

**THE CITY OF ORANGE BEACH, ALABAMA**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2012**

THE CITY OF ORANGE BEACH, ALABAMA  
FINANCIAL STATEMENTS  
DECEMBER 31, 2012

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council  
Orange Beach, Alabama

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Orange Beach, Alabama, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinions**

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Orange Beach, Alabama, as of December 31, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United State of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Orange Beach, Alabama's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2013 on our consideration of the City of Orange Beach, Alabama's internal control over financial reporting and on our test 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 and 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* in considering the City of Orange Beach, Alabama's internal control over financial reporting and compliance.



Gulf Shores, Alabama  
June 26, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(MD&A)

## BASIC FINANCIAL STATEMENTS

## **Management's Discussion and Analysis**

### **Overview of the Financial Statements**

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

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

This Financial Report also contains other supplementary information in addition to the basic financial statements.

#### **Government-wide Financial Statements**

The Government-wide financial statements provide a broad overview of the City of Orange Beach's finances. The presentation is in a manner similar to a private-sector business.

The Statement of Net Assets provides information on all the City's assets and liabilities. The difference between the two is reported as net assets. Over time, changes (increases or decreases) in net assets may provide a useful indicator of the City's overall financial condition.

The Statement of Activities 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. The City of Orange Beach 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 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. Readers of the financial statements may better understand the long-term impact of the government's near-term financial decisions.

#### **Proprietary Funds**

The City of Orange Beach maintains five enterprise funds: Refuse Fund, Sewer Fund, Retail Center Fund, Event Center Fund, and the Baldwin County Bridge Company Fund. Enterprise funds report the same functions presented in business-type activities in the Government-wide financial statements.

#### **Notes to the Basic Financial Statements**

The notes provide additional information and are essential to the full understanding of the data in the Government-wide and Fund Financial Statements.

## Government-wide Financial Analysis

As previously noted, over time, net assets may serve as a useful indicator of a government's financial condition. At the close of Fiscal Year 2012 on December 31, 2012, the City of Orange Beach assets exceeded its liabilities by \$83,950,605 whereas at the close of Fiscal Year 2011 on December 31, 2011, the City of Orange Beach assets exceeded its liabilities by \$78,171,290. 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.

**Table 1 below represents the City's Condensed Statement of Net Assets as of December 31, 2012 and December 31, 2011, and is derived from the Government-wide Statement of Net Assets.**

*Table 1 – Condensed Statement of Net Assets*

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 26,250,341	\$ 21,734,960	\$ 21,286,426	\$ 16,067,985	\$ 47,536,767	\$ 37,802,945
Capital Assets	73,799,817	74,792,220	30,381,911	31,555,996	104,181,728	106,348,216
Total Assets	\$ 100,050,158	\$ 96,527,180	\$ 51,668,337	\$ 47,623,981	\$ 151,718,495	\$ 144,151,161
Other Liabilities	\$ 1,035,777	\$ 2,188,589	\$ 430,621	\$ 947,584	\$ 1,466,398	\$ 3,136,173
Long-term Liabilities	27,114,775	28,261,491	38,169,118	34,582,207	65,283,893	62,843,698
Total Liabilities	\$ 28,150,552	\$ 30,450,080	\$ 38,599,739	\$ 35,529,791	\$ 66,750,291	\$ 65,979,871
Deferred Inflow of Resources	\$ 984,403	\$ -	\$ 33,196	\$ -	\$ 1,017,599	\$ -
Net Position	\$ 70,915,203	\$ 66,077,100	\$ 13,035,402	\$ 12,094,190	\$ 83,950,605	\$ 78,171,290
Invested in Capital Assets, Net of Related Debt	\$ 47,127,624	\$ 46,944,853	\$ -	\$ -	\$ 47,127,624	\$ 46,944,853
Restricted	9,178,345	9,164,961	6,917,670	7,011,268	16,096,015	16,176,229
Unrestricted	14,609,234	9,967,286	6,117,732	5,082,922	20,726,966	15,050,208
Total Net Position	\$ 70,915,203	\$ 66,077,100	\$ 13,035,402	\$ 12,094,190	\$ 83,950,605	\$ 78,171,290

### Overall Analysis

Financial highlights for the City of Orange Beach as a whole during the fiscal year ended December 31, 2012 and December 31, 2011, include the following:

The assets of the City exceeded its liabilities (net assets) at the close of the fiscal year ended December 31, 2012, by \$70,915,203 and at the close of the fiscal year ended December 31, 2011, by \$66,077,100 for Governmental Activities and by \$13,035,402 and \$12,094,190 (respectively for each year end) for Business-type Activities (See Table 1-Condensed Statement of Net Assets).

**Table 2 on the next page represents the City's Condensed Statement of Activities as of December 31, 2012 and December 31, 2011 and is derived from the Statement of Activities.**

**Table 2 – Condensed Statement of Activities**

	Governmental Activities		Business-Type Activities		Total Primary Governmental	
	2012	2011	2012	2011	2012	2011
Functions/ Programs						
<b>PRIMARY GOVERNMENT:</b>						
Governmental Activities						
General Government	\$ (1,680,290)	\$ (1,645,651)	\$ -	\$ -	\$ (1,680,290)	\$ (1,645,651)
Municipal Court	(320,805)	(327,657)	-	-	(320,805)	(327,657)
Finance	1,190,964	842,448	-	-	1,190,964	842,448
Engineering Coastal	(955,012)	(1,106,392)	-	-	(955,012)	(1,106,392)
Police	(3,198,704)	(3,082,803)	-	-	(3,198,704)	(3,082,803)
Corrections	(518,185)	(508,178)	-	-	(518,185)	(508,178)
Communication	(396,116)	(397,114)	-	-	(396,116)	(397,114)
Fire	(3,795,783)	(3,455,630)	-	-	(3,795,783)	(3,455,630)
Public Works	(2,573,871)	(2,215,180)	-	-	(2,573,871)	(2,215,180)
Landscape	(1,334,566)	(1,209,384)	-	-	(1,334,566)	(1,209,384)
Parks & Recreation	(1,778,436)	(1,793,827)	-	-	(1,778,436)	(1,793,827)
Library	(507,902)	(485,627)	-	-	(507,902)	(485,627)
Community Development	181,869	175,575	-	-	181,869	175,575
Hurricane Disaster Recovery	(81,380)	-	-	-	(81,380)	-
BP Oil Spill	24,428	106,763	-	-	24,428	106,763
Interest on Long- Term Debt	(1,022,818)	(1,273,461)	-	-	(1,022,818)	(1,273,461)
Total Governmental Activities	<u>\$ (16,766,607)</u>	<u>\$ (16,376,118)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (16,766,607)</u>	<u>\$ (16,376,118)</u>
Buisness-type Activities						
Sewer Fund	\$ -	\$ -	\$ 1,534,294	\$ 1,636,363	\$ 1,534,294	\$ 1,636,363
Refuse Fund	-	-	(29,974)	(63,793)	(29,974)	(63,793)
Retail Fund	-	-	150,187	131,444	150,187	131,444
Events Center	-	-	(23,555)	(76,030)	(23,555)	(76,030)
Baldwin County Bridge Fund	-	-	(203,147)	(188,280)	(203,147)	(188,280)
Total Business-type activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,427,805</u>	<u>\$ 1,439,704</u>	<u>1,427,805</u>	<u>1,439,704</u>
Total Primary Government	<u>\$ (16,766,607)</u>	<u>\$ (16,376,118)</u>	<u>\$ 1,427,805</u>	<u>\$ 1,439,704</u>	<u>\$ (15,338,802)</u>	<u>\$ (14,936,414)</u>
General Revenues:						
Taxes	\$ 21,532,835	\$ 19,964,815	\$ -	\$ -	\$ 21,532,835	\$ 19,964,815
Investment Earnings	21,711	35,533	70,242	16,228	91,953	51,761
BP Lost Revenues	-	1,324,013	-	-	-	1,324,013
BP Reimbursed Expense	36,613	73,333	-	-	36,613	73,333
Miscellaneous	179,935	143,101	75,107	74,737	255,042	217,838
(Loss) on Retirement of Assets	(848,242)	-	-	-	(848,242)	-
Gain (Loss) on Disposal of Assets	46,589	84,298	3,327	(3,765,246)	49,916	(3,680,948)
Insurance Claims	-	48,656	-	-	-	48,656
Transfers	635,269	(954,340)	(635,269)	954,340	-	-
Total General Revenues	<u>21,604,710</u>	<u>20,719,409</u>	<u>(486,593)</u>	<u>(2,719,941)</u>	<u>21,118,117</u>	<u>17,999,468</u>
Change in Net Assets	4,838,103	4,343,291	941,212	(1,280,237)	5,779,315	3,063,054
Net Assets - Beginning	<u>66,077,100</u>	<u>61,733,809</u>	<u>12,094,190</u>	<u>13,374,427</u>	<u>78,171,290</u>	<u>75,108,236</u>
Net Assets - Ending	<u>\$ 70,915,203</u>	<u>\$ 66,077,100</u>	<u>\$ 13,035,402</u>	<u>\$ 12,094,190</u>	<u>\$ 83,950,605</u>	<u>\$ 78,171,290</u>

The City's total net assets increased during the current year by \$5,779,315 and during the previous year by \$3,063,054. Net assets of Governmental Activities increased by \$4,838,103 during fiscal year 2012 and increased by \$4,343,291 during fiscal year 2011 while the net assets on Business-type Activities increased by \$941,212 during fiscal year 2012 and decreased by \$1,280,237 during fiscal year 2011.

## **Financial Analysis of the Government's Funds**

The City of Orange Beach 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 current fiscal year, the City's Governmental Funds showed a combined ending fund balance of \$24,066,949 compared to \$19,162,046 at the end of the previous fiscal year with \$14,153,125 unassigned compared to \$9,485,938 reported as unreserved fund balance. The remaining reserved amount of \$9,913,824 for fiscal year end 2012, is \$158,026 non spendable, \$1,367,263 restricted, \$8,168,050 committed, and \$220,485 assigned as compared to the fiscal year ended 2011 amount of \$9,676,108 (\$160,074 non spendable, \$1,170,649 restricted, \$8,148,707 committed, and \$196,678 assigned)

### **Proprietary Funds**

As of the close of the current fiscal year the City's Proprietary Funds reported total net assets of \$13,035,402 compared to \$12,094,190 at the end of fiscal 2011.

## **Budget Variances in the General Fund**

The City Council did not revise the original adopted General Fund budget. The actual expenditures of the General Fund were \$23,018,540 under the budgeted amounts. This mainly results from the City not booking the transfer of \$8,150,062 to our Natural Disaster Reserve Fund as an expense but rather as a cash account transfer (reserve). Also while we budgeted \$3,563,500 as a Capital Reserve Fund, we did not utilize any for 2012 purchases. Additionally \$1,283,785 of our budgeted capital projects did not get completed, \$500,000 transfer to the Wharf did not occur due to the agreement renegotiation, and \$9,070,189 of hurricane damage repair did not occur. The three departments most heavily effected by 2012 record number of tourist; Police, Fire, and Public Works, experienced a combined overage of \$683,933. The overage primarily consists of manpower and additional supplies and small equipment necessary to serve increased crowds. Actual revenues were \$5,991,466 under the final budgeted amounts. There were three significant variances. The beach renourishment project was delayed thus the actual revenue to cover the project was \$7,426,440 short of budget. Local taxes exceeded budget by \$2,074,798 as beach goers returned in record numbers during summer 2012. Refer to the budgetary comparison schedule for the General Fund in the other RSI section of the Financial Report.

## **Capital Asset and Long-term Debt Activity**

### **Capital Asset Activity**

At December 31, 2012, the City of Orange Beach reported net capital assets of \$73,799,817 from governmental activities and net capital asset of \$30,381,911 from business-type activities. At December 31, 2011, the City of Orange Beach reported net capital assets of \$74,792,220 from governmental activities and net capital asset of \$31,555,996 from business-type activities.

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 pipes (other than utilities), traffic signals, etc. The City's capitalization threshold for infrastructure is \$500,000. The City of Orange Beach, Alabama does not have infrastructure that exceeds the capitalization threshold.

Refer to **Note 11** to the financial statements for additional information on capital assets.

### **Long-term Debt Activity**

As of year-end, the City had \$64,784,049 in debt outstanding compared to \$62,373,284 last year. Refer to **Note 5** to the financial statements for additional information on long-term debt activity.

## Future Events Impacting the City's Financial Condition

The City of Orange Beach faces several factors that will impact the City's financial and fiscal condition next year and beyond:

- 1) The City has entered into a 30 year option to purchase the Foley Beach Express Bridge. The City began making annual \$1.2 million payments to the bridge company for ten (10) years. The 2013 payment ends the 10 year outlay. In exchange, the City receives a per car royalty for thirty (30) years. If the City does not exercise the option to purchase in year thirty (30), the per car royalty payment extends for a second thirty (30) year period.
- 2) In 2004, the City entered into a fifteen year agreement with AIG Baker for the development of "The Wharf", a mixed-use commercial development on Canal Road. The City has committed one-half of the sales and lodging taxes collected from the project for public improvements associated with the project. The tax reimbursement portion of the agreement began in 2011; however the City renegotiated a \$1,000,000 escrow account to build up before any tax payments are shared. Along with this renegotiation the City acquired a one acre tract of land on a prime corner lot. In 2012 The Wharf came into new ownership that is aggressively attracting new investment.
- 3) In 2005, the City purchased 80 acres of land north of the Intracoastal Waterway for the development of a Commerce Park. The City sold 20 acres to Baldwin Electric Membership Cooperative, 20.42 acres to Columbia Southern University, and an approximate 3 acres to VDL Holdings, LLC. Approximately 17 acres consists of undevelopable wetlands. The City has listed the remaining 20 acres for sale or lease.
- 4) In May 2009, the Governor of Alabama signed legislation that will allow the construction of the Gulf State Park's Hotel and Conference Center in Gulf Shores to begin. This Center is known as a "superpark" generating revenue for the entire Alabama State Park System and having a positive economic impact directly across the Alabama Gulf Coast including Orange Beach. While construction has yet to begin on the Conference Center, Gulf State Park has made significant improvements to its fishing pier, beach pavilion, campground and trails which are a direct positive impact for adjacent Orange Beach.
- 5) The City continues to explore the feasibility of the development of the Wolf Bay Bridge Project as a public private partnership. In 2011, the City paid off a loan for \$3.45 million and now holds title to several acres of property which will serve as the landing for a future bridge at the intersection of Highway 161 and Highway 180.
- 6) The City has established a permanent reserve fund for the general fund and the sewer utility fund.
- 7) The City continues to pursue with the City of Gulf Shores a regional medical facility and regional healthcare improvements through a partnership known as the Gulf Coast Healthcare Authority.
- 8) The City began construction of its new 10 million gallon per day waste water treatment plant in 2007 to handle the growth projected at that time. The plant was completed under budget in Spring 2011, creating immediate equity for the City. While growth slowed significantly after the original plant design, it is built to operate only 5mg/d until additional capacity is needed thus keeping operating costs low. The WWTP has tremendous excess capacity to handle future loads.
- 9) The overall conservative philosophies of the administration which took office in November 2008 led to very lean operating budgets, plans for increasing reserves and close fiscal management. These philosophies resulted in the City maintaining and receiving an improved bond rating in 2009. The Council continues to be conservative in their budgeting, spending, and debt management. The August 2012 election returned the mayor and two council members to office. The three new council members are experienced business men who seem to share the mayor's financial philosophies.
- 10) On April 20, 2010, the BP/Deepwater Horizon oil derrick explosion occurred in the Gulf of Mexico. The well continued to leak oil for approximately 90 days. While the oil that reached our beaches was minimal in comparison to Louisiana, the national media coverage of the potential negatively impacted tourism for the summer of 2010. The State received over \$31,000,000 to assist with advertising the Alabama gulf coast. The City filed claims for the time and materials and for lost revenues and received approximately \$1,000,000 for personnel services reimbursement and approximately \$3,500,000 for lost revenues. A final settlement with BP has not been reached as of midyear 2013 for additional lost revenues in 2010 and 2011. In June 2012, the U.S. Congress passed the RESTORE Act which directs fines and penalties directly due from the quantity of oil spilled into the Gulf of Mexico. The RESTORE Act specifically directs 80% of these fines to go to the five gulf states. Alabama and its two coastal counties are estimated to receive at minimum \$1 billion to be reinvested in environmental and economic restoration projects such as infrastructure.

- 11) In order to immediately provide funds for needed and future anticipated beach renourishment issues as well as ease the burdens created by the current economic climate, the Council refinanced its 2005 and 2007A warrant issues during the early summer of 2010. The 2005 issue was for the last comprehensive beach renourishment project and is scheduled to pay off in 2015. The 2007A issue was used to establish the City's permanent reserve fund and is scheduled to pay off in 2015. The Council structured the new issues to pay off in 2020 and to pay interest only until 2015. This restructuring will save approximately \$2,000,000 of debt service payments each year through 2015 at which time the debt service payments will become approximately \$2,500,000 per year until 2020. During 2005 an additional 1 cent sales tax was instituted to basically provide for the 2005 issue's debt service payments. It was also to pay for needed drainage projects and to provide for reserve funds. The 1 cent tax was scheduled to end in 2015. The Council is contemplating the extension of the 1 cent sales tax to coincide with the payoff date of the 2010 warrants.
- 12) In order to help stimulate the local economy, the City has in past years considered building a civic center and/or facilitated efforts of potential developers to build such center. The Wharf built and opened a 28,000 square foot conference center in 2008. In April 2011, the City purchased the Wharf Conference Center for \$1.6 million, gaining immediate equity in the asset. Indications are that it will operate close to breakeven due to a long term lease with Student Life for summer use and Convention & Visitors Bureau information on previous business turned away from the area due to lack of space requirements. The City is aggressively recruiting trade shows, conferences, meetings, concerts and more to bring attendees to town to fill room nights in the City.
- 13) In April 2012, the Baldwin County Commission purchased approximately 2400 acres, known as the Megasite, close to Interstate 65 to market to potential industrial prospects. Expected to foster the creation of over 1000 jobs. In July 2012, Mobile announced that the Airbus jet assembly plant will be locating there. Over 3200 jobs are expected to be created during the construction phase of the project with over 1000 once the plant is completed. The Airbus location will certainly make the Baldwin County Megasite attractive to suppliers. Both should generate great economic benefits to the area including Orange Beach.
- 14) The Alabama Gulf Coast Reef and Restoration Foundation successfully sunk a 271 foot retired coastal freighter 17 nautical miles off the coast of Orange Beach in May 2013. This is a new attraction for the Alabama gulf coast and is expected to immediately tap into the lucrative scuba diving market. The sinking was performed by the Walter Marine crew which has become known as the Reef Wranglers due to The Weather Channel reality series that has featured them this past year.

## GOVERNMENT - WIDE FINANCIAL STATEMENTS

THE CITY OF ORANGE BEACH, ALABAMA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2012

	Primary Government		Totals
	Governmental Activities	Business-type Activities	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 11,770,035	\$ 6,170,486	\$ 17,940,521
Accounts receivable - net	3,754,889	5,575,905	9,330,794
Internal balances	1,009,555	(1,009,555)	-
Inventories	15,722	13,602	29,324
Prepays	142,304	4,314	146,618
Restricted assets:			
Cash and cash equivalents	9,178,345	6,917,670	16,096,015
Capital assets:			
Non-depreciable	47,926,811	502,236	48,429,047
Depreciable (net)	25,873,006	29,879,675	55,752,681
Bond issuance expenses (net)	379,491	3,614,004	3,993,495
<b>Total assets</b>	<b>\$ 100,050,158</b>	<b>\$ 51,668,337</b>	<b>\$ 151,718,495</b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 433,488	\$ 236,164	\$ 669,652
Accrued expenses	385,969	36,398	422,367
Accrued interest payable	216,320	158,059	374,379
Long-term liabilities:			
Due within one year:			
Compensated absences	282,186	35,505	317,691
Bonds payable	1,195,150	1,427,241	2,622,391
Due in more than one year:			
Compensated absences	160,396	21,757	182,153
Bonds payable	25,477,043	36,684,615	62,161,658
<b>Total liabilities</b>	<b>28,150,552</b>	<b>38,599,739</b>	<b>66,750,291</b>
<b>DEFERRED INFLOW OF RESOURCES</b>			
Unearned revenue	984,403	33,196	1,017,599
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	47,127,624	-	47,127,624
Restricted:			
Capital projects	1,010,295	-	1,010,295
Emergencies	8,168,050	6,917,670	15,085,720
Unrestricted (deficit)	14,609,234	6,117,732	20,726,966
<b>Total net assets</b>	<b>\$ 70,915,203</b>	<b>\$ 13,035,402</b>	<b>\$ 83,950,605</b>

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

THE CITY OF ORANGE BEACH, ALABAMA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012

Functions/Programs	Program Revenues			Primary Government		
	Expenses	Charges for Services	Capital Grants and Contributions	Governmental Activities	Business type Activities	Total
<b>PRIMARY GOVERNMENT:</b>						
Governmental activities:						
General government	\$ 2,312,705	\$ 175,726	\$ 456,689	\$ (1,680,290)	\$	\$ (1,680,290)
Court	350,450	29,645	-	(320,805)	-	(320,805)
Finance	616,807	1,807,771	-	1,190,964	-	1,190,964
Engineering/ Coastal	1,172,828	-	217,816	(955,012)	-	(955,012)
Police	3,384,251	185,547	-	(3,198,704)	-	(3,198,704)
Corrections	518,185	-	-	(518,185)	-	(518,185)
Communications	396,116	-	-	(396,116)	-	(396,116)
Fire	4,357,963	249,864	312,316	(3,795,783)	-	(3,795,783)
Public works	2,621,934	-	48,063	(2,573,871)	-	(2,573,871)
Landscape	1,334,566	-	-	(1,334,566)	-	(1,334,566)
Parks and recreation	2,784,209	824,663	181,110	(1,778,436)	-	(1,778,436)
Library	576,442	43,040	25,500	(507,902)	-	(507,902)
Community development	-	181,869	-	181,869	-	181,869
Beach renourishment	811,811	-	730,431	(81,380)	-	(81,380)
BP Oil Spill	246,898	-	271,326	24,428	-	24,428
Interest on long-term debt	1,022,818	-	-	(1,022,818)	-	(1,022,818)
Total governmental activities (See Note 1)	22,507,983	3,498,125	2,243,251	(16,766,607)		(16,766,607)
Business-type activities:						
Sewer	4,535,600	6,069,894	-	-	1,534,294	1,534,294
Refuse	2,386,637	2,356,663	-	-	(29,974)	(29,974)
Retail	63,281	213,468	-	-	150,187	150,187
Events Center	177,226	153,671	-	-	(23,555)	(23,555)
Baldwin County Bridge Company (BCBC)	203,147	-	-	-	(203,147)	(203,147)
Total business-type activities	7,365,891	8,793,696	-	-	1,427,805	1,427,805
Total primary government	29,873,874	12,291,821	2,243,251	(16,766,607)	1,427,805	(15,338,802)
General revenues:						
Property taxes				2,969,708	-	2,969,708
Local taxes				9,686,179	-	9,686,179
Franchise taxes				1,221,904	-	1,221,904
State taxes				279,329	-	279,329
Sales taxes				7,375,715	-	7,375,715
Unrestricted investment earnings				21,711	70,242	91,953
BP reimbursed expense				36,613	-	36,613
Miscellaneous				179,935	75,107	255,042
(Loss) on retirement of assets				(848,242)	-	(848,242)
Gain (loss) on disposal of assets				46,589	3,327	49,916
Transfers				635,269	(635,269)	-
Total general revenues, special items and transfers				21,604,710	(486,593)	21,118,117
Change in net assets				4,838,103	941,212	5,779,315
Net assets - beginning				66,077,100	12,094,190	78,171,290
Net assets - ending				70,915,203	13,035,402	83,950,605

## FUND FINANCIAL STATEMENTS

THE CITY OF ORANGE BEACH, ALABAMA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2012

	General	Debt Service	Special Revenues	Library	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 11,543,535	\$ -	\$ 6,015	\$ 220,485	\$ 11,770,035
Restricted cash and cash equivalents	8,252,967	925,378	-	-	9,178,345
Accounts receivable - net	3,689,242	-	65,647	-	3,754,889
Due from other funds	2,660,730	-	-	-	2,660,730
Inventory	15,722	-	-	-	15,722
Prepaid insurance	142,304	-	-	-	142,304
<b>Total assets</b>	<u>\$ 26,304,500</u>	<u>\$ 925,378</u>	<u>\$ 71,662</u>	<u>\$ 220,485</u>	<u>\$ 27,522,025</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	352,443	2,226	-	-	354,669
Due to other funds	1,537,613	85,222	28,340	-	1,651,175
Accrued expenses	346,849	-	-	-	346,849
Appearance bonds	61,728	-	-	-	61,728
Performance bonds	33,080	-	-	-	33,080
Communications tower escrow funds	23,172	-	-	-	23,172
Deferred revenue	984,403	-	-	-	984,403
<b>Total liabilities</b>	<u>3,339,288</u>	<u>87,448</u>	<u>28,340</u>	<u>-</u>	<u>3,455,076</u>
<b>Fund balances:</b>					
Nonspendable	158,026	-	-	-	158,026
Spendable:					
Restricted	486,011	837,930	43,322	-	1,367,263
Committed	8,168,050	-	-	-	8,168,050
Assigned	-	-	-	220,485	220,485
Unassigned	14,153,125	-	-	-	14,153,125
<b>Total fund balances</b>	<u>22,965,212</u>	<u>837,930</u>	<u>43,322</u>	<u>220,485</u>	<u>24,066,949</u>
<b>Total liabilities and fund balances</b>	<u>\$ 26,304,500</u>	<u>\$ 925,378</u>	<u>\$ 71,662</u>	<u>\$ 220,485</u>	<u>\$ 27,522,025</u>

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

THE CITY OF ORANGE BEACH, ALABAMA  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2012

Fund balances - total governmental funds \$ 24,066,949

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	89,018,524	
Less accumulated depreciation	<u>(15,218,707)</u>	73,799,817

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

Bond issue costs	528,274	
Less accumulated amortization	<u>(148,783)</u>	379,491

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	(26,235,250)	
Premium on bonds issued	(643,779)	
Discount on bonds issued	42,033	
Accumulated amortization of premium / discount	164,803	
Compensated absences	<u>(442,541)</u>	(27,114,734)

Accrued interest payable on debt in the governmental funds is susceptible to full accrual on the entity wide basis.

Accrued Interest Payable		<u>(216,320)</u>
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Net assets of governmental activities		<u><u>\$ 70,915,203</u></u>
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THE CITY OF ORANGE BEACH, ALABAMA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012

	Major fund	Non-major			Total Governmental Funds
	General	Debt Service	Special Revenues	Library	
<b>REVENUES</b>					
Property taxes	\$ 2,969,708	\$ -	\$ -	\$ -	\$ 2,969,708
Intergovernmental:					
State tax	31,615	-	245,482	-	277,097
Local tax	18,283,798	-	-	-	18,283,798
Grants	730,902	-	-	-	730,902
Hurricane disaster recovery	770,760	-	-	-	770,760
BP state grant	271,326	-	-	-	271,326
Personnel service reimbursement	36,613	-	-	-	36,613
Other licenses, permits and fees	2,052,751	-	2,232	-	2,054,983
Fines and forfeitures	186,445	-	21,624	-	208,069
Charges for services	808,300	-	-	-	808,300
Rent	146,955	-	-	-	146,955
Investment earnings	21,013	113	24	561	21,711
Contracts	239,841	-	-	-	239,841
Miscellaneous	214,073	-	55,992	25,550	295,615
<b>TOTAL REVENUES</b>	<u>26,764,100</u>	<u>113</u>	<u>325,354</u>	<u>26,111</u>	<u>27,115,678</u>
<b>EXPENDITURES</b>					
General government	1,683,444	-	-	-	1,683,444
Court	350,450	-	-	-	350,450
Finance	616,807	-	-	-	616,807
Police	3,182,061	-	-	-	3,182,061
Corrections	518,185	-	-	-	518,185
Engineering and environmental	1,172,828	-	-	-	1,172,828
Communications	396,116	-	-	-	396,116
Fire	3,861,363	-	-	-	3,861,363
Public works	2,124,654	-	-	-	2,124,654
Landscape	1,331,171	-	-	-	1,331,171
Parks and recreation	2,167,868	-	-	-	2,167,868
Library	522,741	-	-	2,304	525,045
BP Oil Spill	189,347	-	-	-	189,347
Beach renourishment	811,811	-	-	-	811,811
Capital improvements	1,735,315	-	-	-	1,735,315
Securities lending:					
Fiscal agent fees	-	9,230	-	-	9,230
Debt service:					
Principal payments	-	1,133,500	-	-	1,133,500
Interest and other	-	1,104,747	-	-	1,104,747
<b>TOTAL EXPENDITURES</b>	<u>20,664,161</u>	<u>2,247,477</u>	<u>-</u>	<u>2,304</u>	<u>22,913,942</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 6,099,939</u>	<u>\$ (2,247,364)</u>	<u>\$ 325,354</u>	<u>\$ 23,807</u>	<u>\$ 4,201,736</u>

The accompanying notes are an integral part of the financial statements. (Carried forward)

THE CITY OF ORANGE BEACH, ALABAMA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012

	Major fund	Non-major			Total
	General	Debt Service	Special Revenues	Library	Governmental Funds
	(Continued)				
Excess (deficiency) of revenues over expenditures (brought forward)	\$ 6,099,939	\$ (2,247,364)	\$ 325,354	\$ 23,807	\$ 4,201,736
<b>OTHER FINANCING SOURCES (USES)</b>					
Gain on disposal of assets	67,899	-	-	-	67,899
Transfers in	-	2,251,372	-	-	2,251,372
Transfers out	(1,291,164)	-	(324,939)	-	(1,616,103)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,223,265)</b>	<b>2,251,372</b>	<b>(324,939)</b>	<b>-</b>	<b>703,168</b>
Net change in fund balances	4,876,674	4,008	415	23,807	4,904,904
Fund balances - beginning	18,088,538	833,922	42,907	196,678	19,162,045
Fund balances - ending	\$22,965,212	\$ 837,930	\$ 43,322	\$ 220,485	\$ 24,066,949

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

THE CITY OF ORANGE BEACH, ALABAMA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL ACTIVITIES  
TO THE CHANGES IN NET ASSETS ON THE STATEMENT OF ACTIVITIES  
FOR THE PERIOD ENDED DECEMBER 31, 2012

Net change in fund balances \$ 4,904,904

Governmental funds report capital improvements as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Donated Land	396,700	
Expenditures for capital assets	1,000,376	
Less current year depreciation	<u>(1,519,928)</u>	(122,852)

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.

Gain (Loss) on disposal of assets	<u>(869,552)</u>	(869,552)
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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.

Bond premium/ discount amortization	41,674	
Principal payments	<u>1,133,500</u>	1,175,174

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Amortization of current year bond costs	(42,138)	
Decrease in interest accrued on long term debt	91,159	
Change in long term compensated absences	<u>(298,592)</u>	<u>(249,571)</u>

Change in net assets of governmental activities		<u><u>\$ 4,838,103</u></u>
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The accompanying notes are an integral part of the financial statements.

THE CITY OF ORANGE BEACH, ALABAMA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2012

	Enterprise Funds					Totals
	Major funds			Non-Major		
	Sewer	Refuse	BCBC	Retail	Events Center	
<b>ASSETS</b>						
Current assets						
Cash and cash equivalents	\$ 6,162,244	\$ -	\$ -	\$ 8,242	\$ -	\$ 6,170,486
Restricted cash and cash equivalents	6,917,670	-	-	-	-	6,917,670
Accounts receivable	162,819	42,879	491,262	-	-	696,960
Due from other funds	(647,653)	543,331	-	656,549	(493)	551,734
Inventory	-	-	-	13,602	-	13,602
Prepaid insurance	3,689	-	-	-	-	3,689
Total current assets	<u>12,598,769</u>	<u>586,210</u>	<u>491,262</u>	<u>678,393</u>	<u>(493)</u>	<u>14,354,141</u>
Noncurrent assets						
Capital assets:						
Land	343,588	-	-	-	158,648	502,236
Events center	-	-	-	-	1,427,831	1,427,831
Sewer plant	28,165,044	-	-	-	-	28,165,044
Vehicles and equipment	1,109,808	708,935	-	-	257,335	2,076,078
Distribution and collection system	10,566,491	-	-	-	-	10,566,491
Less: Accumulated depreciation	(11,645,271)	(623,376)	-	-	(87,122)	(12,355,769)
Unamortized bond costs - net	388,149	-	-	-	-	388,149
Unamortized loss on refunding- net	3,225,855	-	-	-	-	3,225,855
Accounts receivable	-	-	4,878,945	-	-	4,878,945
Utility deposits	625	-	-	-	-	625
Total noncurrent assets	<u>32,154,289</u>	<u>85,559</u>	<u>4,878,945</u>	<u>-</u>	<u>1,756,692</u>	<u>38,875,485</u>
<b>TOTAL ASSETS</b>	<u>\$ 44,753,058</u>	<u>\$ 671,769</u>	<u>\$ 5,370,207</u>	<u>\$678,393</u>	<u>\$ 1,756,199</u>	<u>\$ 53,229,626</u>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	\$ 61,095	\$ 167,484	\$ -	\$ 2,718	\$ 4,867	\$ 236,164
Due to other funds	543,331	757,590	-	-	260,368	1,561,289
Accrued expenses	25,084	8,795	-	-	4,021	37,900
Accrued compensated absences	26,931	8,574	-	-	-	35,505
Accrued interest payable	145,499	-	12,560	-	-	158,059
Current portion of loans payable	-	-	282,391	-	-	282,391
Current portion of bonds payable	1,144,850	-	-	-	-	1,144,850
Total current liabilities	<u>1,946,790</u>	<u>942,443</u>	<u>294,951</u>	<u>2,718</u>	<u>269,256</u>	<u>3,456,158</u>
Noncurrent liabilities:						
Accrued compensated absences	17,084	3,171	-	-	-	20,255
Series 2009 G.O. Sewer Warrant - net	4,491,526	-	-	-	-	4,491,526
Series 2012 G.O. Sewer Warrant - net	25,735,249	-	-	-	-	25,735,249
Loan Payable	-	-	6,457,840	-	-	6,457,840
Total noncurrent liabilities	<u>30,243,859</u>	<u>3,171</u>	<u>6,457,840</u>	<u>-</u>	<u>-</u>	<u>36,704,870</u>
<b>TOTAL LIABILITIES</b>	<u>32,190,649</u>	<u>945,614</u>	<u>6,752,791</u>	<u>2,718</u>	<u>269,256</u>	<u>40,161,028</u>
<b>DEFERRED INFLOW OF RESOURCES</b>						
Unearned revenue	33,196	-	-	-	-	33,196
<b>NET POSITION</b>						
Invested in Capital Assets, net of related debt	1,909,805	85,559	-	-	1,756,692	3,752,056
Unrestricted	10,619,408	(359,404)	(1,382,584)	675,675	(269,749)	9,283,346
<b>TOTAL NET POSITION</b>	<u>\$ 12,529,213</u>	<u>\$ (273,845)</u>	<u>\$ (1,382,584)</u>	<u>\$675,675</u>	<u>\$ 1,486,943</u>	<u>\$ 13,035,402</u>

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

THE CITY OF ORANGE BEACH, ALABAMA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012

	Enterprise Funds					Totals
	Major funds			Non-Major		
	Sewer	Refuse	BCBC	Retail	Events Center	
OPERATING REVENUES						
Charges for services	\$ 6,069,894	\$2,356,663	\$ -	\$ -	\$ 153,671	\$ 8,580,228
Miscellaneous income	65,807	12,622	-	25	-	78,454
Merchandise sales	-	-	-	213,448	-	213,448
<b>TOTAL OPERATING REVENUES</b>	<b>6,135,701</b>	<b>2,369,285</b>	<b>-</b>	<b>213,473</b>	<b>153,671</b>	<b>8,872,130</b>
COST OF GOODS SOLD	-	-	-	44,456	-	44,456
GROSS PROFIT	<u>6,135,701</u>	<u>2,369,285</u>	<u>-</u>	<u>169,017</u>	<u>153,671</u>	<u>8,827,674</u>
OPERATING EXPENSES						
Salaries, wages and employee benefits	877,314	452,085	-	-	21,935	1,351,334
Contractual services	-	1,784,135	-	-	-	1,784,135
Utilities	577,276	-	-	-	30,773	608,049
Repairs and maintenance	246,321	29,834	-	-	35,574	311,729
Other supplies and expenses	370,423	74,212	-	18,825	31,586	495,046
Insurance claims and expenses	-	16,500	-	-	-	16,500
Bond premium amortization	(13,645)	-	-	-	-	(13,645)
Depreciation	<u>1,513,011</u>	<u>29,871</u>	<u>-</u>	<u>-</u>	<u>57,358</u>	<u>1,600,240</u>
<b>TOTAL OPERATING EXPENSES</b>	<b>3,570,700</b>	<b>2,386,637</b>	<b>-</b>	<b>18,825</b>	<b>177,226</b>	<b>6,153,388</b>
OPERATING INCOME (LOSS)	<u>2,565,001</u>	<u>(17,352)</u>	<u>-</u>	<u>150,192</u>	<u>(23,555)</u>	<u>2,674,286</u>
NON-OPERATING REVENUES (EXPENSES)						
Interest income	70,187	1	10	13	31	70,242
Interest expense	<u>(964,900)</u>	<u>-</u>	<u>(203,147)</u>	<u>-</u>	<u>-</u>	<u>(1,168,047)</u>
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(894,713)</b>	<b>1</b>	<b>(203,137)</b>	<b>13</b>	<b>31</b>	<b>(1,097,805)</b>
INCOME (LOSS) BEFORE TRANSFERS	1,670,288	(17,351)	(203,137)	150,205	(23,524)	1,576,481
TRANSFERS (OUT) IN	<u>(635,269)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(635,269)</u>
CHANGE IN NET POSITION	1,035,019	(17,351)	(203,137)	150,205	(23,524)	941,212
NET POSITION - BEGINNING OF YEAR	<u>11,494,194</u>	<u>(256,494)</u>	<u>(1,179,447)</u>	<u>525,470</u>	<u>1,510,467</u>	<u>12,094,190</u>
NET POSITION - END OF YEAR	<u>\$12,529,213</u>	<u>\$ (273,845)</u>	<u>\$(1,382,584)</u>	<u>\$ 675,675</u>	<u>\$ 1,486,943</u>	<u>\$ 13,035,402</u>

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

THE CITY OF ORANGE BEACH, ALABAMA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012

	Enterprise Funds					Totals
	Major funds			Non-Major		
	Sewer	Refuse	BCBC	Retail	Events Center	
Cash flows from operating activities:						
Receipts from customers	\$ 6,111,721	\$2,351,018	\$ 491,262	\$ 213,473	\$ 153,671	\$ 9,321,145
Payments to BCBC	-	-	(1,200,000)	-	-	(1,200,000)
Payments to employees for services	(867,819)	(447,857)	-	-	(17,912)	(1,333,588)
Payments to suppliers of goods & services	(1,240,113)	(1,889,108)	-	(61,674)	(96,870)	(3,287,765)
Payments to other funds	669,956	7,155	-	(150,718)	(23,174)	503,219
Net cash provided (used) by operating activities	<u>4,673,745</u>	<u>21,208</u>	<u>(708,738)</u>	<u>1,081</u>	<u>15,715</u>	<u>4,003,011</u>
Cash flows from noncapital financing activities:						
Transfers to other funds	<u>(635,269)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(635,269)</u>
Net cash provided (used) by noncapital financing activities	<u>(635,269)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(635,269)</u>
Cash flows from capital and related financing activities:						
Interest income	70,187	1	10	13	31	70,242
Increase in restricted cash	2,183,844	-	-	-	-	2,183,844
Proceeds from bond issue	22,975,000	-	-	-	-	22,975,000
Bond issue premium	2,324,673	-	-	-	-	2,324,673
Bond issue discount	107,069	-	-	-	-	107,069
Bond issue costs	(174,514)	-	-	-	-	(174,514)
Loss on bond refunding	(3,094,326)	-	-	-	-	(3,094,326)
Proceeds from line of credit	-	-	1,200,000	-	-	1,200,000
Repayment to line of credit	-	-	(282,401)	-	-	(282,401)
Principal repayments related to capital purpose	(22,636,500)	-	-	-	-	(22,636,500)
Interest paid on capital debt	(1,304,068)	-	-	-	-	(1,304,068)
Increase in retainage payable	(125,941)	-	-	-	-	(125,941)
Interest paid on other debt	-	-	(208,871)	-	-	(208,871)
Acquisition of property and equipment	(384,484)	(24,481)	-	-	(17,190)	(426,155)
Net cash provided (used) by capital and related financing activities	<u>(59,060)</u>	<u>(24,480)</u>	<u>708,738</u>	<u>13</u>	<u>(17,159)</u>	<u>608,052</u>
Net increase (decrease) in cash	3,979,416	(3,272)	-	1,094	(1,444)	3,975,794
Cash and equivalents at beginning of year	<u>2,182,828</u>	<u>3,272</u>	<u>-</u>	<u>7,148</u>	<u>1,444</u>	<u>2,194,692</u>
Cash and equivalents at end of year	<u>\$ 6,162,244</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,242</u>	<u>\$ -</u>	<u>\$ 6,170,486</u>

The accompanying notes are an integral part of this financial statement.

THE CITY OF ORANGE BEACH, ALABAMA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012

	Enterprise Funds					Totals
	Major funds			Non-Major		
	Sewer	Refuse	BCBC	Retail	Events Center	
Operating income (loss)	\$ 2,565,001	\$ (17,352)	\$ -	\$ 150,192	\$ (23,555)	\$ 2,674,286
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	1,513,011	29,871	-	-	57,358	1,600,240
Amortization	(13,645)	-	-	-	-	(13,645)
(Increase) decrease in:						
Accounts receivable - net	(22,202)	(18,267)	491,262	-	-	450,793
Paid to BCBC	-	-	(1,200,000)	-	-	(1,200,000)
Due to other funds	669,956	7,155	-	(150,718)	(23,174)	503,219
Inventory	-	-	-	79	-	79
Increase (decrease) in:						
Accounts payable	(46,093)	15,573	-	1,528	1,063	(27,929)
Accrued expenses	10,768	3,485	-	-	4,023	18,276
Accrued compensated absences	(1,273)	743	-	-	-	(530)
Deferred revenue	(1,778)	-	-	-	-	(1,778)
Total adjustments	2,108,744	38,560	(708,738)	(149,111)	39,270	1,328,725
Net cash provided (used) by operating activities	\$ 4,673,745	\$ 21,208	\$ (708,738)	\$ 1,081	\$ 15,715	\$ 4,003,011

Supplemental Disclosures

Noncash Investing and Financing Activities: NONE

Cash Paid During the Year for Interest	\$ 1,355,556	\$ -	\$ 154,217	\$ -	\$ -	\$ 1,509,773
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The accompanying notes are an integral part of this financial statement.

## NOTES TO THE FINANCIAL STATEMENTS

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. GENERAL STATEMENT**

The City of Orange Beach, Alabama, (the "City"), was incorporated on August 1, 1984, under the applicable laws of the State of Alabama. The City operates under a Mayor-Council form of government and provides the following services to its citizens: Police, Fire and Paramedic services, Street maintenance, Culture-Recreation, Public Improvements, Planning and Zoning, Building Inspection and other general administrative services.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally Accepted Accounting Principles (GAAP) for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the City are described below.

**B. FINANCIAL REPORTING ENTITY**

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on these criteria, this report includes financial statements of the funds required to account for those financial activities for which the City has the ability to influence and control through its legislative processes.

Excluded from the financial statements of the City are the following boards or agencies for which a lack of influence, dependency and control exist: The Business and Industrial Development Board of the City of Orange Beach, Alabama, the Orange Beach Water, Sewer and Fire Protection Authority and the Orange Beach Volunteer Fire Department. These boards and agencies are governed by their own Boards of Directors, prepare and adopt an annual operating budget which is not influenced by the City, have the authority to issue debt which is not an obligation of the City and are not secured by City revenues, have responsibility for any operating deficits which they may incur and must fund any deficits through prior years' surplus or other financing sources.

**C. BASIS OF PRESENTATION**

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are 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.

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. BASIS OF PRESENTATION (continued)**

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

**FUND FINANCIAL STATEMENTS:**

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

**General Fund –**

The General Fund is the main operating fund of the City. It is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary funds:

**Sewer Utility System -**

Sewer Utility System Fund is used to account for the provision of sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

**Refuse Collection-**

Refuse Collection Fund is used to account for operations of solid waste collection and disposal services. All costs are financed through charges to refuse customers.

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. BASIS OF PRESENTATION (continued)**

**FUND FINANCIAL STATEMENTS (continued)**

**Baldwin County Bridge Company (BCBC) Fund-**

BCBC Fund is used to account for the transactions between the City and American Roads as described in Note 12.

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 principal ongoing operations.

Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Additionally, the City's non-major funds are:

*Governmental Funds:*

**Debt Service Fund –**

The Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is reserved to signify the amounts that are restricted exclusively for debt service expenditures.

**Special Revenue Funds –**

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

**Library Fund –**

The Library fund is used to record the daily operating functions of the library.

*Proprietary Funds:*

**Retail Fund-**

Retail Fund is used to account for the operations of the tennis, art and golf pro shop retail operation. All costs are financed through charges to customers.

**Events Center Fund-**

Events Center Fund is used to account for the operations of the events center operation. All costs are financed through charges to customers.

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D. MEASUREMENT FOCUS/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 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) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the 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 susceptible to accrual; i.e., 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. The City considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, charges for services, interest income and intergovernmental revenues. Taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

**E. BUDGETARY CONTROL**

As set forth in the City Charter, the City of Orange Beach, Alabama, adopts an annual budget for the General Fund, Special Revenue Fund, Refuse Fund (an Enterprise Fund), Retail Fund (an Enterprise Fund), and the Sewer System Utility Fund (an Enterprise Fund). The annual budget for the funds is prepared on the cash and expenditure/encumbrances basis. Revenues and expenditures are budgeted in the year receipt and payment is expected. The Debt Service Fund budget is prepared to provide funding for general obligation debt service when liabilities are due for payment. The budget to actual comparison in the general purpose financial statements is presented on this basis. The City may transfer budgeted amounts between line items with the approval of the City Council. The City Council can amend the budget during the year as needed to reflect any changes in its programs or services arising during the budget period. The Enterprise funds, do not require a budget comparison. All annual appropriations lapse at year-end except for on-going projects which are rebudgeted for the following fiscal year.

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

1. During the months of October and November, the Mayor and City Administrator meet with the Department heads to discuss a proposed budget for that department for the coming year commencing January 1st.
2. The Mayor then drafts a budget for all funds, which include proposed expenditures and the proposed means for financing them.
3. On or about December 1st, the Mayor presents to the Council the proposed budget. Prior to January 1st, the budget is legally enacted through passage of a resolution.

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. BUDGETARY CONTROL (CONTINUED)**

4. The City Council may amend the budget through resolutions as needed, provided adequate funds are available at the time of amendment. The City reviews its budget at mid-year and at other times as needs and circumstances dictate.

The Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results, except for the effects of unrealized investment gains and losses, which are adjusted to the actual results for this comparison.

**F. CASH AND INVESTMENTS**

For the purpose of the Statement of Net Position, “cash and cash equivalents” includes all demand deposits, savings accounts, and short term investments with original or remaining maturities of three months or less when purchased. For purposes of the proprietary fund statement of cash flows, “cash and cash equivalents” include all demand and savings accounts, and short term investments with an original maturity of three months or less.

The City has \$1,195,255 invested in the JP Morgan 100% U.S. Treasury Securities Money Market Fund #677 as of December 31, 2012. The fund invests solely in debt securities of the U.S. Treasury, including Treasury bills, bonds and notes. These investments carry different interest rates, maturities and issue dates.

**G. RECEIVABLES**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivables balances for the governmental activities include property taxes, local taxes, franchise taxes, and grants. Major proprietary receivables include amounts due on the Baldwin County Bridge agreement and sewer fees.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as franchise tax, 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 earned is recorded when earned, only if paid within 60 days since they would be considered both measurable and available.

**H. PREPAID ITEMS**

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items has been recorded to signify that a portion of fund balance is not available for other subsequent expenditures.

**I. INVENTORY**

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consists of gasoline and diesel fuel in the general fund and merchandise held in the Retail Fund.

**J. INTERFUND RECEIVABLES AND PAYABLES**

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**K. TRANSACTIONS BETWEEN FUNDS**

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

**L. CAPITAL ASSETS**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

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 pipes (other than utilities), traffic signals, etc. The City's capitalization threshold for infrastructure is \$500,000. During 2007, the City assessed the condition of the roads, sidewalk, and other infrastructure. The City of Orange Beach, Alabama does not have infrastructure that exceeds the capitalization threshold.

**Sewer Utility System Fund**

During 2007, The City began constructing a new waste water treatment plant. The new plant was completed and put on-line on April 8, 2011. The final cost of the project was \$28,071,590. The costs of the various items of land, buildings, plant, collection system and other equipment and vehicles were allocated based on actual costs of the various components of the system. Additions to the system during the year are recorded at cost or, if contributed property, at the estimated fair value at the time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of property and equipment is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to operations.

Assets capitalized, not including infrastructure assets, have an original cost of \$7,500 or more. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	35-50 years
Building Improvements	20-30 years
Machinery and equipment	5-15 years
Furniture and fixtures	3-15 years

**Refuse Collection Fund**

Additions to the fund during the year are recorded at cost or, if contributed property, at the estimated fair value at the time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of property and equipment is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to operations.

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**M. ACCUMULATED COMPENSATED ABSENCES**

It is the City's policy to permit employees to accumulate earned but unused vacation which will be paid to City workers when they terminate employment or will be used in future years by the employees. In governmental funds and enterprise funds, the cost of this leave time is recognized based on the Administration's estimate of the total value which will be taken in the coming fiscal period and is recorded as a liability in the General Fund.

**N. NATURE AND PURPOSE OF RESERVATIONS AND DESIGNATIONS OF FUND BALANCE**

*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 consist 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 consists of all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

*Fund Level Financial Statements*

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

- Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The policy established by the City pursuant to which the authorization to assign fund balance to a specific purpose is given for the Finance Committee to approve, followed by Council action to accept and the Mayor's signature to authorize.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The City commits fund balance through council action, the government highest level of decision-making authority. Formal Council action in a form of a resolution is required to establish, modify, or rescind a fund balance commitment is needed.

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

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**N. NATURE AND PURPOSE OF RESERVATIONS AND DESIGNATIONS OF FUND BALANCE (continued)**

A schedule of fund balances is as follows:

	<u>General</u> <u>Fund</u>	<u>Debt</u> <u>Service</u>	<u>Special</u> <u>Revenues</u>	<u>Library</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
<b>Fund Balances:</b>					
<b>Nonspendable:</b>					
Inventories	\$ 15,722	\$ -	\$ -	\$ -	\$ 15,722
Prepaid expenses	142,304	-	-	-	142,304
<b>Restricted for:</b>					
Grants	400,678	-	-	-	400,678
Municipal Court	85,333	-	-	-	85,333
Debt service	-	837,930	-	-	837,930
Fire Department	-	-	30,578	-	30,578
Capital outlay	-	-	12,744	-	12,744
<b>Committed to:</b>					
Emergencies	8,168,050	-	-	-	8,168,050
<b>Assigned to:</b>					
	-	-	-	220,485	220,485
<b>Unassigned :</b>					
	<u>14,153,125</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,153,125</u>
<b>Total Fund Balance</b>	<u>\$ 22,965,212</u>	<u>\$ 837,930</u>	<u>\$ 43,322</u>	<u>\$ 220,485</u>	<u>\$ 24,066,949</u>

**O. PROPERTY TAXES**

All ad valorem taxes levied by the State, County and the City are assessed and collected by the Tax Collector of Baldwin County, Alabama. The Baldwin County 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 each year. Property taxes not paid by January 1, are considered as delinquent. Tax collections received by the County Tax Collector are remitted to the City on a monthly basis. All amounts paid to the City within the bill paying period are included in revenues. The City currently assesses 4 mills on property within the City Limits. The Council has the authority to increase property taxes at its discretion, within certain statutory limits.

**P. USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

**Q. CAPITALIZED INTEREST**

Interest costs on debt are capitalized when incurred by proprietary funds where the proceeds are used to finance the construction of assets.

THE CITY OF ORANGE BEACH, ALABAMA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**R. ACCUMULATED DEFICIT**

At December 31, 2012, the Refuse Fund and Baldwin County Bridge Fund had accumulated deficits of \$273,845 and \$1,382,584, respectively. It is anticipated that these deficits will continue to be financed by the General Fund.

**S. NET POSITION**

Net position represents the difference between assets plus deferred outflow of resources and liabilities plus deferred inflow of resources. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**T. RECLASSIFICATION**

Certain 2011 amounts and beginning balances have been reclassified to agree with the 2012 presentation.

**NOTE 2- CASH AND RESTRICTED CASH**

A detail of cash as of December 31, 2012 is as follows:

	Governmental- type Funds	Business- type Funds
Cash on Hand	\$ 3,805	\$ 100
Cash in Banks		
Operations	11,757,530	6,170,386
Certificate of Deposit	8,700	-
Reserved- Disaster	8,168,050	6,582,242
Reserved- Debt Service	<u>1,010,295</u>	<u>335,428</u>
 Total Cash	 <u>\$ 20,948,380</u>	 <u>\$ 13,088,156</u>

**NOTE 3 – CREDIT RISK**

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 the collateral pool administered by the Alabama State Treasurer's Office under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged failed to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

At December 31, 2012 the carrying amount of the City's deposits, including a Certificate of Deposit, was \$34,036,536 and the bank balance was \$34,352,508. These deposits are held in accounts insured by the Federal Deposit Insurance Corporation, FDIC. Amounts in excess of FDIC coverage are further secured by a pledge of securities from various institutions to the Alabama State Treasurer Office in accordance with the Security for Alabama Funds Enhancement, SAFE, Act.

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**NOTE 4 - RETIREMENT PLAN**

The City of Orange Beach, Alabama, contributes to the Employees' Retirement System of Alabama, an agent multiple-employer public employee retirement system which acts as a common investment and administrative agent for the various state agencies and departments.

Substantially all employees are members of the Employees' Retirement System of Alabama. Membership is mandatory for covered or eligible employees of the City. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, and (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits, in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

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

Summary of Employee Census Data

Number of active members	218
Annual compensation	\$10,473,681
Number of retired members and beneficiaries	18
Annual retirement allowances	\$257,490

THE CITY OF ORANGE BEACH, ALABAMA  
 NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 4 - RETIREMENT PLAN (continued)**

<u>Required Employer Contribution Rates</u>	<u>Retain Current Member Contribution Rates</u>	<u>Elect to Increase Member Contribution Rates Under Act 2011-676</u>
Normal cost	4.54%	2.25%
Accrued liability	2.82%	2.89%
Pre-retirement death benefit	0.15%	0.15%
Administrative expense	<u>0.18%</u>	<u>0.18%</u>
Total	7.69%	5.47%
5% Employer contribution factor (7.69%/5%)	1.538000	
6% Employer contribution factor (7.69%/6%)	1.281667	
7.5% Employer contribution factor (5.47%/7.5%)		0.729333
8.5% Employer contribution factor (5.47%/8.5%)		0.643529

Comments on Employer Contribution Rates:

1. These rates include 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 a negative Net Pension Obligation, which will have to be disclosed in your auditor's report.

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 4 - RETIREMENT PLAN (continued)**

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets* (a)	Actuarial Accrued Liability Entry Age (b) <sup>1</sup>	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/30/2005	\$ 7,700,535	\$ 9,155,322	\$ 1,454,787	84.1%	\$ 9,133,618	15.9%
9/30/2006 <sup>2</sup>	\$ 9,541,901	\$ 12,820,588	\$ 3,278,687	74.4%	\$ 11,384,831	28.8%
9/30/2007	\$ 11,630,323	\$ 15,406,789	\$ 3,776,466	75.5%	\$ 12,433,133	30.4%
9/30/2008	\$ 13,198,377	\$ 16,961,021	\$ 3,762,644	77.8%	\$ 12,403,829	30.3%
9/30/2009	\$ 13,989,061	\$ 18,097,472	\$ 4,108,411	77.3%	\$ 10,599,577	38.8%
9/30/2010 <sup>3</sup>	\$ 14,838,891	\$ 20,558,999	\$ 5,720,108	72.2%	\$ 10,473,681	54.6%
9/30/2010 <sup>4</sup>	\$ 14,838,891	\$ 20,694,257	\$ 5,855,366	71.7%	\$ 10,473,681	55.9%

<sup>1</sup> Reflects liability for cost of living benefit increases granted on or after October 1, 1978.

<sup>2</sup> Reflects changes in actuarial assumptions.

<sup>3</sup> Reflects the impact of Act 2011-27, which closes the DROP program to new applicants after March 24, 2011.

<sup>4</sup> Reflects the impact of Act 2011-27, as well as Act 2011-676, which increases the member contribution rates by 2.25% beginning October 1, 2011 and by an additional 0.25% beginning October 1, 2012.

\* Market Value of Assets as of September 30, 2010: \$12,644,470.

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)
9/30/2008	\$ 730,229	100.0%	\$ -
9/30/2009	\$ 649,982	100.0%	\$ -
9/30/2010	\$ 653,938	100.0%	\$ -

THE CITY OF ORANGE BEACH, ALABAMA  
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**NOTE 4 - RETIREMENT PLAN (continued)**

The following general information applies to the Employees' Retirement System valuation as of December 31, 2012:

1. Since the previous valuation, there have been no changes in the actuarial cost method.
2. Actuarial gains and losses are reflected in the unfunded actuarial accrued liability. In previous valuations, these were UAAL were amortized within a 30-year period. In this valuation, they are being amortized within a 20-year period.

Total contributions to the pension plan for the fiscal year ending December 31, 2012 were \$685,477. The contributed amounts were actuarially determined as described above and were based on an actuarial valuation as of September 30, 2010. The pension contributions represent funding for normal cost. Contributions made by the City of Orange Beach and its employees represent 7.69%/5% and 7.69%/6%, respectively, of covered payroll for the year.

**NOTE 5 – CHANGES IN LONG TERM DEBT**

At December 31, 2012, governmental long term debt consisted of the following individual issues:

General Fund

General Obligation Warrants:

On May 1, 2007, the City issued a General Obligation Warrant, Series 2007B, in the amount of \$9,105,000 to Bank of New York for the acquisition and construction of numerous capital improvements, and retirement of the loans for the Golf Course and Robinson Island. The Warrant is payable in annual installments varying from \$1,130,000 to \$1,470,000 principal plus interest from 4.0% to 5.00% beginning November 1, 2007 with a final payment on May 1, 2022.

On April 1, 2009, the City issued a General Obligation Warrant Series, in the amount of \$17,995,000 to Bank of New York for the refunding of six previous General and Sewer Obligations Issues; Series 1998B, 1999, 2001B, 2001 Sewer, and 2002 Sewer. The new bond issue was allocated 53% to General obligation and 47% to the Sewer fund based on the refunded outstanding debt. The total allocated to the General Fund was \$9,537,350. The Warrant is payable in annual installments varying from \$243,800 to \$1,195,150 principal plus interest varying from 2.0 - 5.0% beginning October 1, 2009 with a final payment on October 1, 2021.

On August 1, 2010, the City issued a General Obligation Warrant Series, in the amount of \$6,170,000 to Bank of New York for the refunding of the General Obligation Series 2007A. The Warrant is payable in annual installments varying from \$259,035 to \$1,374,910 principal plus interest varying from 3.7 – 4.60% beginning February 1, 2011 with a final payment on August 1, 2020.

On August 1, 2010, the City issued a General Obligation Warrant Series, in the amount of \$4,905,000 to Bank of New York for the refunding of the General Obligation Series 2005. The Warrant is payable in annual installments varying from \$165,150 to \$1,073,275 principal plus interest varying from 3.0 – 4.00% beginning February 1, 2011 with a final payment on August 1, 2020.

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 5 - CHANGES IN LONG TERM DEBT (Continued)**

Sewer Fund

General Obligation Warrants and Sewer Revenue Warrants:

At December 31, 2012, the long term debt for the proprietary fund consisted of the following individual issues:

On April 1, 2009, the City issued a General Obligation Warrant Series, in the amount of \$17,995,000 to Bank of New York for the refunding of six previous General and Sewer Obligations Issues; Series 1998B, 1999, 2001B, 2001 Sewer, and 2002 Sewer. The new bond issue was allocated 53% to General obligation and 47% to the Sewer fund based on the refunded outstanding debt. The 1998A warrants were originally recorded as a general obligation debt. During 2009, the outstanding portion was allocated to the sewer fund because the debt service payments have been made and will continue to be made from the sewer fund. In addition, the original 1998A was issued to financing the purchase of the original sewer system. The total allocated to the Sewer Fund was \$8,457,650. The Warrant is payable in annual installments varying from \$216,000 to \$1,059,850 principal plus interest varying from 2.0 - 5.0% beginning October 1, 2009 with a final payment on October 1, 2021.

On October 1, 2012 the City issued \$22,975,000 of its Series 2012 General Obligation Sewer Warrants for the refunding of the previous 2006 Sewer Revenue Issue. The warrant is payable in annual installments varying from \$75,000 to \$2,070,000 principal plus interest from 2.00% to 5.00% beginning February 1, 2013 with a final payment on February 1, 2030.

Baldwin County Bridge Company Fund

Line of Credit Payable:

On April 20, 2004, the City executed an open line of credit with Centennial Bank. Interest is at a variable rate of floating prime. The rate adjusts annually on the anniversary date of the line.

General Obligation Warrants for governmental activities of the City were comprised of the following at December 31, 2012:

\$9,105,000 General Obligation Warrant Series 2007B dated May 1, 2007, principal and interest due in annual installments varying from \$1,130,000 to \$1,470,000 through May 1, 2022; variable interest rate from 4.00% to 5.00%	9,105,000
\$9,537,350 General Obligation Warrants Series 2009 dated April 1, 2009, principal and interest due in annual installments varying from \$243,800 to \$1,195,150 through October 1, 2021; variable interest rate from 2.00% - 5.00%	6,055,250
\$6,170,000 General Obligation Warrants Series 2010A dated August 1,2010, principal and interest due in annual installments varying from \$259,035 to \$1,374,910 through August 1, 2020; variable interest rate from 3.70% - 4.60%	6,170,000

THE CITY OF ORANGE BEACH, ALABAMA  
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**NOTE 5 - CHANGES IN LONG TERM DEBT (Continued)**

General Obligation Warrants for governmental activities of the City were comprised of the following at December 31, 2012 (continued):

\$4,905,000 General Obligation Warrants Series 2010B dated August 1, 2010, principal and interest due in annual installments varying from \$165,150 to \$1,073,275 through August 1, 2020; variable interest rate from 3.00% - 4.00%	4,905,000
Unamortized bond premium / discount (net)	<u>436,943</u>
<b>TOTAL WARRANTS AND NOTES OUTSTANDING</b>	<b>26,672,193</b>
Compensated Absences	<u>442,582</u>
 <b>TOTAL GENERAL LONG-TERM DEBT</b>	 <b><u>\$ 27,114,775</u></b>

General Obligation and Revenue Warrants for business-type activities of the City of Orange Beach were comprised of the following at December 31, 2012:

\$8,457,650 General Obligation Warrants Series 2009 dated April 1, 2009, principal and interest due in annual installments varying from \$216,000 to \$1,059,850 through October 1, 2021; variable interest rate from 2.00% - 5.00%	5,369,750
\$22,975,000 General Obligation Sewer Warrant Series 2012 dated October 1, 2012, principal and interest due in annual installments varying from \$75,000 to \$2,070,000 through February 1, 2030; variable interest rate from 2.00% to 5.00%	22,975,000
An open line of credit with Vision bank dated April 20, 2004; interest rate is floating prime. Adjusts annually on anniversary date	6,740,231
Unamortized bond premium / discount (net)	<u>3,026,875</u>
 <b>TOTAL BUSINESS-TYPE ACTIVITY DEBT</b>	 <b><u>\$ 38,111,856</u></b>

**Annual Requirements to Retire Debt Obligations-**

The annual aggregate maturities for each bond type for the years subsequent to December 31, 2012, are as follows:

Year Ending December 31,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Totals
2013	1,195,150	1,070,720	2,265,870	1,427,241	1,034,400	2,461,641
2014	747,300	1,034,866	1,782,166	2,352,160	1,163,261	3,515,421
2015	768,500	1,012,447	1,780,947	3,015,960	1,131,830	4,147,790
2016	3,998,550	970,975	4,969,525	3,080,910	1,075,780	4,156,690
2017	4,163,000	739,725	4,902,725	3,131,460	1,017,058	4,148,518
2018 and thereafter	15,362,750	1,283,764	16,646,514	22,077,250	6,263,712	28,340,962
Unamortized bond discount/ premium	<u>436,943</u>	<u>-</u>	<u>436,943</u>	<u>3,026,875</u>	<u>-</u>	<u>3,026,875</u>
Total	<u>\$ 26,672,193</u>	<u>\$ 6,112,497</u>	<u>\$ 32,784,690</u>	<u>\$ 38,111,856</u>	<u>\$ 11,686,041</u>	<u>\$ 49,797,897</u>

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**NOTE 5 - CHANGES IN LONG TERM DEBT (Continued)**

Changes in General Long Term Debt during the year were as follows:

Obligation	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds payable:					
May 1, 2007, General Obligation Warrants, Series 2007B	9,105,000	-	-	9,105,000	-
April 1, 2009, General Obligation Warrants, Series 2009	7,188,750	-	1,133,500	6,055,250	1,195,150
August 1, 2010, General Obligation, Series 2010A	6,170,000	-	-	6,170,000	-
August 1, 2010, General Obligation, Series 2010B	4,905,000	-	-	4,905,000	-
Unamortized bond premium/ discount (net)	478,617	-	41,674	436,943	-
Total Bonds payable	<u>27,847,367</u>	<u>-</u>	<u>1,175,174</u>	<u>26,672,193</u>	<u>1,195,150</u>
Other liabilities:					
Compensated Absences	414,323	28,259	-	442,582	282,185
Governmental activities long term liabilities	<u>\$ 28,261,690</u>	<u>\$ -</u>	<u>\$ 1,175,174</u>	<u>\$ 27,114,775</u>	<u>\$ 1,477,335</u>
Obligation	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Business -type activities					
Bonds and loans payable net of premiums and discounts.					
March 1, 2006 General Obligation Sewer Warrants, Series 2006	\$ 21,630,000	\$ -	\$ 21,630,000	\$ -	\$ -
April 1, 2009 General Obligation Sewer Warrants, Series 2009	6,376,250	-	1,006,500	5,369,750	1,059,850
October 1, 2012 General Obligation Sewer Warrants, Series 2012	-	22,975,000	-	22,975,000	85,000
April 20, 2004, Open Line of Credit	5,822,632	1,200,000	282,400	6,740,231	282,391
Unamortized bond premium/ discount (net)	697,035	2,697,225	367,385	3,026,875	-
Business-type activities long term liabilities	<u>\$ 34,525,917</u>	<u>\$ 26,872,225</u>	<u>\$ 23,286,285</u>	<u>\$ 38,111,856</u>	<u>\$ 1,427,241</u>

THE CITY OF ORANGE BEACH, ALABAMA  
 NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 6 – DEFEASANCE OF DEBT**

On October 1, 2012, \$22,975,000 million in general obligation bonds with an average interest rate of 3.95 percent were issued to advance refund \$21,630,000 million of outstanding bonds with an average interest rate of 4.69 percent. The net proceeds of \$24,978,297 million (after payment of \$301,348 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds and loans. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 22 years by almost \$158,684 resulting in an economic gain (difference between the present values of the debt services payments on the old and new debt and cash exchanged) of \$709,325.

**NOTE 7 - OPERATING LEASE**

Post Office Lease

On August 26, 1994, the City entered into a 20 year operating lease with the United States Postal Service, USPS. USPS is leasing the building constructed by the City which was designed for use as a post office. The lease has no purchase options, no residual value and maintenance lies with the USPS. The following schedule details the lease revenues accruing to the City during the initial lease period and the renewal periods outlined in the lease document:

<u>Term</u>	<u>Monthly Rental</u>	<u>Yearly Rental</u>
4/20/95 - 4/19/15	\$ 4,507	\$ 54,085
<b>Renewal Periods</b>		
4/20/15 - 4/19/20	\$ 1,667	\$ 20,000
4/20/20 - 4/19/25	\$ 1,667	\$ 20,000

Medical Arts Building

The City entered into an agreement with various doctors and medical facilities to rent space in the medical arts building. The following schedule details the lease revenues accruing to the City outlined in the lease documents:

<u>Term</u>	<u>Yearly Rental</u>
	<u>Revenue</u>
2013	65,976
2014	52,638
2015	12,300
2016	12,300
Thereafter	-
Total	\$ 143,214

THE CITY OF ORANGE BEACH, ALABAMA  
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**NOTE 7 - OPERATING LEASE (continued)**

Events Center Building

The City entered into an agreement with HCI to rent space in the events center building. The following schedule details the lease revenues accruing to the City outlined in the lease documents:

<u>Term</u>	<u>Yearly Rental Revenue</u>
2013	110,000
2014	113,667
2015	115,500
2016	115,500
Thereafter	<u>792,042</u>
Total	\$ 1,246,709

Lease Obligations

The City is obligated under certain leases accounted for as operating leases. The City entered into various agreements for lease of 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 agreement are not reflected in the City's debt.

**NOTE 8 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The following is a detail of the interfund receivables and payables on the combined balance sheet of the City as of December 31, 2012:

<u>Due To</u>	<u>Due From</u>							<u>Total</u>
	<u>General Fund</u>	<u>Special Revenues Fund</u>	<u>Debt Service</u>	<u>Refuse Fund</u>	<u>Sewer Utility</u>	<u>Retail Fund</u>	<u>Events Center Fund</u>	
General Fund	\$ -	\$ 29,266	\$ 85,222	\$ 757,590	\$ 647,651	\$ -	\$ 260,368	\$ 1,780,097
Debt Service	-	-	-	-	-	-	-	-
Special Revenues	-	-	-	-	-	-	-	-
Refuse	-	-	-	-	-	-	-	-
Sewer Utility	-	-	-	543,331	-	-	-	543,331
Retail	<u>656,548</u>	-	-	-	-	-	-	<u>656,548</u>
Total	<u>\$ 656,548</u>	<u>\$ 29,266</u>	<u>\$ 85,222</u>	<u>\$ 1,300,921</u>	<u>\$ 647,651</u>	<u>\$ -</u>	<u>\$ 260,368</u>	<u>\$ 2,979,976</u>

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.

THE CITY OF ORANGE BEACH, ALABAMA  
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**NOTE 8 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (continued)**

Interfund transfers during the year ended December 31, 2012, were as follows:

Transfers Out	Transfers In					Total
	General Fund	Debt Service	Refuse Fund	Sewer Fund	Events Center Fund	
General Fund	\$ -	\$ 2,246,103	\$ -	\$ -	\$ -	\$ 2,246,103
Debt Service	-	-	-	-	-	-
Special Revenues	324,939	-	-	-	-	324,939
Sewer Utility	630,000	5,269	-	-	-	635,269
<b>Total</b>	<b>\$ 954,939</b>	<b>\$ 2,251,372</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,206,311</b>

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 that 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.

**NOTE 9 - POST-EMPLOYMENT HEALTH CARE BENEFITS**

The City does not provide post-employment health care benefits except for the following:

- 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 no direct costs are incurred by the City.
- For employees that retire during October through November 2008, the City agreed to pay on their behalf the cost of single coverage under the City’s health plan until such time as those employees become eligible for Medicare benefits. The City currently has two employees under this program, with two receiving benefit.

**NOTE 10 – DEFERRED REVENUES**

The City has deferred revenues of \$984,402 in the general fund. \$306,118 represents 2013 business license collected in 2012, and \$400,000 represents money received from promotional fund grants from BP which was not spent prior to year end.

From 2010 to 2012 the City of Orange Beach has received \$2,490,194 in BP grant funds. 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 cost and equipment cost therewith. The City spent \$ 1,493,917, \$446,666, and \$271,327 of the funds in 2010, 2011, and 2012, respectively. The remaining balance on the grant totaling \$278,284 is recorded as deferred revenue.

THE CITY OF ORANGE BEACH, ALABAMA  
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**NOTE 11 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Non-Depreciable Assets:				
Land & Improvements	\$ 47,530,111	\$ 396,700	\$ -	\$ 47,926,811
Depreciable Assets:				
Buildings & Infrastructure	32,075,845	247,625	848,242	31,475,228
Equipment & Vehicles	9,142,016	752,751	278,282	9,616,485
<b>Totals at historical cost</b>	<u>88,747,972</u>	<u>1,397,076</u>	<u>1,126,524</u>	<u>89,018,524</u>
Less accumulated depreciation for:				
Buildings & Improvements	6,884,070	663,727	-	7,547,797
Infrastructure & Parks Improvements	619,500	189,724	-	809,224
Equipment & Vehicles	6,452,181	666,477	256,972	6,861,686
<b>Total accumulated depreciation</b>	<u>13,955,751</u>	<u>1,519,928</u>	<u>256,972</u>	<u>15,218,707</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 74,792,221</u>	<u>\$ (122,852)</u>	<u>\$ 869,552</u>	<u>\$ 73,799,817</u>

Depreciation expense was charged  
to governmental functions as follows:

Administration	\$ 125,621
Police	198,175
Fire	443,299
Public Works	157,881
Parks & Recreation	508,894
Library	34,662
Community Development	51,396
<b>Total depreciation expense</b>	<u>\$ 1,519,928</u>

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 11 – CAPITAL ASSETS (continued)**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Non-Depreciable Assets:				
Land	\$ 502,236	\$ -	\$ -	\$ 502,236
Depreciable Assets:				
Buildings	29,739,566	93,454	-	29,833,020
Equipment	904,116	41,671	-	945,787
Vehicles	922,961	-	(32,815)	890,146
Distribution and collection systems	10,275,462	291,030	-	10,566,492
<b>Totals at historical cost</b>	<u>42,344,341</u>	<u>426,155</u>	<u>(32,815)</u>	<u>42,737,681</u>
Less accumulated depreciation for:				
Buildings	4,355,283	1,285,219	-	5,640,502
Equipment	626,572	39,945	-	666,517
Vehicles	1,017,069	40,965	(32,815)	1,025,219
Distribution and collection systems	4,789,421	234,111	-	5,023,532
<b>Total accumulated depreciation</b>	<u>10,788,345</u>	<u>1,600,240</u>	<u>(32,815)</u>	<u>12,355,770</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 31,555,996</u>	<u>\$ (1,174,085)</u>	<u>\$ -</u>	<u>\$ 30,381,911</u>

**NOTE 12 – THE BALDWIN COUNTRY COMPANY BRIDGE PROJECT**

On April 15, 2004 the City of Orange Beach (City) entered into the “Bridge Option, Easement and Annexation Agreement” with The Baldwin County Bridge Company, LLC (BCBC). BCBC owns and operates a toll bridge, toll facility and related roadways which span the Intracoastal Waterway within and near the current corporate limits of the City. BCBC has agreed to grant the City an option to purchase the Bridge, to grant the City an easement for the usage of the Bridge for certain limited purposes, to petition for annexation of the BCBC property into the City, to make a per vehicle payment to the City, to grant the City an option to purchase various parcels of real estate located adjacent to the Bridge, and to expand the Bridge under certain circumstances. The City has agreed to annex the BCBC property into the City, to execute certain access restrictions on the City Property, to become bound by an Access Management Plan, and to make ten annual installment advances to the BCBC in the amount of \$1,200,000 for a total of \$12,000,000. The first advance of \$1,200,000 was made on April 21, 2004.

The BCBC will repay the above amount monthly based on a Variable Traffic Fee formula as described in the following table:

Annual Car Count	Rate per Vehicle
0 – 2,000,000	\$0.10
2,000,001 – 3,000,000	\$0.21
3,000,000 – 4,000,000	\$0.36
4,000,000- above	\$0.46

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**NOTE 12 – THE BALDWIN COUNTRY COMPANY BRIDGE PROJECT (continued)**

Based on the above payments from the City and the above repayment schedule from BCBC, the BCBC shall never be obligated to pay Variable Traffic Fees in a cumulative amount to exceed \$12,000,000. If at anytime during the term of the agreement, BCBC shall have paid Traffic Fees equal to the \$12,000,000, or if, prior to January 1, 2014, BCBC shall pay to the City an amount equal to the difference between the Traffic Fees paid to the City and \$12,000,000, then the payment obligations of the BCBC under the above mentioned agreement shall immediately terminate (the “Termination Event”).

Upon the first to occur of (i) the Termination Event, or (ii) January 1, 2014 and continuing through December 31, 2033, the BCBC shall pay to the City Fixed Traffic Fees in the amount of \$0.30 per Vehicle Usage.

Real Estate Option:

The City shall be entitled to exercise an option to purchase land adjacent to the Bridge any time between January 1, 2014 and March 31, 2014 for \$1,000 provided, however, the Real Estate Option shall automatically terminate if the above mentioned Termination Event occurs prior to the commencement of the option period. This provision has been amended in the subsequent period by The Wharf Agreement.

On April 4, 2010, the City amended the Wharf Development Agreement. The new agreement stated that once the \$25,000,000 warrants have been issued to AIG Baker (“the Developer”), AIG Baker is required to set up an escrow in the amount of \$1,000,000. The escrow account will be funded by ½ of all tax revenues (defined as sales tax or lodging tax). In the event the City has not received Traffic fees of at least \$12,000,000 on or before December 31, 2013, the Escrow agent shall pay to the City from the Escrow Funds, an amount equal to the Bridge Security Amount. The Bridge Security amount means an amount equal to the lesser of the required escrow amount or the Traffic Fee Shortfall. If the Escrow Funds are sufficient to satisfy in full the Bridge Security Amount, any escrow remaining in the Escrow Account shall be disbursed to the Developer, and the escrow shall be terminated. If the escrow Funds are not sufficient to satisfy the Bridge Security amount in full, the Developer shall be liable for and shall pay any such deficiency amount upon the City’s written demand, and the City shall additionally be entitled to withhold payments and setoff against future payments under the warrants such amounts necessary to eliminate such deficiency, such that the City is paid the entire Bridge Security Amount.

Bridge Option:

The City shall be entitled to exercise the option to purchase the Bridge at any time between January 1, 2033 and December 31, 2033 for the sum equal to ten (10) multiplied by the revenue produced by toll-charges paid for usage of the Bridge for the highest of the previous three (3) full calendar years preceding the date of the commencement of the option term. There are allowances for Force Majeure events. If the City declines the Bridge Option, the \$0.30 fixed traffic fees will automatically be extended for an additional thirty years.

During 2007, The Baldwin County Bridge Company, LLC was sold to American Roads. For the year ended December 31, 2012, the City received payments from American Roads totaling \$491,262 for the twelve months the agreement was in effect, based on the above formula. Traffic fees have steadily decreased from 2007 – 2012 and it is expected that there will be a traffic fee shortfall on December 31, 2013. In that case, the City will have to exercise the Bridge Security Agreement and may have to pay the line of credit used for the \$12,000,000 installment advances out of future traffic fees or out of the general fund.

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**NOTE 13 – COMMITMENTS AND CONTINGENCIES**

On July 12, 2004 the City of Orange Beach entered into a Development Agreement known as “The Wharf” with AIG Baker Development, LLC. The purpose of the agreement is to develop seven tracts of real property that Baker has under contract for long-term leasehold interests. The property will be developed conceptually in two distinct manners, the Commercial Development and the Public Land.

The City will issue non-recourse limited-obligation warrant to AIG Baker in the amount of \$25,000,000 bearing an interest rate of 3.5%, or the rate at which AIG Baker is able to obtain for its construction financing, for the purchase of the Public Land. This amount will be amortized over 15 years and will be paid monthly. The funds to pay the warrant will be provided exclusively by ½ of all tax revenues (defined as sales tax or lodging tax) levied by the City on the businesses. AIG Baker will remit sales and lodging tax to the City. The developer will also make payments-in-lieu of taxes for the amounts that would have been assessed on the property. The commencement date of this transaction shall be the date upon which the Deed and the Assignment of Leasehold Interest are executed and delivered. The agreement was amended on April 10, 2010 requiring that AIG Baker to set up an escrow account to satisfy the Bridge Security Agreement. See note 11 for more information.

The “Bond Validation Proceeding” for the issuance of this warrant is currently being conducted.

The City is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets, errors and omissions; injuries to employees; and natural disasters. The City obtains coverage from municipal insurance companies and effectively manages risk through various employee education and prevention programs. The policy premiums are based on estimated annual payroll. The premiums are adjusted retrospectively based on actual annual payroll.

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements by the grantor agency for expenditures disallowed under the terms of the grant. The City is currently not under audit by any grantor agencies.

**NOTE 14 – PENDING LITIGATION**

The City is party to various 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.

While the outcome of the above noted proceedings cannot be predicted, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

**NOTE 15- SUBSEQUENT EVENTS**

On June 11, 2013, the City Council voted in favor to purchase a ten acre parcel of land for approximately \$450,000.

In January 2013, dredging for the beach renourishment project began and was completed on March 12, 2013. The cost for this project in 2013 was approximately \$4,292,115.

On February 19, 2013 the city issued an ordinance authorizing the issuance, sale, and delivery of \$9,780,000 principal amount of General Obligation Warrants. These bonds were issued for refunding purposes.

Subsequent events were evaluated from January 1, 2013 to the financial statement issuance date of June 26, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

THE CITY OF ORANGE BEACH, ALABAMA  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Over (Under)
<b>Resources (inflows)</b>				
Property taxes	\$ 3,000,000	\$ 3,000,000	\$ 2,969,708	\$ (30,292)
Intergovernmental:				
State tax	37,000	37,000	31,615	(5,385)
Local tax	16,209,000	16,209,000	18,283,798	2,074,798
Federal operating grant	1,369,000	1,369,000	730,902	(638,098)
Hurricane disaster recovery	8,197,200	8,197,200	770,760	(7,426,440)
BP state grant	-	-	271,326	271,326
Personnel service reimbursement	80,000	80,000	36,613	(43,387)
Other licenses, permits and fees	1,943,000	1,943,000	2,052,751	109,751
Fines and forfeitures	245,500	245,500	186,445	(59,055)
Charges for services	627,000	627,000	808,300	181,300
Rent	166,000	166,000	146,955	(19,045)
Investment earnings	30,000	30,000	21,013	(8,987)
Contracts	240,500	240,500	239,841	(659)
Miscellaneous	408,365	408,365	214,073	(194,292)
Gain on disposal of assets	162,400	162,400	67,899	(94,501)
Transfers from other funds	108,500	108,500	-	(108,500)
<b>Amounts Available for Appropriations</b>	<u>32,823,465</u>	<u>32,823,465</u>	<u>26,831,999</u>	<u>(5,991,466)</u>
<b>Charges to appropriations (outflows)</b>				
General government	1,627,050	1,627,050	1,683,444	56,394
Court	346,300	346,300	350,450	4,150
Finance	598,800	598,800	616,807	18,007
Police	3,261,450	3,261,450	3,182,061	(79,389)
Corrections	504,300	504,300	518,185	13,885
Engineering and environmental	1,353,100	1,353,100	1,172,828	(180,272)
Communications	395,400	395,400	396,116	716
Fire	3,489,900	3,489,900	3,861,363	371,463
Public works	2,014,400	2,014,400	2,124,654	110,254
Landscape	1,321,200	1,321,200	1,331,171	9,971
Parks and recreation	2,291,300	2,291,300	2,167,868	(123,432)
Library	545,065	545,065	522,741	(22,324)
BP Oil Spill	381,000	381,000	189,347	(191,653)
Hurricane damage recovery	9,882,000	9,882,000	811,811	(9,070,189)
Capital expenditures	3,019,100	3,019,100	1,735,315	(1,283,785)
Transfers to the wharf	500,000	500,000	-	(500,000)
Transfers to other funds	13,443,500	13,443,500	1,291,164	(12,152,336)
<b>Total Charges to Appropriations</b>	<u>44,973,865</u>	<u>44,973,865</u>	<u>21,955,325</u>	<u>(23,018,540)</u>
<b>Excess (Deficiency) of Resources Over</b>				
<b>Charges to Appropriations</b>	(12,150,400)	(12,150,400)	4,876,674	17,027,074
<b>Statutory revenue reduction</b>	<u>(2,291,700)</u>	<u>(2,291,700)</u>	-	<u>2,291,700</u>
<b>Excess (Deficiency) of Resources Over</b>				
<b>Charges to Appropriations</b>	<u>\$ (14,442,100)</u>	<u>\$ (14,442,100)</u>	<u>\$ 4,876,674</u>	<u>\$ 19,318,774</u>

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

**COMPLIANCE AND INTERNAL CONTROL SECTION**

THE CITY OF ORANGE BEACH, ALABAMA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
DECEMBER 31, 2012

Federal Grantor/Pass-through Grantor Program Title	Federal CFDA Number (1)	Pass-through Grantors Number	Expenditures of Federal Awards
DEPARTMENT OF TRANSPORTATION Recreational Trail	20.219	-	116,562
DEPARTMENT OF TRANSPORTATION ARRA- Highway Planning and Construction	20.205	-	64,548
DEPARTMENT OF HOMELAND SECURITY Public Assistance	97.036	-	730,431
DEPARTMENT OF HOMELAND SECURITY Assistance to Firefighter	97.083	-	312,316
DEPARTMENT OF COMMERCE Coastal Zone Management	11.419	-	131,991
DEPARTMENT OF COMMERCE Sea Support	11.417	-	5,000
DEPARTMENT OF JUSTICE Law Enforcement Equipment	16.738	-	14,660
DEPARTMENT OF COMMERCE Unallied Industry	11.452	-	58,455
ENVIRONMENTAL PROTECTION AGENCY National Estuary Program	66.456	-	<u>27,370</u>
Total Expenditures of Federal Awards			<u>\$ 1,461,333</u>

(1) Catalog of Federal Domestic Assistance Number

**NOTES TO SCHEDULE:**

**NOTE 1 – BASIS OF PRESENTATION**

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTS POLICIES**

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

## SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Orange Beach, Alabama.
2. There were significant control deficiencies 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. These significant control deficiencies are considered to be material weaknesses.
3. There was one instance of noncompliance material to the financial statements of the City of Orange Beach, Alabama, which would be required to be reported in accordance with *Government Auditing Standards*, and was disclosed during the audit.
4. There was one instance reported during the audit of internal control over the major federal award program, and was disclosed during the audit.
5. The auditor's report on compliance for the major federal award programs for the City of Orange Beach, Alabama expresses an unqualified opinion on the major federal award program.
6. There was one audit finding relative to the major federal award programs for the City of Orange Beach, Alabama required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as major was the U.S. Department of Transportation- ARRA Highway Planning and Construction, CFDA No. 20.205, U.S. Department of Homeland Security – Public Assistance CFDA 97.036, and U.S. Department of Homeland Security- Staffing for Adequate Fire and Emergency Response (SAFER) CFDA 97.083.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Orange Beach, Alabama is a high risk auditee for 2012.

### FINDING – INTERNAL CONTROL OVER FINANCIAL REPORTING

Significant control deficiencies in internal control reportable under *Generally Accepted Auditing Standards*, which are material weaknesses:

#### 2012-1

*Condition:* Lack of controls over the period-end financial reporting process over nonrecurring transactions, including initiation, authorization, recording and processing of journal entries into the general ledger; and recording nonrecurring adjustments to the financial statements.

*Criteria:* Internal controls should be in place to provide reasonable assurance that non-routine payables, receivables and deferrals are correctly recorded.

*Effect:* A material receivable was not properly recorded. The City failed to accrue reimbursements receivable for costs incurred on the beach renourishment project. The total receivable not accrued totaled \$244,139. As a result of the incorrect posting, receivables were understated by \$244,139.

One-sided entries for interfund payable/ receivable and transfers were recorded, therefore the transfers and interfund payables did not zero out on the financial statements.

*Recommendations:* The finance department should include posting non routine accrual in the monthly end closing process. The finance department should have contact with all department heads and grant administrators on all open invoices and request for reimbursement to ensure that all material payables and receivables have been recorded. Interfund accounts should be reconciled on a monthly basis to ensure all interfund activity has been recorded between funds. All contract invoices should be reviewed to ensure retainage is properly recorded.

*Views of responsible officials and planned corrective action plan:* The City will establish procedures over non-reoccurring transactions.

## FINDING – COMPLIANCE AND OTHER MATTERS

### 2012-2

Condition: The City of Orange Beach did not satisfy its reporting requirements for the U.S. Department of Homeland Security Public Assistance Grant.

Criteria: Internal controls should be in place to provide reasonable assurance that all compliance requirements are being satisfied for the respective grant.

Effect: The City did not comply with the reporting requirements for the Public Assistance grant by not submitting the Federal Financial Report.

Recommendations: Grant Administrators should review compliance requirements on a monthly basis to ensure all grants are complying with program specific requirements.

Views of responsible officials and planned corrective action plan: The City will establish procedures to ensure compliance requirements are satisfied for all grants.

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTION COSTS

### 2011-1

Condition: Lack of controls over the period-end financial reporting process over nonrecurring transactions, including initiation, authorization, recording and processing of journal entries into the general ledger; and recording nonrecurring adjustments to the financial statements.

Criteria: Internal controls should be in place to provide reasonable assurance that non-routine payables, receivables and deferrals are correctly recorded.

Effect: A material payable was not properly reversed. The City failed to reverse cost incurred on the BP oil spill. The total costs not reversed totaled \$210,156. As a result of the incorrect posting, payables were overstated by \$210,156.

One-sided entries for interfund payable/ receivable and transfers were recorded, therefore the transfers and interfund payables did not zero out on the financial statements.

Recommendations: The finance department should include posting non routine accrual in the monthly end closing process. The finance department should have contact with all department heads and grant administrators on all open invoices and request for reimbursement to ensure that all material payables and receivables have been recorded. Interfund accounts should be reconciled on a monthly basis to ensure all interfund activity has been recorded between funds. All contract invoices should be reviewed to ensure retainage is properly recorded.

Views of responsible officials and planned corrective action plan: The City will establish procedures over non-reoccurring transactions.

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

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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  
Orange Beach, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Orange Beach, Alabama, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of Orange Beach, Alabama's basic financial statements and have issued our report thereon dated June 26, 2013.

### Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. [2012-1 and 2012-2].

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Orange Beach, 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 the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs.

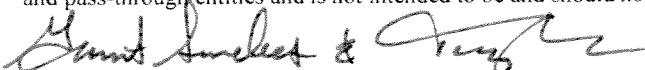
We also noted certain matters that we reported to management of The City of Orange Beach, Alabama in a separate letter dated June 26, 2013.

### City of Orange Beach, Alabama's Response to Findings

The City of Orange Beach, Alabama's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Orange Beach, Alabama's responses and, accordingly we express no opinion on them.

### Purpose of this Report

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

  
Gulf Shores, Alabama  
June 26, 2013

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## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and Members of the City Council  
Orange Beach, Alabama

### Report on Compliance for Each Major Federal Program

We have audited the compliance of the City of Orange Beach, Alabama, with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of the City of Orange Beach, Alabama's major federal programs for the year ended December 31, 2012. The City of Orange Beach, Alabama's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

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

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Orange Beach, Alabama's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Orange Beach, Alabama's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### Opinion on Each Major Federal Program

In our opinion, the City of Orange Beach, 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, 2012.

### Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items [2012-1 and 2012-2]. Our opinion on each major federal program is not modified with respect to these matters.

The City of Orange Beach, Alabama's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Orange Beach, Alabama's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-1 and 2012-2 to be a material weakness.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses.

The City of Orange Beach, Alabama's, response to the finding identified in our audit is described in the accompanying schedule of findings and questioned cost. We did not audit the City of Orange Beach, Alabama's response and, accordingly, we express no opinion on it.

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



Gulf Shores, Alabama  
June 26, 2013