future AEMA approved projects. If so the City will submit new project budgets for approval depending on the types of projects the grant will allow. If the other projects are not approved, the City will have to repay the remaining funds to AEMA.

4.N. PENDING LITIGATION

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

Fort Morgan Civic Association, Inc. vs. The City of Gulf Shores

The City is a defendant in litigation involving the Fort Morgan Civic Association, Inc. The action was brought by the Association in order to obtain a declaratory judgment invalidating the City's annexation of the Fort Morgan Parkway and the City's subsequent annexation of privately owned parcels contiguous to the Parkway. The City is vigorously contesting this action. At this point in time, the plaintiff's are seeking attorney's fees and court costs. Should those be awarded, they could be in excess of \$100,000 and could be more depending upon how this case proceeds from this point. There could also be property and other local taxes or other City fee components which may have to be refunded as a result of the case. This matter has been set for trial. The City is vigorously contesting this action.

Boltz & Pickard vs. City of Gulf Shores

The City is a co-defendant in a case involving twenty three separate plaintiffs who are claiming that their homes flooded on two separate occasions due to inadequate drainage in and around their property. They also claim that the City negligently maintained the system which led to flooding as well. There are two separate flooding events that are the basis of the complaint. A claim has been filed concerning a third event, but that event is not formally part of the current litigation. However it is expected that the pleadings will be amended to reflect the third event. Each event represents a separate \$300,000 cap for all claims of personal injury. Discovery in the case is still ongoing, but as it stands, it appears no physical injuries were sustained, but there may have been emotional distress from the flooding.

This fact could imply that the cap per event could be exceeded. From a property damage perspective, sixteen properties are entitled to recover up to \$100,000 for the property damage per occurrence. The cap does not seem to be exceeded since information provided to date indicates that damages suffered to the structures are approximately \$30,000 or less per structure, however there are sixteen separate structures. A verdict against the City seems possible. There are co-defendants who would need to pay the judgment before the City. However it is possible that the City could be held liable by itself. It is anticipated a verdict in this case would exceed \$1,000,000. The City is vigorously contesting this action.

Robin Jones vs. The City of Gulf Shores

The City is a co-defendant in a case similar to the Boltz/Pickard matter. The plaintiffs are homeowners and lessees in and around Dolphin Subdivision. The plaintiffs alleged they were flooded on March 31-April 1, 2005, and seek damages as a result of the flooding. A motion has been filed to dismiss the case, due to a statute of limitation problem. However if the case is allowed to proceed, and a verdict goes against the City, the claim could exceed \$500,000.

THE CITY OF GULF SHORES, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

4.N. PENDING LITIGATION (CONTINUED)

Robin Jones vs. The City of Gulf Shores (continued)

There are co-defendants who would need to pay the judgment before the City, however it is possible that the City could be held liable by itself. The City is vigorously contesting this action.

While the outcome of the above proceedings can not be predicted, any settlement or judgment, not covered by the City's insurance carrier, could have a direct and material adverse effect on the City's financial statements. However, as of the report date, a determination could not reasonably be made as to the probability of an unfavorable income.

The defense of these actions is being provided by the City's liability insurer, Alabama Mutual Insurance Corporation, whose practice is to defend all matters under a standard "reservation of right" letter as to the issue of coverage. In the opinion of the City Attorney, all of these matters are within the scope of coverage of the City's liability insurance policy and any settlement or judgment adverse to the City as outlined above would not exceed the limits of coverage provided under the policy.

REQUIRED SUPPLEMENTARY INFORMATION

THE CITY OF GULF SHORES, ALABAMA
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Property Taxes	\$ 3,373,525	\$ 3,373,525	\$ 2,828,257	\$ (545,268)
Local Taxes	15,882,918	13,032,918	14,136,727	1,103,809
Licenses and Permits	1,780,000	1,780,000	1,793,733	13,733
Fines and Forfeitures	265,000	265,000	287,012	22,012
Utility Tax Equivalents	1,152,700	1,152,700	1,135,118	(17,582)
Intergovernmental:				
Federal	724,820	724,820	155,686	(569,134)
State of Alabama - Taxes	190,870	190,870	135,763	(55,107)
Income on Investments	348,230	348,230	105,900	(242,330)
BP lost revenues	-	5,000,000	4,831,704	(168,296)
BP reimbursed expenses	-	-	644,875	644,875
Other	1,334,980	1,194,680	1,346,192	151,512
Total Revenues	<u>25,053,043</u>	<u>27,062,743</u>	<u>27,400,967</u>	<u>338,224</u>
EXPENDITURES				
Executive Department	3,614,388	3,204,194	3,173,553	30,641
Municipal Court	267,540	322,540	311,377	11,163
Police Department	3,490,174	3,615,124	3,737,845	(122,721)
Fire and Emergency Services	2,686,546	2,875,546	2,925,078	(49,532)
Community and Economic Affairs	4,040,104	4,403,439	4,430,391	(26,952)
Public Works	3,959,741	4,148,341	4,132,470	15,871
Appropriations	80,000	80,000	57,000	23,000
Capital Outlay	655,180	3,688,946	3,495,027	193,919
Total Expenditures	<u>18,793,673</u>	<u>22,338,130</u>	<u>22,262,741</u>	<u>75,389</u>
Excess of revenues over expenditures	<u>6,259,370</u>	<u>4,724,613</u>	<u>5,138,226</u>	<u>413,613</u>
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	366,100	366,100	347,211	(18,889)
Transfer to Other Funds	(5,532,028)	(5,480,489)	(5,327,965)	152,524
Total Other Financing Uses	<u>(5,165,928)</u>	<u>(5,114,389)</u>	<u>(4,980,754)</u>	<u>133,635</u>
Net Change in Fund Balances	<u>\$ 1,093,442</u>	<u>\$ (389,776)</u>	<u>\$ 157,472</u>	<u>\$ 547,248</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 accompanying notes are an integral part of the financial statements.

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OTHER SUPPLEMENTARY INFORMATION

**COMBINING FUND FINANCIAL
STATEMENTS AND SCHEDULES**

THE CITY OF GULF SHORES, ALABAMA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31 ,2010

	<u>Special Revenue Funds</u>				<u>Capital Projects Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>2% Lodgings Tax Fund</u>	<u>Designated Taxes Fund</u>	<u>Impact Fees Fund</u>	<u>Library Board Fund</u>	<u>Beach Restoration Fund</u>	<u>2006 B GO Warrant Fund</u>	
ASSETS							
Restricted Cash and Cash Equivalents	\$ 720,890	\$ 61,560	\$ 228,101	\$ 19,249	\$ 1,257	\$ 1,185,872	\$ 2,216,929
Due From Other Funds	106,143	6,604	-	-	-	-	112,747
Total Assets	<u>\$ 827,033</u>	<u>\$ 68,164</u>	<u>\$ 228,101</u>	<u>\$ 19,249</u>	<u>\$ 1,257</u>	<u>\$ 1,185,872</u>	<u>\$ 2,329,676</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	-	-	-	-	-	513,737	513,737
Fund Balances:							
Unreserved, reported in:							
Capital Projects Fund	-	-	-	-	1,257	672,135	673,392
Special Revenue Funds	827,033	68,164	228,101	19,249	-	-	1,142,547
Total Fund Balances	<u>827,033</u>	<u>68,164</u>	<u>228,101</u>	<u>19,249</u>	<u>1,257</u>	<u>672,135</u>	<u>1,815,939</u>
Total Liabilities and Fund Balance	<u>\$ 827,033</u>	<u>\$ 68,164</u>	<u>\$ 228,101</u>	<u>\$ 19,249</u>	<u>\$ 1,257</u>	<u>\$ 1,185,872</u>	<u>\$ 2,329,676</u>

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

THE CITY OF GULF SHORES, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Special Revenue Funds</u>				<u>Capital Projects Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>2% Lodgings Tax Fund</u>	<u>Designated Taxes Fund</u>	<u>Impact Fees Fund</u>	<u>Library Board Fund</u>	<u>Beach Restoration Fund</u>	<u>2006 B GO Warrant Fund</u>	
REVENUES							
2% Lodgings Tax	\$ 1,424,736	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,424,736
Intergovernmental:							
State of Alabama	-	320,470	-	-	-	-	320,470
Federal Government	-	-	-	-	-	-	-
Interest income	7,703	1,889	116	(585)	32	14,194	23,349
Impact fees	-	-	59,313	-	-	-	59,313
Other receipts	-	-	-	-	-	-	-
Total Revenues	<u>1,432,439</u>	<u>322,359</u>	<u>59,429</u>	<u>(585)</u>	<u>32</u>	<u>14,194</u>	<u>1,827,868</u>
EXPENDITURES							
Current Operating:							
Community and Economic Affairs	-	-	28,144	-	-	-	28,144
Public Works	-	-	47,972	-	-	-	47,972
Capital Outlay	-	-	-	-	-	1,215,754	1,215,754
Beach restoration	-	-	-	-	83,028	-	83,028
Miscellaneous	-	48	-	3,367	-	-	3,415
Total Expenditures	<u>-</u>	<u>48</u>	<u>76,116</u>	<u>3,367</u>	<u>83,028</u>	<u>1,215,754</u>	<u>1,378,313</u>
Excess (Deficiency) of revenues Over Expenditures	<u>\$ 1,432,439</u>	<u>\$ 322,311</u>	<u>\$ (16,687)</u>	<u>\$ (3,952)</u>	<u>\$ (82,996)</u>	<u>\$(1,201,560)</u>	<u>\$ 449,555</u>
OTHER FINANCING SOURCES (USES)							
Transfers In	-	-	-	-	79,000	-	79,000
Transfers Out	(1,678,615)	(429,000)	-	-	-	-	(2,107,615)
Total Other Financing Sources (Uses)	<u>(1,678,615)</u>	<u>(429,000)</u>	<u>-</u>	<u>-</u>	<u>79,000</u>	<u>-</u>	<u>(2,028,615)</u>
Net Change in Fund Balance	(246,176)	(106,689)	(16,687)	(3,952)	(3,996)	(1,201,560)	(1,579,060)
Fund Balances - Beginning	<u>1,073,209</u>	<u>174,853</u>	<u>244,788</u>	<u>23,201</u>	<u>5,253</u>	<u>1,873,695</u>	<u>3,394,999</u>
Fund Balances - Ending	<u>\$ 827,033</u>	<u>\$ 68,164</u>	<u>\$ 228,101</u>	<u>\$ 19,249</u>	<u>\$ 1,257</u>	<u>\$ 672,135</u>	<u>\$ 1,815,939</u>

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

CITY OF GULF SHORES, ALABAMA

**2% LODGING TAX SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues				
Taxes:				
Lodging Tax 2% Beach	\$ 1,700,000	\$ 1,700,000	\$ 1,424,736	\$ (275,264)
Interest Income	<u>5,000</u>	<u>5,000</u>	<u>7,703</u>	<u>2,703</u>
Total Revenue	<u>1,705,000</u>	<u>1,705,000</u>	<u>1,432,439</u>	<u>(272,561)</u>
Expenditures				
Current:				
General government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total general government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues over				
Total Expenditures	<u>1,705,000</u>	<u>1,705,000</u>	<u>1,432,439</u>	<u>272,561</u>
Other Financing Uses				
Transfers out:	<u>1,705,000</u>	<u>1,705,000</u>	<u>1,678,615</u>	<u>26,385</u>
Total Other Financing Uses	<u>1,705,000</u>	<u>1,705,000</u>	<u>1,678,615</u>	<u>26,385</u>
Net Change in Fund balances	-	-	(246,176)	(246,176)
Fund balances, beginning of year	<u>1,073,209</u>	<u>1,073,209</u>	<u>1,073,209</u>	<u>-</u>
Fund balances, end of year	<u>\$ 1,073,209</u>	<u>\$ 1,073,209</u>	<u>\$ 827,033</u>	<u>\$ (246,176)</u>

CITY OF GULF SHORES, ALABAMA

**DESIGNATED TAXES SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues				
Taxes:				
Firefighters Ad Valorem	\$ 180,000	\$ 180,000	\$ 159,412	\$ (20,588)
Law Enforcement:				
Federal Equity Sharing	3,600	3,600	-	(3,600)
State, Local & Other	35,000	35,000	7,808	(27,192)
Alabama Gasoline Excise				
Four per gallon	8,000	8,000	10,044	2,044
Five per gallon	4,500	4,500	4,936	436
Seven per gallon	14,000	14,000	17,284	3,284
Petroleum Inspection Fees	2,400	2,400	2,838	438
Motor Fuel Distribution	600	600	717	117
State Shared Capital				
Improvements Fund	38,000	38,000	35,508	(2,492)
Corrections Fund	80,000	80,000	81,923	1,923
Interest Income	-	-	1,889	1,889
Total Revenue	<u>366,100</u>	<u>366,100</u>	<u>322,359</u>	<u>(43,741)</u>
Expenditures				
Account Administration	-	-	48	(48)
Total Expenditures	<u>-</u>	<u>-</u>	<u>48</u>	<u>(48)</u>
Other Financing Uses				
Transfers Out - General Fund				
Corrections	80,000	80,000	84,000	(4,000)
Firefighters Ad Valorem	180,000	180,000	219,000	(39,000)
Law Enforcement Federal	3,600	3,600	-	3,600
Law Enforcement State,				-
Local and Other	35,000	35,000	16,000	19,000
Alabama Gas Tax	31,500	31,500	41,000	(9,500)
State Capital Improvements	36,000	36,000	38,000	(2,000)
Parking Ordinance	-	-	31,000	(31,000)
Total Other Financing Uses	<u>366,100</u>	<u>366,100</u>	<u>429,000</u>	<u>(62,900)</u>
Net Changes in Fund Balances	-	-	(106,689)	(106,689)
Fund Balances, beginning of year	<u>174,853</u>	<u>174,853</u>	<u>174,853</u>	<u>-</u>
Fund Balances, end of year	<u>\$ 174,853</u>	<u>\$ 174,853</u>	<u>\$ 68,164</u>	<u>\$ (106,689)</u>

CITY OF GULF SHORES, ALABAMA

**IMPACT FEES SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues				
Park & Recreation	\$ 18,704	\$ 31,304	\$ 24,842	\$ (6,462)
Fire	12,198	12,198	7,442	(4,756)
Police	7,320	7,320	3,482	(3,838)
Public Works	43,098	98,098	23,547	(74,551)
Interest Income	-	-	116	116
Total Revenue	<u>81,320</u>	<u>148,920</u>	<u>59,429</u>	<u>(89,491)</u>
Expenditures				
Current:				
Administrative	400	400	-	400
Recreation Beach	-	12,600	-	12,600
Police Equipment	13,920	13,920	-	13,920
Total Current	<u>14,320</u>	<u>26,920</u>	<u>-</u>	<u>26,920</u>
Capital Outlay				
Recreation	67,000	67,000	28,144	38,856
Public Works	-	55,000	47,972	7,028
Total Capital	<u>67,000</u>	<u>122,000</u>	<u>76,116</u>	<u>45,884</u>
Total Expenditures	<u>81,320</u>	<u>148,920</u>	<u>76,116</u>	<u>72,804</u>
Net Changes in Fund Balances	-	-	(16,687)	(162,295)
Fund Balances, beginning of year	244,788	244,788	244,788	244,788
Fund Balances, end of year	<u>\$ 244,788</u>	<u>\$ 244,788</u>	<u>\$ 228,101</u>	<u>\$ 82,493</u>

CITY OF GULF SHORES, ALABAMA

**2006 B WARRANT PROCEEDS CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues				
Bond Proceeds	\$ -	\$ 2,090,000	\$ -	\$ (2,090,000)
Interest Income	-	-	14,194	14,194
Total Revenue	<u>-</u>	<u>2,090,000</u>	<u>14,194</u>	<u>(2,075,806)</u>
Expenditures				
Capital Outlay:				
Street Resurfacing	-	300,000	420,047	(120,047)
Property Purchase	-	210,000	161,024	48,976
Renovate Adult Activity Center	-	80,000	36,534	43,466
Football Bleachers - Sportsplex	-	-	280,721	(280,721)
Renovate 200 Clubhouse Drive	-	-	155,694	(155,694)
East & West Gulf Place Parking	-	1,500,000	21,999	1,478,001
Fiber to New Locations	-	-	58,725	(58,725)
Renovate Fire Station #3	-	-	81,010	(81,010)
Total Capital	<u>-</u>	<u>2,090,000</u>	<u>1,215,754</u>	<u>874,246</u>
Total Expenditures	<u>-</u>	<u>2,090,000</u>	<u>1,215,754</u>	<u>874,246</u>
Net Changes in Fund Balance	-	-	(1,201,560)	1,201,560
Fund Balance, beginning of year	<u>1,873,695</u>	<u>1,873,695</u>	<u>1,873,695</u>	<u>-</u>
Fund Balance, end of year	<u>\$ 1,873,695</u>	<u>\$ 1,873,695</u>	<u>\$ 672,135</u>	<u>\$ 1,201,560</u>

CITY OF GULF SHORES, ALABAMA

**2008 A WARRANT PROCEEDS CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues				
Grants requiring match funds				
ALDOT Multi-Use Trail	\$ 444,650	\$ 444,650	\$ -	\$ (444,650)
Safe Routes to School	150,520	150,520	-	(150,520)
Interest Income	-	-	162,903	162,903
Bond Issue Proceeds	1,158,000	1,938,625	-	(1,938,625)
Total Revenue	<u>1,753,170</u>	<u>2,533,795</u>	<u>162,903</u>	<u>(2,370,892)</u>
Expenditures				
Capital Outlay Projects				
Street Resurfacing	125,000	145,000	-	145,000
Maintenance Improvements	190,000	600,000	-	600,000
Renovate 200 Clubhouse Drive	443,000	375,000	340	374,660
Renovate Fire Station #3	50,000	143,625	801	142,824
Football Bleachers - Sportsplex	130,000	305,000	-	305,000
Fiber to New Locations	60,000	60,000	-	60,000
Grant Match				
ALDOT - Multi-Use Trail	594,650	594,650	-	594,650
ALDOT - Safe Routes to School	160,520	160,520	6,780	153,740
FEMA Beach Restoration/Disaster	-	150,000	-	150,000
	<u>1,753,170</u>	<u>2,533,795</u>	<u>7,921</u>	<u>2,525,874</u>
Net change in fund balances	-	-	154,982	154,982
Fund balances, beginning of year	5,665,803	5,665,803	5,665,803	5,665,803
Fund balances, end of year	<u>\$ 5,665,803</u>	<u>\$ 5,665,803</u>	<u>\$ 5,820,785</u>	<u>\$ 5,820,785</u>

CITY OF GULF SHORES, ALABAMA

**CAPITAL IMPROVEMENTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues				
Grants				
ALDOT Bus Facilities	\$ 162,550	\$ 162,550	\$ -	\$ 162,550
Department of Justice	35,768	35,768	30,695	5,073
EDA Saunders Dry Dock	-	-	318,790	(318,790)
Minnow Lane				-
Pavement Assessment Prinicipal	-	-	10,794	(10,794)
Pavement Assessment Interest	-	-	1,655	(1,655)
Interest Income	-	-	274	(274)
Transfer from General Fund - match	32,510	32,510	81,789	(49,279)
Total Revenues	<u>230,828</u>	<u>230,828</u>	<u>443,997</u>	<u>(213,169)</u>
Expenditures				
Capital Outlay				
Bus Facilities and Equipment	195,060	195,060	-	195,060
Public Works	-	-	81,832	(81,832)
Department of Justice-Patrol vehicles	35,768	35,768	30,695	5,073
EDA - Dry Dock Basin	-	-	318,790	(318,790)
Total Expenditures	<u>230,828</u>	<u>230,828</u>	<u>431,317</u>	<u>(200,489)</u>
 Net change in fund balances	 -	 -	 12,680	 (12,680)
 Fund balances, beginning of year	 (22,256)	 (22,256)	 (22,256)	 -
 Fund balances, end of year	 <u>\$ (22,256)</u>	 <u>\$ (22,256)</u>	 <u>\$ (9,576)</u>	 <u>\$ (12,680)</u>

CITY OF GULF SHORES, ALABAMA

**STORM DAMAGE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues				
Intergovernmental	\$ -	\$ 1,297,000	\$ 456,594	\$ (840,406)
Interest	-	-	7,584	7,584
Total Revenues	<u>-</u>	<u>1,297,000</u>	<u>464,178</u>	<u>(832,822)</u>
Expenditures				
Emergency Protective Measures	-	750,000	363,848	386,152
Engineering & Construction	-	-	53,291	(53,291)
Buildings & Equipment	-	547,000	-	547,000
Parks, Recreation & Other	-	-	28,721	(28,721)
Total Expenses	<u>-</u>	<u>1,297,000</u>	<u>445,860</u>	<u>851,140</u>
Net change in fund balances	-	-	18,318	(18,318)
Fund balances, beginning of year	(51,534)	(51,534)	(51,534)	-
Fund balances, end of year	<u>\$ (51,534)</u>	<u>\$ (51,534)</u>	<u>\$ (33,216)</u>	<u>\$ (18,318)</u>

CITY OF GULF SHORES, ALABAMA

**DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues				
Rent Income	\$ 439,333	\$ 439,333	\$ 477,759	\$ 38,426
Transfers In (including Pinnacle Taxes)	5,496,323	5,737,410	5,406,844	(330,566)
Interest	<u>1,780</u>	<u>1,780</u>	<u>384</u>	<u>(1,396)</u>
Total Revenues	<u>5,937,436</u>	<u>6,178,523</u>	<u>5,884,987</u>	<u>(293,536)</u>
Expenditures				
Administrative	-	-	5,573	(5,573)
Transfers Out	<u>5,937,436</u>	<u>6,178,523</u>	<u>6,014,616</u>	<u>163,907</u>
Total Expenses	<u>5,937,436</u>	<u>6,178,523</u>	<u>6,020,189</u>	<u>158,334</u>
Net change in fund balances	-	-	(135,202)	135,202
Fund balances, beginning of year	2,401,966	2,401,966	2,401,966	-
Fund balances, end of year	<u>\$ 2,401,966</u>	<u>\$ 2,401,966</u>	<u>\$ 2,266,764</u>	<u>\$ 135,202</u>

Local taxes collected in the general fund and transferred to the debt service fund to service the Pinnacle debt are presented as local tax revenues in the basic financial statements, however for budgeting purposes as transfers in.

STATISTICAL SECTION

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SCHEDULE 1
CITY OF GULF SHORES, ALABAMA
Net Assets by Component
Last Ten Fiscal Years

	Fiscal Year				
	2001	2002	2003	2004	2005
Governmental Activities					
Invested in capital assets, net of related debt	\$ 4,462,675	\$ 4,125,699	\$ 5,741,868	\$ 7,568,636	\$12,229,297
Unrestricted	47,088	15,123	1,573,408	3,444,156	2,029,950
Total governmental activities net assets	<u>4,509,763</u>	<u>4,140,822</u>	<u>7,315,276</u>	<u>11,012,792</u>	<u>14,259,247</u>
Business-type activities					
Invested in capital assets, net of related debt	7,143,532	14,070,108	15,287,812	15,218,754	15,158,543
Unrestricted	-	-	235,312	-	577,388
Total business-type activities net assets	<u>7,143,532</u>	<u>14,070,108</u>	<u>15,523,124</u>	<u>15,218,754</u>	<u>15,735,931</u>
Primary government					
Invested in capital assets, net of related debt	11,606,207	18,195,807	21,029,680	22,787,390	27,387,840
Unrestricted	47,088	15,123	1,808,720	3,444,156	2,607,338
Total primary government net assets	<u>\$11,653,295</u>	<u>\$ 18,210,930</u>	<u>\$ 22,838,400</u>	<u>\$26,231,546</u>	<u>\$29,995,178</u>

SCHEDULE 1
CITY OF GULF SHORES, ALABAMA
Net Assets by Component
Last Ten Fiscal Years

	Fiscal Year				
	2006	2007	2008*	2009	2010
Governmental Activities					
Invested in capital assets, net of related debt	\$14,391,987	\$23,092,192	\$ 27,718,754	\$ 26,875,334	\$ 32,443,514
Unrestricted	2,312,622	(6,785,381)	(6,934,917)	9,411,377	9,765,391
Total governmental activities net assets	16,704,609	16,306,811	20,783,837	36,286,711	42,208,905
Business-type activities					
Invested in capital assets, net of related debt	14,463,612	14,036,604	2,152,122	2,097,342	2,097,881
Unrestricted	809,706	1,762,474	26,188	96,815	69,694
Total business-type activities net assets	15,273,318	15,799,078	2,178,310	2,194,157	2,167,575
Primary government					
Invested in capital assets, net of related debt	28,855,599	37,128,796	29,870,876	28,972,676	34,541,395
Unrestricted	3,122,328	(5,022,907)	(6,908,729)	9,508,192	9,835,085
Total primary government net assets	\$31,977,927	\$32,105,889	\$ 22,962,147	\$38,480,868	\$ 44,376,480

*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

SCHEDULE 2
CITY OF GULF SHORES, ALABAMA
Changes in Net Assets, Last Eight Fiscal Years*
(Accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
Expenses				
Governmental activities:				
Executive	\$ 1,926,656	\$ 1,904,853	\$ 2,248,096	\$ 2,330,383
Municipal Court	180,089	196,349	225,855	260,332
Police	2,214,918	2,442,142	2,691,472	3,078,638
Fire	1,170,314	1,295,357	1,620,814	1,806,966
Public Works	2,778,189	4,466,661	33,565,952	21,287,453
Community and Economic Affairs	2,606,306	2,545,954	2,705,503	3,731,930
Other	1,759,192	3,134,047	7,498	5,690
Total governmental activities expenses	12,635,664	15,985,363	43,065,190	32,501,392
Business-type activities:				
Public Education Authority	214,629	217,845	220,382	193,967
Total business-type activities expenses	214,629	217,845	220,382	193,967
Total primary government expenses	12,850,293	16,203,208	43,285,572	32,695,359
Program Revenues				
Governmental activities:				
Charges for services:				
Executive	5,697	69,979	11,361	14,572
Municipal Court	233,118	244,799	310,157	368,833
Police	2,201	2,165	2,270	2,657
Fire	0	0	0	0
Community and Economic Affairs	2,462,632	3,157,082	4,650,195	5,141,249
Public Works	21,736	41,147	168,385	112,050
Operating Grants and Contributions	224,829	55,920	81,543	376,503
Capital Grants and Contributions	725,081	2,070,099	25,173,774	10,099,423
Total governmental activities program revenues	3,675,294	5,641,191	30,397,685	16,115,287
Business-type activities				
Charges for services				
Public Education Building Authority	164,895	165,255	205,240	-
Total business-type activities program revenues	164,895	165,255	205,240	-
Total primary government program revenues	\$ 3,840,189	\$ 5,806,446	\$ 30,602,925	\$ 16,115,287
Net (Expense)/Revenue				
Governmental activities	\$ (8,960,370)	\$ (10,344,172)	\$ (12,667,505)	\$ (16,386,105)
Business-type activities	(49,734)	(52,590)	(15,142)	(193,967)
Total primary government net expense	(9,010,104)	(10,396,762)	(12,682,647)	(16,580,072)
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Taxes				
Property taxes	1,297,384	1,647,890	1,675,718	2,257,901
Local taxes	9,849,269	12,233,350	13,724,852	16,283,821
Franchise taxes	690,219	681,462	642,003	689,245
State taxes	280,687	339,395	364,712	509,960
Investment earnings	169,752	231,761	365,030	1,075,784
Miscellaneous	495,306	315,750	78,627	122,637
Contributions	0	0	0	0
Gain/(Loss) on Disposal of Assets	28,633	(39,086)	47,271	43,172
Transfers	(222,933)	(44,615)	(66,434)	(54,303)
Total governmental activities	12,588,317	15,365,907	16,831,779	20,928,217
Business-type activities:				
Investment earnings	1,631	279	1,824	8,605
Miscellaneous	-	-	-	-
Transfers	-	-	66,434	54,303
Total business-type activities	1,631	279	68,258	62,908
Total primary government	12,589,948	15,366,186	16,900,037	20,991,125
Changes in Net Assets				
Governmental activities	2,200,488	3,697,516	2,949,852	2,453,103
Business-type activities	(48,103)	(52,311)	517,177	(462,613)
Total primary government	\$ 2,152,385	\$ 3,645,205	\$ 3,467,029	\$ 1,990,490

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

SCHEDULE 2
CITY OF GULF SHORES, ALABAMA
Changes in Net Assets, Last Eight Fiscal Years*
(Accrual basis of accounting)

	Fiscal Year			
	2007	2008**	2009	2010
Expenses				
Governmental activities:				
Executive	\$ 3,118,424	\$ 3,876,306	\$ 3,337,227	\$ 3,420,332
Municipal Court	256,691	350,461	264,323	313,745
Police	3,868,179	5,590,850	3,610,001	3,826,864
Fire	2,010,918	4,154,573	3,031,788	3,067,663
Public Works	5,574,241	6,875,071	4,553,330	5,664,271
Community and Economic Affairs	5,233,237	6,234,581	4,836,883	5,056,722
Other	234,914	8,706	5,676	0
Total governmental activities expenses	<u>20,296,604</u>	<u>27,090,548</u>	<u>19,639,228</u>	<u>21,349,597</u>
Business-type activities:				
Public Education Authority	193,282	198,674	190,751	191,366
Total business-type activities expenses	<u>193,282</u>	<u>198,674</u>	<u>190,751</u>	<u>191,366</u>
Total primary government expenses	<u>20,489,886</u>	<u>27,289,222</u>	<u>19,829,979</u>	<u>21,540,963</u>
Program Revenues				
Governmental activities:				
Charges for services:				
Executive	7,224	9,405	1,039	20,975
Municipal Court	412,609	443,103	364,946	381,667
Police	3,542	21,125	16,688	5,426
Fire	1,596	33,189	22,885	7,442
Community and Economic Affairs	430,164	3,882,347	3,187,112	3,120,094
Public Works	4,589,675	2,425,557	161,962	92,807
Operating Grants and Contributions	707,337	690,116	332,825	1,355,967
Capital Grants and Contributions	388,028	997,050	93,976	806,079
Total governmental activities program revenues	<u>6,540,175</u>	<u>8,501,892</u>	<u>4,181,433</u>	<u>5,790,457</u>
Business-type activities				
Charges for services				
Public Education Building Authority	204,045	242,844	161,230	164,245
Total business-type activities program revenues	<u>204,045</u>	<u>242,844</u>	<u>161,230</u>	<u>164,245</u>
Total primary government program revenues	<u>\$ 6,744,220</u>	<u>\$ 8,744,736</u>	<u>\$ 4,342,663</u>	<u>\$ 5,954,702</u>
Net (Expense)/Revenue				
Governmental activities	\$ (13,756,429)	\$ (18,588,656)	\$ (15,457,795)	\$ (15,559,140)
Business-type activities	10,763	44,170	(29,521)	(27,121)
Total primary government net expense	<u>(13,745,666)</u>	<u>(18,544,486)</u>	<u>(15,487,316)</u>	<u>(15,586,261)</u>
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Taxes				
Property taxes	3,002,915	4,055,825	4,829,741	2,874,858
Local taxes	17,229,278	19,124,991	16,099,252	18,921,830
Franchise taxes	922,973	1,358,036	1,173,166	1,135,118
State taxes	572,822	376,213	507,597	296,473
Investment earnings	1,334,581	999,710	415,465	300,395
Miscellaneous	117,782	683,025	341,266	369,997
Contributions	2,150,000	0	0	0
Gain/(Loss) on Disposal of Assets	(6,826)	5,158	(28,116)	8,803
Transfers	(101,951)	(147,969)	(96,000)	(96,000)
Total governmental activities	<u>25,221,574</u>	<u>26,454,989</u>	<u>23,242,371</u>	<u>23,811,474</u>
Business-type activities:				
Investment earnings	13,581	1,143	228	539
Miscellaneous	-	-	61,709	-
Transfers	101,951	-	102,000	-
Total business-type activities	<u>115,532</u>	<u>1,143</u>	<u>163,937</u>	<u>539</u>
Total primary government	<u>25,337,106</u>	<u>26,456,132</u>	<u>23,406,308</u>	<u>23,812,013</u>
Changes in Net Assets				
Governmental activities	9,123,986	4,477,026	5,454,367	5,922,194
Business-type activities	525,759	45,313	1,769,133	(26,582)
Total primary government	<u>\$ 9,649,745</u>	<u>\$ 4,522,339</u>	<u>\$ 7,223,500</u>	<u>\$ 5,895,612</u>

**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, ALABAMA
Fund Balances, Governmental Funds
Past Ten Fiscal Years
(Modified accrual basis of accounting)

	Fiscal Year				
	2001	2002	2003	2004	2005
General Fund					
Reserved	\$ 891,165	\$ 930,130	\$ 1,077,746	\$ 1,584,260	\$ 1,632,455
Unreserved	2,257,027	2,508,160	2,884,796	6,120,341	10,183,539
Total general fund	<u>3,148,192</u>	<u>3,438,290</u>	<u>3,962,542</u>	<u>7,704,601</u>	<u>11,815,994</u>
Other Governmental Funds					
Reserved	-	-	-	-	-
Unreserved, reported in:					
Storm Damage Fund	-	-	-	-	(781,825)
Debt Service fund	221,982	153,093	15,385	10,533	10,245
Capital Projects funds	2,266,401	2,151,422	9,103,310	7,253,155	1,700,747
Special Revenue funds	57,605	75,939	1,604,715	581,283	264,624
Total - governmental funds	<u>\$ 5,694,180</u>	<u>\$ 5,818,744</u>	<u>\$ 14,685,952</u>	<u>\$ 15,549,572</u>	<u>\$ 13,009,785</u>

SCHEDULE 3
CITY OF GULF SHORES, ALABAMA
Fund Balances, Governmental Funds
Past Ten Fiscal Years
(Modified accrual basis of accounting)

	Fiscal Year				
	2006	2007	2008*	2009	2010
General Fund					
Reserved	\$ 1,600,000	\$ 1,750,000	\$ 6,069,660	\$ 5,587,449	\$ 4,947,340
Unreserved	9,315,082	138,260	(7,566,741)	7,996,836	8,787,729
Total general fund	<u>10,915,082</u>	<u>1,888,260</u>	<u>(1,497,081)</u>	<u>13,584,285</u>	<u>13,735,069</u>
Other Governmental Funds					
Reserved	-	-	-	-	-
Unreserved, reported in:					
Storm Damage Fund	-	-	-	-	-
Debt Service fund	2,492,601	2,654,399	2,726,194	2,401,966	2,266,764
Capital Projects funds	14,999,644	7,121,853	8,053,171	7,470,961	6,451,384
Special Revenue funds	121,405	426,661	1,516,194	1,516,019	1,142,547
Total - governmental funds	<u>\$ 28,528,732</u>	<u>\$ 12,091,173</u>	<u>\$ 10,798,478</u>	<u>\$ 24,973,231</u>	<u>\$ 23,595,764</u>

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

SCHEDULE 4
CITY OF GULF SHORES, ALABAMA
Changes in Fund Balances, Governmental Funds,
Last Ten Fiscal Years
(Modified accrual basis of accounting)

	Fiscal Year				
	2001	2002	2003	2004	2005
Revenues					
Taxes					
Property	\$ 1,214,029	\$ 1,257,588	\$ 1,297,384	\$ 1,647,890	\$ 1,675,718
Local	8,542,455	9,298,107	9,969,179	12,355,908	13,724,852
Licenses, fees and permits	1,022,626	1,104,333	1,440,528	2,180,492	3,788,460
Fines and forfeitures	157,187	208,112	225,991	236,513	262,380
Utility tax equivalents	552,842	521,531	570,309	556,659	642,417
Intergovernmental	666,307	290,992	766,434	2,465,414	25,715,862
Investment earnings	633,346	345,277	169,752	231,761	365,030
Impact fees	-	-	-	-	83,259
BP lost revenues	-	-	-	-	-
Assessments/Rental Income	138,206	107,403	247,746	28,668	222,368
Other revenues	1,181,293	1,321,770	1,340,616	1,405,840	1,064,469
Total Revenues	14,108,291	14,455,113	16,027,939	21,109,145	47,544,815
Expenditures					
General government	1,572,850	1,638,436	1,841,076	1,810,077	2,035,079
Police	2,040,985	2,164,496	2,256,388	2,508,781	2,777,054
Fire	967,719	1,072,342	1,044,982	1,184,439	1,284,497
Community and Economic Affairs	2,205,184	2,228,150	2,338,546	2,269,784	2,621,001
Public Works	2,170,141	2,443,913	2,549,922	2,662,113	3,032,286
Appropriations	25,821	27,146	29,638	33,294	39,720
Hurricane damage	-	-	-	1,566,615	25,619,481
Capital outlay	10,319,650	1,455,510	2,753,191	4,329,807	8,492,074
Beach restoration	-	-	-	-	-
Principal	2,578,793	2,009,093	2,684,844	6,280,727	2,909,701
Interest	1,580,552	1,330,292	1,128,554	1,336,595	1,199,714
Miscellaneous	198,431	164,005	180,837	370,131	7,497
Total Expenditures	23,660,126	14,533,383	16,807,978	24,352,363	50,018,104
Excess(Deficiency) of revenues over (under) expenditures	(9,551,835)	(78,270)	(780,039)	(3,243,218)	(2,473,289)
Other Financing Sources (Uses)					
Bond Issue Proceeds	8,089,595	5,355,000	9,870,179	4,151,526	-
Transfers In	3,504,044	3,556,280	6,504,361	5,625,507	5,492,424
Transfers Out	(3,588,886)	(8,708,446)	(6,727,291)	(5,670,122)	(5,558,858)
Total Other Financing Sources and (Uses)	8,004,753	202,834	9,647,249	4,106,911	(66,434)
Net change in Fund Balance	\$ (1,547,082)	\$ 124,564	\$ 8,867,210	\$ 863,693	\$ (2,539,723)
Debt service as a percentage of noncapital expenditures	18%	23%	23%	31%	8%

SCHEDULE 4
CITY OF GULF SHORES, ALABAMA
Changes in Fund Balances, Governmental Funds,
Last Ten Fiscal Years
(Modified accrual basis of accounting)

	Fiscal Year				
	2006	2007	2008*	2009	2010
Revenues					
Taxes					
Property	\$ 2,257,901	\$ 3,002,915	\$ 4,055,825	\$ 4,829,741	\$ 2,874,858
Local	16,283,821	17,229,278	19,124,991	16,099,252	14,090,126
Licenses, fees and permits	3,848,980	3,254,980	2,282,137	1,774,814	1,793,733
Fines and forfeitures	317,114	357,709	339,901	283,025	287,012
Utility tax equivalents	689,245	922,973	1,358,036	1,173,166	1,135,118
Intergovernmental	11,022,349	1,760,784	2,175,825	1,002,180	1,354,240
Investment earnings	1,143,670	1,286,450	972,545	415,242	300,394
Impact fees	-	21,789	274,998	171,943	59,313
BP lost revenues	-	-	-	-	4,831,704
Assessments/Rental Income	-	249,646	2,138,702	461,372	477,759
Other revenues	1,541,924	1,658,320	2,417,430	1,397,759	1,422,399
Total Revenues	37,105,004	29,744,844	35,140,390	27,608,494	28,626,656
Expenditures					
General government	2,108,493	3,013,172	3,843,238	3,047,993	3,345,762
Police	3,116,044	3,647,436	5,163,685	3,707,762	3,602,956
Fire	1,548,227	2,277,696	3,737,052	2,812,995	4,049,711
Community and Economic Affairs	11,964,474	11,481,639	12,039,585	4,119,314	4,318,164
Public Works	3,995,690	5,923,290	9,251,581	4,098,407	4,575,589
Appropriations	64,095	117,962	203,569	61,000	57,000
Hurricane damage	15,025,803	-	-	-	-
Capital outlay	5,348,064	2,307,074	4,981,553	286,290	3,845,653
Beach restoration	778,563	129,365	97,439	69,576	83,028
Principal	3,148,961	2,848,471	10,448,915	3,745,338	3,684,476
Interest	1,655,566	2,601,500	3,473,511	2,335,885	2,330,140
Miscellaneous	14,492	268,054	409,503	5,666	8,988
Total Expenditures	48,768,472	34,615,659	53,649,631	24,290,226	29,901,467
Excess(Deficiency) of revenues over (under) expenditures	(11,663,468)	(4,870,815)	(18,509,241)	3,318,268	(1,274,811)
Other Financing Sources (Uses)					
Bond Issue Proceeds	27,236,717	316,984	17,364,514	-	-
Transfers In	11,503,560	18,315,874	15,690,435	16,164,963	4,574,279
Transfers Out	(11,557,863)	(18,417,825)	(15,838,404)	(16,260,399)	(4,670,279)
Total Other Financing Sources and (Uses)	27,182,414	215,033	17,216,545	(95,436)	(96,000)
Net change in Fund Balance	\$ 15,518,946	\$ (4,655,782)	\$ (1,292,696)	\$ 3,222,832	\$ (1,370,811)
Debt service as a percentage of noncapital expenditures	10%	16%	26%	25%	20%

*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 5
CITY OF GULF SHORES, ALABAMA
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Class I Utility Property</u>	<u>Class II Commercial</u>	<u>Class III Residential</u>	<u>Less Tax-Exempt Property</u>	<u>Total Taxable Assessed Value</u>	<u>Total Direct Tax Rate</u>	<u>Estimated Actual Taxable Value</u>	<u>Taxable Assessed Value as a Percentage of Actual Taxable Value</u>
2010	\$ 6,645,900	\$ 811,758,280	\$ 114,403,860	\$ 408,995,140	\$ 523,812,900	4.80	\$ 5,224,983,000	10.03%
2009	8,227,000	904,067,980	132,666,200	409,919,100	635,042,080	5.00	\$ 5,874,425,233	10.81%
2008	6,549,040	1,032,675,040	167,018,680	451,824,920	754,417,840	5.00	\$ 6,855,392,133	11.00%
2007	11,591,860	1,142,992,256	193,938,160	482,282,280	866,239,996	5.00	\$ 7,692,982,413	11.26%
2006	9,609,660	830,292,100	120,871,280	333,735,340	627,037,700	5.00	\$ 5,392,205,500	11.63%
2005	8,570,220	644,187,540	90,022,040	264,608,520	478,171,280	4.87	\$ 4,149,725,500	11.52%
2004	8,678,300	435,375,041	71,969,940	182,186,100	333,837,181	4.71	\$ 2,925,502,272	11.41%
2003	7,753,780	433,098,572	66,518,520	181,887,660	325,483,212	4.60	\$ 2,856,523,993	11.39%
2002	6,674,800	337,833,778	53,749,400	143,573,680	254,684,298	4.39	\$ 2,248,912,223	11.32%
2001	6,167,140	333,473,267	50,603,500	139,842,840	250,401,067	4.99	\$ 2,193,958,468	11.41%
2000	5,796,740	318,095,338	47,281,120	130,916,560	240,256,638	4.94	\$ 2,082,610,357	11.54%

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, ALABAMA
Property Tax Levies and Assessed Valuation
Last Ten Fiscal Years

Fiscal Year	Taxes Levied for the Year	Taxable Property Assessed Valuation
2001	1,252,014	250,401,067
2002	1,274,208	254,841,558
2003	1,628,063	325,612,672
2004	1,669,678	333,935,681
2005	2,391,170	478,235,060
2006	3,135,189	627,037,700
2007	4,331,916	866,383,116
2008	3,773,216	754,643,100
2009	3,176,680	635,336,040
2010	2,620,773	524,154,540

	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
Total	32.5 mills

21% Decline in property tax base due to County adjusted valuations

**SCHEDULE 7
CITY OF GULF SHORES, ALABAMA
Principal Property Tax Payers
Current Year and Ten Years Ago**

Taxpayer	2010			2000		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Seawind Development Co LLC	\$ 13,328,080	1	2.54%	\$ -	-	-
The Links at Gulf Shores	5,596,860	2	1.07%	-	-	-
Baldwin County EMC	4,303,000	3	0.82%	4,248,700	1	1.14%
TA-Colonial Traditions LLC	3,080,680	4	0.59%	-	-	-
Wal-Mart Real Estate Business Trust	3,079,220	5	0.59%	-	-	-
Beach Place Development LLC	2,254,480	6	0.43%	-	-	-
Gulf Shores Multi-Family Partners	2,245,520	7	0.43%	-	-	-
Gulf Telephone Company	2,078,600	8	0.40%	-	-	-
Howard Resort Inns Inc	2,067,300	9	0.39%	-	-	-
Target Corporation	1,979,260	10	0.38%	1,789,500	6	0.48%
Lighthouse Motel Inc	-	-	-	3,475,220	2	0.94%
H/M Partners LLC	-	-	-	3,532,100	3	0.95%
The Inn at Gulf Shores Ltd	-	-	-	2,375,480	4	0.64%
Craft Development Corporation	-	-	-	1,860,680	5	0.50%
Meyer, Erie H	-	-	-	1,714,960	7	0.46%
Tri-Tel LLC	-	-	-	1,412,420	8	0.38%
Waterville USA Inc	-	-	-	1,294,000	9	0.35%
Gulf Telephone Company	-	-	-	1,238,400	10	0.33%
Total	\$524,154,540		7.63%	\$ 371,173,198		6.18%

Source: Baldwin County Revenue Commissioner's Office.

SCHEDULE 8
CITY OF GULF SHORES, ALABAMA
Principal Sales Tax Remitters
Current Year and Ten Years Ago

Tax Remitter Classification	2010			2000		
	Tax Liability	Rank	Percentage of Total	Tax Liability	Rank	Percentage of Total
Retail Trade	\$ 1,933,173	1	22.00%	\$ -	-	-
Retail Trade	597,119	2	6.80%	-	-	-
Accommodation & Food Services	379,567	3	4.32%	-	-	-
Retail Trade	287,806	4	3.28%	122,754	3	2.58%
Retail Trade	276,277	5	3.14%	-	-	-
Accommodation & Food Services	206,286	6	2.35%	118,816	6	2.50%
Retail Trade	199,164	7	2.27%	-	-	-
Accommodation & Food Services	177,305	8	2.02%	-	-	-
Art, Entertainment, & Recreation	127,855	9	1.46%	122,415	4	2.57%
Retail Trade	126,569	10	1.44%	104,693	8	2.20%
Retail Trade	-	-	-	433,414	1	9.11%
Art, Entertainment, & Recreation	-	-	-	125,607	2	2.64%
Art, Entertainment, & Recreation	-	-	-	120,896	5	2.54%
Retail Trade	-	-	-	116,670	7	2.45%
Art, Entertainment, & Recreation	-	-	-	102,646	9	2.16%
Retail Trade	-	-	-	85,481	10	1.80%
Total	\$ 8,785,720		49.07%	\$ 4,759,305		30.54%

(sales quarterly, festival, vending)

SCHEDULE 9
CITY OF GULF SHORES, ALABAMA
Direct and Overlapping Sales Tax Rates
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>City Direct Rate</u>	<u>Baldwin County</u>
2000	3.00%	2.00%
2001	3.00%	2.00%
2002	3.00%	2.00%
2003	3.00%	2.00%
2004	3.00%	2.00%
2005	3.00%	2.00%
2006	3.00%	2.00%
2007	3.00%	2.00%
2008	3.00%	2.00%
2009	3.00%	2.00%
2010	3.00%	2.00%

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

SCHEDULE 10
CITY OF GULF SHORES, ALABAMA
Full-time Equivalent City Government Employees by Function/Program
Past Ten Years

	Full-Time Equivalent by Year									
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
General Government										
City Hall	17	17	18	19	17	19	21	25	20	20
Community Development/ Building*	7	7	7	8	9	11	12	4	4	4
								5	5	4
Court	3	3	3	3	3	3	3	3	3	3
Police	38	38	38	41	40	53	52	54	51	53
Fire	15	15	15	17	17	24	36	47	40	42
Public Works	40	40	40	44	44	45	63	59	51	51
Recreation	15	15	14	15	16	20	23	37	33	33
Total	<u>135</u>	<u>135</u>	<u>135</u>	<u>147</u>	<u>146</u>	<u>175</u>	<u>210</u>	<u>234</u>	<u>207</u>	<u>210</u>

*Community Development and Building combined count until 2008

SCHEDULE 11
CITY OF GULF SHORES, ALABAMA
Operating Indicators by Function/Program
Past Ten Years

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government										
Building permits issued*	-	-	-	-	-	486	577	451	400	388
Building inspections conducted*	-	-	-	-	-	-	-	1,576	1,062	966
Business Licenses issued*	-	-	-	-	3,901	8,677	7,566	7,083	7,491	7,554
Police										
Physical arrests	1,558	1,039	1,008	1,092	1,249	1,529	1,558	1,604	1,423	1,394
Traffic violations	2,243	2,898	1,830	2,180	1,603	1,726	2,008	1,858	1,268	1,484
Officers	28	28	28	30	32	36	35	40	39	39
Fire										
Emergency responses*	-	-	-	-	-	-	-	2,108	2,280	2,307
Fires extinguished*	-	-	-	-	-	-	-	59	52	30
Inspections*	-	-	-	-	-	-	-	413	335	467
Full time staff*	-	-	-	-	-	-	-	48	39	42
Part time staff*	-	-	-	-	-	-	-	6	-	-
Volunteer Firefighters*	-	-	-	-	-	-	-	17	17	8
Public Works										
Street resurfacing (linear feet)*	10,290	-	26,323	17,779	-	50,020	-	12,491	-	19,380

*Information not available for prior years

SCHEDULE 12
CITY OF GULF SHORES, ALABAMA
Capital Asset Statistics by Function/Program
Last Three Years*

Function/Program	<u>2008</u>	<u>2009</u>	<u>2010</u>
Police			
Stations	1	1	1
Fire Stations	4	4	4
Parks and recreation			
Football/Track Stadium	1	1	1
Softball fields	2	2	2
Baseball fields	13	13	13
Soccer field	1	1	1
Parks	8	8	8
Tennis Courts	18	18	18
Basketball Courts	2	2	2
Swimming Pool	1	1	1
Gymnasium	1	1	1
Transit - minibusses	5	5	5
Public Works			
Maintained Streets (miles)	65	65	65
Traffic Signals	24	24	24
Streetlights	2,201	2,201	2,234

*Information not available for the prior years

SCHEDULE 13
CITY OF GULF SHORES, ALABAMA
City of Gulf Shores
Population

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

Per Capita Income

	<u>1979</u>	<u>1989</u>	<u>1999</u>
Gulf Shores	7,761	17,414	24,356
State of Alabama	5,894	11,486	18,189

Median Family Income

	<u>1989</u>	<u>1999</u>
Gulf Shores	34,257	51,862
State of Alabama	28,688	41,657

Source: United States Bureau of the Census; 2010 income information not yet available at time of CAFR completion

Schedule 15

Unemployment Rates

Baldwin County	9.10%
Alabama	9.90%

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, 2010

Federal Grantor/Pass-through Grantor Program Title	Federal CFDA Number (1)	Pass-through Grantors Number	Expenditures of Federal Awards
DEPARTMENT OF HOMELAND SECURITY			
Firefighter Assistance	97.044	-	\$ 149,040
Public Assistance Grants	97.036	-	39,969
U.S. DEPARTMENT OF TRANSPORTATION			
FAA- Special Federal Airport Allocation	20.106	-	110,318
Transportation Enhancement	20.205	-	6,780
U.S. DEPARTMENT OF JUSTICE			
ARRA-Freedom Recovery Act	16.804	-	30,695
Public Safety Partnership and Community Policing	16.710	-	6,646
U.S. DEPARTMENT OF COMMERCE			
Investment for Public Works and Economic Development Facilities	11.300	-	255,032
U.S. DEPARTMENT OF INTERIOR			
Rural Fire Assistance	15.242	-	2,000
DEPARTMENT OF COMMERCE			
Coastal Management	11.419	-	<u>67,837</u>
Total Expenditures of Federal Awards			<u>\$ 668,317</u>

(1) Catalog of Federal Domestic Assistance Number

THE CITY OF GULF SHORES, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2010

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 program was the US Department of Commerce-Investment for Public Works and Economic Development Facilities- CFDA No. 11.300.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Gulf Shores, Alabama qualifies as a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

- No matters were reported in the current year.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

- No matters were reported in the current year.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

- No matters were reported in the prior year.

GRANT, & SANDERS & TAYLOR, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gulf Shores, Alabama, for the year ended December 31, 2010, which collectively comprise the City of Gulf Shores, Alabama's basic financial statements and have issued our report thereon dated May 12, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Gulf Shores, Alabama's ability to initiate, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Gulf Shores, Alabama's financial statements that is more than inconsequential will not be prevented or detected by the City of Gulf Shores, Alabama's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Gulf Shores, Alabama's internal control.

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

Compliance and Other Matters

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

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

A handwritten signature in cursive script, appearing to read "Grant Anderson & Company".

May 12, 2011

**GRANT,
& SANDERS
& TAYLOR, P.C.**
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**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**

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

Compliance

We have audited the compliance of the City of Gulf Shores, Alabama, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended December 31, 2010. The City of Gulf Shores, Alabama's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the City of Gulf Shores, Alabama's management. Our responsibility is to express an opinion on the City of Gulf Shores' compliance based on our audit.

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

In our opinion, the City of Gulf Shores, Alabama, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

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

Internal Control Over Compliance (continued)

In planning and performing our audit, we considered the City of Gulf Shores, Alabama's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Gulf Shores, Alabama's internal control over compliance.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that a noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of the Federal program will not be prevented or detected by the entity's internal control.

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

Schedule of Expenditures of Federal Awards

We have audited the 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, 2010, and have issued our report thereon dated May 12, 2011. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Gulf Shores, Alabama's, basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements of the City of Gulf Shores, Alabama. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information and, in our opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of management, the Mayor and City Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.



May 12, 2011

