

**CITY OF FOLEY, ALABAMA**  
**ANNUAL FINANCIAL REPORT**  
**SEPTEMBER 30, 2008**

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O'SULLIVAN CREEL, LLP  
Certified Public Accountants & Consultants

## INDEPENDENT AUDITOR'S REPORT

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

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We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Foley, Alabama ("the City"), as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of the City Council  
City of Foley, Alabama

The management's discussion and analysis on pages 2 through 9 and the schedule of revenues, expenditures and changes in fund balance (budget and actual) on page 36 are not a required part of the basic financial statements but are supplementary information required by 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual non-major fund financial statements and other schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is also presented for the purpose of additional analysis as required by the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The combining and individual non-major fund financial statements and other schedules, and schedule of expenditures 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.

*O'Sullivan Auel, LLP*

June 22, 2009

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

### FINANCIAL HIGHLIGHTS

- The City's total net assets (assets less liabilities) were \$95,018,209 at September 30, 2008. This was an increase of \$4,255,413 from the prior fiscal year (as restated).
- For the fiscal year the City earned taxes and other revenues totaling \$31,528,432 and had expenses of \$27,273,019.
- General fund operating revenues exceeded operating expenditures by \$4,071,894 for the fiscal year.
- At the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$12,631,365. The combined governmental fund balance decreased \$8,243,956 from the prior year's ending fund balance (as restated).
- The General Fund closed with a fund balance of \$11,045,206 reflecting an increase of \$1,967,564 for the year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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

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

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

## OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

The government-wide financial statements can be found on pages 11 and 12 of this report.

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

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

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

The City had activity in ten individual governmental funds during the year. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital projects fund, which are considered to be major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be found on pages 13 - 16 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 - 36 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents a budgetary comparison schedule for the general fund as required supplementary information. Required supplementary information can be found on page 37 - 38 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 39 - 44 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### STATEMENT OF NET ASSETS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$95,018,209 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (88 percent) reflects its investment in capital assets (e.g., land, buildings, and machinery and equipment); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A small portion of the City's net assets (1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors.

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

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

	<u>2008</u>	<u>2007 *</u>
Current and other assets	\$ 16,239,980	\$ 23,508,881
Capital assets, net	<u>102,478,968</u>	<u>91,660,041</u>
Total assets	<u>118,718,948</u>	<u>115,168,922</u>
Current and other liabilities	3,804,897	3,137,722
Long-term debt	<u>19,895,842</u>	<u>21,268,404</u>
Total liabilities	<u>23,700,739</u>	<u>24,406,126</u>
Net assets:		
Invested in capital assets, net of debt	83,483,126	81,916,637
Restricted	1,586,159	1,449,207
Unrestricted	<u>9,948,924</u>	<u>6,490,926</u>
Total net assets	<u>\$ 95,018,209</u>	<u>\$ 90,762,796</u>

\* As restated

For more detailed information see the statement of net assets on page 11.

The City is able to report positive balances in all three categories of net assets for both the current and preceding year.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS** (continued)

**STATEMENT OF ACTIVITIES**

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

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

	<u>2008</u>	<u>2007 *</u>
Program revenues:		
Charges for services	\$ 4,700,740	\$ 5,025,126
Operating grants and contributions	331,819	668,212
Capital grants and contributions	3,293,999	549,482
General revenues:		
Property taxes	1,510,085	1,244,320
Sales and other local taxes	12,496,358	11,939,304
Utility tax equivalents	4,928,220	4,373,209
Forfeitures	42,292	3,753
Grants and contributions not restricted to specific programs	2,760,367	10,556,354
Interest and rents	1,428,871	1,274,810
Other	(33,280)	15,597
Gain on sale of capital assets	68,961	399,046
Total revenues	<u>31,528,432</u>	<u>36,049,213</u>
Expenses:		
General government	4,821,188	4,488,236
Public safety	10,127,234	8,343,844
Highways and streets	5,666,906	2,809,366
Sanitation	1,993,048	1,734,747
Conservation	51,170	486,213
Culture and recreation	3,478,166	3,845,069
Interest on long-term debt	1,135,307	1,235,459
Total expenses	<u>27,273,019</u>	<u>22,942,934</u>
Change in net assets	4,255,413	13,106,279
Net assets – beginning, as restated	<u>90,762,796</u>	<u>77,656,517</u>
Net assets – ending	<u>\$ 95,018,209</u>	<u>\$ 90,762,796</u>

\* As restated

## CITY OF FOLEY FUNDS

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

TABLE 3  
CHANGE IN FUND BALANCES  
September 30, 2008

	Beginning Fund Balance *	Increase (Decrease)	Ending Fund Balance
General Fund	\$ 9,077,642	\$ 1,967,564	\$ 11,045,206
Capital Projects Fund	257,943	142,818	400,761
General Obligations 2006	10,348,471	(10,348,471)	-
Other Funds	1,191,265	(5,867)	1,185,398
Total	<u>\$ 20,875,321</u>	<u>\$ (8,243,956)</u>	<u>\$ 12,631,365</u>

\* As restated

The General Fund closed with an increase in fund balance of \$1,967,564. Actual general fund operations resulted in \$4,071,894 in excess revenue remaining after General Fund expenditures. Final reimbursement from the 2006A Bond proceeds and interest earnings of \$10,560,808, revenues generated from the sale of land and equipment totaling \$139,532, and capital lease of police equipment of \$187,195 added another \$10,887,535 to the fund. Transfers to Capital project and Debt Service funds totaled \$12,991,865 leaving an increase in fund balance of \$1,967,564.

The Capital Projects fund experienced an increase of \$142,818 in fund balance. Grant revenues and assistance from other governmental agencies totaling \$3,298,266, with \$2,600,000 being the Baldwin County Commission's share of the County Road 20 Widening Project, were recognized. The remaining project expenditures were funded by transfers from the General Fund.

The General Obligation Warrant Series 2006 fund served both as a debt service fund and holding account for the \$11,460,000 bond proceeds, the balance of which was spent prior to the end of the fiscal year. City Officials issued the bonds to pay for certain capital improvements and purchases that the General Fund was unable to support. The majority of these capital expenditures occurred within the Capital Projects Fund. The \$10,348,471 decrease in fund balance exhausted all proceeds and interest earnings and the fund was closed at year end.

Other funds experienced a decrease in fund balance of \$5,867. The Fire Advalorem and Gas Tax Funds had fund balance increases totaling \$114,156 due to revenues, consisting of shares of property tax and gas tax revenues, exceeding expenditures. Cash accounts hold the excess revenues until enough is realized to make purchases or undertake projects that are most often capital in nature. The Library Fund fund balance decrease of \$10,306 is primarily due to expenditures relating to the completion of the expansion and renovation of the existing building. The Recreational Activities Fund decrease of \$2,542 in fund balance represents the cost in excess of fees charged for recreational activities. Purchases of capital items in the Corrections Fund exceeded revenues by \$105,015. Fund balance decreases in both the 1999 Warrant Fund and the 2004 Refinance Warrant represent a minor deficit in planned interest earnings on funds held for debt retirement.