

THE CITY OF ORANGE BEACH, ALABAMA
FINANCIAL STATEMENTS
DECEMBER 31, 2014

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

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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, blended component units, and the aggregate remaining fund information of the City of Orange Beach, Alabama, as of and for the year ended December 31, 2014, 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 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, blended component units, and the aggregate remaining fund information of the City of Orange Beach, Alabama, as of December 31, 2014, 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.

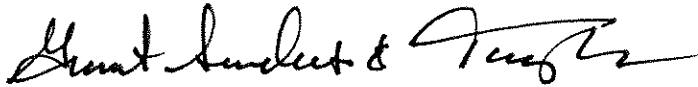
Other Matters

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 through 47 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2015 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 an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Orange Beach, Alabama's internal control over financial reporting and compliance.



Gulf Shores, Alabama
June 15, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS
(MD&A)

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

The Statement of Activities provides information on how the City's net position 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, Event Center Fund, Arts 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 position may serve as a useful indicator of a government's financial condition. At the close of Fiscal Year 2014 on December 31, 2014, the City of Orange Beach assets exceeded its liabilities by \$94,021,715 whereas at the close of Fiscal Year 2013 on December 31, 2013, the City of Orange Beach assets exceeded its liabilities by \$88,518,210. The largest portion of the City's net position 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 Position as of December 31, 2014 and December 31, 2013, and is derived from the Government-wide Statement of Net Position.

Table 1 – Condensed Statement of Net Position

	Governmental		Business-Type		Total	
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$ 34,723,343	\$ 28,980,694	\$ 16,812,104	\$ 18,321,933	\$ 51,535,447	\$ 47,302,627
Capital Assets	75,619,035	74,876,711	29,137,777	29,584,174	104,756,812	104,460,885
Total Assets	<u>\$ 110,342,378</u>	<u>\$ 103,857,405</u>	<u>\$ 45,949,881</u>	<u>\$ 47,906,107</u>	<u>\$ 156,292,259</u>	<u>\$ 151,763,512</u>
Deferred Outflow of Resources	\$ 795,892	\$ 839,905	\$ 2,843,262	\$ 3,034,558	\$ 3,639,154	\$ 3,874,463
Other Liabilities	\$ 2,139,184	\$ 1,594,084	\$ 895,441	\$ 526,621	\$ 3,034,625	\$ 2,120,705
Long-term Liabilities	25,933,093	26,764,927	36,315,773	37,608,562	62,248,866	64,373,489
Total Liabilities	<u>\$ 28,072,277</u>	<u>\$ 28,359,011</u>	<u>\$ 37,211,214</u>	<u>\$ 38,135,183</u>	<u>\$ 65,283,491</u>	<u>\$ 66,494,194</u>
Deferred Inflow of Resources	\$ 589,707	\$ 592,480	\$ 36,500	\$ 33,091	\$ 626,207	\$ 625,571
Net Position	<u>\$ 82,476,286</u>	<u>\$ 75,745,819</u>	<u>\$ 11,545,429</u>	<u>\$ 12,772,391</u>	<u>\$ 94,021,715</u>	<u>\$ 88,518,210</u>
Invested in Capital Assets, Net of Related Debt	\$ 50,192,756	\$ 48,562,054	\$ 4,245,651	\$ 3,296,257	\$ 54,438,407	\$ 51,858,311
Restricted	10,193,490	9,706,366	-	-	10,193,490	9,706,366
Unrestricted	<u>22,090,040</u>	<u>17,477,399</u>	<u>7,299,778</u>	<u>9,476,134</u>	<u>29,389,818</u>	<u>26,953,533</u>
Total Net Position	<u>\$ 82,476,286</u>	<u>\$ 75,745,819</u>	<u>\$ 11,545,429</u>	<u>\$ 12,772,391</u>	<u>\$ 94,021,715</u>	<u>\$ 88,518,210</u>

Overall Analysis

Financial highlights for the City of Orange Beach as a whole during the fiscal year ended December 31, 2014 and December 31, 2013, include the following:

The assets of the City exceeded its liabilities (net assets) at the close of the fiscal year ended December 31, 2014, by \$82,476,286 and at the close of the fiscal year ended December 31, 2013, by \$75,745,819 for Governmental Activities and by \$11,545,429 and \$12,772,391 (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, 2014 and December 31, 2013 and is derived from the Statement of Activities.

Table 2 – Condensed Statement of Activities

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
PRIMARY GOVERNMENT:						
Revenues						
Charges for Services	\$ 4,465,186	\$ 3,951,643	\$ 9,182,736	\$ 9,101,630	\$ 13,647,922	\$ 13,053,273
Operating grants and Contributions	294,447	3,989,437	-	-	294,447	3,989,437
Capital grants and Contributions	529,877	1,225,770	-	-	529,877	1,225,770
General Revenues:						
Taxes	25,283,954	23,292,317	-	-	25,283,954	23,292,317
Investment Earnings	22,704	23,413	6,972	8,810	29,676	32,223
Reimbursed Expense	62,033	51,436	-	-	62,033	51,436
Contributions	1,164,700	211,000	-	-	1,164,700	211,000
Miscellaneous	97,848	114,801	106,300	78,800	204,148	193,601
Gain (Loss) on Disposal of Assets	25,534	83,374	25,410	-	50,944	83,374
Total Revenues	\$ 31,946,283	\$ 32,943,191	\$ 9,321,418	\$ 9,189,240	\$ 41,267,701	\$ 42,132,431
Expenses:						
General Government	\$ 3,497,036	\$ 3,609,722	\$ -	\$ -	\$ 3,497,036	\$ 3,609,722
Municipal Court	352,853	352,123	-	-	352,853	352,123
Finance	699,511	606,027	-	-	699,511	606,027
Engineering Coastal	1,407,314	1,231,615	-	-	1,407,314	1,231,615
Police	4,844,326	4,369,210	-	-	4,844,326	4,369,210
Corrections	570,619	541,324	-	-	570,619	541,324
Communication	444,478	408,011	-	-	444,478	408,011
Fire	5,234,778	4,071,483	-	-	5,234,778	4,071,483
Public Works	3,268,942	2,944,626	-	-	3,268,942	2,944,626
Landscape	1,447,818	1,423,171	-	-	1,447,818	1,423,171
Parks & Recreation	3,164,514	2,809,397	-	-	3,164,514	2,809,397
Library	698,695	586,657	-	-	698,695	586,657
Beach renourishment	-	4,511,627	-	-	-	4,511,627
BP Oil Spill	48,351	161,092	-	-	48,351	161,092
Interest on Long-Term Debt	848,868	865,146	-	-	848,868	865,146
Sewer Fund	-	-	5,723,608	5,094,492	5,723,608	5,094,492
Refuse Fund	-	-	2,414,589	2,425,455	2,414,589	2,425,455
Retail Fund	-	-	-	49,420	-	49,420
Events Center	-	-	361,728	241,702	361,728	241,702
Baldwin County Bridge Fund	-	-	211,868	225,394	211,868	225,394
Arts Center	-	-	524,300	269,299	524,300	269,299
Total Expenses	\$ 26,528,103	\$ 28,491,231	\$ 9,236,093	\$ 8,305,762	\$ 35,764,196	\$ 36,796,993
Increase (Decrease) in Net Position						
Before Transfers	5,418,180	4,451,960	85,325	883,478	5,503,505	5,335,438
Transfers	482,157	758,340	(482,157)	(758,340)	-	-
Change in Net Position	5,900,337	5,210,300	(396,832)	125,138	5,503,505	5,335,438
Net Position - Beginning	75,745,819	70,535,519	12,772,391	12,647,253	88,518,210	83,182,772
Prior period adjustment	830,130	-	(830,130)	-	-	-
Net Position - Ending	\$ 82,476,286	\$ 75,745,819	\$ 11,545,429	\$ 12,772,391	\$ 94,021,715	\$ 88,518,210

The City's total net position increased during the current year by \$5,503,505 and during the previous year by \$5,335,438. Net position of Governmental Activities increased by \$5,900,337 during fiscal year 2014 and increased by \$5,210,300 during fiscal year 2013 while the net position on Business-type Activities decreased by \$396,832 during fiscal year 2014 and increased by \$125,138 during fiscal year 2013.

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 \$32,201,785 compared to \$27,004,541 at the end of the previous fiscal year with \$21,393,796 unassigned compared to \$16,648,549 reported as unreserved fund balance. The remaining reserved amount of \$10,807,989 for fiscal year end 2014, is \$178,040 nonspendable, \$1,327,080 restricted, \$9,015,494 committed, and \$287,375 assigned as compared to the fiscal year ended 2013 amount of \$10,355,992 (\$200,188 non spendable, \$1,450,410 restricted, \$8,483,351 committed, and \$222,043 assigned).

Proprietary Funds

As of the close of the current fiscal year the City's Proprietary Funds reported total net assets of \$11,545,429 compared to \$12,772,391 at the end of fiscal 2013.

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 \$1,180,876 under the budgeted amounts. This mainly results from the City not completing some budgeted capital projects, specifically the construction of a cell tower and splash pad and stabilization of a road next to a canal. Actual revenues were \$4,632,146 over the final budgeted amounts. Local taxes exceeded budget by \$4,253,623 as beach goers returned in record numbers during summer 2014. 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, 2014, the City of Orange Beach reported net capital assets of \$75,619,035 from governmental activities and net capital asset of \$29,137,777 from business-type activities. At December 31, 2013, the City of Orange Beach reported net capital assets of \$74,876,711 from governmental activities and net capital asset of \$29,584,174 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 \$61,669,357 in debt outstanding compared to \$63,856,230 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 made annual \$1.2 million payments to the bridge company from 2003-2013. The 2013 payment ended 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. The Wharf has approved plans for a 140 room Marriott hotel adjacent to the Event Center.
- 3) In 2005, the City purchased 80 acres of land north of the Intracoastal Waterway on the Beach Express 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, golf course 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 and continues to add to the balance annually.
- 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 Council continues to be conservative in their budgeting, spending, and debt management. These conservative philosophies resulted in an improved bond rating of AA+ in Spring 2014; increasing two grades.
- 9) 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. 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 2015 for additional lost revenues. 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.

- 10) 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 extended the 1 cent sales tax for ten years until March 31, 2025.
- 11) 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. Renamed the Orange Beach Event Center at the Wharf, the City is aggressively recruiting trade shows, conferences, meetings, concerts and more to bring attendees to town to fill room nights in the City. In early 2015 construction began on a 140 room hotel on the Wharf site. An on-site hotel is expected to increase usage of the City Event Center.
- 12) 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.
- 13) 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 Orange Beach business Walter Marine. Their crew became known as the "Reef Wranglers", due to a short lived Weather Channel reality series that featured them in 2012, bringing national attention and exposure to the local area. Additional funding was provided in 2015 for "Poseidon's Playground" a near shore dive reef.
- 14) The City has a total of four new hotels slated to begin construction in 2015 along with several new retail and restaurant operations.
- 15) Diversification of the tourism market continues as more sporting events like youth baseball/softball tournaments, marathons, soccer and volleyball come to the area. These type events documented over 76,000 room nights on the entire gulf coast in 2014. These events are building on off season months in attracting visitors.

BASIC FINANCIAL STATEMENTS

GOVERNMENT - WIDE FINANCIAL STATEMENTS

THE CITY OF ORANGE BEACH, ALABAMA
STATEMENT OF NET POSITION
DECEMBER 31, 2014

	Primary Government		Totals
	Governmental Activities	Business-type Activities	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 19,140,448	\$ 5,717,237	\$ 24,857,685
Accounts receivable - net	3,136,881	5,504,023	8,640,904
Internal balances	2,074,482	(2,074,482)	-
Inventories	35,738	-	35,738
Prepays	142,304	4,314	146,618
Restricted assets:			
Cash and cash equivalents	10,193,490	7,661,012	17,854,502
Capital assets:			
Non-depreciable	49,746,264	343,588	50,089,852
Depreciable (net)	25,872,771	28,794,189	54,666,960
Total assets	<u>110,342,378</u>	<u>45,949,881</u>	<u>156,292,259</u>
DEFERRED OUTFLOW OF RESOURCES			
Defeasance cost (net)	<u>795,892</u>	<u>2,843,262</u>	<u>3,639,154</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 894,454	\$ 629,882	\$ 1,524,336
Accrued expenses	1,037,396	62,064	1,099,460
Accrued interest payable	207,334	203,495	410,829
Long-term liabilities:			
Due within one year:			
Compensated absences	323,553	50,318	373,871
Loans payable	-	413,737	413,737
Bonds payable	953,500	1,401,500	2,355,000
Due in more than one year:			
Compensated absences	183,261	22,377	205,638
Loans payable	-	6,710,530	6,710,530
Bonds payable	24,472,779	27,717,311	52,190,090
Total liabilities	<u>28,072,277</u>	<u>37,211,214</u>	<u>65,283,491</u>
DEFERRED INFLOW OF RESOURCES			
Unearned revenue	<u>589,707</u>	<u>36,500</u>	<u>626,207</u>
NET POSITION			
Invested in capital assets, net of related debt	50,192,756	4,245,651	54,438,407
Restricted:			
Capital projects	1,177,996	-	1,177,996
Emergencies	9,015,494	-	9,015,494
Unrestricted (deficit)	22,090,040	7,299,778	29,389,818
Total net position	<u>\$ 82,476,286</u>	<u>\$ 11,545,429</u>	<u>\$ 94,021,715</u>

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, 2014

Functions/Programs	Program Revenues			Primary Government	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
PRIMARY GOVERNMENT:					
Governmental activities:					
General government	\$ 3,497,036	\$ 222,964	\$ 12,580	\$ 481,303	\$ (2,780,189)
Court	352,853	39,968	-	-	(312,885)
Finance	699,511	2,103,505	-	-	1,403,994
Engineering/ Coastal	1,407,314	-	56,500	-	(1,350,814)
Police	4,844,326	172,972	-	-	(4,671,354)
Corrections	570,619	-	-	-	(570,619)
Communications	5,234,778	-	-	-	(444,478)
Fire	3,268,942	330,134	-	-	(4,904,644)
Public works	1,447,818	-	225,367	48,574	(2,995,001)
Landscape	3,164,514	1,116,288	-	-	(1,447,818)
Parks and recreation	698,695	45,271	-	-	(2,048,226)
Library	-	434,084	-	-	(653,424)
Community development	48,351	-	-	-	434,084
BP Oil Spill	848,868	-	-	-	(48,351)
Interest on long-term debt	26,528,103	4,465,186	-	-	(848,868)
Total governmental activities (See Note 1)		4,465,186	294,447	529,877	(21,238,593)
Business-type activities:					
Sewer	5,723,608	6,361,176	-	-	637,568
Refuse	2,414,589	2,431,301	-	-	16,712
Events Center	361,728	170,027	-	-	(191,701)
Baldwin County Bridge Company (BCBC)	211,868	-	-	-	(211,868)
Arts Center	524,300	220,232	-	-	(304,068)
Total business-type activities	9,236,093	9,182,736	-	-	(53,357)
Total primary government	\$ 35,764,196	\$ 13,647,922	\$ 529,877	\$ (21,238,593)	\$ (21,291,950)
General revenues:					
Property taxes				2,953,221	2,953,221
Local taxes				11,558,680	11,558,680
Franchise taxes				1,425,387	1,425,387
State taxes				337,110	337,110
Sales taxes				9,009,556	9,009,556
Unrestricted investment earnings				22,704	29,676
Reimbursed expenses				62,033	62,033
Contributions				1,164,700	1,164,700
Miscellaneous				97,848	106,300
Gain (loss) on disposal of assets				25,534	25,410
Transfers				482,157	(482,157)
Total general revenues, special items and transfers				27,138,930	(343,475)
Change in net position				5,900,337	(396,832)
Net position - beginning				75,745,819	12,772,391
Prior period adjustment				830,130	(830,130)
Net position - ending				82,476,286	11,545,429
					94,021,715

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

FUND FINANCIAL STATEMENTS

THE CITY OF ORANGE BEACH, ALABAMA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 18,853,073	\$ 287,375	\$ 19,140,448
Restricted cash and cash equivalents	9,099,376	1,094,114	10,193,490
Accounts receivable - net	3,070,164	66,717	3,136,881
Due from other funds	2,203,806	-	2,203,806
Inventory	35,736	-	35,736
Prepaid insurance	142,304	-	142,304
Total assets	<u>\$ 33,404,459</u>	<u>\$ 1,448,206</u>	<u>\$ 34,852,665</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	820,185	2,227	822,412
Due to other funds	-	129,322	129,322
Accrued expenses	948,065	-	948,065
Appearance bonds	60,696	-	60,696
Performance bonds	33,080	-	33,080
Communications tower escrow funds	67,598	-	67,598
Total liabilities	<u>1,929,624</u>	<u>131,549</u>	<u>2,061,173</u>
DEFERRED INFLOW OF RESOURCES			
Unearned revenue	<u>589,707</u>	<u>-</u>	<u>589,707</u>
Fund balances:			
Nonspendable	178,040	-	178,040
Spendable:			
Restricted	297,798	1,316,657	1,614,455
Committed	9,015,494	-	9,015,494
Assigned	-	-	-
Unassigned	21,393,796	-	21,393,796
Total fund balances	<u>30,885,128</u>	<u>1,316,657</u>	<u>32,201,785</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 33,404,459</u>	<u>\$ 1,448,206</u>	<u>\$ 34,852,665</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, 2014

Fund balances - total governmental funds \$ 32,201,785

Amounts reported for governmental activities in the statement of net assets are different because:

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

Governmental capital assets	93,447,486	
Less accumulated depreciation	<u>(17,828,450)</u>	75,619,036

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

Loss on advance refunding	880,250	
Less accumulated amortization	<u>(84,358)</u>	795,892

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	(24,887,800)	
Premium on bonds issued	(822,533)	
Discount on bonds issued	42,033	
Accumulated amortization of premium / discount	242,021	
Compensated absences	<u>(506,814)</u>	(25,933,093)

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

Accrued Interest Payable		<u>(207,334)</u>
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Net assets of governmental activities		<u><u>\$ 82,476,286</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 REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	\$ 2,953,221	\$ -	\$ 2,953,221
Intergovernmental:			
State tax	68,069	267,420	335,489
Local tax	21,993,623	-	21,993,623
Grants	69,080	-	69,080
FEMA Flooding recovery	225,367	-	225,367
BP state grant	481,303	-	481,303
Personnel service reimbursement	62,033	-	62,033
Other licenses, permits and fees	2,766,690	1,621	2,768,311
Fines and forfeitures	155,625	18,436	174,061
Charges for services	1,043,105	-	1,043,105
Rent	136,405	-	136,405
Investment earnings	22,434	269	22,703
Contracts	288,669	-	288,669
Miscellaneous	132,572	70,106	202,678
TOTAL REVENUES	<u>30,398,196</u>	<u>357,852</u>	<u>30,756,048</u>
EXPENDITURES			
General government	3,236,558	-	3,236,558
Court	346,487	-	346,487
Finance	699,511	-	699,511
Police	4,491,451	-	4,491,451
Corrections	569,969	-	569,969
Engineering and environmental	1,396,521	-	1,396,521
Communications	434,982	-	434,982
Fire	4,543,464	-	4,543,464
Public works	2,369,275	-	2,369,275
Landscape	1,447,818	-	1,447,818
Parks and recreation	2,465,476	-	2,465,476
Library	-	632,915	632,915
BP Oil Spill	6,219	-	6,219
FEMA flooding	105,853	-	105,853
Capital improvements	2,470,067	-	2,470,067
Securities lending:			
Fiscal agent fees	-	9,608	9,608
Debt service:			
Principal payments	-	827,300	827,300
Interest and other	-	843,149	843,149
TOTAL EXPENDITURES	<u>24,583,651</u>	<u>2,312,972</u>	<u>26,896,623</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 5,814,545</u>	<u>\$ (1,955,120)</u>	<u>\$ 3,859,425</u>

(Carried forward)

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

THE CITY OF ORANGE BEACH, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
(Continued)			
Excess (deficiency) of revenues over expenditures (brought forward)	\$ 5,814,545	\$ (1,955,120)	\$ 3,859,425
OTHER FINANCING SOURCES (USES)			
Gain on disposal of assets	25,534	-	25,534
Transfers in	871,019	2,262,028	3,133,047
Transfers out	<u>(2,262,028)</u>	<u>(388,864)</u>	<u>(2,650,892)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,365,475)</u>	<u>1,873,164</u>	<u>507,689</u>
Net change in fund balances	4,449,070	(81,956)	4,367,114
Fund balances - beginning	25,652,654	1,351,887	27,004,541
Prior period adjustment	<u>783,404</u>	<u>46,726</u>	<u>830,130</u>
Fund balances - ending	<u>\$ 30,885,128</u>	<u>\$ 1,316,657</u>	<u>\$ 32,201,785</u>

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 POSITION ON THE STATEMENT OF ACTIVITIES
FOR THE PERIOD ENDED DECEMBER 31, 2014

Net change in fund balances \$ 4,367,114

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.

Contributed land	1,164,700	
Expenditures for capital assets	1,230,398	
Less current year depreciation	<u>(1,652,776)</u>	742,322

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

Bond premium/ discount amortization	61,078	
Principal payments	<u>827,300</u>	888,378

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 loss on refunding	(44,012)	
Decrease in interest accrued on long term debt	3,889	
Increase in compensated absences	<u>(57,354)</u>	<u>(97,477)</u>

Change in net position of governmental activities \$ 5,900,337

THE CITY OF ORANGE BEACH, ALABAMA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2014

	Sewer	Refuse	BCBC	Other Proprietary Funds	Total Proprietary Funds
ASSETS					
Current assets					
Cash and cash equivalents	\$ 5,597,466	\$ -	\$ 106,425	\$ 13,347	\$ 5,717,238
Restricted cash and cash equivalents	7,661,012	-	-	-	7,661,012
Accounts receivable	251,304	39,529	824,978	-	1,115,811
Due from other funds	-	513,188	-	-	513,188
Prepaid insurance	3,689	-	-	-	3,689
Total current assets	<u>13,513,471</u>	<u>552,717</u>	<u>931,403</u>	<u>13,347</u>	<u>15,010,938</u>
Noncurrent assets					
Capital assets:					
Land	343,588	-	-	158,648	502,236
Events center	-	-	-	1,667,976	1,667,976
Sewer plant	28,388,173	-	-	-	28,388,173
Vehicles and equipment	1,667,515	865,768	-	40,449	2,573,732
Distribution and collection system	11,458,847	-	-	-	11,458,847
Less: Accumulated depreciation	(14,649,084)	(591,482)	-	(212,621)	(15,453,187)
Accounts receivable	-	-	4,388,212	-	4,388,212
Utility deposits	625	-	-	-	625
Total noncurrent assets	<u>27,209,664</u>	<u>274,286</u>	<u>4,388,212</u>	<u>1,654,452</u>	<u>33,526,614</u>
TOTAL ASSETS	<u>40,723,135</u>	<u>827,003</u>	<u>5,319,615</u>	<u>1,667,799</u>	<u>48,537,552</u>
DEFERRED OUTFLOWS OF RESOURCES					
Unamortized loss on refunding- net	2,843,262	-	-	-	2,843,262
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 452,961	\$ 160,420	\$ -	\$ 16,500	\$ 629,881
Due to other funds	754,707	940,251	-	892,714	2,587,672
Accrued expenses	39,920	10,638	-	11,506	62,064
Accrued compensated absences	32,830	7,016	-	11,834	51,680
Accrued interest payable	188,638	-	14,857	-	203,495
Current portion of loans payable	-	-	413,737	-	413,737
Current portion of bonds payable	1,401,500	-	-	-	1,401,500
Total current liabilities	<u>2,870,556</u>	<u>1,118,325</u>	<u>428,594</u>	<u>932,554</u>	<u>5,350,029</u>
Noncurrent liabilities:					
Accrued compensated absences	18,077	1,655	-	1,283	21,015
Series 2009 G.O. Sewer Warrant - net	2,453,076	-	-	-	2,453,076
Series 2012 G.O. Sewer Warrant - net	25,264,235	-	-	-	25,264,235
Loan Payable	-	-	6,710,530	-	6,710,530
Total noncurrent liabilities	<u>27,735,388</u>	<u>1,655</u>	<u>6,710,530</u>	<u>1,283</u>	<u>34,448,856</u>
TOTAL LIABILITIES	<u>30,605,944</u>	<u>1,119,980</u>	<u>7,139,124</u>	<u>933,837</u>	<u>39,798,885</u>
DEFERRED INFLOW OF RESOURCES					
Unearned revenue	36,500	-	-	-	36,500
NET POSITION					
Invested in Capital Assets, net of related debt	2,316,913	274,286	-	1,654,452	4,245,651
Unrestricted	10,607,040	(567,263)	(1,819,509)	(920,490)	7,299,778
TOTAL NET POSITION	<u>\$ 12,923,953</u>	<u>\$ (292,977)</u>	<u>\$ (1,819,509)</u>	<u>\$ 733,962</u>	<u>\$ 11,545,429</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 FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Sewer	Refuse	BCBC	Other Proprietary Center	Total Proprietary Funds
OPERATING REVENUES					
Charges for services	\$ 6,361,176	\$ 2,431,301	\$ -	\$ 261,379	\$ 9,053,856
Miscellaneous income	113,328	18,378	-	31,717	163,423
Merchandise sales	-	-	-	97,165	97,165
TOTAL OPERATING REVENUES	6,474,504	2,449,679	-	390,261	9,314,444
COST OF GOODS SOLD	-	-	-	48,913	48,913
GROSS PROFIT	6,474,504	2,449,679	-	341,348	9,265,531
OPERATING EXPENSES					
Salaries, wages and employee benefits	1,314,029	440,062	-	438,592	2,192,683
Contractual services	-	1,808,196	-	-	1,808,196
Utilities	683,067	-	-	68,135	751,202
Repairs and maintenance	860,639	29,507	-	65,325	955,471
Other supplies and expenses	161,590	70,294	-	201,374	433,258
Insurance claims and expenses	10,248	9,024	-	-	19,272
Bond premium amortization	6,164	-	-	-	6,164
Depreciation	1,529,973	57,506	-	63,689	1,651,168
TOTAL OPERATING EXPENSES	4,565,710	2,414,589	-	837,115	7,817,414
OPERATING INCOME (LOSS)	1,908,794	35,090	-	(495,767)	1,448,117
NON-OPERATING REVENUES (EXPENSES)					
Interest income	6,607	-	313	52	6,972
Interest expense	(1,157,898)	-	(211,868)	-	(1,369,766)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(1,151,291)	-	(211,555)	52	(1,362,794)
INCOME (LOSS) BEFORE TRANSFERS	757,503	35,090	(211,555)	(495,715)	85,323
TRANSFERS (OUT) IN	(482,155)	-	-	-	(482,155)
CHANGE IN NET POSITION	275,348	35,090	(211,555)	(495,715)	(396,832)
NET POSITION - BEGINNING OF YEAR	12,648,605	(328,067)	(1,607,954)	1,229,677	11,942,261
NET POSITION - END OF YEAR	\$ 12,923,953	\$ (292,977)	\$ (1,819,509)	\$ 733,962	\$ 11,545,429

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, 2014

	<u>Sewer</u>	<u>Refuse</u>	<u>BCBC</u>	<u>Other Proprietary Funds</u>	<u>Total Proprietary Funds</u>
Cash flows from operating activities:					
Receipts from customers	\$ 6,409,793	\$2,445,752	\$ 824,978	\$ 390,259	\$ 10,070,782
Payments to employees for services	(1,304,964)	(442,652)	-	(428,787)	(2,176,403)
Payments to suppliers of goods & services	(1,353,833)	(1,907,317)	-	(395,744)	(3,656,894)
Payments to other funds	<u>77,334</u>	<u>35,047</u>	<u>(135,526)</u>	<u>433,321</u>	<u>410,176</u>
Net cash provided (used) by operating activities	<u>3,828,330</u>	<u>130,830</u>	<u>689,452</u>	<u>(951)</u>	<u>4,647,661</u>
Cash flows from noncapital financing activities:					
Transfers to other funds	<u>(482,155)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(482,155)</u>
Cash flows from capital and related financing activities:					
Interest income	6,607	-	312	52	6,971
Increase in restricted cash	(597,232)	-	-	-	(597,232)
Principal repayments related to capital purposes	(737,700)	-	(375,663)	-	(1,113,363)
Interest paid on capital debt	(1,163,262)	-	-	-	(1,163,262)
Interest paid on other debt	-	-	(207,676)	-	(207,676)
Acquisition of property and equipment	<u>(1,073,941)</u>	<u>(130,830)</u>	<u>-</u>	<u>-</u>	<u>(1,204,771)</u>
Net cash provided (used) by capital and related financing activities	<u>(3,565,528)</u>	<u>(130,830)</u>	<u>(583,027)</u>	<u>52</u>	<u>(4,279,333)</u>
Net increase (decrease) in cash	(219,353)	-	106,425	(899)	(113,827)
Cash and equivalents at beginning of year	<u>5,816,819</u>	<u>-</u>	<u>-</u>	<u>14,246</u>	<u>5,831,065</u>
Cash and equivalents at end of year	<u>\$ 5,597,466</u>	<u>\$ -</u>	<u>\$ 106,425</u>	<u>\$ 13,347</u>	<u>\$ 5,717,238</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, 2014

	<u>Sewer</u>	<u>Refuse</u>	<u>BCBC</u>	<u>Other Proprietary Funds</u>	<u>Total Proprietary Funds</u>
Operating income (loss)	\$ 1,908,794	\$ 35,090	\$ -	\$ (495,767)	\$ 1,448,117
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation	1,529,973	57,506	-	63,689	1,651,168
Amortization	6,164	-	-	-	6,164
(Increase) decrease in:					-
Accounts receivable - net	(68,120)	(3,927)	824,978	-	752,931
Due to other funds	77,334	35,047	(135,526)	125,224	410,176
Inventory	-	-	-	-	-
Increase (decrease) in:					-
Accounts payable	361,711	9,704	-	(974)	359,416
Accrued expenses	6,993	396	-	2,618	10,574
Accrued compensated absences	2,072	(2,986)	-	1,144	5,706
Deferred revenue	3,409	-	-	-	3,409
Total adjustments	<u>1,919,536</u>	<u>95,740</u>	<u>689,452</u>	<u>191,701</u>	<u>3,199,544</u>
Net cash provided (used) by operating activities	<u>\$ 3,828,330</u>	<u>\$ 130,830</u>	<u>\$ 689,452</u>	<u>\$ (304,066)</u>	<u>\$ 4,647,661</u>
 <u>Supplemental Disclosures</u>					
Noncash Investing and Financing Activities: NONE					
Cash Paid During the Year for Interest	<u>\$ 1,355,556</u>	<u>\$ -</u>	<u>\$ 154,217</u>	<u>\$ -</u>	<u>\$ 1,509,773</u>

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, 2014

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 includes 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 position 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, 2014

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 Position. 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, 2014

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. The library fund is a component unit of the city presented with the other governmental funds since its revenue primarily consists of appropriations from the city's general fund.

Proprietary Funds:

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.

Arts Center Fund-

Arts Center Fund is used to account for the operations of the coastal arts center. All costs are financed through charges to customers.

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

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 position and the operating statements present increases (revenues) and decreases (expenses) in net total position. 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), 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, 2014

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 \$1,950,516 invested in the JP Morgan 100% U.S. Treasury Securities Money Market Fund #677 as of December 31, 2014. 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 and merchandise held in the general 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, 2014

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, 2014

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 position 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 position consist of net position 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 position consists of all other net position 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, 2014

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>Debt</u>	<u>Special</u>	<u>Library</u>	<u>Total</u>
	<u>Fund</u>	<u>Service</u>	<u>Revenues</u>	<u>Fund</u>	<u>Governmental</u>
					<u>Funds</u>
Fund Balances:					
Nonspendable:					
Inventories	\$ 35,736	\$ -	\$ -	\$ -	\$ 35,736
Prepaid expenses	142,304	-	-	-	142,304
Restricted for:					
Grants	213,915	-	-	-	213,915
Municipal Court	83,883	-	-	-	83,883
Debt service	-	780,426	-	-	780,426
Fire Department	-	-	40,714	-	40,714
Capital outlay	-	-	208,142	-	208,142
Committed to:					
Emergencies	9,015,494	-	-	-	9,015,494
Assigned to:					
	-	-	-	287,375	287,375
Unassigned :					
	<u>21,393,796</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,393,796</u>
Total Fund Balance	<u>\$ 30,885,128</u>	<u>\$ 780,426</u>	<u>\$ 248,856</u>	<u>\$ 287,375</u>	<u>\$ 32,201,785</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, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

R. ACCUMULATED DEFICIT

At December 31, 2014, the Refuse Fund, Baldwin County Bridge Fund, and Arts Center Fund had accumulated deficits of \$292,977, \$1,819,509, and \$487,001 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.

NOTE 2- CASH AND RESTRICTED CASH

A detail of cash as of December 31, 2014 is as follows:

	Governmental- type Funds	Business- type Funds
Cash on Hand	\$ 3,805	\$ 100
Cash in Banks		
Operations	19,136,642	5,717,137
Reserved- Disaster	9,015,494	6,596,681
Reserved- Special Revenues	207,823	-
Reserved- Debt Service	970,174	1,064,331
Total Cash	\$ 29,333,938	\$ 13,378,249

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, 2014 the carrying amount of the City's deposits, including a Certificate of Deposit, was \$42,712,188 and the bank balance was \$43,587,998. 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, 2014

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, 2013, for the period beginning October 1, 2015 the latest date for which a valuation was available.

Summary of Employee Census Data

	<u>Tier 1</u>	<u>DROP</u>	<u>Tier 2</u>	<u>Total</u>
Number of active members:	234	-	26	260
Annual compensation:	\$ 10,902,352	\$ -	\$ 798,651	\$ 11,701,003
	<u>Retirees</u>	<u>DROP</u>		<u>Total</u>
Number of retired members and beneficiaries:	24	-		24
Annual retirement allowances:	\$ 329,426	\$ -		\$ 329,426
	<u>Vested</u>	<u>Non-vested</u>		<u>Total</u>
Number of inactive members:	8	11		19
Accumulated contributions with interest:	\$ 354,817	\$ 72,231		\$ 427,048

THE CITY OF ORANGE BEACH, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2014

NOTE 4 - RETIREMENT PLAN (continued)

Required Employer Contribution Rates

Tier 1 Employees (applies to all members hired before January, 1, 2013)	Retain Current Member Contribution Rates	Elect to Increase Member Contribution Rates Under Act 2011-676
Normal cost	3.46%	1.22%
Accrued liability	2.73%	2.80%
Pre-retirement death benefit	0.02%	0.02%
Administrative expense	<u>0.35%</u>	<u>0.35%</u>
Total Employer Contribution Rate	6.56%	4.39%
5% Employer contribution factor (6.56%/5%)	1.312000	
6% Employer contribution factor (6.56%/6%)	1.093333	
7.5% Employer contribution factor (4.39%/7.5%)		0.585333
8.5% Employer contribution factor (4.39%/8.5%)		0.516471

Tier 2 Employees

(applies to all members hired on or after January, 1, 2013)

Normal cost	1.28%
Accrued liability	2.73%
Pre-retirement death benefit	0.02%
Administrative expense	<u>0.35%</u>
Total Employer Contribution Rate	4.38%
6% Employer contribution factor (4.38%/6%)	0.730000
7% Employer contribution factor (4.38%/7%)	0.625714

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
DECEMBER 31, 2014

NOTE 4 - RETIREMENT PLAN (continued)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets* (a)	Actuarial Accrued Liability Entry Age (b) ¹	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
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 ²	\$ 14,838,891	\$ 20,558,999	\$ 5,720,108	72.2%	\$ 10,473,681	54.6%
9/30/2011 ⁴	\$ 15,757,754	\$ 20,749,471	\$ 4,991,717	75.9%	\$ 10,592,619	47.1%
9/30/2012 ⁵	\$ 17,128,079	\$ 20,126,401	\$ 2,998,322	85.1%	\$ 10,133,412	29.6%
9/30/2013 ⁶	\$ 19,731,985	\$ 23,023,540	\$ 3,291,555	85.7%	\$ 11,701,003	28.1%
9/30/2013 ^{3,6}	\$ 19,173,985	\$ 23,108,756	\$ 3,376,771	85.4%	\$ 11,701,003	28.9%

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

² Reflects the impact of Act 2011-27, which closes the DROP program to new applicants after March 24, 2011.

³ 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.

⁴ Reflects changes in actuarial assumptions.

⁵ Reflects changes to interest smoothing methodology.

⁶ Reflects implementation of Board Funding Policy.

* Market Value of Assets as of September 30, 2013: \$20,647,708.

Valuation date	9/30/2013
Actuarial cost method	Entry Age
Amortization method	Level percent open
Remaining amortization period	14 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return *	8.00%
Projected salary increases *	3.75%-7.25%
* Included inflation at	3.00%
Cost of living adjustments	None

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)
9/30/2011	\$ 664,759	100%	\$ -
9/30/2012	\$ 676,360	100%	\$ -
9/30/2013	\$ 729,405	100%	\$ -

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 4 - RETIREMENT PLAN (continued)

The following general information applies to the Employees' Retirement System valuation as of December 31, 2014:

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 14-year period.

Total contributions to the pension plan for the fiscal year ending December 31, 2014 were \$839,557. The contributed amounts were actuarially determined as described above and were based on an actuarial valuation as of September 30, 2012. The pension contributions represent funding for normal cost. Contributions made by the City of Orange Beach and its employees represent 6.73%/5% and 6.73%/6%, respectively, of covered payroll for the year.

NOTE 5 – CHANGES IN LONG TERM DEBT

At December 31, 2014, governmental long term debt consisted of the following individual issues:

General Fund

General Obligation Warrants:

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.

On February 1, 2013, the City issued a General Obligation Warrant, Series 2013, in the amount of \$9,780,000 to Bank of New York for the refunding of General Obligation Issue 2007B. The Warrant is payable in annual installments varying from \$151,858 to \$1,465,950 principal plus interest from 0.55% to 3.00% beginning May1, 2013 with a final payment on May 1, 2022.

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 5 - CHANGES IN LONG TERM DEBT (Continued)

Sewer Fund

General Obligation Warrants and Sewer Revenue Warrants:

At December 31, 2014, 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

Business Loan:

On February 1, 2014, the City refinanced an open line of credit with Centennial Bank into a business loan. The loan is payable in monthly installments of \$51,724 of principal plus interest at 2.94% with a final payment on February 1, 2029.

General Obligation Warrants for governmental activities of the City were comprised of the following at December 31, 2014:

\$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%	4,112,800
\$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
\$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

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

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, 2014 (continued):

\$9,780,000 General Obligation Warrants Series 2013 dated February 1, 2013, principal and interest due in annual installments varying from \$151,858 to \$1,465,950 through May 1, 2022; variable interest rate from 0.55% - 3.00%	9,700,000
Unamortized bond premium/ discount (net)	538,479
TOTAL WARRANTS AND NOTES OUTSTANDING	25,426,279
Compensated Absences	506,814
TOTAL GENERAL LONG-TERM DEBT	\$ 25,933,093

General Obligation and Revenue Warrants for business-type activities of the City of Orange Beach were comprised of the following at December 31, 2014:

\$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%	3,647,200
\$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%	22,815,000
\$7,499,930 business loan with Centennial bank dated February 1, 2014, principal and interest due in monthly installments of \$51,724 through February 1, 2029; interest rate of 2.94%	7,124,267
Unamortized bond premium/ discount (net)	2,656,611
TOTAL WARRANTS AND NOTES OUTSTANDING	36,243,078
Compensated Absences	72,695
TOTAL BUSINESS-TYPE ACTIVITY DEBT	\$ 36,315,773

Annual Requirements to Retire Debt Obligations-

The annual aggregate maturities, including principal and interest, for the years subsequent to December 31, 2014, are as follows:

Year Ending December 31,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Totals
2015	953,500	819,816	1,773,316	1,815,237	1,338,781	3,154,018
2016	4,138,550	733,200	4,871,750	1,892,690	1,270,228	3,162,918
2017	4,273,000	594,250	4,867,250	1,956,120	1,198,626	3,154,746
2018	4,308,500	446,020	4,754,520	1,923,890	1,120,481	3,044,371
2019	4,127,000	293,045	4,420,045	2,129,061	1,025,935	3,154,996
2019 and thereafter	7,087,250	208,187	7,295,437	23,869,469	5,144,353	29,013,822
Unamortized bond discount/ premium	538,479	-	538,479	2,656,611	-	2,656,611
Total	\$ 25,426,279	\$ 3,094,518	\$ 28,520,797	\$ 36,243,078	\$ 11,098,404	\$ 47,341,482

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

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:					
April 1, 2009, General Obligation Warrants, Series 2009	4,860,100	-	747,300	4,112,800	768,500
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	-
February 1, 2013, General Obligation, Series 2013	9,780,000	-	80,000	9,700,000	185,000
Unamortized bond premium/ discount (net)	599,557	-	61,078	538,479	-
Total Bonds payable	<u>26,314,657</u>	<u>-</u>	<u>888,378</u>	<u>25,426,279</u>	<u>953,500</u>
Other liabilities:					
Compensated Absences	449,459	57,355	-	506,814	323,533
Governmental activities long term liabilities	<u>\$ 26,764,116</u>	<u>\$ -</u>	<u>\$ 888,378</u>	<u>\$ 25,933,093</u>	<u>\$ 1,277,033</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.					
April 1, 2009 General Obligation Sewer Warrants, Series 2009	4,309,900	-	662,700	3,647,200	681,500
October 1, 2012 General Obligation Sewer Warrants, Series 2012	22,890,000	-	75,000	22,815,000	720,000
February 1, 2014, Business Loan	7,499,930	-	375,662	7,124,267	413,737
Unamortized bond premium/ discount (net)	2,841,743	-	185,132	2,656,611	-
Total Bonds payable	<u>37,541,573</u>	<u>-</u>	<u>1,298,494</u>	<u>36,243,078</u>	<u>1,815,237</u>
Other liabilities:					
Compensated Absences	66,989	5,706	-	72,695	50,318
Business-type activities long term liabilities	<u>\$ 37,608,562</u>	<u>\$ 5,706</u>	<u>\$ 1,298,494</u>	<u>\$ 36,315,773</u>	<u>\$ 1,865,555</u>

THE CITY OF ORANGE BEACH, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2014

NOTE 6 – DEFEASANCE OF DEBT

On February 1, 2013, \$9,780,000 million in general obligation bonds with an average interest rate of 2.11 percent were issued to advance refund \$9,105,000 million of outstanding bonds with an average interest rate of 4.22 percent. The net proceeds of \$10,032,143 million (after payment of \$142,030 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 11 years by almost \$611,228 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 \$500,454.

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
<u>Renewal Periods</u>		
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 Revenue</u>
2015	29,724
2016	25,368
Thereafter	-
Total	\$ 55,092

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

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>
2015	115,500
2016	115,500
2017	119,350
2018	121,275
2019	121,275
Thereafter	<u>505,647</u>
Total	\$ 1,098,547

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, 2014:

<u>Due From</u>	<u>Due To</u>		
	<u>General Fund</u>	<u>Refuse Fund</u>	<u>Total</u>
General	\$ -	\$ -	\$ -
Special Revenues	25,684	-	25,684
Debt Service	103,638	-	103,638
Refuse	940,251	-	940,251
Sewer Utility	241,519	513,188	754,707
Events Center	420,705	-	420,705
Arts Center	<u>472,009</u>	<u>-</u>	<u>472,009</u>
Total	<u>\$ 2,203,806</u>	<u>\$ 513,188</u>	<u>\$ 2,716,994</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
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 8 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (continued)

Interfund transfers during the year ended December 31, 2014, were as follows:

Transfers Out	Transfers In				Total
	General Fund	Debt Service	Library Fund	Sewer Fund	
General Fund	\$ -	\$ 1,610,729	\$ 651,299	\$ -	\$ 2,262,028
Debt Service	-	-	-	198,845	198,845
Special Revenues	190,019	-	-	-	190,019
Sewer Utility	681,000	-	-	-	681,000
Total	<u>\$ 871,019</u>	<u>\$ 1,610,729</u>	<u>\$ 651,299</u>	<u>\$ 198,845</u>	<u>\$ 3,331,892</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them, to the fund that statute or budget 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 – UNEARNED REVENUES

The City has unearned revenues of \$589,707 in the general fund. \$266,106 represents 2015 business license collected in 2014.

From 2010 to 2014 the City of Orange Beach has received \$3,155,051 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, \$271,327, \$138,668, and \$480,872 of the funds in 2010, 2011, 2012, 2013, and 2014, respectively. The remaining balance on the grant totaling \$323,601 is recorded as unearned revenue.

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 10 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispos als</u>	<u>Ending Balance</u>
Governmental activities				
Non-Depreciable Assets:				
Land & Improvements	\$ 48,539,257	\$ 1,207,007	\$ -	\$ 49,746,264
Depreciable Assets:				
Buildings & Infrastructure	31,787,689	483,591	-	32,271,280
Equipment & Vehicles	10,904,960	704,502	179,522	11,429,940
Totals at historical cost	<u>91,231,906</u>	<u>2,395,100</u>	<u>179,522</u>	<u>93,447,484</u>
Less accumulated depreciation for:				
Buildings & Improvements	8,211,524	646,282	-	8,857,806
Infrastructure & Parks Improvements	1,005,587	200,018	-	1,205,605
Equipment & Vehicles	7,138,085	806,475	179,522	7,765,038
Total accumulated depreciation	<u>16,355,196</u>	<u>1,652,775</u>	<u>179,522</u>	<u>17,828,449</u>
Governmental activities capital assets, net	<u>\$ 74,876,710</u>	<u>\$ 742,325</u>	<u>\$ -</u>	<u>\$ 75,619,035</u>

Depreciation expense was charged
to governmental functions as follows:

Administration	\$ 110,589
Police	268,617
Fire	446,723
Public Works	233,526
Parks & Recreation	497,276
Library	30,267
Community Development	65,778
Total depreciation expense	<u>\$ 1,652,776</u>

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 10 – CAPITAL ASSETS (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispos als</u>	<u>Ending Balance</u>
Business-type activities				
Non-Depreciable Assets:				
Land	\$ 502,236	\$ -	\$ -	\$ 502,236
Depreciable Assets:				
Buildings	29,941,439	8,996	-	29,950,435
Equipment	1,137,058	267,595	102,838	1,301,815
Vehicles	1,271,295	48,801	15,566	1,304,530
Distribution and collection systems	10,685,182	879,379	-	11,564,561
Totals at historical cost	<u>43,537,210</u>	<u>1,204,771</u>	<u>118,404</u>	<u>44,623,577</u>
Less accumulated depreciation for:				
Buildings	6,929,937	1,296,600	-	8,226,537
Equipment	686,166	72,939	102,838	656,267
Vehicles	1,105,874	88,115	15,566	1,178,423
Distribution and collection systems	5,231,059	193,514	-	5,424,573
Total accumulated depreciation	<u>13,953,036</u>	<u>1,651,168</u>	<u>118,404</u>	<u>15,485,800</u>
Business-type activities capital assets, net	<u>\$ 29,584,174</u>	<u>\$ (446,397)</u>	<u>\$ -</u>	<u>\$ 29,137,777</u>

NOTE 11 – THE BALDWIN COUNTY 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 and the final advance was made in 2013.

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, 2014

NOTE 11 – THE BALDWIN COUNTY 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.

The city is in the process of exercising the real estate option, but it has not been finalized as of year end.

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, 2014, the City received payments from American Roads totaling \$824,978 for the twelve months the agreement was in effect, based on fixed fee of \$.30 per vehicle.

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 12 – 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. During 2012, “The Wharf” was purchased by Art Favre.

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 12 for more information.

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.

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.

NOTE 13- PRIOR PERIOD ADJUSTMENT

The general fund financial statements reflects a prior period adjustment in the amount of \$830,130. This amount represents the accumulative fund balance of the retail fund in prior years. It was determined that according to paragraph 67 of GASB 34 the retail fund failed to meet the definition of a proprietary fund. In the current year, an entry was made to record a \$830,130 decrease in retail fund balance and a corresponding increase to general fund balance.

The general fund financial statements reflects a prior period adjustment in the amount of \$46,726. This amount represents the accumulative activities of the library department in prior year. It was determined that according to GASB 34 the library fund met the conditions to be considered a blended component unit of the City. In the current year, an entry was made to record a \$46,726 decrease to general fund balance and a corresponding increase to library fund balance.

NOTE 14- SUBSEQUENT EVENTS

Subsequent events were evaluated from January 1, 2015 to the financial statement issuance date of June 15, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

THE CITY OF ORANGE BEACH, ALABAMA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Over (Under)
Resources (inflows)				
Property taxes	\$ 2,830,000	\$ 2,830,000	\$ 2,953,221	\$ 123,221
Intergovernmental:				
State tax	35,000	35,000	68,069	33,069
Local tax	17,740,000	17,740,000	21,993,623	4,253,623
Federal operating grant	207,500	207,500	69,080	(138,420)
FEMA flooding recovery	360,000	360,000	225,367	(134,633)
BP state grant	500,000	500,000	481,303	(18,697)
Personnel service reimbursement	50,000	50,000	62,033	12,033
Other licenses, permits and fees	2,433,000	2,433,000	2,766,690	333,690
Fines and forfeitures	245,500	245,500	155,625	(89,875)
Charges for services	735,000	735,000	1,043,105	308,105
Rent	165,800	165,800	136,405	(29,395)
Investment earnings	12,000	12,000	22,434	10,434
Contracts	362,000	362,000	288,669	(73,331)
Miscellaneous	90,250	90,250	132,572	42,322
Amounts Available for Appropriations	<u>25,766,050</u>	<u>25,766,050</u>	<u>30,398,196</u>	<u>4,632,146</u>
Charges to appropriations (outflows)				
General government	3,097,850	3,097,850	3,236,558	138,708
Court	388,500	388,500	346,487	(42,013)
Finance	712,900	712,900	699,511	(13,389)
Police	4,418,090	4,418,090	4,491,451	73,361
Corrections	650,700	650,700	569,969	(80,731)
Engineering and environmental	1,377,368	1,377,368	1,396,521	19,153
Communications	513,000	513,000	434,982	(78,018)
Fire	4,231,094	4,231,094	4,543,464	312,370
Public works	2,427,295	2,427,295	2,369,275	(58,020)
Landscape	1,516,200	1,516,200	1,447,818	(68,382)
Parks and recreation	2,609,800	2,609,800	2,465,476	(144,324)
BP Oil Spill	120,000	120,000	6,219	(113,781)
Hurricane damage recovery	-	-	105,853	105,853
Capital expenditures	3,701,730	3,701,730	2,470,067	(1,231,663)
Total Charges to Appropriations	<u>25,764,527</u>	<u>25,764,527</u>	<u>24,583,651</u>	<u>(1,180,876)</u>
Other financing sources (uses)				
Gain on disposal of assets	70,000	70,000	25,534	(44,466)
Transfers from other funds	1,153,500	1,153,500	871,019	(282,481)
Transfers to other funds	(22,181,418)	(22,181,418)	(2,262,028)	(19,919,390)
Total Other Financing Uses	<u>(20,957,918)</u>	<u>(20,957,918)</u>	<u>(1,365,475)</u>	<u>(20,246,337)</u>
Excess (Deficiency) of Resources Over				
Charges to Appropriations	(20,956,395)	(20,956,395)	4,449,070	25,405,465
Statutory revenue reduction	<u>(2,437,655)</u>	<u>(2,437,655)</u>	-	<u>2,437,655</u>
Excess (Deficiency) of Resources Over				
Charges to Appropriations	<u>\$ (23,394,050)</u>	<u>\$ (23,394,050)</u>	<u>\$ 4,449,070</u>	<u>\$ 27,843,120</u>

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

THE CITY OF ORANGE BEACH, ALABAMA
SEWER FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Over (Under)
	Original	Final		
Revenues				
Charges for services	\$ 6,087,000	\$ 6,087,000	\$ 6,361,176	\$ 274,176
Miscellaneous income	25,000	25,000	113,328	88,328
Total Operating Revenues	<u>6,112,000</u>	<u>6,112,000</u>	<u>6,474,504</u>	<u>362,504</u>
Expenses				
Salaries, wages and employee benefits	1,330,600	1,330,600	1,314,029	(16,571)
Utilities	586,000	586,000	683,067	97,067
Repairs and maintenance	4,181,000	4,181,000	860,639	(3,320,361)
Other supplies and expenses	145,000	145,000	161,590	16,590
Insurance claims and expenses	22,000	22,000	10,248	(11,752)
Bond premium amortization	-	-	6,164	6,164
Depreciation	-	-	1,529,973	1,529,973
Total Operating Expenses	<u>6,264,600</u>	<u>6,264,600</u>	<u>4,565,710</u>	<u>(1,698,890)</u>
Non-Operating Revenues (Expenses) and Transfers (Out) In				
Interest income	6,000	6,000	6,607	607
Interest expense	(1,952,050)	(1,952,050)	(1,157,898)	794,152
Transfers to other funds	(2,022,800)	(2,022,800)	(482,155)	(1,540,645)
Total Other Financing Sources (Uses)	<u>(3,968,850)</u>	<u>(3,968,850)</u>	<u>(1,633,446)</u>	<u>(745,886)</u>
Change in Net Position	(4,121,450)	(4,121,450)	275,348	4,396,798
Net Position - Beginning of Year	12,648,605	12,648,605	12,648,605	-
Net Position - End of Year	<u>\$ 8,527,155</u>	<u>\$ 8,527,155</u>	<u>\$ 12,923,953</u>	<u>\$ 4,396,798</u>

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

THE CITY OF ORANGE BEACH, ALABAMA
REFUSE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Over (Under)
	Original	Final		
Revenues				
Charges for services	\$ 2,400,000	\$ 2,400,000	\$ 2,431,301	\$ 31,301
Miscellaneous income	10,000	10,000	18,378	8,378
Total Operating Revenues	<u>2,410,000</u>	<u>2,410,000</u>	<u>2,449,679</u>	<u>39,679</u>
Expenses				
Salaries, wages and employee benefits	474,200	474,200	440,062	(34,138)
Contractual services	1,860,000	1,860,000	1,808,196	(51,804)
Repairs and maintenance	30,000	30,000	29,507	(493)
Other supplies and expenses	226,600	226,600	70,294	(156,306)
Insurance claims and expenses	26,000	26,000	9,024	(16,976)
Depreciation	-	-	57,506	57,506
Total Operating Expenses	<u>2,616,800</u>	<u>2,616,800</u>	<u>2,414,589</u>	<u>(202,211)</u>
Non-Operating Revenues (Expenses) and Transfers (Out) In				
Transfers from other funds	<u>206,800</u>	<u>206,800</u>	-	<u>(206,800)</u>
Total Other Financing Sources (Uses)	<u>206,800</u>	<u>206,800</u>	-	<u>(206,800)</u>
Change in Net Position	-	-	35,090	35,090
Net Position - Beginning of Year	<u>(328,067)</u>	<u>(328,067)</u>	<u>(328,067)</u>	-
Net Position - End of Year	<u>\$ (328,067)</u>	<u>\$ (328,067)</u>	<u>\$ (292,977)</u>	<u>\$ 35,090</u>

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

THE CITY OF ORANGE BEACH, ALABAMA
 BCBC FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Over (Under)
	Original	Final		(Under)
Revenues				
Charges for services	600,000	600,000	-	(600,000)
Total Operating Revenues	<u>600,000</u>	<u>600,000</u>	<u>-</u>	<u>(600,000)</u>
Expenses				
Other supplies and expenses	141,000	141,000	-	(141,000)
Total Operating Expenses	<u>141,000</u>	<u>141,000</u>	<u>-</u>	<u>(141,000)</u>
Non-Operating Revenues (Expenses) and Transfers (Out) In				
Interest income	-	-	313	313
Debt service:				
Principal expense	(219,000)	(219,000)	-	219,000
Interest expense	(240,000)	(240,000)	(211,868)	28,132
Total Other Financing Sources (Uses)	<u>(459,000)</u>	<u>(459,000)</u>	<u>(211,555)</u>	<u>247,445</u>
Change in Net Position	-	-	(211,555)	(211,555)
Net Position - Beginning of Year	(1,607,954)	(1,607,954)	(1,607,954)	-
Net Position - End of Year	<u>\$ (1,607,954)</u>	<u>\$ (1,607,954)</u>	<u>\$ (1,819,509)</u>	<u>\$ (211,555)</u>

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

OTHER SUPPLEMENTARY INFORMATION

THE CITY OF ORANGE BEACH, ALABAMA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2014

	Debt Service	Special Revenues	Library	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ 287,375	\$ 287,375
Restricted cash and cash equivalents	886,291	207,823	-	1,094,114
Accounts receivable - net	-	66,717	-	66,717
Total assets	\$ 886,291	\$ 274,540	\$ 287,375	\$ 1,448,206
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	2,227	-	-	2,227
Due to other funds	103,638	25,684	-	129,322
Total liabilities	105,865	25,684	-	131,549
DEFERRED INFLOW OF RESOURCES				
Unearned revenue	-	-	-	-
Fund balances:				
Nonspendable	-	-	-	-
Spendable:				
Restricted	780,426	248,856	-	1,029,282
Committed	-	-	-	-
Assigned	-	-	287,375	287,375
Unassigned	-	-	-	-
Total fund balances	780,426	248,856	287,375	1,316,657
Total liabilities, deferred inflows, and fund balances	\$ 886,291	\$ 274,540	\$ 287,375	\$ 1,448,206

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

THE CITY OF ORANGE BEACH, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Debt Service</u>	<u>Special Revenues</u>	<u>Library</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES				
Intergovernmental:				
State tax	\$ -	\$ 267,420	\$ -	\$ 267,420
Other licenses, permits and fees	-	1,621	-	1,621
Fines and forfeitures	-	18,436	-	18,436
Investment earnings	14	33	222	269
Miscellaneous	-	70,106	-	70,106
TOTAL REVENUES	<u>14</u>	<u>357,616</u>	<u>222</u>	<u>357,852</u>
EXPENDITURES				
Library	-	-	632,915	632,915
Securities lending:				
Fiscal agent fees	9,608	-	-	9,608
Debt service:				
Principal payments	827,300	-	-	827,300
Interest and other	843,149	-	-	843,149
TOTAL EXPENDITURES	<u>1,680,057</u>	<u>-</u>	<u>632,915</u>	<u>2,312,972</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (1,680,043)</u>	<u>\$ 357,616</u>	<u>\$ (632,693)</u>	<u>\$ (1,955,120)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,610,729	-	651,299	2,262,028
Transfers out	(198,845)	(190,019)	-	(388,864)
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,411,884</u>	<u>(190,019)</u>	<u>651,299</u>	<u>1,873,164</u>
Net change in fund balances	(268,159)	167,597	18,606	(81,956)
Fund balances - beginning	1,048,585	81,259	222,043	1,351,887
Prior period adjustment	-	-	46,726	46,726
Fund balances - ending	<u>\$ 780,426</u>	<u>\$ 248,856</u>	<u>\$ 287,375</u>	<u>\$ 1,316,657</u>

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

THE CITY OF ORANGE BEACH, ALABAMA
STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
DECEMBER 31, 2014

	Events Center	Arts Center	Total Nonmajor Proprietary Funds
ASSETS			
Current assets			
Cash and cash equivalents	\$ -	\$ 13,347	\$ 13,347
Total current assets	-	13,347	13,347
Noncurrent assets			
Capital assets:			
Land	158,648	-	158,648
Events center	1,667,976	-	1,667,976
Vehicles and equipment	40,449	-	40,449
Distribution and collection system	-	-	-
Less: Accumulated depreciation	(212,621)	-	(212,621)
Total noncurrent assets	1,654,452	-	1,654,452
TOTAL ASSETS	1,654,452	13,347	1,667,799
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized loss on refunding- net	-	-	-
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 5,027	\$ 11,473	\$ 16,500
Due to other funds	420,705	472,009	892,714
Accrued expenses	3,908	7,598	11,506
Accrued compensated absences	3,849	7,985	11,834
Total current liabilities	433,489	499,065	932,554
Noncurrent liabilities:			
Accrued compensated absences	-	1,283	1,283
Total noncurrent liabilities	-	1,283	1,283
TOTAL LIABILITIES	433,489	500,348	933,837
DEFERRED INFLOW OF RESOURCES			
Unearned revenue	-	-	-
NET POSITION			
Invested in Capital Assets, net of related debt	1,654,452	-	1,654,452
Unrestricted	(433,489)	(487,001)	(920,490)
TOTAL NET POSITION	\$ 1,220,963	\$ (487,001)	\$ 733,962

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

THE CITY OF ORANGE BEACH, ALABAMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Events Center	Arts Center	Total Nonmajor Proprietary Funds
OPERATING REVENUES			
Charges for services	\$ 170,027	\$ 91,352	\$ 261,379
Miscellaneous income	-	31,717	31,717
Merchandise sales	-	97,165	97,165
TOTAL OPERATING REVENUES	<u>170,027</u>	<u>220,234</u>	<u>390,261</u>
COST OF GOODS SOLD	<u>-</u>	<u>48,913</u>	<u>48,913</u>
GROSS PROFIT	<u>170,027</u>	<u>171,321</u>	<u>341,348</u>
OPERATING EXPENSES			
Salaries, wages and employee benefits	121,454	317,138	438,592
Contractual services	-	-	-
Utilities	36,816	31,319	68,135
Repairs and maintenance	47,179	18,146	65,325
Other supplies and expenses	92,590	108,784	201,374
Depreciation	63,689	-	63,689
TOTAL OPERATING EXPENSES	<u>361,728</u>	<u>475,387</u>	<u>837,115</u>
OPERATING INCOME (LOSS)	<u>(191,701)</u>	<u>(304,066)</u>	<u>(495,767)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	-	52	52
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>-</u>	<u>52</u>	<u>52</u>
INCOME (LOSS) BEFORE TRANSFERS	(191,701)	(304,014)	(495,715)
TRANSFERS (OUT) IN	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	(191,701)	(304,014)	(495,715)
NET POSITION - BEGINNING OF YEAR	<u>1,412,664</u>	<u>(182,987)</u>	<u>1,229,677</u>
NET POSITION - END OF YEAR	<u>\$ 1,220,963</u>	<u>\$ (487,001)</u>	<u>\$ 733,962</u>

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

THE CITY OF ORANGE BEACH, ALABAMA
STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Events Center	Arts Center	Total Nonmajor Proprietary Funds
Cash flows from operating activities:			
Receipts from customers	\$ 170,027	\$ 220,232	\$ 390,259
Payments to employees for services	(117,692)	(311,095)	(428,787)
Payments to suppliers of goods & services	(177,559)	(218,185)	(395,744)
Payments to other funds	125,224	308,097	433,321
Net cash provided (used) by operating activities	-	(951)	(951)
Cash flows from noncapital financing activities:			
Transfers to other funds	-	-	-
Cash flows from capital and related financing activities:			
Interest income	-	52	52
Net increase (decrease) in cash	-	(899)	(899)
Cash and equivalents at beginning of year	-	14,246	14,246
Cash and equivalents at end of year	\$ -	\$ 13,347	\$ 13,347
Operating income (loss)	\$ (495,767)	\$ -	\$ (495,767)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	63,689	-	63,689
(Increase) decrease in:			-
Due to other funds	125,224	308,097	433,321
Increase (decrease) in:			
Accounts payable	(974)	(11,025)	(11,999)
Accrued expenses	2,618	567	3,185
Accrued compensated absences	1,144	5,476	6,620
Total adjustments	191,701	303,115	494,816
Net cash provided (used) by operating activities	\$ (304,066)	\$ 303,115	\$ (951)
<u>Supplemental Disclosures</u>			
Noncash Investing and Financing Activities: NONE			
Cash Paid During the Year for Interest	\$ -	\$ -	\$ -

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

COMPLIANCE AND INTERNAL CONTROL SECTION

GRANT, SANDERS & TAYLOR, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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Certified Public Accountants

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, blended component units, and the aggregate remaining fund information of the City of Orange Beach, Alabama, as of and for the year ended December 31, 2014, 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 15, 2015.

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. [2014-1 and 2014-2].

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.

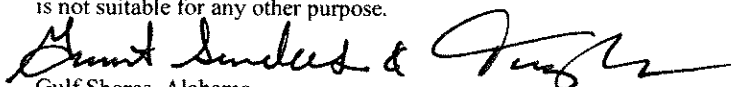
We also noted certain matters that we reported to management of The City of Orange Beach, Alabama in a separate letter dated June 15, 2015.

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



Gulf Shores, Alabama
June 15, 2015

FINDING – INTERNAL CONTROL OVER FINANCIAL REPORTING

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

2014-1

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 accrued. The City failed to accrue current year ad valorem receivables. The total receivables not accrued totaled \$288,914. As a result of the incorrect posting, receivables and revenues were understated by \$288,914. The City also failed to record the contribution of land. As a result non-depreciable assets were understated by \$1,164,700 and contributions were understated by \$1,164,700.

Recommendations: The finance department should include posting non routine accrual in the monthly end closing process and should perform a year end post-closing review of all accruals recorded.

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

FINDING – COMPLIANCE AND OTHER MATTERS

2014-2

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

2013-1

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 reversed. The City failed to reverse prior year ad valorem receivables. The total receivables not reversed totaled \$698,567. As a result of the incorrect posting, receivables were overstated by \$698,567.

Recommendations: The finance department should include posting non routine accrual in the monthly end closing process and should perform a year end post-closing review of all accruals recorded.

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

2013-2

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.