

THE CITY OF ORANGE BEACH, ALABAMA

FINANCIAL STATEMENTS

DECEMBER 31, 2017

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Orange Beach, Alabama, as of and for the year ended December 31, 2017, 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, 2017, 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 48 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Orange Beach, Alabama's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2018 on our consideration of the City of Orange Beach, Alabama's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Orange Beach, Alabama's internal control over financial reporting and compliance.



Gulf Shores, Alabama
June 20, 2018

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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 2017 on December 31, 2017, the City of Orange Beach assets exceeded its liabilities by \$126,442,348 whereas at the close of Fiscal Year 2016 on December 31, 2016, the City of Orange Beach assets exceeded its liabilities by \$118,737,253. 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, 2017 and December 31, 2016, 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	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$ 53,825,362	\$ 58,720,543	\$ 9,936,229	\$ 7,517,514	\$ 63,761,591	\$ 66,238,057
Capital Assets	78,031,140	74,034,491	28,471,441	28,907,971	106,502,581	102,942,462
Total Assets	<u>\$ 131,856,502</u>	<u>\$ 132,755,034</u>	<u>\$ 38,407,670</u>	<u>\$ 36,425,485</u>	<u>\$ 170,264,172</u>	<u>\$ 169,180,519</u>
Deferred Outflow of Resources	<u>\$ 2,818,526</u>	<u>\$ 3,414,413</u>	<u>\$ 2,269,372</u>	<u>\$ 2,460,669</u>	<u>\$ 5,087,898</u>	<u>\$ 5,875,082</u>
Other Liabilities	\$ 3,024,734	\$ 7,346,062	\$ 1,826,408	\$ 2,536,140	\$ 4,851,142	\$ 9,882,202
Long-term Liabilities	19,595,231	21,366,354	22,729,258	24,438,444	42,324,489	45,804,798
Total Liabilities	<u>\$ 22,619,965</u>	<u>\$ 28,712,416</u>	<u>\$ 24,555,666</u>	<u>\$ 26,974,584</u>	<u>\$ 47,175,631</u>	<u>\$ 55,687,000</u>
Deferred Inflow of Resources	<u>\$ 1,703,699</u>	<u>\$ 586,326</u>	<u>\$ 30,392</u>	<u>\$ 45,022</u>	<u>\$ 1,734,091</u>	<u>\$ 631,348</u>
Net Position	<u>\$ 110,351,364</u>	<u>\$ 106,870,705</u>	<u>\$ 16,090,984</u>	<u>\$ 11,866,548</u>	<u>\$ 126,442,348</u>	<u>\$ 118,737,253</u>
Invested in Capital Assets						
Net of Related Debt	\$ 62,153,145	\$ 53,822,418	\$ 8,021,103	\$ 5,224,324	\$ 70,174,248	\$ 59,046,742
Restricted	13,699,821	13,386,879	-	-	13,699,821	13,386,879
Unrestricted	<u>34,498,398</u>	<u>39,661,408</u>	<u>8,069,881</u>	<u>6,642,224</u>	<u>42,568,279</u>	<u>46,303,632</u>
Total Net Position	<u>\$ 110,351,364</u>	<u>\$ 106,870,705</u>	<u>\$ 16,090,984</u>	<u>\$ 11,866,548</u>	<u>\$ 126,442,348</u>	<u>\$ 118,737,253</u>

Overall Analysis

Financial highlights for the City of Orange Beach as a whole during the fiscal year ended December 31, 2017 and December 31, 2016, include the following:

The assets of the City exceeded its liabilities (net assets) at the close of the fiscal year ended December 31, 2017, by \$110,351,364 and at the close of the fiscal year ended December 31, 2016 by \$106,870,705 for Governmental Activities and by \$16,090,984 and \$11,866,548 (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, 2017 and December 31, 2016 and is derived from the Statement of Activities.

Table 2 – Condensed Statement of Activities

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
PRIMARY GOVERNMENT:						
Revenues						
Charges for Services	\$ 5,673,729	\$ 6,220,940	\$ 9,992,183	\$ 9,832,448	\$ 15,665,912	\$ 16,053,388
Operating Grants and Contributions	278,751	381,938	-	-	278,751	381,938
Capital Grants and Contributions	297,131	51,817	4,300	2,800	301,431	54,617
General Revenues:						
Taxes	32,946,110	31,037,852	-	-	32,946,110	31,037,852
Investment Earnings	67,256	47,807	10,810	7,747	78,066	55,554
Reimbursed Expense	100,332	72,994	-	-	100,332	72,994
Settlement proceeds	-	12,000,000	-	-	-	12,000,000
Miscellaneous	101,026	137,991	58,535	61,600	159,561	199,591
Gain on Disposal of Assets	39,682	32,852	-	-	39,682	32,852
Total Revenues	\$ 39,504,017	\$ 49,984,191	\$ 10,065,828	\$ 9,904,595	\$ 49,569,845	\$ 59,888,786
Expenses:						
General Government	\$ 4,591,080	\$ 5,631,862	\$ -	\$ -	\$ 4,591,080	\$ 5,631,862
Municipal Court	461,017	409,819	-	-	461,017	409,819
Finance	842,896	745,294	-	-	842,896	745,294
Engineering Coastal	2,000,785	2,817,735	-	-	2,000,785	2,817,735
Police	6,161,604	6,022,029	-	-	6,161,604	6,022,029
Corrections	616,737	597,442	-	-	616,737	597,442
Communication	564,430	499,892	-	-	564,430	499,892
Fire	5,520,875	5,468,176	-	-	5,520,875	5,468,176
Public Works	4,012,366	3,686,288	-	-	4,012,366	3,686,288
Landscape	1,540,957	1,488,258	-	-	1,540,957	1,488,258
Parks & Recreation	3,142,357	3,029,977	-	-	3,142,357	3,029,977
Library	747,504	754,086	-	-	747,504	754,086
BP Oil Spill	637,293	84,768	-	-	637,293	84,768
Interest on Long-Term Debt	560,418	702,042	-	-	560,418	702,042
Sewer Fund	-	-	6,125,150	5,703,893	6,125,150	5,703,893
Refuse Fund	-	-	2,603,298	2,445,490	2,603,298	2,445,490
Events Center	-	-	540,283	473,704	540,283	473,704
Baldwin County Bridge Fund	-	-	-	148,699	-	148,699
Arts Center	-	-	1,195,700	467,402	1,195,700	467,402
Total Expenses	\$ 31,400,319	\$ 31,937,668	\$ 10,464,431	\$ 9,239,188	\$ 41,864,750	\$ 41,176,856
Increase (Decrease) in Net Position						
Before Transfers	8,103,698	18,046,523	(398,603)	665,407	7,705,095	18,711,930
Transfers	(4,623,039)	692,823	4,623,039	(692,823)	-	-
Change in Net Position	3,480,659	18,739,346	4,224,436	(27,416)	7,705,095	18,711,930
Net Position - Beginning	106,870,705	88,034,959	11,866,548	11,893,964	118,737,253	99,928,923
Prior period adjustment	-	96,400	-	-	-	96,400
Net Position - Ending	\$ 110,351,364	\$ 106,870,705	\$ 16,090,984	\$ 11,866,548	\$ 126,442,348	\$ 118,737,253

The City's total net position increased during the current year by \$7,705,095 and during the previous year by \$18,808,330. Net position of Governmental Activities increased by \$3,480,659 during fiscal year 2017 and increased by \$18,739,346 during fiscal year 2016 while the net position of Business-type Activities increased by \$4,224,436 during fiscal year 2017 and decreased by \$27,416 during fiscal year 2016.

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 \$50,707,551 compared to \$55,546,168 at the end of the previous fiscal year with \$37,089,191 unassigned compared to \$42,224,671 reported as unassigned fund balance in the prior year. The remaining reserved amount of \$13,618,360 for fiscal year end 2017, is \$188,959 nonspendable, \$4,079,889 restricted, \$9,055,356 committed, and \$294,156 assigned as compared to the fiscal year ended 2016 amount of \$13,321,497 (\$179,041 nonspendable, \$3,815,934 restricted, \$9,040,980 committed, and \$285,542 assigned).

Proprietary Funds

As of the close of the current fiscal year the City's Proprietary Funds reported total net assets of \$16,090,984 compared to \$11,866,548 at the end of fiscal 2016.

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 \$3,391,059 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 \$7,620,088 over the final budgeted amounts. Local taxes exceeded budget by \$7,626,326 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, 2017, the City of Orange Beach reported net capital assets of \$78,031,140 from governmental activities and net capital asset of \$28,471,441 from business-type activities. 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.

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 \$40,056,460 in debt outstanding compared to \$46,092,670 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 30 years. If the City does not exercise the option to purchase in year 30, the per car royalty payment extends for a second 30-year period.
- 2) In 2004, the City entered into a 15-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 million 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 Springhill Suites by Marriott opened in 2016 with 132 rooms along with a restaurant adjacent to the city-owned Orange Beach Event Center. In 2018, the agreement was extended to 2035.
- 3) In 2005, the City purchased 80 acres of land north of the Intracoastal Waterway on the Beach Express for the development of the Orange Beach 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 addition to the Gulf State Park, 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 of the 350-room "The Lodge at Gulf State Park, a Hilton Hotel," began in spring of 2016 and is scheduled to open in fall of 2018. Gulf State Park has made significant improvements over its 6,150 acres including the expansion of its trails system to 28 miles and the addition of two pedestrian overpasses crossing the busy beach highway; upgrades to its fishing pier, beach pavilion and campground; the opening of the new Interpretive Center, which will likely be certified as a Living Building of which there are less than 20 in the world; and construction on a new learning campus is underway.
- 5) The City continues to explore the feasibility of the Wolf Bay Bridge Project. 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 southern landing for a future bridge at the intersection of State Highways 161 and 180. In 2018, the City Council authorized task orders to begin the design and permitting process for the new span over Wolf Bay. The future bridge will aid in evacuations during tropical events, the improvement of public safety and introduce positive economic development opportunities for long-term financial stability beyond the city's vulnerable coastline opening up thousands of undeveloped acres for new economic impact.
- 6) In 2017, the City Council approved a 2% lodging tax increase, effective May 1, 2018, with revenue specifically funding infrastructure projects, including construction of the proposed Wolf Bay Bridge.
- 7) The City maintains a permanent reserve fund for the general fund and the sewer utility fund. The City continues to add to the balance annually.
- 8) 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 as well as locally through the Orange Beach Healthcare Authority.
- 9) The Council continues to be conservative in its budgeting, spending, and debt management. These conservative philosophies resulted in Moody's upgrading the bond rating for the City of Orange Beach to Aa1 in Spring of 2018.
- 10) On April 20, 2010, the BP/Deepwater Horizon oil derrick explosion occurred in the Gulf of Mexico. The well continued to uncontrollably leak oil for approximately 90 days. National media coverage of the unprecedented man-made disaster and its potential to harm the Gulf Coast environment, negatively impacted tourism for the summer of 2010. A final settlement for lost revenues was reached with BP in 2016, resulting in a net payment to the City of \$10 million. In June of 2012, the U.S. Congress passed the RESTORE Act that directs fines and penalties directly attributed to 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 that will increase capacity by adding an additional lane on Canal Road from Highway 161 to the western city limits at Gulf Shores. Other projects expected to be funded by BP-related penalties include upgrading the City's northern sewer main, widening and improving capacity on Canal Road East, filtration and water quality improvements to various canals and channels near Cotton Bayou, the construction of a Gulf Coast Engineering Research Station (in partnership with Auburn University), expansion of the Orange Beach Wildlife Rehabilitation Center and essential repairs to the Alabama Point seawall.
- 11) A 2005 warrant issue used for the last comprehensive beach renourishment project, and a 2007A issue used to establish the City's permanent reserve fund were scheduled to be paid off in 2016; however, the council structured the new issues to pay off in 2020 and to pay interest only until 2015. During 2005, an additional 1 cent sales tax was instituted to essentially 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; however, the Council extended the 1 cent sales tax for 10 years until March 31, 2025.
- 12) 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. 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 new 132-room Marriott Springhill Suites hotel on The Wharf site has increased usage at the Event Center, which is adjacent to the hotel.

- 13) In April 2012, the Baldwin County Commission purchased approximately 2,400 acres, known as the South Alabama Mega Site, close to Interstate 65 to market to potential industrial prospects. Baldwin County's megasite is one of the last certified sites in the Southeast and continues to hold great potential for jobs and should generate great economic benefits to the area, including Orange Beach.
- 14) The Alabama Gulf Coast Reef and Restoration Foundation successfully sank a 271-foot retired coastal freighter 17 nautical miles off the coast of Orange Beach in May 2013 and additional underwater structures and near-shore reefs have been created for scuba-diving enthusiasts since that time. These new underwater attractions are a boon for the Alabama Gulf Coast tourism industry and tap into the lucrative scuba-diving destination market. Understanding the potential, the City helped sponsor a community-driven project that added structures to a near-shore reef and continues to support the creation of new reefs in Alabama waters.
- 15) The City has recently welcomed the opening of several new properties that added over 300 rooms along with several new retail and restaurant operations. Additionally, the City has two high-rise condominiums under construction that will add 234 condo units to the market. Overall, commercial and residential construction permits continue to rise substantially. Assessed property value in the City of Orange Beach now exceeds \$1 Billion based on Baldwin County data.
- 16) Diversification of the tourism market continues as more sporting events such as youth baseball/softball tournaments, marathons, soccer and volleyball come to the area. These athletic oriented events documented over 115,000 room nights on the entire Gulf Coast in 2017. These events are building on off-season months in attracting visitors. The City Council approved hosting the Southeastern Conference Women's Soccer Championship through 2020 with an extension option to 2025. The City continues to invest in its sports facilities to attract and retain events, such as making significant improvements at the Orange Beach Sportsplex, including \$400,000 for upgraded lighting that is needed for HD-quality video for live national broadcasts of soccer, upgraded baseball/softball fields for USSSA tournaments and new sand volleyball courts.
- 17) The City of Foley issued a \$25 million bond issue to construct 16 soccer fields along with a 90,000 square foot indoor competition facility, which will be anchored by two 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, and large soccer tournaments, etc. This activity is expected to generate new room nights for visitors who will choose to stay in Orange Beach just nine miles south.
- 18) The Poarch Band of Creek Indians has constructed the OWA development, an initial investment of \$260 million. 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 6.4 million visitors each year, OWA is expected to bring in an additional 1 million visitors annually. Phase 1 of OWA, includes a 150-room hotel, retail and dining spaces, amusement park and lake which opened in 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 is projected to 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 is expected to generate close to 3,500 jobs.
- 19) The Baldwin County Board of Education is constructing a \$15 million middle/high school in the City of Orange Beach. The City donated a 40-acre tract, valued at \$6 million, for the school. The City has committed to fund a performing arts center as part of the school's campus. It is anticipated that after the opening of the new campus in fall of 2019 and providing the City's first-ever middle/high school, Orange Beach will see an influx of new families and a likely rise in property values.
- 20) The City made several key property acquisitions in 2017, totaling \$2.7 million, related to future expansion of city services and public safety improvements. Acquiring necessary parcels of land with buildable, dry acreage is key in securing such land for future public facilities and growth.
- 21) Recent Quality of Life investments:
 - a. Opening of the new Coastal Arts Center of Orange Beach - \$2.2 million includes a new 10,000-square-foot two story art gallery, children's studio, Hot Shop, Clay Studio and campus improvements that upgraded parking and driveways.
 - b. Orange Beach Seawall Park at Alabama Point - Over \$500,000 invested to reopen a popular fishing spot for residents and visitors located on state property adjacent to Perdido Pass bridge.
 - c. Sidewalk investments - Over \$400,000 invested in recent years to improve neighborhood connectivity, recreational opportunities and connection through Gulf State Park to the City of Gulf Shores. Funds used in matching of trail and sidewalk grants where available.

BASIC FINANCIAL STATEMENTS

GOVERNMENT - WIDE FINANCIAL STATEMENTS

THE CITY OF ORANGE BEACH, ALABAMA
STATEMENT OF NET POSITION
DECEMBER 31, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 30,533,036	\$ 5,388,918	\$ 35,921,954
Accounts receivable - net	4,007,663	2,216,780	6,224,443
Internal balances	5,395,883	(5,395,883)	-
Inventories	45,543	-	45,543
Prepays	143,416	4,314	147,730
Restricted assets:			
Cash and cash equivalents	13,699,821	7,722,100	21,421,921
Capital assets:			
Non-depreciable	53,703,232	502,236	54,205,468
Depreciable (net)	24,327,908	27,969,205	52,297,113
Total assets	<u>131,856,502</u>	<u>38,407,670</u>	<u>170,264,172</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred employer pension contributions	342,594	-	342,594
Deferred pension losses	1,812,076	-	1,812,076
Defeasance cost (net)	663,856	2,269,372	2,933,228
Total deferred outflows of resources	<u>2,818,526</u>	<u>2,269,372</u>	<u>5,087,898</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 1,032,503	\$ 59,898	\$ 1,092,401
Accrued expenses	1,878,347	81,035	1,959,382
Accrued interest payable	113,884	158,697	272,581
Long-term liabilities:			
Due within one year:			
Compensated absences	373,394	55,278	428,672
Bonds payable	4,308,500	1,471,500	5,780,000
Due in more than one year:			
Net pension liability	3,153,569	-	3,153,569
Compensated absences	190,273	22,293	212,566
Bonds payable	11,569,495	22,706,965	34,276,460
Total liabilities	<u>22,619,965</u>	<u>24,555,666</u>	<u>47,175,631</u>
DEFERRED INFLOW OF RESOURCES			
Deferred pension gains	1,496,738	-	1,496,738
Unearned revenue	206,961	30,392	237,353
Total deferred inflows of resources	<u>1,703,699</u>	<u>30,392</u>	<u>1,734,091</u>
NET POSITION			
Invested in capital assets, net of related debt	62,153,145	8,021,103	70,174,248
Restricted:			
Capital projects	4,644,465	-	4,644,465
Emergencies	9,055,356	-	9,055,356
Unrestricted (deficit)	34,498,398	8,069,881	42,568,279
Total net position	<u>\$ 110,351,364</u>	<u>\$ 16,090,984</u>	<u>\$ 126,442,348</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, 2017

Functions/Programs	Program Revenues				Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
General government	\$ 4,591,080	\$ 229,443	\$ -	\$ -	(4,361,637)	\$ -	(4,361,637)
Court	461,017	119,722	-	-	(341,295)	-	(341,295)
Finance	842,896	2,363,096	-	-	1,520,200	-	1,520,200
Engineering/ Coastal	2,000,785	-	54,500	-	(1,946,285)	-	(1,946,285)
Police	6,161,604	423,670	-	-	(5,737,934)	-	(5,737,934)
Corrections	616,737	-	-	-	(616,737)	-	(616,737)
Communications	564,430	-	-	-	(564,430)	-	(564,430)
Fire	5,520,875	479,831	-	-	(5,041,044)	-	(5,041,044)
Public works	4,012,366	-	181,415	297,131	(3,533,820)	-	(3,533,820)
Landscape	1,540,957	-	-	-	(1,540,957)	-	(1,540,957)
Parks and recreation	3,142,357	1,132,835	-	-	(2,009,522)	-	(2,009,522)
Library	747,504	36,313	16,504	-	(694,687)	-	(694,687)
Community development	-	888,819	-	-	888,819	-	888,819
BP oil spill	637,293	-	26,332	-	(610,961)	-	(610,961)
Interest on long-term debt	560,418	-	-	-	(560,418)	-	(560,418)
Total governmental activities (See Note 1)	\$ 31,400,319	\$ 5,673,729	\$ 278,751	\$ 297,131	\$ (25,150,708)	\$ -	\$ (25,150,708)
Business-type activities:							
Sewer	6,125,150	6,954,463	-	-	-	829,313	829,313
Refuse	2,603,298	2,535,709	-	-	-	(67,589)	(67,589)
Events Center	540,283	228,647	-	-	-	(311,636)	(311,636)
Baldwin County Bridge Company (BCBC)	-	-	-	-	-	-	-
Arts Center	1,195,700	273,364	-	4,300	-	(918,036)	(918,036)
Total business-type activities	\$ 10,464,431	\$ 9,992,183	\$ -	\$ 4,300	\$ -	\$ (467,948)	\$ (467,948)
Total primary government	\$ 41,864,750	\$ 15,665,912	\$ 301,431	\$ -	\$ (25,150,708)	\$ (467,948)	\$ (25,618,656)
General revenues:							
Property taxes					3,786,444	-	3,786,444
Local taxes					15,656,122	-	15,656,122
Franchise taxes					1,398,140	-	1,398,140
State taxes					485,340	-	485,340
Sales taxes					11,620,064	-	11,620,064
Unrestricted investment earnings					67,256	10,810	78,066
Reimbursed expenses					100,332	-	100,332
Settlement proceeds					-	-	-
Miscellaneous					101,026	58,535	159,561
Gain on disposal of assets					39,682	-	39,682
Transfers					(4,623,039)	4,623,039	-
Total general revenues, special items and transfers					28,631,367	4,692,384	33,323,751
Change in net position					3,480,659	4,224,436	7,705,095
Net position - beginning					106,870,705	11,866,548	118,737,253
Net position - ending					\$ 110,351,364	\$ 16,090,984	\$ 126,442,348

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, 2017

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 30,218,368	\$ -	\$ 314,668	\$ 30,533,036
Restricted cash and cash equivalents	9,993,929	3,464,777	241,115	13,699,821
Accounts receivable - net	3,925,079	-	82,584	4,007,663
Due from other funds	5,535,250	-	-	5,535,250
Inventory	45,543	-	-	45,543
Prepaid expenses	143,416	-	-	143,416
Total assets	<u>\$ 49,861,585</u>	<u>\$ 3,464,777</u>	<u>\$ 638,367</u>	<u>\$ 53,964,729</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	1,032,504	-	-	1,032,504
Due to other funds	-	123,696	15,670	139,366
Accrued expenses	1,570,979	-	20,512	1,591,491
Appearance bonds	171,832	-	-	171,832
Performance bonds	33,545	-	-	33,545
Communications tower escrow funds	81,479	-	-	81,479
Total liabilities	<u>2,890,339</u>	<u>123,696</u>	<u>36,182</u>	<u>3,050,217</u>
Deferred inflows of resources:				
Unearned revenue	206,961	-	-	206,961
Fund balances:				
Nonspendable	188,959	-	-	188,959
Spendable:				
Restricted	430,779	3,341,081	308,029	4,079,889
Committed	9,055,356	-	-	9,055,356
Assigned	-	-	294,156	294,156
Unassigned	37,089,191	-	-	37,089,191
Total fund balances	<u>46,764,285</u>	<u>3,341,081</u>	<u>602,185</u>	<u>50,707,551</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 49,861,585</u>	<u>\$ 3,464,777</u>	<u>\$ 638,367</u>	<u>\$ 53,964,729</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, 2017

Fund balances - total governmental funds \$ 50,707,551

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	100,250,039	
Less accumulated depreciation	<u>(22,218,899)</u>	78,031,140

Certain 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	342,594	
Deferred pension losses	1,812,076	
Loss on advance refunding	880,250	
Less accumulated amortization	<u>(216,394)</u>	2,818,526

Certain deferred inflows of resources used in governmental activities are not financial uses and therefore are not reported in the governmental funds.

Deferred pension gains	<u>(1,496,738)</u>	(1,496,738)
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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	(15,522,750)	
Premium on bonds issued	(822,533)	
Discount on bonds issued	42,033	
Accumulated amortization of premium / discount	425,255	
Net pension liability	(3,153,569)	
Compensated absences	<u>(563,667)</u>	(19,595,231)

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

Accrued interest payable		<u>(113,884)</u>
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Net position of governmental activities		<u><u>\$ 110,351,364</u></u>
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The accompanying notes are an integral part of the financial statements.

THE CITY OF ORANGE BEACH, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 3,786,444	\$ -	\$ -	\$ 3,786,444
Intergovernmental:				
State tax	162,973	-	320,400	483,373
Local tax	28,674,326	-	-	28,674,326
Grants	303,120	-	16,504	319,624
BP state grant	26,332	-	-	26,332
Personnel service reimbursement	100,332	-	-	100,332
Other licenses, permits and fees	3,627,136	-	1,967	3,629,103
Fines and forfeitures	391,998	-	55,957	447,955
Charges for services	1,009,194	-	-	1,009,194
Rent	83,125	-	-	83,125
Investment earnings	48,985	17,822	449	67,256
Contracts	421,508	-	-	421,508
Miscellaneous	278,675	-	137,088	415,763
TOTAL REVENUES	<u>38,914,148</u>	<u>17,822</u>	<u>532,365</u>	<u>39,464,335</u>
EXPENDITURES				
General government	3,634,963	-	-	3,634,963
Court	461,017	-	-	461,017
Finance	842,896	-	-	842,896
Police	5,671,498	-	-	5,671,498
Corrections	616,737	-	-	616,737
Engineering and environmental	2,014,040	-	-	2,014,040
Communications	549,973	-	-	549,973
Fire	5,108,564	-	-	5,108,564
Public works	2,833,344	-	-	2,833,344
Landscape	1,540,957	-	-	1,540,957
Parks and recreation	2,585,628	-	-	2,585,628
Library	3	-	627,450	627,453
BP Oil Spill	605,161	-	-	605,161
Capital improvements	7,760,867	-	-	7,760,867
Securities lending:				
Fiscal agent fees	-	4,128	-	4,128
Debt service:				
Principal payments	-	4,273,000	-	4,273,000
Interest and other	-	594,250	-	594,250
TOTAL EXPENDITURES	<u>34,225,648</u>	<u>4,871,378</u>	<u>627,450</u>	<u>39,724,476</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 4,688,500</u>	<u>\$ (4,853,556)</u>	<u>\$ (95,085)</u>	<u>\$ (260,141)</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, 2017

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
(Continued)				
Excess (deficiency) of revenues over expenditures (brought forward)	\$ 4,688,500	\$ (4,853,556)	\$ (95,085)	\$ (260,141)
OTHER FINANCING SOURCES (USES)				
Proceeds from disposal of assets	44,563	-	-	44,563
Transfers in	1,133,574	4,897,856	594,524	6,625,954
Transfers out	(10,780,713)	(29,706)	(438,574)	(11,248,993)
TOTAL OTHER FINANCING SOURCES (USES)	(9,602,576)	4,868,150	155,950	(4,578,476)
Net change in fund balances	(4,914,076)	14,594	60,865	(4,838,617)
Fund balances - beginning	51,678,361	3,326,487	541,320	55,546,168
Fund balances - ending	\$ 46,764,285	\$ 3,341,081	\$ 602,185	\$ 50,707,551

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, 2017

Net change in fund balances \$ (4,838,617)

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	5,876,322	
Less current year depreciation	(1,874,792)	
Less book value of disposed assets	<u>(4,881)</u>	3,996,649

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>4,273,000</u>	4,334,075

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	(44,009)	
Decrease in interest accrued on long term debt	37,960	
Increase in compensated absences	(71,804)	
Decrease in deferred employer pension contributions	(19,745)	
Decrease in deferred pension losses	(532,130)	
Increase in deferred pension gains	(1,496,738)	
Decrease in net pension liability	<u>2,115,018</u>	<u>(11,448)</u>

Change in net position of governmental activities \$ 3,480,659

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, 2017

	Sewer	Refuse	Other Proprietary Funds	Total Proprietary Funds
ASSETS				
Current assets				
Cash and cash equivalents	\$ 5,204,355	\$ -	\$ 184,563	\$ 5,388,918
Restricted cash and cash equivalents	7,722,100	-	-	7,722,100
Accounts receivable	262,301	54,420	1,175,016	1,491,737
Allowance for doubtful accounts	(90,905)	-	-	(90,905)
Due from other funds	15,330	(15,330)	-	-
Prepaid insurance	3,689	-	-	3,689
Total current assets	13,116,870	39,090	1,359,579	14,515,539
Noncurrent assets				
Capital assets:				
Land	343,588	-	158,648	502,236
Events center	-	-	3,820,517	3,820,517
Sewer plant	28,388,173	-	-	28,388,173
Vehicles and equipment	1,997,465	1,078,314	96,447	3,172,226
Distribution and collection system	13,259,612	-	-	13,259,612
Less: Accumulated depreciation	(19,515,088)	(731,788)	(424,447)	(20,671,323)
Accounts receivable	-	-	815,948	815,948
Utility deposits	625	-	-	625
Total noncurrent assets	24,474,375	346,526	4,467,113	29,288,014
TOTAL ASSETS	37,591,245	385,616	5,826,692	43,803,553
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized loss on refunding- net	2,269,372	-	-	2,269,372
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 25,192	\$ 13,722	\$ 20,984	\$ 59,898
Due to other funds	558,644	674,948	4,162,291	5,395,883
Accrued expenses	49,107	14,175	17,753	81,035
Accrued compensated absences	33,770	11,036	13,793	58,599
Accrued interest payable	158,697	-	-	158,697
Current portion of bonds payable	1,471,500	-	-	1,471,500
Total current liabilities	2,296,910	713,881	4,214,821	7,225,612
Noncurrent liabilities:				
Accrued compensated absences	12,745	6,014	213	18,972
Series 2009 G.O. Sewer Warrant - net	929,251	-	-	929,251
Series 2012 G.O. Sewer Warrant - net	21,777,714	-	-	21,777,714
Total noncurrent liabilities	22,719,710	6,014	213	22,725,937
TOTAL LIABILITIES	25,016,620	719,895	4,215,034	29,951,549
DEFERRED INFLOW OF RESOURCES				
Unearned revenue	30,392	-	-	30,392
NET POSITION				
Invested in Capital Assets, net of related debt	4,023,412	346,526	3,651,165	8,021,103
Unrestricted	10,790,193	(680,805)	(2,039,507)	8,069,881
TOTAL NET POSITION	\$ 14,813,605	\$ (334,279)	\$ 1,611,658	\$ 16,090,984

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, 2017

	Sewer	Refuse	Other Proprietary Funds	Total Proprietary Funds
OPERATING REVENUES				
Charges for services	\$ 6,954,463	\$ 2,535,709	\$ 339,241	\$ 9,829,413
Miscellaneous income	39,448	19,087	70,403	128,938
Merchandise sales	-	-	113,634	113,634
TOTAL OPERATING REVENUES	6,993,911	2,554,796	523,278	10,071,985
COST OF GOODS SOLD	-	-	69,033	69,033
GROSS PROFIT	6,993,911	2,554,796	454,245	10,002,952
OPERATING EXPENSES				
Salaries, wages and employee benefits	1,449,186	475,123	580,355	2,504,664
Contractual services	-	1,918,711	-	1,918,711
Utilities	983,622	-	75,128	1,058,750
Repairs and maintenance	758,322	36,338	744,464	1,539,124
Other supplies and expenses	157,617	78,861	203,322	439,800
Insurance claims and expenses	24,309	11,797	-	36,106
Bad debt expense	90,905	-	-	90,905
Bond premium amortization	6,164	-	-	6,164
Depreciation	1,648,780	82,468	80,648	1,811,896
TOTAL OPERATING EXPENSES	5,118,905	2,603,298	1,683,917	9,406,120
OPERATING INCOME (LOSS)	1,875,006	(48,502)	(1,229,672)	596,832
NON-OPERATING REVENUES (EXPENSES)				
Interest income	10,742	-	68	10,810
Interest expense	(1,006,245)	-	-	(1,006,245)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(995,503)	-	68	(995,435)
INCOME (LOSS) BEFORE TRANSFERS	879,503	(48,502)	(1,229,604)	(398,603)
TRANSFERS (OUT) IN	(665,294)	-	5,288,333	4,623,039
CHANGE IN NET POSITION	214,209	(48,502)	4,058,729	4,224,436
NET POSITION - BEGINNING OF YEAR	14,599,396	(285,777)	(2,447,071)	11,866,548
NET POSITION - END OF YEAR	\$ 14,813,605	\$ (334,279)	\$ 1,611,658	\$ 16,090,984

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, 2017

	Sewer	Refuse	Other Proprietary Funds	Total Proprietary Funds
Cash flows from operating activities:				
Receipts from customers	\$ 6,992,241	\$2,538,995	\$ 1,698,295	11,229,531
Payments to employees for services	(1,457,767)	(470,278)	(574,287)	(2,502,332)
Payments to suppliers of goods & services	(2,261,226)	(2,193,817)	(1,254,167)	(5,709,210)
Payments to other funds	<u>57,200</u>	<u>379,864</u>	<u>(1,175,017)</u>	<u>(737,953)</u>
Net cash provided (used) by operating activities	<u>3,330,448</u>	<u>254,764</u>	<u>(1,305,176)</u>	<u>2,280,036</u>
Cash flows from noncapital financing activities:				
Transfers to other funds	<u>(665,294)</u>	<u>-</u>	<u>2,306,626</u>	<u>1,641,332</u>
Cash flows from capital and related financing activities:				
Interest income	10,742	-	68	10,810
Increase in restricted cash	(24,096)	-	-	(24,096)
Principal repayments related to capital purposes	(1,517,000)	-	-	(1,517,000)
Interest paid on capital debt	(1,017,058)	-	-	(1,017,058)
Acquisition of property and equipment	<u>(347,121)</u>	<u>(254,764)</u>	<u>(834,098)</u>	<u>(1,435,983)</u>
Net cash provided (used) by capital and related financing activities	<u>(2,894,533)</u>	<u>(254,764)</u>	<u>(834,030)</u>	<u>(3,983,327)</u>
Net increase (decrease) in cash	(229,379)	-	167,420	(61,959)
Cash and equivalents at beginning of year	<u>5,433,734</u>	<u>-</u>	<u>17,143</u>	<u>5,450,877</u>
Cash and equivalents at end of year	<u>\$ 5,204,355</u>	<u>\$ -</u>	<u>\$ 184,563</u>	<u>\$ 5,388,918</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, 2017

	<u>Sewer</u>	<u>Refuse</u>	<u>Other Proprietary Funds</u>	<u>Total Proprietary Funds</u>
Operating income (loss)	\$ 1,875,006	\$ (48,502)	\$(1,229,672)	\$ 596,832
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	1,648,780	82,468	80,648	1,811,896
Amortization	6,164	-	-	6,164
Bad debt expense	90,905	-	-	90,905
(Increase) decrease in:				
Accounts receivable - net	12,960	(15,801)	1,175,017	1,172,176
Due to other funds	57,200	379,864	(1,175,017)	(737,953)
Increase (decrease) in:				
Accounts payable	(337,356)	(148,110)	(162,220)	(647,686)
Accrued expenses	210	1,473	3,158	4,841
Accrued compensated absences	(8,791)	3,372	2,910	(2,509)
Deferred revenue	(14,630)	-	-	(14,630)
 Total adjustments	 <u>1,455,442</u>	 <u>303,266</u>	 <u>(75,504)</u>	 <u>1,683,204</u>
 Net cash provided (used) by operating activities	 <u>\$ 3,330,448</u>	 <u>\$ 254,764</u>	 <u>\$(1,305,176)</u>	 <u>\$ 2,280,036</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>
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The accompanying notes are an integral part of this financial statement.

NOTES TO THE FINANCIAL STATEMENTS

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

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, 2017

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.

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.

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, 2017

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:

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, 2017

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, 2017

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.

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 \$4,570,376 invested in the JP Morgan 100% U.S. Treasury Securities Money Market Fund #677 as of December 31, 2017. 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, 2017

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, 2017

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, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

A schedule of fund balances is as follows:

	<u>General</u>	<u>Debt</u>	<u>Special</u>	<u>Library</u>	<u>Total</u>
	<u>Fund</u>	<u>Service</u>	<u>Revenues</u>	<u>Fund</u>	<u>Governmental</u>
					<u>Funds</u>
Fund Balances:					
Nonspendable:					
Inventories	\$ 45,543	\$ -	\$ -	\$ -	\$ 45,543
Prepaid expenses	143,416	-	-	-	143,416
Restricted for:					
Grants	234,315	-	-	-	234,315
Municipal court	196,464	-	-	-	196,464
Debt service	-	3,341,081	-	-	3,341,081
Capital outlay	-	-	308,029	-	308,029
Committed to:					
Emergencies	9,055,356	-	-	-	9,055,356
Assigned to:					
Library	-	-	-	294,156	294,156
Unassigned:	<u>37,089,191</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,089,191</u>
Total Fund Balance	<u>\$ 46,764,285</u>	<u>\$ 3,341,081</u>	<u>\$ 308,029</u>	<u>\$ 294,156</u>	<u>\$ 50,707,551</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, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

R. ACCUMULATED DEFICIT

At December 31, 2017, the Refuse Fund and Baldwin County Bridge Fund had accumulated deficits of \$334,279 and \$2,171,327, 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, 2017 is as follows:

	Governmental- type Funds	Business- type Funds
Cash on Hand	\$ 3,905	\$ 100
Cash in Banks		
Operations	30,529,131	5,388,818
Reserved- Disaster	9,055,355	6,616,500
Reserved- Special Revenues	241,116	-
Reserved- Debt Service	4,403,350	1,105,600
Total Cash	\$ 44,232,857	\$ 13,111,018

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, 2017 the carrying amount of the City's deposits, including a Certificate of Deposit, was \$57,339,871 and the bank balance was \$58,554,199. 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, 2017

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.

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.
 - c. 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, 2017

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, 2017, the City's membership consisted of:

Retired member or their beneficiaries	
currently receiving benefits	46
Vested inactive member	8
Non-vested inactive members	26
Active members	353
Post-DROP retired members still in active service	<u>-</u>
Total	<u>433</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, 2017, the City's active employee contribution rate was 5.39% of covered employee payroll, and the City's average contribution rate to fund the normal and accrued liability costs was 4.98% of covered employee payroll.

The City's contractually required contribution rate for the year ended September 30, 2017 was 6.43% of pensionable pay for Tier 1 employees, and 4.21% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2014, 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 \$808,389 for the year ended December 31, 2017.

THE CITY OF ORANGE BEACH, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE 4 - RETIREMENT PLAN (continued)

Net Pension Liability

The City's net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016 rolled forward to September 30, 2017 using standard roll-forward techniques as shown in the following table:

	<u>Expected</u>	<u>Actual</u>
(a) TPL as of September 30, 2016	\$ 34,967,543	\$ 34,499,820
(b) Discount rate	7.75%	7.75%
(c) Entry Age Normal Cost for the period October 1, 2016 - September 30, 2017	1,245,314	1,245,314
(d) Transfers Among Employers:	-	181,799
(e) Actual Benefit Payments and Refunds for the period October 1, 2016 - September 30, 2017	<u>(853,462)</u>	<u>(853,462)</u>
(f) TPL as of September 30, 2017 = [(a) x (1+b)] + (c) + (d) + [(e) x (1 + 0.5*(b))]	<u>\$ 38,036,308</u>	<u>\$ 37,714,136</u>
(g) Difference between Expected and Actual:		\$ (322,172)
(h) Less Liability Transferred for Immediate Recognition:		<u>181,799</u>
(I) Experience (Gain)/Loss = (g) - (h)		<u>\$ (503,971)</u>

Actuarial assumptions: The total pension liability in the September 30, 2017 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 were based on the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females at ages on and after age 78. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

The actuarial assumptions used in the September 30, 2017 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, 2017

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	17.0%	4.4%
U.S. Large Stocks	32.0%	8.0%
U.S. Mid Stocks	9.0%	10.0%
U.S. Small Stocks	4.0%	11.0%
International Developed Market Stocks	12.0%	9.5%
International Emerging Market Stocks	3.0%	11.0%
Alternatives	10.0%	10.1%
Real Estate	10.0%	7.5%
Cash Equivalents	3.0%	1.5%
Total	<u>100.0%</u>	

*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, 7.75%. 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, 2016	\$ 34,967,543	\$ 29,698,956	\$ 5,268,587
Change for the year:			
Service cost	1,245,314	-	1,245,314
Interest	2,676,913	-	2,676,913
Changes of assumptions	-	-	-
Difference between expected and actual experience	(503,971)	-	(503,971)
Contributions-employer	-	804,848	(804,848)
Contributions - employee	-	862,030	(862,030)
Net investment income	-	3,866,396	(3,866,396)
Benefit payments, including refunds of employee contributions	(853,462)	(853,462)	-
Administrative expense	-	-	-
Transfers among employers	181,799	181,799	-
Net changes	<u>2,746,593</u>	<u>4,861,611</u>	<u>(2,115,018)</u>
Balance at September 30, 2017	<u>\$ 37,714,136</u>	<u>\$ 34,560,567</u>	<u>\$ 3,153,569</u>

THE CITY OF ORANGE BEACH, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

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%)
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Plan's Net Pension Liability (Asset)	\$ 8,457,028	\$ 3,153,569	\$ (1,290,360)
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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, 2016. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2016. The auditor's report dated September 18, 2017 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.

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

For the year ended December 31, 2017, the City recognized pension expense of \$808,369. At December 31, 2017, 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	\$ 600,997	\$ 441,752
Changes of assumptions	1,211,079	-
Net difference between projected and actual earnings on plan investments	-	1,054,986
Employer contributions subsequent to the Measurement Date	342,594	-
Total	\$ 2,154,670	\$ 1,496,738

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	
2019	\$ (1,265)
2020	168,873
2021	(172,904)
2022	(57,082)
2023	248,152
Thereafter	129,564

THE CITY OF ORANGE BEACH, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

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	<u>Beginning Balance</u>				<u>Ending Balance</u>			
	Initial Balance of Losses / Deferred Outflow	Initial Balance of Gains / Deferred Inflow	Amortization Period	Deferred Outflows	Deferred Inflows	Losses / Deferred Outflows	Gains / Deferred Inflows	
	(a)	(b)	(c)	(d)	(e)	(f)	(a) + (c) - (e)	(b) + (d) - (f)
2017	\$ -	\$ 503,971	8.1	\$ -	\$ -	\$ 503,971	\$ -	\$ -
2016	23,081	-	8.2	20,266	-	-	2,815	-
2015	920,209	-	8.2	695,767	-	-	112,221	-
2014	-	-	-	-	-	-	-	-
Total	\$ 716,033	\$ 503,971		\$ -	\$ -	\$ 503,971	\$ 600,997	\$ 441,752

THE CITY OF ORANGE BEACH, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE 4 - RETIREMENT PLAN (continued)

Collective Deferred Outflows and Inflows for Differences from Assumption Change

Year	<u>Beginning Balance</u>				<u>Ending Balance</u>			
	Initial Balance of Losses / Deferred Outflow	Initial Balance of 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) - (b) + (d) - (e) + (f)
2017	\$ -	\$ -	8.1	\$ -	\$ -	\$ -	\$ -	\$ -
2016	1,601,749	-	8.2	-	-	195,335	-	1,211,079
2015	-	-	-	-	-	-	-	-
2014	-	-	-	-	-	-	-	-
Total	<u>\$ 1,406,414</u>	<u>\$ -</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 195,335</u>	<u>\$ -</u>	<u>\$ 1,211,079</u>

THE CITY OF ORANGE BEACH, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE 4 - RETIREMENT PLAN (continued)

Collective Deferred Outflows and Inflows for Differences in Investment Experience

Year	Beginning Balance				Ending Balance				
	Initial Balance of 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) - (e)	Deferred Inflows (b) + (d) - (f)
2017	\$ -	\$ 1,526,162	5	\$ -	\$ -	\$ -	\$ 305,232	\$ -	\$ 1,220,930
2016	-	579,120	5	-	463,296	-	115,824	-	347,472
2015	1,708,893	-	5	-	-	-	-	341,779	683,556
2014	-	850,700	5	-	340,280	-	170,140	-	170,140
Total									
								\$ 683,556	\$ 1,738,542
								\$ -	\$ 1,054,986

Net difference between projected and actual earnings on investments

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5 – CHANGES IN LONG TERM DEBT

At December 31, 2017, 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, 2017, 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, 2017

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, 2017:

<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>	1,682,750
<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>	3,855,000
<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>	3,040,000
<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>	6,945,000
<p>Unamortized bond premium/ discount (net)</p>	<u>355,245</u>
<p>TOTAL WARRANTS AND NOTES OUTSTANDING</p>	<u>15,877,995</u>
<p>Compensated Absences</p>	563,667
<p>Net Pension Liability</p>	<u>3,153,569</u>
<p>TOTAL GENERAL LONG-TERM DEBT</p>	<u><u>\$ 19,595,231</u></u>

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

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, 2017:

\$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%	1,492,250
\$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%	20,585,000
Unamortized bond premium/ discount (net)	<u>2,101,215</u>
TOTAL WARRANTS AND NOTES OUTSTANDING	24,178,465
Compensated Absences	<u>77,571</u>
TOTAL BUSINESS-TYPE ACTIVITY DEBT	<u>\$ 24,256,036</u>

Annual Requirements to Retire Debt Obligations-

The annual aggregate maturities, including principal and interest, for the years subsequent to December 31, 2017, are as follows:

Year Ending December 31,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Totals
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	1,450,000	14,500	1,464,500	1,445,000	639,713	2,084,713
2023 and thereafter	-	-	-	14,430,000	2,290,256	16,720,256
Unamortized bond discount/ premium	<u>355,245</u>	<u>-</u>	<u>355,245</u>	<u>2,101,215</u>	<u>-</u>	<u>2,101,215</u>
Total	<u>\$ 15,877,995</u>	<u>\$ 947,252</u>	<u>\$ 16,825,247</u>	<u>\$ 24,178,465</u>	<u>\$ 6,263,713</u>	<u>\$ 30,442,178</u>

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

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	2,530,750	-	848,000	1,682,750	768,500
August 1, 2010, General Obligation, Series 2010A	5,035,000	-	1,180,000	3,855,000	1,230,000
August 1, 2010, General Obligation, Series 2010B	3,985,000	-	945,000	3,040,000	980,000
February 1, 2013, General Obligation, Series 2013	8,245,000	-	1,300,000	6,945,000	1,330,000
Unamortized bond premium/ discount (net)	416,323	-	61,078	355,245	-
Total Bonds payable	<u>20,212,073</u>	<u>-</u>	<u>4,334,078</u>	<u>15,877,995</u>	<u>4,308,500</u>
Other liabilities:					
Compensated Absences	491,863	71,804	-	563,667	373,394
Net Pension Liability	5,268,587	-	2,115,018	3,153,569	-
Total Other Liabilities	<u>5,760,450</u>	<u>71,804</u>	<u>2,115,018</u>	<u>3,717,236</u>	<u>373,394</u>
Governmental activities long term liabilities	<u>\$ 25,972,523</u>	<u>\$ 71,804</u>	<u>\$ 6,449,096</u>	<u>\$ 19,595,231</u>	<u>\$ 4,681,894</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	2,244,250	-	752,000	1,492,250	681,500
October 1, 2012 General Obligation Sewer Warrants, Series 2012	21,350,000	-	765,000	20,585,000	790,000
Unamortized bond premium/ discount (net)	2,286,347	-	185,132	2,101,215	-
Total Bonds payable	<u>25,880,597</u>	<u>-</u>	<u>1,702,132</u>	<u>24,178,465</u>	<u>1,471,500</u>
Other liabilities:					
Compensated Absences	80,080	-	2,509	77,571	55,278
Business-type activities long term liabilities	<u>\$ 25,960,677</u>	<u>\$ -</u>	<u>\$ 1,704,641</u>	<u>\$ 24,256,036</u>	<u>\$ 1,526,778</u>

THE CITY OF ORANGE BEACH, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

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>
2018	50,024
2019	51,224
2020	52,424
2021	47,424
Thereafter	-
Total	<u>\$ 201,096</u>

THE CITY OF ORANGE BEACH, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

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>
2018	121,275
2019	121,275
2020	121,275
2021	127,339
2022	127,339
Thereafter	-
Total	<u>\$ 618,503</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, 2017:

<u>Due From</u>	<u>Due To</u>	
	<u>General Fund</u>	<u>Sewer Fund</u>
Special Revenues	\$ 15,670	\$ -
Debt Service	123,696	-
Refuse	674,948	15,330
BCBC	4,162,291	-
Sewer Utility	<u>558,645</u>	-
Total	<u>\$ 5,535,250</u>	<u>\$ 15,330</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, 2017

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

Interfund transfers during the year ended December 31, 2017, were as follows:

Transfers Out	Transfers In						Total
	General Fund	Arts Center Fund	Events Center Fund	Library Fund	Debt Service	Sewer Utility	
General Fund	\$ -	\$ 4,304,354	\$ 983,979	\$ 594,524	\$ 4,897,856	\$ -	\$ 10,780,713
Debt Service	-	-	-	-	-	29,706	29,706
Special Revenues	438,574	-	-	-	-	-	438,574
Sewer Utility	695,000	-	-	-	-	-	695,000
Total	<u>\$ 1,133,574</u>	<u>\$ 4,304,354</u>	<u>\$ 983,979</u>	<u>\$ 594,524</u>	<u>\$ 4,897,856</u>	<u>\$ 29,706</u>	<u>\$ 11,943,993</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 \$206,961 in the general fund. \$49,246 represents 2018 business license collected in 2017.

From 2010 to 2017 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, \$41,084 and \$26,332 of the funds in 2010, 2011, 2012, 2013, 2014, 2015, 2016 and 2017, respectively. The remaining balance on the grant totaling \$157,715 is recorded as unearned revenue.

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 2017, the City received \$145,163 in principal and \$36,252 in interest payments.

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 11 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals & Reclassifications</u>	<u>Ending Balance</u>
Governmental activities				
Non-Depreciable Assets:				
Land & Improvements	\$ 50,116,323	\$ 2,706,781	\$ -	\$ 52,823,104
Construction in Progress	-	880,128	-	880,128
Depreciable Assets:				
Buildings & Infrastructure	32,271,280	-	-	32,271,280
Equipment & Vehicles	<u>12,529,078</u>	<u>2,289,413</u>	<u>542,961</u>	<u>14,275,530</u>
Totals at historical cost	<u>94,916,681</u>	<u>5,876,322</u>	<u>542,961</u>	<u>100,250,042</u>
Less accumulated depreciation for:				
Buildings & Improvements	10,113,614	618,412	-	10,732,026
Infrastructure & Parks Improvements	1,605,354	200,019	-	1,805,373
Equipment & Vehicles	<u>9,163,222</u>	<u>1,056,361</u>	<u>538,080</u>	<u>9,681,503</u>
Total accumulated depreciation	<u>20,882,190</u>	<u>1,874,792</u>	<u>538,080</u>	<u>22,218,902</u>
Governmental activities capital assets, net	<u>\$ 74,034,491</u>	<u>\$ 4,001,530</u>	<u>\$ 4,881</u>	<u>\$ 78,031,140</u>

Depreciation expense was charged
to governmental functions as follows:

Administration	\$ 97,031
Police	404,739
Communications	14,457
Fire	394,712
Public Works	308,488
Parks & Recreation	505,679
Library	29,634
Community Development	<u>120,052</u>
Total depreciation expense	<u>\$ 1,874,792</u>

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 11 – CAPITAL ASSETS (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals & Reclassifications</u>	<u>Ending Balance</u>
Business-type activities				
Non-Depreciable Assets:				
Land	\$ 502,236	\$ -	\$ -	\$ 502,236
Construction in Progress	1,713,213	1,023,266	(2,736,479)	-
Depreciable Assets:				
Buildings	30,296,294	2,152,540	-	32,448,834
Equipment	1,024,130	96,681	-	1,120,811
Vehicles	1,571,338	255,417	(15,485)	1,811,270
Distribution and collection systems	12,675,673	583,939	-	13,259,612
Totals at historical cost	<u>47,782,884</u>	<u>4,111,843</u>	<u>(2,751,964)</u>	<u>49,142,763</u>
Less accumulated depreciation for:				
Buildings	7,373,945	1,310,438	-	8,684,383
Equipment	932,952	132,835	-	1,065,787
Vehicles	1,259,127	139,789	(15,485)	1,383,431
Distribution and collection systems	9,308,889	228,832	-	9,537,721
Total accumulated depreciation	<u>18,874,913</u>	<u>1,811,894</u>	<u>(15,485)</u>	<u>20,671,322</u>
Business-type activities capital assets, net	<u>\$ 28,907,971</u>	<u>\$ 2,299,949</u>	<u>\$ (2,736,479)</u>	<u>\$ 28,471,441</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, 2017

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, 2017, the City received payments from American Roads totaling \$1,175,017 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, 2017

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.

During 2017, the City entered into a contract with Asphalt Services, Inc. for sidewalk improvements to Lauder Lane, West Oakridge, & State Road 161. The total contract amount was \$641,300. The total amount completed at December 31, 2017 was \$336,942.

During 2017, the City entered into a contract with Bay South Limited, Inc. for Sportsplex Improvements. The total contract including change orders was \$616,622. The total amount completed at December 31, 2017 was \$430,113.

Prior to year end, the City entered into a professional services contract with BKI Engineers for an environmental study & data collection on a proposed bridge connecting State Road 161 to the southeastern point of Wolf Bay. Subsequent to year end, the City executed a \$3.12 million task order for bridge design with BKI Engineers.

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- SUBSEQUENT EVENTS

Subsequent events were evaluated from January 1, 2018 to the financial statement issuance date of June 20, 2018.

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, 2017

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Over (Under)
Resources (inflows)				
Property taxes	\$ 3,500,000	\$ 3,500,000	\$ 3,786,444	\$ 286,444
Intergovernmental:				
State tax	44,000	44,000	162,973	118,973
Local tax	21,048,000	21,048,000	28,674,326	7,626,326
Federal operating grant	784,500	784,500	303,120	(481,380)
BP state grant	-	-	26,332	26,332
Personnel service reimbursement	70,000	70,000	100,332	30,332
Other licenses, permits and fees	3,811,000	3,811,000	3,627,136	(183,864)
Fines and forfeitures	391,000	391,000	391,998	998
Charges for services	811,000	811,000	1,009,194	198,194
Rent	73,700	73,700	83,125	9,425
Investment earnings	30,000	30,000	48,985	18,985
Contracts	402,500	402,500	421,508	19,008
Miscellaneous	328,360	328,360	278,675	(49,685)
Amounts Available for Appropriations	<u>31,294,060</u>	<u>31,294,060</u>	<u>38,914,148</u>	<u>7,620,088</u>
Charges to appropriations (outflows)				
General government	2,999,600	2,999,600	3,634,963	635,363
Court	414,300	414,300	461,017	46,717
Finance	809,400	809,400	842,896	33,496
Police	5,418,995	5,418,995	5,671,498	252,503
Corrections	625,850	625,850	616,737	(9,113)
Engineering and environmental	2,162,550	2,162,550	2,014,040	(148,510)
Communications	549,150	549,150	549,973	823
Fire	4,603,390	4,603,390	5,108,564	505,174
Public works	2,846,700	2,846,700	2,833,344	(13,356)
Landscape	1,612,800	1,612,800	1,540,957	(71,843)
Parks and recreation	3,017,300	3,017,300	2,585,628	(431,672)
BP Oil Spill	640,764	640,764	605,161	(35,603)
Library	-	-	3	3
Capital expenditures	5,133,788	5,133,788	7,760,867	2,627,079
Total Charges to Appropriations	<u>30,834,587</u>	<u>30,834,587</u>	<u>34,225,648</u>	<u>3,391,061</u>
Excess of Amounts Available for Over Charges to Appropriations	<u>459,473</u>	<u>459,473</u>	<u>4,688,500</u>	<u>4,229,027</u>
Other financing sources (uses)				
Gain on disposal of assets	370,000	370,000	44,563	(325,437)
Transfers from other funds	1,133,000	1,133,000	1,133,574	574
Transfers to other funds	(5,526,430)	(5,526,430)	(10,780,713)	(5,254,283)
Total Other Financing Uses	<u>(4,023,430)</u>	<u>(4,023,430)</u>	<u>(9,602,576)</u>	<u>(5,579,146)</u>
Statutory revenue reduction	(3,064,266)	(3,064,266)	-	3,064,266
Excess (Deficiency) of Resources Over Charges to Appropriations	<u>\$ (6,628,223)</u>	<u>\$ (6,628,223)</u>	<u>\$ (4,914,076)</u>	<u>\$ 1,714,147</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, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Over (Under)
	Original	Final		
Revenues				
Charges for services	\$ 6,563,000	\$ 6,563,000	\$ 6,954,463	\$ 391,463
Miscellaneous income	35,000	35,000	39,448	4,448
Total Operating Revenues	<u>6,598,000</u>	<u>6,598,000</u>	<u>6,993,911</u>	<u>395,911</u>
Expenses				
Salaries, wages and employee benefits	1,433,800	1,433,800	1,449,186	15,386
Utilities	761,000	761,000	983,622	222,622
Repairs and maintenance	1,690,000	1,690,000	758,322	(931,678)
Other supplies and expenses	177,000	177,000	157,617	(19,383)
Insurance claims and expenses	20,300	20,300	24,309	4,009
Bad debt expense	-	-	90,905	90,905
Bond premium amortization	-	-	6,164	6,164
Depreciation	-	-	1,648,780	1,648,780
Total Operating Expenses	<u>4,082,100</u>	<u>4,082,100</u>	<u>5,118,905</u>	<u>1,036,805</u>
Non-Operating Revenues (Expenses) and Transfers (Out) In				
Interest income	4,000	4,000	10,742	6,742
Interest expense	(990,031)	(990,031)	(1,006,245)	(16,214)
Transfers to other funds	(2,212,000)	(2,212,000)	(665,294)	1,546,706
Total Other Financing Sources (Uses)	<u>(3,198,031)</u>	<u>(3,198,031)</u>	<u>(1,660,797)</u>	<u>1,537,234</u>
Change in Net Position	(682,131)	(682,131)	214,209	896,340
Net Position - Beginning of Year	<u>14,599,396</u>	<u>14,599,396</u>	<u>14,599,396</u>	-
Net Position - End of Year	<u>\$ 13,917,265</u>	<u>\$ 13,917,265</u>	<u>\$ 14,813,605</u>	<u>\$ 896,340</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, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Over (Under)
	Original	Final		
Revenues				
Charges for services	\$ 2,530,000	\$ 2,530,000	\$ 2,535,709	\$ 5,709
Miscellaneous income	5,000	5,000	19,087	14,087
Total Operating Revenues	<u>2,535,000</u>	<u>2,535,000</u>	<u>2,554,796</u>	<u>19,796</u>
Expenses				
Salaries, wages and employee benefits	456,300	456,300	475,123	18,823
Contractual services	1,888,200	1,888,200	1,918,711	30,511
Repairs and maintenance	35,000	35,000	36,338	1,338
Other supplies and expenses	366,700	366,700	78,861	(287,839)
Insurance claims and expenses	19,300	19,300	11,797	(7,503)
Depreciation	-	-	82,468	82,468
Total Operating Expenses	<u>2,765,500</u>	<u>2,765,500</u>	<u>2,603,298</u>	<u>(162,202)</u>
Change in Net Position	(230,500)	(230,500)	(48,502)	181,998
Net Position - Beginning of Year	<u>(285,777)</u>	<u>(285,777)</u>	<u>(285,777)</u>	-
Net Position - End of Year	<u>\$ (516,277)</u>	<u>\$ (516,277)</u>	<u>\$ (334,279)</u>	<u>\$ 181,998</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, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 746,774	\$ 850,584	\$ 800,331
Contributions in relation to the actuarially determined contribution	<u>746,774</u>	<u>850,584</u>	<u>800,331</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 14,999,922	\$ 14,393,677	\$ 13,508,477
Contributions as a percentage of covered-employee payroll	4.98%	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 2017 were based on the September 30, 2014 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, 2017

	2017	2016	2015	2014
Total pension liability				
Service Cost	\$ 1,245,314	\$ 1,213,069	\$ 1,168,947	\$ 1,090,244
Interest	2,676,913	2,401,553	2,113,138	1,915,434
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(503,971)	23,081	920,209	-
Changes of assumptions	-	1,601,749	-	-
Benefit payments, including refunds of employee contributions	(853,462)	(641,884)	(552,344)	(516,402)
Transfers among employers	181,799	29,622	-	-
Net change in total pension liability	<u>2,746,593</u>	<u>4,627,190</u>	<u>3,649,950</u>	<u>2,489,276</u>
Total pension liability-beginning	<u>34,967,543</u>	<u>30,340,353</u>	<u>26,690,403</u>	<u>24,201,127</u>
Total pension liability-ending (a)	<u>\$ 37,714,136</u>	<u>\$ 34,967,543</u>	<u>\$ 30,340,353</u>	<u>\$ 26,690,403</u>
Plan fiduciary net position				
Contributions - employer	\$ 804,848	\$ 806,700	\$ 801,525	\$ 782,020
Contributions - member	862,030	773,424	728,225	703,936
Net investment income	3,866,396	2,700,298	297,551	2,552,678
Benefit payments, including refunds of employee contributions	(853,462)	(641,884)	(552,344)	(516,402)
Transfers among employers	181,799	29,622	327,982	231,356
Net change in plan fiduciary net position	<u>4,861,611</u>	<u>3,668,160</u>	<u>1,602,939</u>	<u>3,753,588</u>
Plan net position - beginning	<u>29,698,956</u>	<u>26,030,796</u>	<u>24,427,857</u>	<u>20,674,269</u>
Plan net position - ending (b)	<u>\$ 34,560,567</u>	<u>\$ 29,698,956</u>	<u>\$ 26,030,796</u>	<u>\$ 24,427,857</u>
Net pension liability (asset) - ending	\$ 3,153,569	\$ 5,268,587	\$ 4,309,557	\$ 2,262,546
Plan fiduciary net position as a percentage of the total pension liability	91.64%	84.93%	85.80%	91.52%
Covered-employee payroll	\$ 14,999,922	\$ 14,393,677	\$ 13,508,477	\$ 13,175,276
Net pension liability (asset) as a percentage of covered-employee payroll	21%	37%	32%	17%

OTHER SUPPLEMENTARY INFORMATION

THE CITY OF ORANGE BEACH, ALABAMA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2017

	Special Revenues	Library	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ -	\$ 314,668	\$ 314,668
Restricted cash and cash equivalents	241,115	-	241,115
Accounts receivable - net	82,584	-	82,584
Total assets	\$ 323,699	\$ 314,668	\$ 638,367
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other funds	15,670	-	15,670
Accrued expenses	-	20,512	20,512
Total liabilities	15,670	20,512	36,182
 Fund balances:			
Nonspendable	-	-	-
Spendable:			
Restricted	308,029	-	308,029
Committed	-	-	-
Assigned	-	294,156	294,156
Unassigned	-	-	-
Total fund balances	308,029	294,156	602,185
Total liabilities, deferred inflows, and fund balances	\$ 323,699	\$ 314,668	\$ 638,367

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, 2017

	<u>Special Revenues</u>	<u>Library</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES			
Intergovernmental:			
State tax	\$ 320,400	\$ -	\$ 320,400
Grants	-	16,504	16,504
Other licenses, permits and fees	1,967	-	1,967
Fines and forfeitures	55,957	-	55,957
Investment earnings	224	225	449
Miscellaneous	<u>112,277</u>	<u>24,811</u>	<u>137,088</u>
TOTAL REVENUES	<u>490,825</u>	<u>41,540</u>	<u>532,365</u>
EXPENDITURES			
Library	<u>-</u>	<u>627,450</u>	<u>627,450</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 490,825</u>	<u>\$ (585,910)</u>	<u>\$ (95,085)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	594,524	594,524
Transfers out	<u>(438,574)</u>	<u>-</u>	<u>(438,574)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(438,574)</u>	<u>594,524</u>	<u>155,950</u>
Net change in fund balances	52,251	8,614	60,865
Fund balances - beginning	<u>255,778</u>	<u>285,542</u>	<u>541,320</u>
Fund balances - ending	<u>\$ 308,029</u>	<u>\$ 294,156</u>	<u>\$ 602,185</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, 2017

	Events Center	Arts Center	BCBC	Total Nonmajor Proprietary Funds
ASSETS				
Current assets				
Cash and cash equivalents	\$ -	\$ 184,563	\$ -	\$ 184,563
Accounts receivable	-	-	1,175,016	1,175,016
Total current assets	-	184,563	1,175,016	1,359,579
Noncurrent assets				
Capital assets:				
Land	158,648	-	-	158,648
Buildings	1,667,976	2,152,541	-	3,820,517
Vehicles and equipment	52,449	43,998	-	96,447
Construction in progress	-	-	-	-
Less: Accumulated depreciation	(408,130)	(16,317)	-	(424,447)
Accounts receivable	-	-	815,948	815,948
Total noncurrent assets	1,470,943	2,180,222	815,948	4,467,113
TOTAL ASSETS	1,470,943	2,364,785	1,990,964	5,826,692
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 8,623	\$ 12,361	\$ -	\$ 20,984
Due to other funds	-	-	4,162,291	4,162,291
Accrued expenses	6,534	11,219	-	17,753
Accrued compensated absences	5,808	7,985	-	13,793
Total current liabilities	20,965	31,565	4,162,291	4,214,821
Noncurrent liabilities:				
Accrued compensated absences	-	213	-	213
Total noncurrent liabilities	-	213	-	213
TOTAL LIABILITIES	20,965	31,778	4,162,291	4,215,034
NET POSITION				
Invested in Capital Assets, net of related debt	1,470,943	2,180,222	-	3,651,165
Unrestricted	(20,965)	152,785	(2,171,327)	(2,039,507)
TOTAL NET POSITION	\$ 1,449,978	\$ 2,333,007	\$ (2,171,327)	\$ 1,611,658

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, 2017

	Events Center	Arts Center	BCBC	Total Nonmajor Proprietary Funds
OPERATING REVENUES				
Charges for services	\$ 227,847	\$ 111,394	\$ -	\$ 339,241
Miscellaneous income	800	69,603	-	70,403
Merchandise sales	-	113,634	-	113,634
TOTAL OPERATING REVENUES	228,647	294,631	-	523,278
COST OF GOODS SOLD				
	-	69,033	-	69,033
GROSS PROFIT	228,647	225,598	-	454,245
OPERATING EXPENSES				
Salaries, wages and employee benefits	232,905	347,450	-	580,355
Utilities	40,436	34,692	-	75,128
Repairs and maintenance	145,670	598,794	-	744,464
Other supplies and expenses	56,942	146,380	-	203,322
Depreciation	64,331	16,317	-	80,648
TOTAL OPERATING EXPENSES	540,284	1,143,633	-	1,683,917
OPERATING INCOME (LOSS)	(311,637)	(918,035)	-	(1,229,672)
NON-OPERATING REVENUES (EXPENSES)				
Interest income	-	68	-	68
(LOSS) BEFORE TRANSFERS	(311,637)	(917,967)	-	(1,229,604)
TRANSFERS (OUT) IN	983,979	4,304,354	-	5,288,333
CHANGE IN NET POSITION	672,342	3,386,387	-	4,058,729
NET POSITION - BEGINNING OF YEAR	777,636	(1,053,380)	(2,171,327)	(2,447,071)
NET POSITION - END OF YEAR	\$ 1,449,978	\$ 2,333,007	\$ (2,171,327)	\$ 1,611,658

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, 2017

	Events Center	Arts Center	BCBC	Total Nonmajor Proprietary Funds
Cash flows from operating activities:				
Receipts from customers	\$ 228,646	\$ 294,632	\$ 1,175,017	\$ 1,698,295
Payments to employees for services	(230,979)	(343,308)	-	(574,287)
Payments to suppliers of goods & services	(278,408)	(975,759)	-	(1,254,167)
Payments to other funds	-	-	(1,175,017)	(1,175,017)
Net cash provided (used) by operating activities	(280,741)	(1,024,435)	-	(1,305,176)
Cash flows from capital and related financing activities:				
Interest income	-	68	-	68
Acquisition of property and equipment	-	(834,098)	-	(834,098)
Net cash provided (used) by capital and related financing activities	-	(834,030)	-	(834,030)
Cash flows from non-capital and related financing activities:				
Transfers from other funds	280,741	2,025,885	-	2,306,626
Net increase (decrease) in cash	-	167,420	-	167,420
Cash and equivalents at beginning of year	-	17,143	-	17,143
Cash and equivalents at end of year	\$ -	\$ 184,563	\$ -	\$ 184,563
Operating income (loss)	\$ (311,637)	\$ (918,035)	\$ -	\$ (1,229,672)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	64,331	16,317	-	80,648
(Increase) decrease in:				
Accounts receivable - net	-	-	1,175,017	1,175,017
Due to other funds	-	-	(1,175,017)	(1,175,017)
Increase (decrease) in:				
Accounts payable	(35,361)	(126,859)	-	(162,220)
Accrued expenses	888	2,270	-	3,158
Accrued compensated absences	1,038	1,872	-	2,910
Total adjustments	30,896	(106,400)	-	(75,504)
Net cash provided (used) by operating activities	\$ (280,741)	\$ (1,024,435)	\$ -	\$ (1,305,176)
Supplemental Disclosures				
Noncash Investing and Financing Activities: NONE				
Cash Paid During the Year for Interest	\$ -	\$ -	\$ -	\$ -

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

COMPLIANCE AND INTERNAL CONTROL SECTION

GRANT, SANDERS & TAYLOR, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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Certified Public Accountants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, blended component units, and the aggregate remaining fund information of the City of Orange Beach, Alabama, as of and for the year ended December 31, 2017, 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 20, 2018.

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. [2017-1].

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.

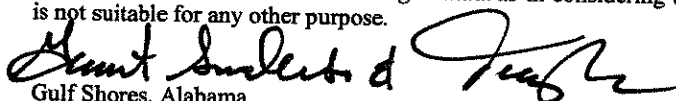
We also noted certain matters that we reported to management of The City of Orange Beach, Alabama in a separate letter dated June 20, 2018.

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

The purpose 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 20, 2018

FINDING – INTERNAL CONTROL OVER FINANCIAL REPORTING

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

2017-1

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 entries to accrue grant revenues were made twice, overstating accounts receivable and grant revenue by \$211,663 prior to adjustment.

CONDITION 2 > The February 2018 ad valorem remittance was not accrued, resulting in only eleven months of ad valorem revenue being recorded. As such, revenues and accounts receivable were understated by \$425,071 prior to adjustment.

CONDITION 3 > Prepaid sewer fees did not tie to the subsidiary schedule, resulting in an overstatement of prepaid sewer fees and understatement of service fee revenue of \$214,457 prior to adjustment.

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

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.