

**THE CITY OF ORANGE BEACH, ALABAMA**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL SECTION	
Management's Discussion and Analysis (unaudited)	3-8
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements:	
Governmental Fund Financial Statements:	
Balance Sheet	11
Reconciliation of the Balance Sheet to the Statement of Net Position	12
Statement of Revenues, Expenditures and Changes in Fund Balance	13-14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	15
Proprietary Fund Financial Statements:	
Statement of Net Position	16
Statement of Revenues, Expenses and Changes in Net Position	17
Statement of Cash Flows	18-19
Notes to the Financial Statements	20-47
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule:	
General Fund	48
Sewer Fund	49
Refuse Fund	50
Schedule of Employer Contributions to the Retirement Systems of Alabama	51
Schedule of Changes in the Net Pension Liability	52

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

TABLE OF CONTENTS

OTHER SUPPLEMENTARY INFORMATION

Combining Balance Sheet – Nonmajor Governmental Funds	53
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Governmental Funds	54
Combining Statement of Net Position – Nonmajor Enterprise Funds	55
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position – Nonmajor Enterprise Funds	56
Combining Statement of Cash Flows – Nonmajor Enterprise Funds	57

COMPLIANCE AND INTERNAL CONTROL SECTION

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>GOVERNMENT AUDITING STANDARDS</i>	58
Schedule of Findings	59

# GRANT, SANDERS & TAYLOR, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

BERTRAM L. SANDERS, II, CPA  
MATTHEW R. TAYLOR, CPA  
JASON B. JACKSON, CPA

1530 W. 2ND STREET  
POST OFFICE BOX 2109  
GULF SHORES, ALABAMA 36547-2109  
TELEPHONE 251.968.2727  
FACSIMILE 251.968.7430  
WWW.GRANTSANDERTAYLOR.COM

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

## INDEPENDENT AUDITOR'S REPORT

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

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Orange Beach, Alabama, as of and for the year ended December 31, 2016, 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. 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, and the aggregate remaining fund information of the City of Orange Beach, Alabama, as of December 31, 2016, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United State of America.

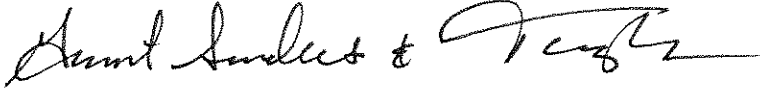
### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of employer contributions, and schedule of changes in the net pension liability on pages 3 through 8 and 45 through 50 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 23, 2017 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.

A handwritten signature in cursive script, appearing to read "David S. Smith & Company".

Gulf Shores, Alabama  
June 23, 2017

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 2016 on December 31, 2016, the City of Orange Beach assets exceeded its liabilities by \$118,737,253 whereas at the close of Fiscal Year 2015 on December 31, 2015, the City of Orange Beach assets exceeded its liabilities by \$99,928,923. 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, 2016 and December 31, 2015, and is derived from the Government-wide Statement of Net Position.**

**Table 1 – Condensed Statement of Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$ 58,720,543	\$ 42,341,169	\$ 7,517,514	\$ 15,010,474	\$ 66,238,057	\$ 57,351,643
Capital Assets	74,034,491	74,595,534	28,907,971	28,789,489	102,942,462	103,385,023
Total Assets	<u>\$ 132,755,034</u>	<u>\$ 116,936,703</u>	<u>\$ 36,425,485</u>	<u>\$ 43,799,963</u>	<u>\$ 169,180,519</u>	<u>\$ 160,736,666</u>
Deferred Outflow of Resources	<u>\$ 3,414,413</u>	<u>\$ 2,744,014</u>	<u>\$ 2,460,669</u>	<u>\$ 2,651,965</u>	<u>\$ 5,875,082</u>	<u>\$ 5,395,979</u>
Other Liabilities	\$ 7,346,062	\$ 1,951,946	\$ 2,536,140	\$ 568,821	\$ 9,882,202	\$ 2,520,767
Long-term Liabilities	21,366,354	29,196,197	24,438,444	33,947,327	45,804,798	63,143,524
Total Liabilities	<u>\$ 28,712,416</u>	<u>\$ 31,148,143</u>	<u>\$ 26,974,584</u>	<u>\$ 34,516,148</u>	<u>\$ 55,687,000</u>	<u>\$ 65,664,291</u>
Deferred Inflow of Resources	<u>\$ 586,326</u>	<u>\$ 497,615</u>	<u>\$ 45,022</u>	<u>\$ 41,816</u>	<u>\$ 631,348</u>	<u>\$ 539,431</u>
Net Position	<u>\$ 106,870,705</u>	<u>\$ 88,034,959</u>	<u>\$ 11,866,548</u>	<u>\$ 11,893,964</u>	<u>\$ 118,737,253</u>	<u>\$ 99,928,923</u>
Invested in Capital Assets						
Net of Related Debt	\$ 53,822,418	\$ 50,183,833	\$ 5,224,324	\$ 5,245,643	\$ 59,046,742	\$ 55,429,476
Restricted	13,386,879	13,248,040	-	-	13,386,879	13,248,040
Unrestricted	<u>39,661,408</u>	<u>24,603,086</u>	<u>6,642,224</u>	<u>6,648,321</u>	<u>46,303,632</u>	<u>31,251,407</u>
Total Net Position	<u>\$ 106,870,705</u>	<u>\$ 88,034,959</u>	<u>\$ 11,866,548</u>	<u>\$ 11,893,964</u>	<u>\$ 118,737,253</u>	<u>\$ 99,928,923</u>

### Overall Analysis

Financial highlights for the City of Orange Beach as a whole during the fiscal year ended December 31, 2016 and December 31, 2015, include the following:

The assets of the City exceeded its liabilities (net assets) at the close of the fiscal year ended December 31, 2016, by \$106,870,705 and at the close of the fiscal year ended December 31, 2015, by \$88,034,959 for Governmental Activities and by \$11,866,548 and \$11,893,964 (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, 2016 and December 31, 2015 and is derived from the Statement of Activities.**

**Table 2 – Condensed Statement of Activities**

	Governmental		Business-Type		Total	
	Activities		Activities		Primary Government	
	2016	2015	2016	2015	2016	2015
<b>PRIMARY GOVERNMENT:</b>						
Revenues						
Charges for Services	\$ 6,220,940	\$ 5,770,625	\$ 9,832,448	\$ 10,427,642	\$ 16,053,388	\$ 16,198,267
Operating grants and Contributions	381,938	206,186	-	-	381,938	206,186
Capital grants and Contributions	51,817	151,819	2,800	-	54,617	151,819
General Revenues:						
Taxes	31,037,852	28,896,604	-	-	31,037,852	28,896,604
Investment Earnings	47,807	30,334	7,747	6,687	55,554	37,021
Reimbursed Expense	72,994	91,384	-	-	72,994	91,384
Settlement proceeds	12,000,000	-	-	-	12,000,000	-
Miscellaneous	137,991	122,121	61,600	33,854	199,591	155,975
Gain (Loss) on Disposal of Assets	32,852	32,488	-	44,900	32,852	77,388
<b>Total Revenues</b>	<b>\$ 49,984,191</b>	<b>\$ 35,301,561</b>	<b>\$ 9,904,595</b>	<b>\$ 10,513,083</b>	<b>\$ 59,888,786</b>	<b>\$ 45,814,644</b>
Expenses:						
General Government	\$ 5,631,862	\$ 2,783,199	\$ -	\$ -	\$ 5,631,862	\$ 2,783,199
Municipal Court	409,819	368,784	-	-	409,819	368,784
Finance	745,294	779,662	-	-	745,294	779,662
Engineering Coastal	2,817,735	1,802,403	-	-	2,817,735	1,802,403
Police	6,022,029	4,954,086	-	-	6,022,029	4,954,086
Corrections	597,442	545,430	-	-	597,442	545,430
Communication	499,892	464,599	-	-	499,892	464,599
Fire	5,468,176	5,562,464	-	-	5,468,176	5,562,464
Public Works	3,686,288	4,093,206	-	-	3,686,288	4,093,206
Landscape	1,488,258	1,428,159	-	-	1,488,258	1,428,159
Parks & Recreation	3,029,977	3,364,048	-	-	3,029,977	3,364,048
Library	754,086	680,048	-	-	754,086	680,048
BP Oil Spill	84,768	59,137	-	-	84,768	59,137
Interest on Long-Term Debt	702,042	809,293	-	-	702,042	809,293
Sewer Fund	-	-	5,703,893	5,876,581	5,703,893	5,876,581
Refuse Fund	-	-	2,445,490	2,513,721	2,445,490	2,513,721
Events Center	-	-	473,704	373,570	473,704	373,570
Baldwin County Bridge Fund	-	-	148,699	203,193	148,699	203,193
Arts Center	-	-	467,402	501,015	467,402	501,015
<b>Total Expenses</b>	<b>\$ 31,937,668</b>	<b>\$ 27,694,518</b>	<b>\$ 9,239,188</b>	<b>\$ 9,468,080</b>	<b>\$ 41,176,856</b>	<b>\$ 37,162,598</b>
Increase (Decrease) in Net Position						
Before Transfers	18,046,523	7,607,043	665,407	1,045,003	18,711,930	8,652,046
Transfers	692,823	696,468	(692,823)	(696,468)	-	-
Change in Net Position	18,739,346	8,303,511	(27,416)	348,535	18,711,930	8,652,046
Net Position - Beginning	88,034,959	82,476,286	11,893,964	11,545,429	99,928,923	94,021,715
Prior period adjustment	96,400	(2,744,838)	-	-	96,400	(2,744,838)
<b>Net Position - Ending</b>	<b>\$ 106,870,705</b>	<b>\$ 88,034,959</b>	<b>\$ 11,866,548</b>	<b>\$ 11,893,964</b>	<b>\$ 118,737,253</b>	<b>\$ 99,928,923</b>

The City's total net position increased during the current year by \$18,808,330 and during the previous year by \$5,907,208. Net position of Governmental Activities increased by \$18,835,746 during fiscal year 2016 and increased by \$5,558,673 during fiscal year 2015 while the net position of Business-type Activities decreased by \$27,416 during fiscal year 2016 and increased by \$348,535 during fiscal year 2015.

**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 \$55,546,168 compared to \$40,078,705 at the end of the previous fiscal year with \$42,224,671 unassigned compared to \$26,858,481 reported as unassigned fund balance in the prior year. The remaining reserved amount of \$13,321,497 for fiscal year end 2016, is \$179,041 nonspendable, \$3,815,934 restricted, \$9,040,980 committed, and \$285,542 assigned as compared to the fiscal year ended 2015 amount of \$13,220,224 (\$177,788 nonspendable, \$3,731,996 restricted, \$9,026,900 committed, and \$283,540 assigned).

## **Proprietary Funds**

As of the close of the current fiscal year the City's Proprietary Funds reported total net assets of \$11,866,548 compared to \$11,893,964 at the end of fiscal 2015.

### **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 \$3,639,803 over the budgeted amounts. This mainly results from the City not budgeting capital projects, but evaluating and approving each on a case by case basis. Actual revenues were \$20,299,262 over the final budgeted amounts. \$10,000,000 of that revenue was from the BP settlement in 2016. Local taxes exceeded budget by \$7,297,015 as the Council continued to budget conservatively, yet tourist numbers continued to exceed expectations.. 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, 2016, the City of Orange Beach reported net capital assets of \$74,034,491 from governmental activities and net capital asset of \$28,907,971 from business-type activities. At December 31, 2015, the City of Orange Beach reported net capital assets of \$74,595,534 from governmental activities and net capital asset of \$28,789,489 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 \$46,092,670 in debt outstanding compared to \$58,281,926 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. A Springfield Suites by Marriott opened in 2016 with 132 rooms along with a restaurant adjacent to the city owned Orange Beach 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 allowed the construction of the Gulf State Park's Hotel and Conference Center in Gulf Shores. This Center is known as a "superpark" will generate revenue for the entire Alabama State Park System and will have a positive economic impact across the Alabama Gulf Coast including Orange Beach. Construction began on the Conference Center foundation in spring 2016. 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. The future bridge is also a key component to future evacuation routes for tropical events.
- 6) The City 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 2015; 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 for additional lost revenues was reach with BP in 2016, resulting in a net payment to the City of \$10,000,000. 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 were estimated to receive at minimum \$1 billion to be reinvested in environmental and economic restoration projects such as infrastructure. In 2016, the Alabama Legislature under the guidance of then Governor Robert Bentley "reallocated" the majority of restoration funds to statewide general fund shortfalls instead of investing as planned in future infrastructure in Mobile and Baldwin Counties. Orange Beach is currently included in remaining funds allocated to Baldwin County highway projects which will increase capacity by adding an additional lane on Canal Road from Highway 161 to western city limits at Gulf Shores.

- 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 was scheduled to pay off in 2016. The 2007A issue was used to establish the City's permanent reserve fund and was scheduled to pay off in 2016. 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. The 132 room Marriot Springhill Suites hotel on the Wharf site 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. The site is 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 under construction adding over 300 rooms 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 81,000 room nights on the entire gulf coast in 2016. These events are building on off season months in attracting visitors.
- 16) The City of Foley has issued a \$25,000,000 bond issue to construct 16 soccer fields along with a 90,000 square foot indoor competition facility which will be anchored by 2 hotels and a major entertainment/amusement park complex located on the Beach Express known as OWA. This entire complex is expected to attract visitors year round and targets new sporting events that cannot currently be held in south Baldwin County due to the lack of flat fields such as lacrosse, field hockey, large soccer tournaments, etc. This activity is expected to generate new room nights for visitors who will choose to stay in Orange Beach.
- 17) The Poarch Band of Creek Indians are constructing the OWA development. OWA stands for "Big Water" in the Creek language. It is located along the Foley Beach Express at County Road 20, just 9 miles from Orange Beach. While the Alabama Gulf Coast already hosts 6.2 million visitors each year, OWA is expected to bring in an additional 1 million visitors annually. Phase One of OWA includes a 150-room hotel, retail and dining spaces, amusement park, and lake which will open late Summer 2017. Future plans call for a waterpark, additional hotels, a condominium complex, and a resort level RV park. When complete, total investment in the development will top \$500 million. The 520-acre OWA development is adjacent to the City of Foley's \$40 million sports tourism complex. When completed, the OWA development will generate close to 3,500 jobs.

## BASIC FINANCIAL STATEMENTS

## GOVERNMENT - WIDE FINANCIAL STATEMENTS

THE CITY OF ORANGE BEACH, ALABAMA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2016

	Primary Government		Totals
	Governmental Activities	Business-type Activities	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 32,885,196	\$ 5,450,877	\$ 38,336,073
Accounts receivable - net	3,153,883	3,479,863	6,633,746
Internal balances	9,115,544	(9,115,544)	-
Inventories	36,737	-	36,737
Prepays	142,304	4,314	146,618
Restricted assets:			
Cash and cash equivalents	13,386,879	7,698,004	21,084,883
Capital assets:			
Non-depreciable	50,116,324	502,236	50,618,560
Depreciable (net)	23,918,167	28,405,735	52,323,902
<b>Total assets</b>	<u>132,755,034</u>	<u>36,425,485</u>	<u>169,180,519</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred employer pension contributions	362,339	-	362,339
Deferred pension losses	2,344,206	-	2,344,206
Defeasance cost (net)	707,868	2,460,669	3,168,537
<b>Total deferred outflows of resources</b>	<u>3,414,413</u>	<u>2,460,669</u>	<u>5,875,082</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 1,198,415	\$ 768,203	\$ 1,966,618
Accrued expenses	1,389,634	76,194	1,465,828
Accrued interest payable	151,844	169,510	321,354
Long-term liabilities:			
Due within one year:			
Compensated absences	333,169	50,733	383,902
Bonds payable	4,273,000	1,471,500	5,744,500
Due in more than one year:			
Net pension liability	5,268,587	-	5,268,587
Compensated absences	158,694	29,347	188,041
Bonds payable	15,939,073	24,409,097	40,348,170
<b>Total liabilities</b>	<u>28,712,416</u>	<u>26,974,584</u>	<u>55,687,000</u>
<b>DEFERRED INFLOW OF RESOURCES</b>			
Unearned revenue	<u>586,326</u>	<u>45,022</u>	<u>631,348</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	53,822,418	5,224,324	59,046,742
Restricted:			
Capital projects	4,345,899	-	4,345,899
Emergencies	9,040,980	-	9,040,980
Unrestricted (deficit)	39,661,408	6,642,224	46,303,632
<b>Total net position</b>	<u>\$ 106,870,705</u>	<u>\$ 11,866,548</u>	<u>\$ 118,737,253</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, 2016

Functions/Programs	Program Revenues			Primary Government			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business type Activities	Total
<b>PRIMARY GOVERNMENT:</b>							
Governmental activities:							
General government	\$ 5,631,862	\$ 338,565	\$ 116,364	\$ -	\$ (5,176,933)	\$ -	\$ (5,176,933)
Court	409,819	117,254	-	-	(292,565)	-	(292,565)
Finance	745,294	2,311,090	-	-	1,565,796	-	1,565,796
Engineering/Coastal	2,817,735	-	50,223	-	(2,767,512)	-	(2,767,512)
Police	6,022,029	-	-	-	(5,623,583)	-	(5,623,583)
Corrections	597,442	-	-	-	(597,442)	-	(597,442)
Communications	499,892	-	-	-	(499,892)	-	(499,892)
Fire	5,468,176	526,137	-	-	(4,942,039)	-	(4,942,039)
Public works	3,686,288	-	211,350	49,817	(3,425,121)	-	(3,425,121)
Landscape	1,488,258	-	-	2,000	(1,488,258)	-	(1,488,258)
Parks and recreation	3,029,977	-	-	-	(1,633,396)	-	(1,633,396)
Library	754,085	60,363	4,000	-	(689,722)	-	(689,722)
Community development	-	1,074,503	-	-	1,074,503	-	1,074,503
BP Oil Spill	84,768	-	-	-	(84,768)	-	(84,768)
Interest on long-term debt	702,042	-	-	-	(702,042)	-	(702,042)
Total governmental activities (See Note 1)	31,937,667	6,220,939	381,937	51,817	(25,282,974)	-	(25,282,974)
Business-type activities:							
Sewer	5,703,893	6,925,046	-	-	-	1,221,153	1,221,153
Refuse	2,445,490	2,500,446	-	-	-	54,956	54,956
Events Center	473,704	201,574	-	-	-	(272,130)	(272,130)
Baldwin County Bridge Company (BCBC)	148,699	-	-	-	-	(148,699)	(148,699)
Arts Center	467,402	205,382	2,800	-	-	(259,220)	(259,220)
Total business-type activities	9,239,188	9,832,448	2,800	-	-	596,060	596,060
Total primary government	\$ 41,176,855	\$ 16,053,387	\$ 54,617	\$ -	\$ (25,282,974)	\$ 596,060	\$ (24,686,914)
General revenues:							
Property taxes					3,461,385	-	3,461,385
Local taxes					14,757,580	-	14,757,580
Franchise taxes					1,383,999	-	1,383,999
State taxes					394,452	-	394,452
Sales taxes					11,040,436	-	11,040,436
Unrestricted investment earnings					47,807	7,747	55,554
Reimbursed expenses					72,994	-	72,994
Settlement proceeds					12,000,000	-	12,000,000
Miscellaneous					137,992	61,600	199,592
Gain (loss) on disposal of assets					32,852	-	32,852
Transfers					692,823	(692,823)	-
Total general revenues, special items and transfers					44,022,320	(623,476)	43,398,844
Change in net position					18,739,346	(27,416)	18,711,930
Net position - beginning (as restated)					88,131,359	11,893,964	100,025,323
Net position - ending					\$ 106,870,705	\$ 11,866,548	\$ 118,737,253

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, 2016

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 32,580,680	\$ 304,516	\$ 32,885,196
Restricted cash and cash equivalents	9,735,275	3,651,604	13,386,879
Accounts receivable - net	3,083,651	70,232	3,153,883
Due from other funds	9,252,889	-	9,252,889
Inventory	36,737	-	36,737
Prepaid insurance	142,304	-	142,304
<b>Total assets</b>	<u><u>\$ 54,831,536</u></u>	<u><u>\$ 4,026,352</u></u>	<u><u>\$ 58,857,888</u></u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	1,196,189	2,226	1,198,415
Due to other funds	-	137,345	137,345
Accrued expenses	1,115,117	18,974	1,134,091
Appearance bonds	149,514	-	149,514
Performance bonds	33,545	-	33,545
Communications tower escrow funds	72,484	-	72,484
<b>Total liabilities</b>	<u><u>2,566,849</u></u>	<u><u>158,545</u></u>	<u><u>2,725,394</u></u>
<b>Deferred inflows of resources:</b>			
Unearned revenue	<u><u>586,326</u></u>	<u><u>-</u></u>	<u><u>586,326</u></u>
<b>Fund balances:</b>			
Nonspendable	179,041	-	179,041
<b>Spendable:</b>			
Restricted	233,669	3,582,265	3,815,934
Committed	9,040,980	-	9,040,980
Assigned	-	285,542	285,542
Unassigned	42,224,671	-	42,224,671
<b>Total fund balances</b>	<u><u>51,678,361</u></u>	<u><u>3,867,807</u></u>	<u><u>55,546,168</u></u>
<b>Total liabilities, deferred inflows, and fund balances</b>	<u><u>\$ 54,831,536</u></u>	<u><u>\$ 4,026,352</u></u>	<u><u>\$ 58,857,888</u></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, 2016

Fund balances - total governmental funds \$ 55,546,168

Amounts reported for governmental activities in the statement of net position 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	94,916,680	
Less accumulated depreciation	<u>(20,882,189)</u>	74,034,491

Deferred outflows of resources used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Deferred employer pension contributions and losses	2,706,545	
Loss on advance refunding	880,250	
Less accumulated amortization	<u>(172,382)</u>	3,414,413

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	(19,795,750)	
Premium on bonds issued	(822,532)	
Discount on bonds issued	42,033	
Accumulated amortization of premium / discount	364,176	
Net pension liability	(5,268,587)	
Compensated absences	<u>(491,863)</u>	(25,972,523)

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

Accrued interest payable		<u>(151,844)</u>
--------------------------	--	------------------

Net position of governmental activities		<u>\$ 106,870,705</u>
---	--	-----------------------

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, 2016

	General	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Property taxes	\$ 3,461,385	\$ -	\$ 3,461,385
Intergovernmental:			
State tax	78,879	313,781	392,660
Local tax	27,182,015	-	27,182,015
Grants	52,523	4,000	56,523
BP state grant	116,064	-	116,064
Personnel service reimbursement	72,994	-	72,994
Other licenses, permits and fees	4,126,585	1,792	4,128,377
Fines and forfeitures	359,227	51,902	411,129
Charges for services	1,099,927	-	1,099,927
Rent	78,779	-	78,779
Investment earnings	42,468	5,339	47,807
Contracts	410,430	-	410,430
BP settlement proceeds	12,000,000	-	12,000,000
Miscellaneous	345,125	148,121	493,246
<b>TOTAL REVENUES</b>	<u>49,426,401</u>	<u>524,935</u>	<u>49,951,336</u>
<b>EXPENDITURES</b>			
General government	4,946,854	-	4,946,854
Court	409,819	-	409,819
Finance	741,460	-	741,460
Police	5,553,046	-	5,553,046
Corrections	578,726	-	578,726
Engineering and environmental	2,817,735	-	2,817,735
Communications	479,838	-	479,838
Fire	5,205,196	-	5,205,196
Public works	2,802,271	-	2,802,271
Landscape	1,484,448	-	1,484,448
Parks and recreation	2,535,437	-	2,535,437
Library	1,626	641,052	642,678
BP Oil Spill	51,302	-	51,302
Capital improvements	2,181,293	-	2,181,293
Securities lending:			
Fiscal agent fees	-	4,096	4,096
Debt service:			
Principal payments	-	4,138,550	4,138,550
Interest and other	-	733,200	733,200
<b>TOTAL EXPENDITURES</b>	<u>29,789,051</u>	<u>5,516,898</u>	<u>35,305,949</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 19,637,350</u>	<u>\$ (4,991,963)</u>	<u>\$ 14,645,387</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, 2016

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
(Continued)			
Excess (deficiency) of revenues over expenditures (brought forward)	\$ 19,637,350	\$ (4,991,963)	\$ 14,645,387
<b>OTHER FINANCING SOURCES (USES)</b>			
Gain on disposal of assets	32,852	-	32,852
Transfers in	1,170,782	5,519,378	6,690,160
Transfers out	<u>(5,519,378)</u>	<u>(477,959)</u>	<u>(5,997,337)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(4,315,744)</u>	<u>5,041,419</u>	<u>725,675</u>
Net change in fund balances	15,321,606	49,456	15,371,062
Fund balances - beginning (restated)	<u>36,356,755</u>	<u>3,818,351</u>	<u>40,175,106</u>
Fund balances - ending	<u>\$ 51,678,361</u>	<u>\$ 3,867,807</u>	<u>\$ 55,546,168</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, 2016

Net change in fund balances \$ 15,371,062

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.

Expenditures for capital assets	1,037,546	
Less current year depreciation	<u>(1,598,590)</u>	(561,044)

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	61,075	
Principal payments	<u>4,138,550</u>	4,199,625

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	35,254	
Increase in compensated absences	(16,924)	
Increase in deferred employer pension contributions	<u>(244,615)</u>	<u>(270,297)</u>

Change in net position of governmental activities \$ 18,739,346

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

THE CITY OF ORANGE BEACH, ALABAMA

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

DECEMBER 31, 2016

	Proprietary Funds		Other	Total
	Sewer	Refuse	Proprietary	Proprietary
			Funds	Funds
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 5,433,734	\$ -	\$ 17,143	\$ 5,450,877
Restricted cash and cash equivalents	7,698,004	-	-	7,698,004
Accounts receivable	275,261	38,620	1,079,857	1,393,738
Due from other funds	-	511,761	-	511,761
Prepaid insurance	3,689	-	-	3,689
Total current assets	<u>13,410,688</u>	<u>550,381</u>	<u>1,097,000</u>	<u>15,058,069</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	1,959,614	823,550	52,449	2,835,613
Distribution and collection system	12,675,673	-	#REF!	#REF!
Construction in progress	290,153	-	1,423,060	1,713,213
Less: Accumulated depreciation	(17,881,793)	(649,321)	(343,799)	(18,874,913)
Accounts receivable	-	-	2,086,124	2,086,124
Utility deposits	625	-	-	625
Total noncurrent assets	<u>25,776,033</u>	<u>174,229</u>	<u>#REF!</u>	<u>#REF!</u>
<b>TOTAL ASSETS</b>	<u>39,186,721</u>	<u>724,610</u>	<u>#REF!</u>	<u>#REF!</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Unamortized loss on refunding- net	<u>2,460,669</u>	<u>-</u>	<u>-</u>	<u>2,460,669</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 362,548	\$ 161,832	\$ 183,204	\$ 707,584
Retainage payable	-	-	60,619	60,619
Due to other funds	486,114	822,175	8,319,015	9,627,304
Accrued expenses	48,897	12,702	14,595	76,194
Accrued compensated absences	33,300	9,026	10,839	53,165
Accrued interest payable	169,510	-	-	169,510
Current portion of bonds payable	1,471,500	-	-	1,471,500
Total current liabilities	<u>2,571,869</u>	<u>1,005,735</u>	<u>8,588,272</u>	<u>12,165,876</u>
Noncurrent liabilities:				
Accrued compensated absences	22,006	4,652	257	26,915
Series 2009 G.O. Sewer Warrant - net	920,876	-	-	920,876
Series 2012 G.O. Sewer Warrant - net	23,488,221	-	-	23,488,221
Total noncurrent liabilities	<u>24,431,103</u>	<u>4,652</u>	<u>257</u>	<u>24,436,012</u>
<b>TOTAL LIABILITIES</b>	<u>27,002,972</u>	<u>1,010,387</u>	<u>8,588,529</u>	<u>36,601,888</u>
<b>DEFERRED INFLOW OF RESOURCES</b>				
Unearned revenue	<u>45,022</u>	<u>-</u>	<u>-</u>	<u>45,022</u>
<b>NET POSITION</b>				
Invested in Capital Assets, net of related debt	3,514,821	174,229	1,535,274	5,224,324
Unrestricted	<u>11,084,575</u>	<u>(460,006)</u>	<u>(3,982,345)</u>	<u>6,642,224</u>
<b>TOTAL NET POSITION</b>	<u>\$ 14,599,396</u>	<u>\$ (285,777)</u>	<u>\$ (2,447,071)</u>	<u>\$ 11,866,548</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, 2016

	<u>Sewer</u>	<u>Refuse</u>	<u>Other Proprietary Center</u>	<u>Total Proprietary Funds</u>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 6,925,046	\$ 2,500,446	\$ 320,454	\$ 9,745,946
Miscellaneous income	57,282	4,318	18,997	80,597
Merchandise sales	-	-	83,900	83,900
<b>TOTAL OPERATING REVENUES</b>	<u>6,982,328</u>	<u>2,504,764</u>	<u>423,351</u>	<u>9,910,443</u>
<b>COST OF GOODS SOLD</b>	<u>-</u>	<u>-</u>	<u>46,779</u>	<u>46,779</u>
<b>GROSS PROFIT</b>	<u>6,982,328</u>	<u>2,504,764</u>	<u>376,572</u>	<u>9,863,664</u>
<b>OPERATING EXPENSES</b>				
Salaries, wages and employee benefits	1,375,385	408,740	506,443	2,290,568
Contractual services	-	1,858,650	-	1,858,650
Utilities	873,912	-	70,584	944,496
Repairs and maintenance	528,040	39,381	115,777	683,198
Other supplies and expenses	194,888	64,772	149,030	408,690
Insurance claims and expenses	20,882	8,613	-	29,495
Bond premium amortization	6,164	-	-	6,164
Depreciation	1,638,627	65,334	66,089	1,770,050
<b>TOTAL OPERATING EXPENSES</b>	<u>4,637,898</u>	<u>2,445,490</u>	<u>907,923</u>	<u>7,991,311</u>
<b>OPERATING INCOME (LOSS)</b>	<u>2,344,430</u>	<u>59,274</u>	<u>(531,351)</u>	<u>1,872,353</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest income	7,682	-	65	7,747
Interest expense	(1,065,993)	-	(148,699)	(1,214,692)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u>(1,058,311)</u>	<u>-</u>	<u>(148,634)</u>	<u>(1,206,945)</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	1,286,119	59,274	(679,985)	665,408
<b>TRANSFERS (OUT) IN</b>	<u>(692,824)</u>	<u>-</u>	<u>-</u>	<u>(692,824)</u>
<b>CHANGE IN NET POSITION</b>	593,295	59,274	(679,985)	(27,416)
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>14,006,101</u>	<u>(345,051)</u>	<u>(1,767,086)</u>	<u>11,893,964</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 14,599,396</u>	<u>\$ (285,777)</u>	<u>\$ (2,447,071)</u>	<u>\$ 11,866,548</u>

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

THE CITY OF ORANGE BEACH, ALABAMA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Sewer</u>	<u>Refuse</u>	<u>Other Proprietary Funds</u>	<u>Total Proprietary Funds</u>
Cash flows from operating activities:				
Receipts from customers	\$ 6,941,368	\$2,500,350	\$1,503,208	10,944,926
Payments to employees for services	(1,371,302)	(404,965)	(504,504)	(2,280,771)
Payments to suppliers of goods & services	(1,380,748)	(1,965,749)	(221,764)	(3,568,261)
Payments to other funds	<u>(118,156)</u>	<u>(120,928)</u>	<u>6,896,417</u>	<u>6,657,333</u>
Net cash provided (used) by operating activities	<u>4,071,162</u>	<u>8,708</u>	<u>7,673,357</u>	<u>11,753,227</u>
Cash flows from noncapital financing activities:				
Transfers to other funds	<u>(692,824)</u>	<u>-</u>	<u>-</u>	<u>(692,824)</u>
Cash flows from capital and related financing activities:				
Interest income	7,682	-	65	7,747
Increase in restricted cash	(16,467)	-	-	(16,467)
Principal repayments related to capital purposes	(1,466,450)	-	(6,338,046)	(7,804,496)
Interest paid on capital debt	(1,075,780)	-	-	(1,075,780)
Interest paid on other debt	-	-	(164,310)	(164,310)
Gain on disposition of property	-	2,094	-	2,094
Acquisition of property and equipment	<u>(564,386)</u>	<u>(10,802)</u>	<u>(1,254,818)</u>	<u>(1,830,006)</u>
Net cash provided (used) by capital and related financing activities	<u>(3,115,401)</u>	<u>(8,708)</u>	<u>(7,757,109)</u>	<u>(10,881,218)</u>
Net increase (decrease) in cash	262,937	-	(83,752)	179,185
Cash and equivalents at beginning of year	<u>5,170,797</u>	<u>-</u>	<u>100,895</u>	<u>5,271,692</u>
Cash and equivalents at end of year	<u>\$ 5,433,734</u>	<u>\$ -</u>	<u>\$ 17,143</u>	<u>\$ 5,450,877</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, 2016

	<u>Sewer</u>	<u>Refuse</u>	<u>Other Proprietary Funds</u>	<u>Total Proprietary Funds</u>
Operating income (loss)	\$ 2,344,430	\$ 59,274	\$ (531,351)	\$ 1,872,353
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	1,638,627	65,334	66,089	1,770,050
Amortization	6,164	-	-	6,164
(Increase) decrease in:				
Accounts receivable - net	(44,166)	(4,414)	1,079,858	1,031,278
Due to other funds	(118,156)	(120,928)	6,896,417	6,657,333
Increase (decrease) in:				
Accounts payable	236,974	5,667	160,405	403,046
Accrued expenses	4,438	1,005	1,376	6,819
Accrued compensated absences	(355)	2,770	563	2,978
Deferred revenue	3,206	-	-	3,206
Total adjustments	<u>1,726,732</u>	<u>(50,566)</u>	<u>8,204,708</u>	<u>9,880,874</u>
Net cash provided (used) by operating activities	<u>\$ 4,071,162</u>	<u>\$ 8,708</u>	<u>\$7,673,357</u>	<u>\$ 11,753,227</u>

Supplemental Disclosures

Noncash Investing and Financing Activities: NONE

Cash Paid During the Year for Interest	<u>\$ 1,075,780</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,075,780</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, 2016

**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, 2016

**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, deferred outflows of resources, liabilities, and deferred inflows of resources 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, 2016

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

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

**FUND FINANCIAL STATEMENTS (continued)**

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.

**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.

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**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, liabilities (whether current or non-current), deferred inflows of resources, and deferred outflows of resources 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, 2016

**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 \$4,534,171 invested in the JP Morgan 100% U.S. Treasury Securities Money Market Fund #677 as of December 31, 2016. 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, 2016

**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, Arts Center Fund, and Events Center 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, 2016

**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 consists 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, 2016

**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>
<b>Fund Balances:</b>					
<b>Nonspendable:</b>					
Inventories	\$ 36,737	\$ -	\$ -	\$ -	\$ 36,737
Prepaid expenses	142,304	-	-	-	142,304
<b>Restricted for:</b>					
Grants	60,142	-	-	-	60,142
Municipal court	173,527	-	-	-	173,527
Debt service	-	3,326,487	-	-	3,326,487
Capital outlay	-	-	255,778	-	255,778
<b>Committed to:</b>					
Emergencies	9,040,980	-	-	-	9,040,980
<b>Assigned to:</b>					
	-	-	-	285,542	285,542
<b>Unassigned:</b>					
	<u>42,224,671</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,224,671</u>
<b>Total Fund Balance</b>	<u>\$ 51,678,361</u>	<u>\$ 3,326,487</u>	<u>\$ 255,778</u>	<u>\$ 285,542</u>	<u>\$ 55,546,168</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, 2016

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

**R. ACCUMULATED DEFICIT**

At December 31, 2016, the Refuse Fund, Baldwin County Bridge Fund, and Arts Center Fund had accumulated deficits of \$285,777, \$2,171,327, and \$1,053,380 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, 2016 is as follows:

	Governmental- type Funds	Business- type Funds
Cash on Hand	\$ 3,804	\$ 100
Cash in Banks		
Operations	32,881,392	5,450,777
Reserved- Disaster	9,040,980	6,609,887
Reserved- Special Revenues	205,549.00	-
Reserved- Debt Service	<u>4,140,350</u>	<u>1,088,117</u>
 Total Cash	 <u>\$ 46,272,075</u>	 <u>\$ 13,148,881</u>

**NOTE 3 – CREDIT RISK**

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

At December 31, 2016 the carrying amount of the City's deposits, including a Certificate of Deposit, was \$59,417,052 and the bank balance was \$59,802,425. 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, 2016

**NOTE 4 - RETIREMENT PLAN**

***Summary of Significant Accounting Policies***

The Employees' Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

***General Information about the Pension Plan***

*Plan description.* The Employees' Retirement System of Alabama, an agency multiple-employer plan, was established October 1, 1945 under the provisions of Act 515 of the Legislature of 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 the general administration and operation of ERS is vested in its Board of Control. The ERS Board of Control consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). Title 36-Chapter 27 of the Code of Alabama grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at [www.rsa-al.gov](http://www.rsa-al.gov).

The ERS Board of Control consists of 13 trustees as follows:

- 1) The Governor, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Personnel Director, ex officio.
- 4) The State Director of Finance, ex officio.
- 5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
- 6) Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
  - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
  - b. Two vested active state employees.

Two vested active employees of an employer participating in ERS pursuant to § 36-27-6.

*Benefits provided.* State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method. Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life.

THE CITY OF ORANGE BEACH, ALABAMA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

**NOTE 4 - RETIREMENT PLAN (continued)**

Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of state police service in computing the formula method.

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary on the member's age, service credit, employment status and eligibility for retirement. The ERS serves approximately 846 local participating employers. These participating employers include 287 cities, 65 counties, and 494 other public entities. The ERS membership includes approximately 83,874 participants. As of September 30, 2016, the City's membership consisted of:

Retired member or their beneficiaries currently receiving benefits	34
Vested inactive member	8
Non-vested inactive members	24
Active members	296
Post-DROP retired members still in active service	<u>-</u>
Total	<u>362</u>

*Contributions:* Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. Tier 2 State Police members of the ERS contribute 10% of earnable compensation. These contributions rates are the same for Tier 2 covered members of ERS local participating employers.

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended December 31, 2016, the City's active employee contribution rate was 6.26% of covered employee payroll, and the City's average contribution rate to fund the normal and accrued liability costs was 5.56% of covered employee payroll.

The City's contractually required contribution rate for the year ended September 30, 2016 was 6.56% of pensionable pay for Tier 1 employees, and 4.38% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2013, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the System were \$901,427 for the year ended December 31, 2016.

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**NOTE 4 - RETIREMENT PLAN (continued)**

*Net Pension Liability*

The City's net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015 rolled forward to September 30, 2016 using standard roll-forward techniques as shown in the following table:

	<u>Expected</u>	<u>Actual-2015 Valuation Assumptions</u>	<u>Actual-2016 Valuation Assumptions</u>
(a) TPL as of September 30, 2015	\$ 30,340,353	\$ 30,361,724	\$ 31,919,987
(b) Discount rate	8.00%	8.00%	7.75%
(c) Entry Age Normal Cost for the period October 1, 2015 - September 30, 2016	1,213,069	1,213,069	1,210,892
(d) Transfers Among Employers:		29,622	29,622
(e) Actual Benefit Payments and Refunds for the period October 1, 2015 - September 30, 2016	<u>(641,884)</u>	<u>(641,884)</u>	<u>(641,884)</u>
(f) TPL as of September 30, 2016 [(a) x (1+b)] + (c) + (d) + [(e) x (1 + 0.5*(b))]	<u>\$ 33,313,091</u>	<u>\$ 33,365,794</u>	<u>\$ 34,967,543</u>
(g) Difference between Expected and Actual:		\$ 52,703	
(h) Less Liability Transferred for Immediate Recognition:		<u>29,622</u>	
(i) Experience (Gain)/Loss = (g) - (h)		<u>\$ 23,081</u>	
(j) Difference between Actual (2015 Assumptions) and Actual (2016 Assumptions): Assumption Change (Gain)/Loss			<u>\$ 1,601,749</u>

*Actuarial assumptions:* The total pension liability in the September 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75% - 7.25%
Investment rate of return*	8.00%

\*Net of pension plan investment expense

Mortality rates for ERS were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2016 set forward three years for males and two years for females. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disability Mortality Table.

The actuarial assumptions used in the September 30, 2013 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**NOTE 4 - RETIREMENT PLAN (continued)**

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return*</u>
Fixed Income	25.00%	5.00%
U.S. Large Stocks	34.00%	9.00%
U.S. Mid Stocks	8.00%	12.00%
U.S. Small Stocks	3.00%	15.00%
International Developed Market Stocks	15.00%	11.00%
International Emerging Market Stocks	3.00%	16.00%
Real Estate	10.00%	7.50%
Cash	2.00%	1.50%
<b>Total</b>	<b><u>100.00%</u></b>	

\*Includes assumed rate of inflation of 2.50%.

*Discount rate:* The discount rate used to measure the total pension liability was the long term rate of return, 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current pan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balance at September 30, 2015	\$ 30,340,353	\$ 26,030,796	\$ 4,309,557
Change for the year:			
Service cost	1,213,069	-	1,213,069
Interest	2,401,553	-	2,401,553
Changes of assumptions	1,601,749	-	1,601,749
Difference between expected and actual experience	23,081	-	23,081
Contributions-employer	-	806,700	(806,700)
Contributions - employee	-	773,424	(773,424)
Net investment income	-	2,700,298	(2,700,298)
Benefit payments, including refunds of employee contributions	(641,884)	(641,884)	-
Administrative expense	-	-	-
Transfers among employers	29,622	29,622	-
Net changes	<u>4,627,190</u>	<u>3,668,160</u>	<u>959,030</u>
Balance at September 30, 2016	<u>\$ 34,967,543</u>	<u>\$ 29,698,956</u>	<u>\$ 5,268,587</u>

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**NOTE 4 - RETIREMENT PLAN (continued)**

*Sensitivity of the net pension liability to changes in the discount rate:* The following table presents the City's net pension liability calculated using the discount rate of 7.75%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

1% Decrease (6.75%)	Current Discount (7.75%)	1% Increase (8.75%)
---------------------------	--------------------------------	---------------------------

Plan's Net Pension Liability (Asset)	\$10,140,396	\$5,268,587	\$1,194,433
--------------------------------------	--------------	-------------	-------------

*Pension plan fiduciary net position:* Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2015. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2015. The auditor's report dated June 3, 2016 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

For the year ended December 31, 2016, the City recognized pension expense of \$901,427. At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 716,033	\$ -
Changes of assumptions	1,406,414	-
Net difference between projected and actual earnings on plan investments	221,759	-
Employer contributions subsequent to the Measurement Date	362,339	-
Total	\$ 2,706,545	\$ -

Amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized in pension expense as follows:

Year Ended December 31		
2018	\$	366,186
2019		366,186
2020		536,324
2021		194,547
2022		310,371
Thereafter		570,592

THE CITY OF ORANGE BEACH, ALABAMA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

NOTE 4 - RETIREMENT PLAN (continued)

Details of the deferred inflows and outflows of resources are displayed in the following three tables:

Collective Deferred Outflows and Inflows between Expected and Actual Experience

Year	Beginning Balance						Ending Balance				
	Initial Balance of Losses / Deferred Outflow	Initial Balance of Gains / Deferred Inflow	Amortization Period	Deferred Outflows	Deferred Inflows	Losses / Deferred Outflows	Gains / Deferred Inflows	Amounts Recognized in Pension Expense / Deferred Outflow	Amounts Recognized in Pension Expense / Deferred Inflow	(a) + (c) - (e)	(b) + (d) - (f)
2016	\$ 23,081	\$ -	8.2	\$ -	\$ -	\$ 23,081	\$ -	\$ 2,815	\$ -	\$ 20,266	\$ -
2015	920,209	-	8.2	807,988	-	-	-	112,221	-	695,767	-
2014	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<u>\$ 807,988</u>	<u>\$ -</u>		<u>\$ 23,081</u>	<u>\$ -</u>	<u>\$ 23,081</u>	<u>\$ -</u>	<u>\$ 716,033</u>	<u>\$ -</u>	<u>\$ 716,033</u>	<u>\$ -</u>

THE CITY OF ORANGE BEACH, ALABAMA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

NOTE 4 - RETIREMENT PLAN (continued)

Collective Deferred Outflows and Inflows for Differences from Assumption Change

Year	Beginning Balance				Ending Balance				
	Initial Balance of Deferred Outflows	Initial Gains / Deferred Inflows	Amortization Period	Losses / Deferred Outflows	Gains / Deferred Inflows	Amounts Recognized in Pension Expense / Deferred	Amounts Recognized in Pension Expense / Deferred	Deferred Outflows (a) + (c) - (c)	Deferred Inflows (b) + (d) - (f)
2016	\$ 1,601,749	\$ -	8.2	\$ -	\$ -	\$ 195,335	\$ -	\$ 1,406,414	\$ -
2015	-	-	-	-	-	-	-	-	-
2014	-	-	-	-	-	-	-	-	-
<b>Total</b>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 1,601,749</u>	<u>\$ -</u>			<u>\$ 1,406,414</u>	<u>\$ -</u>

THE CITY OF ORANGE BEACH, ALABAMA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

NOTE 4 - RETIREMENT PLAN (continued)

Collective Deferred Outflows and Inflows for Differences in Investment Experience

Year	<u>Beginning Balance</u>					<u>Ending Balance</u>			
	Initial Balance of Losses / Deferred Outflow	Initial Balance of Gains / Deferred Outflows	Amortization Period	Losses / Deferred Outflows	Gains / Deferred Inflows	Amounts Recognized in Pension Expense / Deferred	Amounts Recognized in Pension Expense / Deferred	Deferred Outflows (a) + (c) - (c)	Deferred Inflows (b) + (d) - (f)
2016	\$ -	\$ 579,120	5	\$ -	\$ 579,120	\$ -	\$ 115,824	\$ -	\$ 463,296
2015	1,708,893	-	5	1,367,114	-	341,779	-	1,025,335	-
2014	-	850,700	5	-	510,420	-	170,140	-	340,280
<b>Total</b>				<u>\$ 1,367,114</u>	<u>\$ 510,420</u>	<u>\$ -</u>	<u>\$ 579,120</u>	<u>\$ 1,025,335</u>	<u>\$ 803,576</u>
								<b>Net difference between projected and actual earnings on investments</b>	\$ 221,759
									\$ -

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

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

At December 31, 2016, 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 May 1, 2013 with a final payment on May 1, 2022.

Sewer Fund

General Obligation Warrants and Sewer Revenue Warrants:

At December 31, 2016, 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.

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**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, 2016:

<p>\$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%</p>	2,530,750
<p>\$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%</p>	5,035,000
<p>\$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%</p>	3,985,000
<p>\$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%</p>	8,245,000
<p>Unamortized bond premium / discount (net)</p>	<u>416,323</u>
<p>TOTAL WARRANTS AND NOTES OUTSTANDING</p>	<u>20,212,073</u>
<p>Compensated Absences</p>	<u>491,863</u>
<p>TOTAL GENERAL LONG-TERM DEBT</p>	<u><u>\$ 20,703,936</u></u>

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

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

General Obligation and Revenue Warrants for business-type activities of the City of Orange Beach were comprised of the following at December 31, 2016:

\$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%	2,244,250
\$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%	21,350,000
Unamortized bond premium/ discount (net)	<u>2,286,347</u>
<b>TOTAL WARRANTS AND NOTES OUTSTANDING</b>	<u>25,880,597</u>
Compensated Absences	<u>80,080</u>
<b>TOTAL BUSINESS-TYPE ACTIVITY DEBT</b>	<u><u>\$ 25,960,677</u></u>

**Annual Requirements to Retire Debt Obligations-**

The annual aggregate maturities, including principal and interest, for the years subsequent to December 31, 2016, are as follows:

Year Ending December 31,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Totals
2017	4,273,000	594,250	4,867,250	1,517,000	1,017,058	2,534,058
2018	4,308,500	446,020	4,754,520	1,471,500	952,183	2,423,683
2019	4,127,000	293,045	4,420,045	1,663,000	871,308	2,534,308
2020	3,994,650	143,469	4,138,119	1,495,350	792,243	2,287,593
2021	1,642,600	50,218	1,692,818	1,572,400	718,010	2,290,410
2022 and thereafter	1,450,000	14,500	1,464,500	15,875,000	2,929,969	18,804,969
Unamortized bond discount/ premium	416,323	-	416,323	2,286,347	-	2,286,347
<b>Total</b>	<b>\$ 20,212,073</b>	<b>\$ 1,541,502</b>	<b>\$ 21,753,575</b>	<b>\$ 25,880,597</b>	<b>\$ 7,280,771</b>	<b>\$ 33,161,368</b>

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**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	3,344,300	-	813,550	2,530,750	848,000
August 1, 2010, General Obligation, Series 2010A	6,170,000	-	1,135,000	5,035,000	1,180,000
August 1, 2010, General Obligation, Series 2010B	4,905,000	-	920,000	3,985,000	945,000
February 1, 2013, General Obligation, Series 2013	9,515,000	-	1,270,000	8,245,000	1,300,000
Unamortized bond premium/ discount (net)	477,398	-	61,075	416,323	-
Total Bonds payable	<u>24,411,698</u>	<u>-</u>	<u>4,199,625</u>	<u>20,212,073</u>	<u>4,273,000</u>
Other liabilities:					
Compensated Absences	474,939	16,924	-	491,863	331,169
Governmental activities long term liabilities	<u>\$ 24,886,637</u>	<u>\$ -</u>	<u>\$ 4,199,625</u>	<u>\$ 20,703,936</u>	<u>\$4,604,169</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	2,965,700	-	721,450	2,244,250	681,500
October 1, 2012 General Obligation Sewer Warrants, Series 2012	22,095,000	-	745,000	21,350,000	790,000
February 1, 2014, Business Loan	6,338,046	-	6,338,046	-	-
Unamortized bond premium/ discount (net)	2,471,479	-	185,132	2,286,347	-
Total Bonds payable	<u>33,870,225</u>	<u>-</u>	<u>7,989,628</u>	<u>25,880,597</u>	<u>1,471,500</u>
Other liabilities:					
Compensated Absences	77,102	2,978	-	80,080	50,733
Business-type activities long term liabilities	<u>\$ 33,947,327</u>	<u>\$ 2,978</u>	<u>\$ 7,989,628</u>	<u>\$ 25,960,677</u>	<u>\$1,522,233</u>

THE CITY OF ORANGE BEACH, ALABAMA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

**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>
4/20/15 - 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>
2017	22,824
2018	50,024
2019	51,224
2020	52,424
2021	47,424
Thereafter	-
Total	<u>\$ 223,920</u>

THE CITY OF ORANGE BEACH, ALABAMA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

**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>
2017	119,350
2018	121,275
2019	121,275
2020	121,275
2021	127,339
Thereafter	<u>257,033</u>
Total	<u>\$ 867,547</u>

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, 2016:

<u>Due From</u>	<u>Due To</u>		
	<u>General Fund</u>	<u>Sewer Fund</u>	<u>Refuse Fund</u>
General	\$ -	\$ 25,647	\$ -
Special Revenues	20,003	-	-
Debt Service	117,342	-	-
Refuse	822,175	-	-
BCBC	5,337,308	-	-
Sewer Utility	-	-	511,761
Events Center	703,237	-	-
Arts Center	<u>2,278,469</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 9,278,534</u>	<u>\$ 25,647</u>	<u>\$ 511,761</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, 2016

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

Interfund transfers during the year ended December 31, 2016, were as follows:

<u>Transfers Out</u>	<u>Transfers In</u>			<u>Total</u>
	<u>General Fund</u>	<u>Arts Center Fund</u>	<u>Debt Service</u>	
General Fund	\$ -	\$ 605,780	\$ 4,913,598	\$ 5,519,378
Debt Service	-	-	-	-
Special Revenues	475,782	-	-	475,782
Sewer Utility	695,000	-	2,176	697,176
<b>Total</b>	<u>\$ 1,170,782</u>	<u>\$ 605,780</u>	<u>\$ 4,915,774</u>	<u>\$ 6,692,336</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 \$586,326 in the general fund. \$305,528 represents 2017 business license collected in 2016.

From 2010 to 2016 the City of Orange Beach 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, \$480,872, \$98,470, and \$41,084 of the funds in 2010, 2011, 2012, 2013, 2014, 2015, and 2016, respectively. The remaining balance on the grant totaling \$184,047 is recorded as unearned revenue.

The City received advance payment of \$96,751 for 2017 contracted fire services on Ono Island. The amount is recorded as unearned revenue at year end.

**NOTE 10 – BRETT ROBINSON AGREEMENT**

On January 27, 2014, the City signed a release and settlement agreement with Brett Real Estate, Robinson Development Co., Inc., Phoenix West II L.L.C., and Brett/Robinson Gulf Corporation (collectively referred to as the BR Parties) regarding impact fees for the development of Phoenix West II Condominium Association, Inc. that were never paid. The BR Parties entered into a promissory note with the City for \$1,532,242 to be paid in 120 monthly installments of \$15,239 beginning in March of 2015 with interest thereon of 3% per annum in lieu of the impact fees. During 2016, the City received \$164,771 in principal and \$46,579 in interest payments.

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**NOTE 11 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispos als</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Non-Depreciable Assets:				
Land & Improvements	\$ 50,116,323	\$ -	\$ -	\$ 50,116,323
Depreciable Assets:				
Buildings & Infrastructure	32,271,280	-	-	32,271,280
Equipment & Vehicles	11,611,586	1,037,546	120,054	12,529,078
<b>Totals at historical cost</b>	<u>93,999,189</u>	<u>1,037,546</u>	<u>120,054</u>	<u>94,916,681</u>
Less accumulated depreciation for:				
Buildings & Improvements	9,486,327	627,287	-	10,113,614
Infrastructure & Parks Improvements	1,405,336	200,018	-	1,605,354
Equipment & Vehicles	8,511,992	771,284	120,054	9,163,222
<b>Total accumulated depreciation</b>	<u>19,403,655</u>	<u>1,598,589</u>	<u>120,054</u>	<u>20,882,190</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 74,595,534</u>	<u>\$ (561,043)</u>	<u>\$ -</u>	<u>\$ 74,034,491</u>

Depreciation expense was charged  
to governmental functions as follows:

Administration	\$ 94,798
Police	315,513
Communications	14,457
Fire	262,980
Public Works	268,046
Parks & Recreation	501,757
Library	29,632
Community Development	111,406
<b>Total depreciation expense</b>	<u>\$ 1,598,589</u>

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**NOTE 11 – CAPITAL ASSETS (continued)**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispos als</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Non-Depreciable Assets:				
Land	\$ 502,236	\$ -	\$ -	\$ 502,236
Depreciable Assets:				
Buildings	30,058,060	1,315,437	-	31,373,497
Equipment	1,347,363	156,617	43,405	1,460,575
Vehicles	1,279,233	128,418	-	1,407,651
Distribution and collection systems	12,781,387	290,153	-	13,071,540
<b>Totals at historical cost</b>	<u>45,968,279</u>	<u>1,890,625</u>	<u>43,405</u>	<u>47,815,499</u>
Less accumulated depreciation for:				
Buildings	8,274,131	66,089	-	8,340,220
Equipment	743,037	107,244	41,312	808,969
Vehicles	1,259,127	112,234	-	1,371,361
Distribution and collection systems	6,902,495	1,484,483	-	8,386,978
<b>Total accumulated depreciation</b>	<u>17,178,790</u>	<u>1,770,050</u>	<u>41,312</u>	<u>18,907,528</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 28,789,489</u>	<u>\$ 120,575</u>	<u>\$ 2,093</u>	<u>\$ 28,907,971</u>

**NOTE 12 – 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, 2016

**NOTE 12 – 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, 2015, 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, 2015 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, 2015 and March 31, 2015 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, 2016, the City received payments from American Roads totaling \$1,079,858 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, 2016

**NOTE 13 – COMMITMENTS AND CONTINGENCIES**

On July 12, 2004 the City of Orange Beach entered into a Development Agreement known as “The Wharf” with AIG Baker Development, LLC. The purpose of the agreement is to develop seven tracts of real property that Baker has under contract for long-term leasehold interests. The property will be developed conceptually in two distinct manners, the Commercial Development and the Public Land. During 2012, “The Wharf” was purchased by Wharf Retail Properties LLC.

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 14- PRIOR PERIOD ADJUSTMENT**

During the year, the City wrote off a check of \$96,400 that had been outstanding since 2014. The amount was recorded as a prior period adjustment. The effect on beginning net position is detailed in the table below”

	Governmental Activities	General Fund
Net position at December 31, 2015 (beginning)	\$ 88,034,959	\$ 36,260,355
Prior period adjustment	<u>96,400</u>	<u>96,400</u>
Net position at December 31, 2015 (restated)	<u>\$ 88,131,359</u>	<u>\$ 36,356,755</u>

**NOTE 15- BP SETTLEMENT PROCEEDS**

During the year, the City received settlement proceeds of \$12 million for economic damages sustained due to the Deepwater Horizon Oil Spill that occurred in April 2010. The City incurred \$2 million in legal fees to recover the damages.

**NOTE 16- SUBSEQUENT EVENTS**

Subsequent events were evaluated from January 1, 2016 to the financial statement issuance date of June 23, 2017.

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, 2016

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Over (Under)
<b>Resources (inflows)</b>				
Property taxes	\$ 3,300,000	\$ 3,300,000	\$ 3,461,385	\$ 161,385
Intergovernmental:				
State tax	47,000	47,000	78,879	31,879
Local tax	19,885,000	19,885,000	27,182,015	7,297,015
Federal operating grant	189,500	189,500	52,523	(136,977)
BP state grant	-	-	116,064	116,064
Personnel service reimbursement	50,000	50,000	72,994	22,994
Other licenses, permits and fees	3,800,800	3,800,800	4,126,585	325,785
Fines and forfeitures	246,000	246,000	359,227	113,227
Charges for services	800,000	800,000	1,099,927	299,927
Rent	73,700	73,700	78,779	5,079
Investment earnings	30,000	30,000	42,468	12,468
Contracts	402,500	402,500	410,430	7,930
BP settlement proceeds	-	-	12,000,000	12,000,000
Miscellaneous	302,639	302,639	345,125	42,486
<b>Amounts Available for Appropriations</b>	<u>29,127,139</u>	<u>29,127,139</u>	<u>49,426,401</u>	<u>20,299,262</u>
<b>Charges to appropriations (outflows)</b>				
General government	2,855,600	2,855,600	4,946,854	2,091,254
Court	377,050	377,050	409,819	32,769
Finance	781,700	781,700	741,460	(40,240)
Police	4,580,900	4,580,900	5,553,046	972,146
Corrections	576,700	576,700	578,726	2,026
Engineering and environmental	2,068,295	2,068,295	2,817,735	749,440
Communications	447,550	447,550	479,838	32,288
Fire	4,884,884	4,884,884	5,205,196	320,312
Public works	2,564,630	2,564,630	2,802,271	237,641
Landscape	1,629,520	1,629,520	1,484,448	(145,072)
Parks and recreation	2,764,050	2,764,050	2,535,437	(228,613)
BP Oil Spill	120,000	120,000	51,302	(68,698)
Library	641,469	641,469	1,626	(639,843)
Capital expenditures	1,856,900	1,856,900	2,181,293	324,393
<b>Total Charges to Appropriations</b>	<u>26,149,248</u>	<u>26,149,248</u>	<u>29,789,051</u>	<u>3,639,803</u>
<b>Excess of Amounts Available for Over Charges to Appropriations</b>	<u>2,977,891</u>	<u>2,977,891</u>	<u>19,637,350</u>	<u>16,659,459</u>
<b>Other financing sources (uses)</b>				
Gain on disposal of assets	-	-	32,852	32,852
Transfers from other funds	1,167,000	1,167,000	1,170,782	3,782
Transfers to other funds	(5,806,148)	(5,806,148)	(5,519,378)	286,770
<b>Total Other Financing Uses</b>	<u>(4,639,148)</u>	<u>(4,639,148)</u>	<u>(4,315,744)</u>	<u>323,404</u>
<b>Statutory revenue reduction</b>	<u>(2,605,002)</u>	<u>(2,605,002)</u>	<u>-</u>	<u>2,605,002</u>
<b>Excess (Deficiency) of Resources Over Charges to Appropriations</b>	<u>\$ (4,266,259)</u>	<u>\$ (4,266,259)</u>	<u>\$ 15,321,606</u>	<u>\$ 19,587,865</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, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Over
	Original	Final		(Under)
<b>Revenues</b>				
Charges for services	\$ 6,481,000	\$ 6,481,000	\$ 6,925,046	\$ 444,046
Miscellaneous income	35,000	35,000	57,282	22,282
<b>Total Operating Revenues</b>	<u>6,516,000</u>	<u>6,516,000</u>	<u>6,982,328</u>	<u>466,328</u>
<b>Expenses</b>				
Salaries, wages and employee benefits	1,350,500	1,350,500	1,375,385	24,885
Utilities	711,000	711,000	873,912	162,912
Repairs and maintenance	1,847,000	1,847,000	528,040	(1,318,960)
Other supplies and expenses	167,000	167,000	194,888	27,888
Insurance claims and expenses	23,700	23,700	20,882	(2,818)
Bond premium amortization	-	-	6,164	6,164
Depreciation	-	-	1,638,627	1,638,627
<b>Total Operating Expenses</b>	<u>4,099,200</u>	<u>4,099,200</u>	<u>4,637,898</u>	<u>538,698</u>
<b>Non-Operating Revenues (Expenses) and Transfers (Out) In</b>				
Interest income	4,000	4,000	7,682	3,682
Interest expense	(1,147,300)	(1,147,300)	(1,065,993)	81,307
Transfers to other funds	(2,161,500)	(2,161,500)	(692,824)	1,468,676
<b>Total Other Financing Sources (Uses)</b>	<u>(3,304,800)</u>	<u>(3,304,800)</u>	<u>(1,751,135)</u>	<u>1,553,665</u>
<b>Change in Net Position</b>	(888,000)	(888,000)	593,295	1,481,295
<b>Net Position - Beginning of Year</b>	<u>14,006,101</u>	<u>14,006,101</u>	<u>14,006,101</u>	<u>-</u>
<b>Net Position - End of Year</b>	<u>\$ 13,118,101</u>	<u>\$ 13,118,101</u>	<u>\$ 14,599,396</u>	<u>\$ 1,481,295</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, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Over (Under)
	Original	Final		
<b>Revenues</b>				
Charges for services	\$ 2,500,000	\$ 2,500,000	\$ 2,500,446	\$ 446
Miscellaneous income	10,000	10,000	4,318	(5,682)
<b>Total Operating Revenues</b>	<u>2,510,000</u>	<u>2,510,000</u>	<u>2,504,764</u>	<u>(5,236)</u>
<b>Expenses</b>				
Salaries, wages and employee benefits	422,940	422,940	408,740	(14,200)
Contractual services	1,852,200	1,852,200	1,858,650	6,450
Repairs and maintenance	35,000	35,000	39,381	4,381
Other supplies and expenses	128,800	128,800	64,772	(64,028)
Insurance claims and expenses	26,400	26,400	8,613	(17,787)
Depreciation	-	-	65,334	65,334
<b>Total Operating Expenses</b>	<u>2,465,340</u>	<u>2,465,340</u>	<u>2,445,490</u>	<u>(19,850)</u>
<b>Change in Net Position</b>	44,660	44,660	59,274	14,614
<b>Net Position - Beginning of Year</b>	<u>(345,051)</u>	<u>(345,051)</u>	<u>(345,051)</u>	-
<b>Net Position - End of Year</b>	<u>\$ (300,391)</u>	<u>\$ (300,391)</u>	<u>\$ (285,777)</u>	<u>\$ 14,614</u>

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

THE CITY OF ORANGE BEACH, ALABAMA  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS TO THE RETIREMENT SYSTEMS OF ALABAMA  
 FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 850,584	\$ 800,331
Contributions in relation to the actuarially determined contribution	<u>850,584</u>	<u>800,331</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 14,393,677	\$ 13,508,477
Contributions as a percentage of covered-employee payroll	5.91%	5.92%

**Notes to Schedule**

Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2016 were based on the September 30, 2013 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	14 years
Asset valuation method	Five year smoothed market
Inflation	3.00%
Salary increases	3.75-7.25% including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

THE CITY OF ORANGE BEACH, ALABAMA  
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY  
FOR THE YEAR ENDED DECEMBER 31, 2016

<b>Total pension liability</b>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Service Cost	\$ 1,213,069	\$ 1,168,947	\$ 1,090,244
Interest	2,401,553	2,113,138	1,915,434
Changes of benefit terms	-	-	-
Differences between expected and actual experience	23,081	920,209	-
Changes of assumptions	1,601,749	-	-
Benefit payments, including refunds of employee contributions	(641,884)	(552,344)	(516,402)
Transfers among employers	<u>29,622</u>	<u>-</u>	<u>-</u>
<b>Net change in total pension liability</b>	4,627,190	3,649,950	2,489,276
<b>Total pension liability-beginning</b>	<u>30,340,353</u>	<u>26,690,403</u>	<u>24,201,127</u>
<b>Total pension liability-ending (a)</b>	<u>\$ 34,967,543</u>	<u>\$ 30,340,353</u>	<u>\$ 26,690,403</u>
 <b>Plan fiduciary net position</b>			
Contributions - employer	\$ 806,700	\$ 801,525	\$ 782,020
Contributions - member	773,424	728,225	703,936
Net investment income	2,700,298	297,551	2,552,678
Benefit payments, including refunds of employee contributions	(641,884)	(552,344)	(516,402)
Transfers among employers	<u>29,622</u>	<u>327,982</u>	<u>231,356</u>
<b>Net change in plan fiduciary net position</b>	3,668,160	1,602,939	3,753,588
<b>Plan net position - beginning</b>	<u>26,030,796</u>	<u>24,427,857</u>	<u>20,674,269</u>
<b>Plan net position - ending (b)</b>	<u>\$ 29,698,956</u>	<u>\$ 26,030,796</u>	<u>\$ 24,427,857</u>
 <b>Net pension liability (asset) - ending</b>	\$ 5,268,587	\$ 4,309,557	\$ 2,262,546
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	84.93%	85.80%	91.52%
 <b>Covered-employee payroll</b>	\$ 14,393,677	\$ 13,508,477	\$ 13,175,276
 <b>Net pension liability (asset) as a percentage of covered-employee payroll</b>	37%	32%	17%

OTHER SUPPLEMENTARY INFORMATION

THE CITY OF ORANGE BEACH, ALABAMA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 DECEMBER 31, 2016

	<u>Debt Service</u>	<u>Special Revenues</u>	<u>Library</u>	<u>Total Nonmajor Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ -	\$ 304,516	\$ 304,516
Restricted cash and cash equivalents	3,446,055	205,549	-	3,651,604
Accounts receivable - net	-	70,232	-	70,232
Total assets	<u>\$ 3,446,055</u>	<u>\$ 275,781</u>	<u>\$ 304,516</u>	<u>\$ 4,026,352</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	2,226	-	-	2,226
Due to other funds	117,342	20,003	-	137,345
Accrued expenses	-	-	18,974	18,974
Total liabilities	<u>119,568</u>	<u>20,003</u>	<u>18,974</u>	<u>158,545</u>
<b>Fund balances:</b>				
Nonspendable	-	-	-	-
Spendable:				
Restricted	3,326,487	255,778	-	3,582,265
Committed	-	-	-	-
Assigned	-	-	285,542	285,542
Unassigned	-	-	-	-
Total fund balances	<u>3,326,487</u>	<u>255,778</u>	<u>285,542</u>	<u>3,867,807</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 3,446,055</u>	<u>\$ 275,781</u>	<u>\$ 304,516</u>	<u>\$ 4,026,352</u>

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, 2016

	<u>Debt Service</u>	<u>Special Revenues</u>	<u>Library</u>	<u>Total Nonmajor Governmental Funds</u>
<b>REVENUES</b>				
Intergovernmental:				
State tax	\$ -	\$ 313,781	\$ -	\$ 313,781
Grants	-	-	4,000	4,000
Other licenses, permits and fees	-	1,792	-	1,792
Fines and forfeitures	-	51,902	-	51,902
Investment earnings	4,791	225	323	5,339
Miscellaneous	-	115,170	32,951	148,121
<b>TOTAL REVENUES</b>	<u>4,791</u>	<u>482,870</u>	<u>37,274</u>	<u>524,935</u>
<b>EXPENDITURES</b>				
Library	-	-	641,052	641,052
Securities lending:				
Fiscal agent fees	4,096	-	-	4,096
Debt service:				
Principal payments	4,138,550	-	-	4,138,550
Interest and other	733,200	-	-	733,200
<b>TOTAL EXPENDITURES</b>	<u>4,875,846</u>	<u>-</u>	<u>641,052</u>	<u>5,516,898</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (4,871,055)</u>	<u>\$ 482,870</u>	<u>\$ (603,778)</u>	<u>\$ (4,991,963)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	4,913,598	-	605,780	5,519,378
Transfers out	<u>(2,176)</u>	<u>(475,783)</u>	<u>-</u>	<u>(477,959)</u>
<b>TOTAL OTHER FINANCING     SOURCES (USES)</b>	<u>4,911,422</u>	<u>(475,783)</u>	<u>605,780</u>	<u>5,041,419</u>
Net change in fund balances	40,367	7,087	2,002	49,456
Fund balances - beginning	<u>3,286,120</u>	<u>248,691</u>	<u>283,540</u>	<u>3,818,351</u>
Fund balances - ending	<u>\$ 3,326,487</u>	<u>\$ 255,778</u>	<u>\$ 285,542</u>	<u>\$ 3,867,807</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, 2016

	Events Center	Arts Center	BCBC	Total Nonmajor Proprietary Funds
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ -	\$ 17,143	\$ -	\$ 17,143
Accounts receivable	-	-	1,079,857	1,079,857
Total current assets	-	17,143	1,079,857	1,097,000
Noncurrent assets				
Capital assets:				
Land	158,648	-	-	158,648
Events center	1,667,976	-	-	1,667,976
Vehicles and equipment	52,449	-	-	52,449
Construction in progress	-	1,423,060	-	1,423,060
Less: Accumulated depreciation	(343,799)	-	-	(343,799)
Accounts receivable	-	-	2,086,124	2,086,124
Total noncurrent assets	1,535,274	1,423,060	2,086,124	5,044,458
<b>TOTAL ASSETS</b>	<b>1,535,274</b>	<b>1,440,203</b>	<b>3,165,981</b>	<b>6,141,458</b>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 43,984	\$ 139,220	\$ -	\$ 183,204
Retainage payable	-	60,619	-	60,619
Due to other funds	703,238	2,278,469	5,337,308	8,319,015
Accrued expenses	5,646	8,949	-	14,595
Accrued compensated absences	4,770	6,069	-	10,839
Total current liabilities	757,638	2,493,326	5,337,308	8,588,272
Noncurrent liabilities:				
Accrued compensated absences	-	257	-	257
Total noncurrent liabilities	-	257	-	257
<b>TOTAL LIABILITIES</b>	<b>757,638</b>	<b>2,493,583</b>	<b>5,337,308</b>	<b>8,588,529</b>
<b>NET POSITION</b>				
Invested in Capital Assets, net of related debt	1,535,274	-	-	1,535,274
Unrestricted	(757,638)	(1,053,380)	(2,171,327)	(3,982,345)
<b>TOTAL NET POSITION</b>	<b>\$ 777,636</b>	<b>\$ (1,053,380)</b>	<b>\$ (2,171,327)</b>	<b>\$ (2,447,071)</b>

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, 2016

	Events Center	Arts Center	BCBC	Total Nonmajor Proprietary Funds
<b>OPERATING REVENUES</b>				
Charges for services	\$ 201,574	\$ 118,880	\$ -	\$ 320,454
Miscellaneous income	-	18,997	-	18,997
Merchandise sales	-	83,900	-	83,900
<b>TOTAL OPERATING REVENUES</b>	<b>201,574</b>	<b>221,777</b>	<b>-</b>	<b>423,351</b>
<b>COST OF GOODS SOLD</b>	<b>-</b>	<b>46,779</b>	<b>-</b>	<b>46,779</b>
<b>GROSS PROFIT</b>	<b>201,574</b>	<b>174,998</b>	<b>-</b>	<b>376,572</b>
<b>OPERATING EXPENSES</b>				
Salaries, wages and employee benefits	193,278	313,165	-	506,443
Utilities	41,915	28,669	-	70,584
Repairs and maintenance	107,612	8,165	-	115,777
Other supplies and expenses	64,810	84,220	-	149,030
Depreciation	66,089	-	-	66,089
<b>TOTAL OPERATING EXPENSES</b>	<b>473,704</b>	<b>434,219</b>	<b>-</b>	<b>907,923</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(272,130)</b>	<b>(259,221)</b>	<b>-</b>	<b>(531,351)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest income	-	34	31	65
Interest expense	-	-	(148,699)	(148,699)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>-</b>	<b>34</b>	<b>(148,668)</b>	<b>(148,634)</b>
<b>CHANGE IN NET POSITION</b>	<b>(272,130)</b>	<b>(259,187)</b>	<b>(148,668)</b>	<b>(679,985)</b>
<b>NET POSITION - BEGINNING OF YEAR</b>	<b>1,049,766</b>	<b>(794,193)</b>	<b>(2,022,659)</b>	<b>(1,767,086)</b>
<b>NET POSITION - END OF YEAR</b>	<b>\$ 777,636</b>	<b>\$ (1,053,380)</b>	<b>\$ (2,171,327)</b>	<b>\$ (2,447,071)</b>

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, 2016

	Events Center	Arts Center	BCBC	Total Nonmajor Proprietary Funds
Cash flows from operating activities:				
Receipts from customers	\$ 201,574	\$ 221,776	\$ 1,079,858	\$ 1,503,208
Payments to employees for services	(191,438)	(313,066)	-	(504,504)
Payments to suppliers of goods & services	(183,265)	(38,499)	-	(221,764)
Payments to other funds	<u>173,129</u>	<u>1,385,980</u>	<u>5,337,308</u>	<u>6,896,417</u>
Net cash provided (used) by operating activities	<u>-</u>	<u>1,256,191</u>	<u>6,417,166</u>	<u>7,673,357</u>
Cash flows from capital and related financing activities:				
Interest income	-	34	31	65
Principal repayments related to capital purposes	-	-	(6,338,046)	(6,338,046)
Interest paid on other debt	-	-	(164,310)	(164,310)
Acquisition of property and equipment	<u>-</u>	<u>(1,254,818)</u>	<u>-</u>	<u>(1,254,818)</u>
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>(1,254,784)</u>	<u>(6,502,325)</u>	<u>(7,757,109)</u>
Net increase (decrease) in cash	-	1,407	(85,159)	(83,752)
Cash and equivalents at beginning of year	<u>-</u>	<u>15,736</u>	<u>85,159</u>	<u>100,895</u>
Cash and equivalents at end of year	<u>\$ -</u>	<u>\$ 17,143</u>	<u>\$ -</u>	<u>\$ 17,143</u>
Operating income (loss)	<u>\$ (272,130)</u>	<u>\$ (259,221)</u>	<u>\$ -</u>	<u>\$ (531,351)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	66,089	-	-	66,089
(Increase) decrease in:				
Accounts receivable - net	-	-	1,079,858	1,079,858
Due to other funds	173,129	1,385,980	5,337,308	6,896,417
Increase (decrease) in:				
Accounts payable	31,072	129,333	-	160,405
Accrued expenses	704	672	-	1,376
Accrued compensated absences	<u>1,136</u>	<u>(573)</u>	<u>-</u>	<u>563</u>
Total adjustments	<u>272,130</u>	<u>1,515,412</u>	<u>6,417,166</u>	<u>8,204,708</u>
Net cash provided (used) by operating activities	<u>\$ -</u>	<u>\$ 1,256,191</u>	<u>\$ 6,417,166</u>	<u>\$ 7,673,357</u>
<u>Supplemental Disclosures</u>				
Noncash Investing and Financing Activities: NONE				
Cash Paid During the Year for Interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 148,699</u>	<u>\$ -</u>

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

## COMPLIANCE AND INTERNAL CONTROL SECTION

# GRANT, SANDERS & TAYLOR, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

BERTRAM L. SANDERS, II, CPA  
MATTHEW R. TAYLOR, CPA  
JASON B. JACKSON, CPA

1530 W. 2ND STREET  
POST OFFICE BOX 2109  
GULF SHORES, ALABAMA 36547-2109  
TELEPHONE 251.968.2727  
FACSIMILE 251.968.7430  
WWW.GRANTSANDERSTAYLOR.COM

Members  
American Institute of Certified  
Public Accountants  
Alabama Society of Certified  
Public Accountants  
Florida Institute of  
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, 2016, 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 23, 2017.

### 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. [2016-1].

### 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.

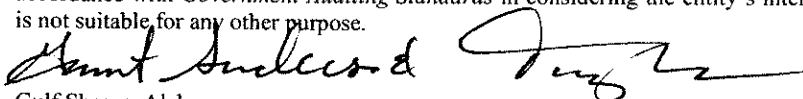
We also noted certain matters that we reported to management of The City of Orange Beach, Alabama in a separate letter dated June 20, 2016.

### 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 23, 2017

## **FINDING – INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

### **2016-1**

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: The prior year audit entry for accrued payroll was not reversed. As a result, payroll expense and accrued payroll liability were overstated by \$501,258.

Recommendations: The finance department 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.

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

### **2015-1**

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: CONDITION 1 > The year end accrual for payroll was incorrect, resulting in a \$501,258 understatement of payroll expense and accrued payroll liability.

CONDITION 2 > Grant revenues were accrued that had been earned and accrued in prior years but not received as of December 31, 2015. As a result, grant revenues and grant receivables were overstated by \$97,720.

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.