THE CITY OF ORANGE BEACH, ALABAMA

FINANCIAL STATEMENTS

DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Orange Beach, Alabama, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Orange Beach, Alabama, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States 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 3 through 9 and 45 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Required Supplementary Information (continued)

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 October 8, 2019, on our consideration of the City of Orange Beach, Alabama's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the City of Orange Beach, Alabama's 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.

Jackson + Smith

Jackson & Smith CPA Group, PC
Orange Beach, Alabama
October 8, 2019

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 2018 on December 31, 2018, the City of Orange Beach's assets exceeded its liabilities by $140,049,784 whereas at the close of Fiscal Year 2017 on December 31, 2017, the City of Orange Beach's assets exceeded its liabilities by $126,442,348. 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.

Overall Analysis

Table 1 below presents the City's Condensed Statement of Net Position as of December 31, 2018 and December 31, 2017 and is derived from the Government-wide Statement of Net Position. Table 2 below presents the City's Condensed Statement of Activities as of December 31, 2018 and December 31, 2017 and is derived from the Statement of Activities.

Table 1 - Condensed Statement of Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Current and other assets	$ 60,846,560	$ 53,825,362	$ 9,725,942	$ 9,936,229	$ 70,572,502	$ 63,761,591
Capital assets	80,605,867	78,031,140	27,271,894	28,471,441	107,877,761	106,502,581
Total assets	141,452,427	131,856,502	36,997,836	38,407,670	178,450,263	170,264,172
Deferred outflows of resources	3,264,544	2,818,526	2,078,075	2,269,372	5,342,619	5,087,898
Other liabilities	3,739,007	3,024,734	548,175	1,826,408	4,287,182	4,851,142
Long-term liabilities	15,186,640	19,595,231	22,628,078	22,729,258	37,814,718	42,324,489
Total liabilities	18,925,647	22,619,965	23,176,253	24,555,666	42,101,900	47,175,631
Deferred inflows of resources	1,605,743	1,703,699	35,455	30,392	1,641,198	1,734,091
Invested in capital assets						
Net of related debt	69,097,447	62,153,145	4,750,061	8,021,103	73,847,508	70,174,248
Restricted	13,867,132	13,699,821	8,214,983	7,722,100	22,082,115	21,421,921
Unrestricted	41,221,002	34,498,398	2,899,159	347,781	44,120,161	34,846,179
Total net position	$ 124,185,581	$ 110,351,364	$ 15,864,203	$ 16,090,984	$ 140,049,784	$ 126,442,348

Financial highlights for the City of Orange Beach as a whole as they relate to the Statement of Net Position for the fiscal year ended December 31, 2018 and December 31, 2017 include the following:

The assets of the City exceeded its liabilities (net assets) at the close of the fiscal year ended December 31, 2018 by $124,185,581 and at the close of the fiscal year ended December 31, 2017 by $110,351,364 for Governmental Activities and by $15,864,203 and $16,090,984 (respectively for each year end) for Business-Type Activities. Capital assets increased by $2,574,727 from 2017 to 2018 for Governmental Activities and decreased by $1,199,547 from 2017 to 2018 for Business-Type Activities. Long-term liabilities decreased from 2017 to 2018 by $4,408,591 and $101,180 for Governmental Activities and Business-Type Activities, respectively. Unrestricted net position increased from 2017 to 2018 by $6,722,604 and $2,551,378 for Governmental Activities and Business-Type Activities, respectively. Restricted net position increased from 2017 to 2018 by $167,311 and $492,883 for Governmental Activities and Business-Type Activities, respectively.

Overall Analysis (continued)

Table 2 - Condensed Statement of Activities

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
PRIMARY GOVERNMENT:						
Revenues						
Charges for services	$ 7,265,892	$ 5,673,729	$ 10,389,493	$ 9,992,183	$ 17,655,385	$ 15,665,912
Operating grants and contributions	434,286	278,751	-	-	434,286	278,751
Capital grants and contributions	172,654	297,131	-	4,300	172,654	301,431
General revenues					-	-
Taxes	39,793,122	32,946,110	-	-	39,793,122	32,946,110
Investment earnings	308,741	67,256	99,602	10,810	408,343	78,066
Reimbursed expenses	70,396	100,332	-	-	70,396	100,332
Miscellaneous	147,492	101,026	80,704	58,535	228,196	159,561
Gain on disposal of assets	49,449	39,682	-	-	49,449	39,682
Donation of land	(1,381,080)	-	-	-	(1,381,080)	-
Total revenues	46,860,952	39,504,017	10,569,799	10,065,828	57,430,751	49,569,845
Expenses						
General government	4,355,161	4,591,080	-	-	4,355,161	4,591,080
Municipal court	554,645	461,017	-	-	554,645	461,017
Finance	893,136	842,896	-	-	893,136	842,896
Police	6,492,286	6,161,604	-	-	6,492,286	6,161,604
Corrections	659,383	616,737	-	-	659,383	616,737
Communications	642,406	564,430	-	-	642,406	564,430
Fire	6,477,966	5,520,875	-	-	6,477,966	5,520,875
Public works	3,815,532	4,012,366	-	-	3,815,532	4,012,366
Landscape	1,833,746	1,540,957	-	-	1,833,746	1,540,957
Parks & recreation	3,355,647	3,142,357	-	-	3,355,647	3,142,357
Library	719,626	747,504	-	-	719,626	747,504
Community development	1,676,962	2,000,785	-	-	1,676,962	2,000,785
Coastal resources	1,741,727	637,293	-	-	1,741,727	637,293
Interest on long-term debt	445,945	560,418	-	-	445,945	560,418
Sewer fund	-	-	5,844,923	6,125,150	5,844,923	6,125,150
Refuse fund	-	-	2,813,994	2,603,298	2,813,994	2,603,298
Events Center fund	-	-	701,355	540,283	701,355	540,283
Baldwin County Bridge fund	-	-	-	-	-	-
Arts Center fund	-	-	798,875	1,195,700	798,875	1,195,700
Total expenses	33,664,168	31,400,319	10,159,147	10,464,431	43,823,315	41,864,750
Increase (decrease) in net position before transfers	13,196,784	8,103,698	410,652	(398,603)	13,607,436	7,705,095
Transfers	637,433	(4,623,039)	(637,433)	4,623,039	-	-
Change in net position	13,834,217	3,480,659	(226,781)	4,224,436	13,607,436	7,705,095
Net position - beginning	110,351,364	106,870,705	16,090,984	11,866,548	126,442,348	118,737,253
Net position - ending	$ 124,185,581	$ 110,351,364	$ 15,864,203	$ 16,090,984	$ 140,049,784	$ 126,442,348

Financial highlights for the City of Orange Beach as a whole as they relate to the Statement of Activities for the fiscal year ended December 31, 2018 and December 31, 2017 include the following:

The City's total net position increased during the current year by $13,607,436 and during the previous year by $7,705,095. Net position of Governmental Activities increased during the current year by $13,834,217 and during the previous year by $3,480,659. Net position of Business-Type Activities decreased during the current year by $226,781 and increased in the previous year by $4,224,436.

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 year, the City's Governmental Funds showed a combined ending fund balance of $57,217,233 as compared to $50,707,551 at the end of the previous fiscal year with $42,103,189 unassigned compared to $37,089,191 reported as unassigned fund balance in the prior year. The remaining reserved amount of $15,114,044 for fiscal year end 2018 is $2,117,322 nonspendable, $3,962,768 restricted, $8,779,753 committed, and $254,201 assigned as compared to the fiscal year ended 2017 amount of $13,618,360 ($188,959 nonspendable, $4,079,889 restricted, $9,055,356 committed, and $94,156 assigned).

Proprietary Funds

As of the close of the current fiscal year the City's Proprietary Funds reported total net assets of $15,864,203 compared to $16,090,984 at the end of fiscal year 2017.

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 $3,444,135 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 $12,104,246 over the budgeted amounts. Local taxes exceed budget by $13,708,958 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 Activity

At December 31, 2018, the City of Orange Beach reported net capital assets of $80,605,867 and $27,271,894 from Governmental Activities and Business-Type Activities, respectively. At December 31, 2017, the City of Orange Beach reported net capital assets of $78,031,140 and $28,471,441 from Governmental Activities and Business-Type Activities, respectively.

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 does not have infrastructure that exceeds the capitalization threshold.

Refer to **Note 10** to the financial statements for additional information on capital assets.

Long-Term Debt Activity

At December 31, 2018, the City of Orange Beach reported long-term debt of $11,508,420 and $22,521,833 from Governmental Activities and Business-Type Activities, respectively. At December 31, 2017, the City of Orange Beach reported long-term debt of $15,877,995 and $24,178,465 from Governmental Activities and Business-Type Activities, respectively.

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.

   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.

2) 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 19+ acres for sale or lease.

3) 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 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 opened 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; the cottages on Lake Shelby are to be accepted into National Geographic's Unique Lodges of the World program; and a new learning campus opened in the summer of 2019.

4) 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, which continued in 2019. 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.

5) 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.

6) 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 with a goal of maintaining close to one year general fund operations.

7) The City continues to pursue with the City of Gulf Shores a regional medical facility and regional healthcare improvements through a partnership known as the Gulf Coast Healthcare Authority as well as locally through the Orange Beach Healthcare Authority.

8) 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 in 2018.

9) 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. These RESTORE projects funding is expected to be released by the Treasury Department in late 2019.

10) 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.

11) 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. Rentals continue to be strong and growing annually in the facility.

12) 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 mega site 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. Various large prospects continue to explore relocation to the site which would produce large employment demand and new job investments for Baldwin County.

13) The Alabama Gulf Coast Reef and Restoration Foundation successfully sank a 271-foot retired coastal freighter "The LuLu" 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. In June 2018, another 250 foot vessel named "The New Venture" was sunk about 20 nautical miles south of Orange Beach. 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.

14) 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 312 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.

15) 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 2018. 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 which airs nationally on the SEC Network, ESPN broadcasts, providing local exposure. The City continues to invest in its sports facilities to attract and retain events, such as upgraded baseball/softball fields for USSSA tournaments and new sand volleyball courts.

16) 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 opened in late 2017 and is anchored by a hotel and a major entertainment/amusement park complex located on the Beach Express known as OWA. This entire complex is attracting visitors year round and hosting 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 continue to generate new room nights for visitors who will choose to stay in Orange Beach just 9 miles south.

17) 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 Indians 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 6.5 million visitors each year, OWA is expected to bring in an additional 1 million visitors annually once the project is built out. 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.

18) The Baldwin County Board of Education is constructing a $26 million middle/high school in the City of Orange Beach. The City donated 40 acres of prime real estate for the school. The City has committed to fund a Performing Arts Center and indoor athletic complex as part of the school's campus, estimated investment of around $16 million in the two facilities. It is anticipated that after the opening of the new campus in fall of 2020 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. The Performing Arts Center will be a state-of-the-art facility with 710 seats. The facility will serve as a hallmark venue for performing arts on the Gulf Coast.

19) The City made a few key property acquisitions in 2018, totaling $1.5 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.

20) Recent Quality of Life investments:

    a. Opening of the new Coastal Arts Center of Orange Beach - $2.5 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 $1 million 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, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
ASSETS			
Current assets:			
Cash and cash equivalents	36,390,306	5,460,813	41,851,119
Accounts receivable - net	3,658,007	859,625	4,517,632
Internal balances	4,813,793	(4,813,793)	-
Inventories	48,325	-	48,325
Prepaids	2,068,997	4,314	2,073,311
Restricted assets:			
Cash and cash equivalents	13,867,132	8,214,983	22,082,115
Capital assets:			
Non-depreciable	56,576,718	702,246	57,278,964
Depreciable (net)	24,029,149	26,569,648	50,598,797
TOTAL ASSETS	141,452,427	36,997,836	178,450,263
DEFERRED OUTFLOWS OF RESOURCES			
Deferred employer pension contributions	463,020	-	463,020
Deferred pension losses	2,181,681	-	2,181,681
Defeasance cost (net)	619,843	2,078,075	2,697,918
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,264,544	2,078,075	5,342,619
LIABILITIES			
Current liabilities:			
Accounts payable	1,247,509	295,531	1,543,040
Accrued expenses	2,381,817	107,426	2,489,243
Accrued interest payable	109,681	145,218	254,899
Long-term liabilities:			
Due within one year:			
Compensated absences	383,901	67,610	451,511
Bonds payable	4,564,250	2,050,750	6,615,000
Due in more than one year:			
Net pension liability	3,091,908	-	3,091,908
Compensated absences	202,411	38,635	241,046
Bonds payable	6,944,170	20,471,083	27,415,253
TOTAL LIABILITIES	18,925,647	23,176,253	42,101,900
DEFERRED INFLOWS OF RESOURCES			
Deferred pension gains	1,605,743	-	1,605,743
Unearned revenue	-	35,455	35,455
TOTAL DEFERRED INFLOWS OF RESOURCES	1,605,743	35,455	1,641,198
NET POSITION			
Invested in capital assets, net of related debt	69,097,447	4,750,061	73,847,508
Restricted:			
Capital projects	5,087,379	-	5,087,379
Emergencies	8,779,753	8,214,983	16,994,736
Unrestricted	41,221,002	2,899,159	44,120,161
TOTAL NET POSITION	$124,185,581	$ 15,864,203	$140,049,784

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, 2018

		Program Revenues			Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business type Activities	Total
PRIMARY GOVERNMENT							
Governmental activities:							
General government	4,355,161	418,520	-	-	(3,936,641)		(3,936,641)
Court	554,645	136,249	-	-	(418,396)		(418,396)
Finance	893,136	2,550,134	-	-	1,656,998		1,656,998
Police	6,492,286	542,437	-	-	(5,949,849)		(5,949,849)
Corrections	659,383	-	-	-	(659,383)		(659,383)
Communications	642,406	-	-	-	(642,406)		(642,406)
Fire	6,477,966	561,932	-	-	(5,916,034)		(5,916,034)
Public works	3,815,532	-	182,872	172,654	(3,460,006)		(3,460,006)
Landscape	1,833,746	-	-	-	(1,833,746)		(1,833,746)
Parks and recreation	3,355,647	1,525,007	-	-	(1,830,640)		(1,830,640)
Library	719,626	61,996	10,228	-	(647,402)		(647,402)
Community development	1,676,962	1,469,617	55,817	-	(151,528)		(151,528)
Coastal resources	1,741,727	-	185,369	-	(1,556,358)		(1,556,358)
Interest on long-term debt	445,945	-	-	-	(445,945)		(445,945)
Total governmental activities (See Note 1)	33,664,168	7,265,892	434,286	172,654	(25,791,336)		(25,791,336)
Business-type activities:							
Sewer	5,844,923	7,226,016	-	-	-	1,381,093	1,381,093
Refuse	2,813,994	2,555,090	-	-	-	(258,904)	(258,904)
Events Center	701,355	165,192	-	-	-	(536,163)	(536,163)
Baldwin County Bridge Company (BCBC)	-	-	-	-	-	-	-
Arts Center	798,875	443,195	-	-	-	(355,680)	(355,680)
Total business-type activities	10,159,147	10,389,493	-	-	-	230,346	230,346
Total primary government	43,823,315	17,655,385	434,286	172,654	(25,791,336)	230,346	(25,560,990)
General revenues:							
Property taxes					3,969,081	-	3,969,081
Local taxes					20,283,165	-	20,283,165
Franchise taxes					1,494,850	-	1,494,850
State taxes					509,083	-	509,083
Sales taxes					13,536,943	-	13,536,943
Unrestricted investment earnings					308,741	99,602	408,343
Reimbursed expenses					70,396	-	70,396
Miscellaneous					147,492	80,704	228,196
Gain on disposal of assets					49,449	-	49,449
Donation of land					(1,381,080)	-	(1,381,080)
Transfers					637,433	(637,433)	-
Total general revenues, special items and transfers					39,625,553	(457,127)	39,168,426
Change in net position					13,834,217	(226,781)	13,607,436
Net position - beginning					110,351,364	16,090,984	126,442,348
Net position - ending					124,185,581	15,864,203	140,049,784

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, 2018

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 36,122,366	$ -	$ 267,940	$ 36,390,306
Restricted cash and cash equivalents	10,225,664	3,364,497	276,971	13,867,132
Accounts receivable - net	3,561,753	-	96,254	3,658,007
Due from other funds	5,048,260	-	-	5,048,260
Inventory	48,325	-	-	48,325
Prepaid expenses	2,068,997	-	-	2,068,997
TOTAL ASSETS	$ 57,075,365	$ 3,364,497	$ 641,165	$ 61,081,027
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	1,247,509	-	-	1,247,509
Due to other funds	-	127,824	106,644	234,468
Accrued expenses	2,055,918	-	13,739	2,069,657
Appearance bonds	207,255	-	-	207,255
Performance bonds	33,545	-	-	33,545
Communications tower escrow funds	71,360	-	-	71,360
Total liabilities	3,615,587	127,824	120,383	3,863,794
Fund balances:				
Nonspendable	2,117,322	-	-	2,117,322
Spendable:				
Restricted	459,514	3,236,673	266,581	3,962,768
Committed	8,779,753	-	-	8,779,753
Assigned	-	-	254,201	254,201
Unassigned	42,103,189	-	-	42,103,189
Total fund balances	53,459,778	3,236,673	520,782	57,217,233
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 57,075,365	$ 3,364,497	$ 641,165	$ 61,081,027

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, 2018

Fund balances - total governmental funds		$ 57,217,233
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	104,644,727	
Less: accumulated depreciation	(24,038,859)	80,605,868
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	463,020	
Deferred pension losses	2,181,681	
Loss on advance refunding	880,250	
Less: accumulated amortization	(260,407)	3,264,544
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	(1,605,743)	(1,605,743)
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	(11,214,250)	
Premium on bonds issued	(822,532)	
Discount on bonds issued	42,033	
Accumulated amortization of premium/discount	486,329	
Net pension liability	(3,091,908)	
Compensated absences	(586,312)	(15,186,640)
Accrued interest payable on debt in the governmental funds is susceptible to full accrual on the entity wide basis.		
Accrued interest payable		(109,681)
Net position of governmental activities		$ 124,185,581

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, 2018

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	$ 3,969,081	$ -	$ -	$ 3,969,081
Intergovernmental:				
State tax	132,241	-	384,026	516,267
Local tax	35,314,958	-	-	35,314,958
Grants	198,114	-	10,228	208,342
BP state grant	157,715	-	-	157,715
Personnel service reimbursement	70,396	-	-	70,396
Other licenses, permits and fees	4,932,501	-	2,240	4,934,741
Fines and forfeitures	494,452	-	66,027	560,479
Charges for services	1,154,913	-	-	1,154,913
Rent	103,040	-	-	103,040
Investment earnings	264,964	41,766	2,010	308,740
Contracts	428,243	-	-	428,243
Miscellaneous	332,724	-	146,468	479,192
TOTAL REVENUES	47,553,342	41,766	610,999	48,206,107
EXPENDITURES				
General government	3,552,000	-	-	3,552,000
Court	554,198	-	-	554,198
Finance	890,001	-	-	890,001
Police	6,081,607	-	-	6,081,607
Corrections	670,146	-	-	670,146
Community development	1,652,689	-	-	1,652,689
Communications	620,434	-	-	620,434
Fire	5,786,795	-	-	5,786,795
Public works	2,991,874	-	-	2,991,874
Landscape	1,827,146	-	-	1,827,146
Parks and recreation	2,741,855	-	-	2,741,855
Library	-	-	706,160	706,160
Coastal resources	1,778,626	-	-	1,778,626
Capital improvements	7,741,527	-	-	7,741,527
Securities lending:				
Fiscal agent fees	-	4,128	-	4,128
Debt service:				
Principal payments	-	4,308,500	-	4,308,500
Interest and other	-	446,020	-	446,020
TOTAL EXPENDITURES	36,888,898	4,758,648	706,160	42,353,706
Excess (deficiency) of revenues over expenditures	10,664,444	(4,716,882)	(95,161)	5,852,401
OTHER FINANCING SOURCES (USES)				
Proceeds from disposal of assets	19,848	-	-	19,848
Transfers in	1,332,809	4,695,041	626,567	6,654,417
Transfers out	(5,321,608)	(82,567)	(612,809)	(6,016,984)
TOTAL OTHER FINANCING SOURCES (USES)	(3,968,951)	4,612,474	13,758	657,281
NET CHANGE IN FUND BALANCES	6,695,493	(104,408)	(81,403)	6,509,682
FUND BALANCES - BEGINNING	46,764,285	3,341,081	602,185	50,707,551
FUND BALANCES - ENDING	$ 53,459,778	$ 3,236,673	$ 520,782	$ 57,217,233

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

Net change in fund balances		$ 6,509,682
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	6,653,556	
Less: current year depreciation	(2,123,249)	
Less: book value of disposed assets	(1,955,580)	2,574,727
Bond proceeds provide current financial resources to governmental funds, but issuing debt increase 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	4,308,500	4,369,575
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Amortization of loss on refunding	(44,012)	
Decrease in interest accrued on long term debt	4,203	
Increase in compensated absences	(22,645)	
Increase in deferred employer pension contributions	120,426	
Increase in deferred pension losses	369,605	
Increase in deferred pension gains	(109,005)	
Decrease in net pension liability	61,661	380,233
Change in net position of governmental activities		$ 13,834,217

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, 2018

	Sewer	Refuse	BCBC	Other Proprietary Funds	Total Proprietary Funds
ASSETS					
Current assets					
Cash and cash equivalents	$ 5,390,193	$ -	$ -	$ 70,620	$ 5,460,813
Restricted cash and cash equivalents	8,214,983	-	-	-	8,214,983
Accounts receivable - net	158,275	48,909	1,338,522	-	1,545,706
Due from other funds	9,728	-	-	-	9,728
Prepaid expenses	3,689	-	-	-	3,689
Total current assets	13,776,868	$ 48,909	$ 1,338,522	$ 70,620	$15,234,919
Noncurrent assets					
Capital assets:					
Land	343,588	-	-	158,648	502,236
Buildings	-	-	-	3,820,517	3,820,517
Sewer plant	28,588,183	-	-	-	28,588,183
Vehicles and equipment	2,069,983	1,274,082	-	157,734	3,501,799
Distribution and collection system	13,259,612	-	-	-	13,259,612
Less: Accumulated depreciation	(21,104,198)	(742,666)	-	(553,589)	(22,400,453)
Accounts receivable	-	-	(686,082)	-	(686,082)
Utility deposits	625	-	-	-	625
Total noncurrent assets	23,157,793	531,416	(686,082)	3,583,310	26,586,437
TOTAL ASSETS	36,934,661	580,325	652,440	3,653,930	41,821,356
DEFERRED OUTFLOWS OF RESOURCES					
Unamortized loss on refunding - net	2,078,076	-	-	-	2,078,076
LIABILITIES					
Current labilities					
Accounts payable	35,443	168,913	-	91,175	295,531
Due to other funds	482,929	894,232	2,823,767	622,593	4,823,521
Accrued expenses	62,954	17,077	-	27,395	107,426
Accrued compensated absences	39,481	10,999	-	17,130	67,610
Accrued interest payable	145,218	-	-	-	145,218
Current portion of bonds payable	2,050,750	-	-	-	2,050,750
Total current liabilities	2,816,775	1,091,221	2,823,767	758,293	7,490,056
Noncurrent labilities					
Accrued compensated absences	30,803	3,473	-	4,359	38,635
Series 2009 G.O. Sewer Warrant - net	88,876	-	-	-	88,876
Series 2012 G.O. Sewer Warrant - net	20,382,207	-	-	-	20,382,207
Total noncurrent liabilities	20,501,886	3,473	-	4,359	20,509,718
TOTAL LIABILITIES	23,318,661	1,094,694	2,823,767	762,652	27,999,774
DEFERRED INFLOWS OF RESOURCES					
Unearned revenue	35,455	-	-	-	35,455
NET POSITION					
Invested in capital assets, net of related debt	2,713,411	531,416	-	3,583,310	6,828,137
Unrestricted	12,945,210	(1,045,785)	(2,171,327)	(692,032)	9,036,066
TOTAL NET POSITION	15,658,621	(514,369)	(2,171,327)	2,891,278	15,864,203

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, 2018

	Sewer	Refuse	BCBC	Other Proprietary Funds	Total Proprietary Funds
OPERATING REVENUES					
Charges for services	$ 7,226,016	$ 2,555,090	$ -	$ 432,157	$10,213,263
Miscellaneous income	1,890	28,629	-	6,133	36,652
Merchandise sales	-	-	-	188,254	188,254
TOTAL OPERATING REVENUES	7,227,906	2,583,719	-	626,544	10,438,169
COST OF GOODS SOLD	-	-	-	110,447	110,447
GROSS PROFIT	7,227,906	2,583,719	-	516,097	10,327,722
OPERATING EXPENSES					
Salaries, wages and employee benefits	1,635,600	489,315	-	778,734	2,903,649
Contractual services	26,036	2,022,084	-	28,503	2,076,623
Utilities	938,733	8,658	-	112,011	1,059,402
Repairs and maintenance	451,874	97,481	-	253,018	802,373
Other supplies and expenses	174,077	48,586	-	106,531	329,194
Insurance claims and expenses	21,518	9,414	-	-	30,932
Bad debt expense	43,777	-	-	-	43,777
Bond premium amortization	6,164	-	-	-	6,164
Depreciation	1,608,443	138,456	-	129,143	1,876,042
TOTAL OPERATING EXPENSES	4,906,222	2,813,994	-	1,407,940	9,128,156
OPERATING INCOME (LOSS)	2,321,684	(230,275)	-	(891,843)	1,199,566
NON-OPERATING REVENUES (EXPENSES)					
Interest income	99,468	50,185	-	136	149,789
Interest expense	(938,703)	-	-	-	(938,703)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(839,235)	50,185	-	136	(788,914)
INCOME (LOSS) BEFORE TRANSFERS	1,482,449	(180,090)	-	(891,707)	410,652
TRANSFERS IN (OUT)	(637,433)	-	-	-	(637,433)
CHANGE IN NET POSITION	845,016	(180,090)	-	(891,707)	(226,781)
NET POSITION - BEGINNING	14,813,605	(334,279)	(2,171,327)	3,782,985	16,090,984
NET POSITION - ENDING	$15,658,621	$ (514,369)	$ (2,171,327)	$ 2,891,278	$15,864,203

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, 2018

	Sewer	Refuse	BCBC	Other Proprietary Funds	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	$ 7,202,314	$ 2,589,231	$ 1,338,524	$ 626,544	$11,756,613
Payments to employees for services	(1,597,983)	(488,990)	-	(761,610)	(2,848,583)
Payments to suppliers of goods & services	(1,601,986)	(2,031,033)	-	(540,318)	(4,173,337)
Payments from (to) other funds	(70,114)	203,954	(1,338,524)	622,593	(582,091)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	3,932,231	273,162	-	(52,791)	4,152,602
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers to other funds	(637,433)	-	-	-	(637,433)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Interest income	99,468	50,185	-	136	149,789
Increase in restricted cash	(492,884)	-	-	-	(492,884)
Principal repayments for capital purposes	(1,656,632)	-	-	-	(1,656,632)
Interest paid on capital debt	(767,049)	-	-	-	(767,049)
Acquisition of property and equipment	(291,863)	(323,347)	-	(61,288)	(676,498)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(3,108,960)	(273,162)	-	(61,152)	(3,443,274)
NET INCREASE (DECREASE) IN CASH	185,838	-	-	(113,943)	71,895
CASH & EQUIVALENTS - BEG. OF YEAR	5,204,355	-	-	184,563	5,388,918
CASH & EQUIVALENTS - END OF YEAR	$ 5,390,193	$ -	$ -	$ 70,620	$ 5,460,813
Operating income (loss)	$ 2,321,684	$ (230,275)	$ -	$ (891,843)	$ 1,199,566
Adjustments to reconcile operating income to net cash provided (used) by operating activities					
Depreciation	1,608,443	138,456	-	129,143	1,876,042
Amortization	6,164	-	-	-	6,164
(Increase) decrease in:					
Accounts receivable	13,123	5,512	1,338,524	-	1,357,159
Due to other funds	(70,114)	203,954	(1,338,524)	622,593	(582,091)
Increase (decrease) in:					
Accounts payable	10,251	155,190	-	70,192	235,633
Accrued payroll	37,617	325	-	17,124	55,066
Deferred revenue	5,063	-	-	-	5,063
Total adjustments	1,610,547	503,437	-	839,052	2,953,036
Net cash provided (used) by operating activities	$ 3,932,231	$ 273,162	$ -	$ (52,791)	$ 4,152,602

Supplemental Disclosures
Noncash Investing and Financing Activities: NONE

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

NOTES TO THE FINANCIAL STATEMENTS

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.

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.

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.

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.

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.
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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BUDGETARY CONTROL (continued)

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 $4,876,107 invested in the JP Morgan 100% U.S. Treasury Securities Money Market Fund #677 as of December 31, 2018. 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 and franchise taxes. 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 revenue 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".

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. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. 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, 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.

N. 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. 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:

- 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.
- 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.
- 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:

a) 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.

b) 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.

c) 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.

d) 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.

e) 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

A schedule of fund balances is as follows:

	General Fund	Debt Service Fund	Special Revenue Fund	Library Fund	Total Governmental Funds
Fund Balances:					
Nonspendable:					
Inventories	$ 48,325	$ -	$ -	$ -	$ 48,325
Prepaid expenses	2,068,997	-	-	-	2,068,997
Restricted for:					
Grants	22,652	-	-	-	22,652
Municipal court	131,285	-	-	-	131,285
Debt service	305,577	3,236,673	-	-	3,542,250
Capital outlay	-	-	266,581	-	266,581
Committed to:					
Emergencies	8,779,753	-	-	-	8,779,753
Assigned to:					
Library	-	-	-	254,201	254,201
Unassigned:	42,103,189	-	-	-	42,103,189
Total Fund Balance:	$ 53,459,778	$ 3,236,673	$ 266,581	$ 254,201	$ 57,217,233

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.

R. ACCUMULATED DEFICIT

At December 31, 2018, the Refuse Fund and Baldwin County Bridge Fund had accumulated deficits of $514,369 and $2,171,327, respectively. It is anticipated that the Refuse Fund deficit will continue to be financed by the General Fund. Once all monies owed from the BCBC are collected, the BCBC Fund will begin to recognize revenue for the fee collections and recoup the accumulated deficit.

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, 2018 is as follows:

	Governmental-type Funds	Business-type Funds
Cash on hand	$ 3,905	$ 100
Cash in banks		
Operations	36,386,401	5,460,713
Reserved- Disaster	8,779,753	6,703,371
Reserved- Special revenues	276,971	-
Reserved- Debt service	4,810,408	1,511,612
	$ 50,257,438	$ 13,675,796

NOTE 3 – CREDIT RISK

The City's deposits at year end were held by facial 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-l 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, 2018 the carrying amount of the City's deposits, including Certificates of Deposit, was $63,929,229 and the bank balance was $64,508,383. 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.

NOTE 4 – RETIREMENT PLAN

A. 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.

B. 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.

NOTE 4 – RETIREMENT PLAN (continued)

B. GENERAL INFORMATION ABOUT THE PENSION PLAN (continued)

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.

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, 2018, the City's membership consisted of:

Retired members or their beneficiaries currently receiving benefits	50
Vested inactive members	10
Non-vested inactive members	36
Active members	377
Post-DROP retired members still in active service	-
Total	473

NOTE 4 – RETIREMENT PLAN (continued)

B. GENERAL INFORMATION ABOUT THE PENSION PLAN (continued)

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, 2018, the City's active employee contribution rate was 5.15% of covered employee payroll, and the City's average contribution rate to fund the normal and accrued liability costs was 4.85% of covered employee payroll.

The City's contractually required contribution rate for the year ended September 30, 2018 was 6.43% of pensionable pay for Tier 1 employees, and 3.45% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2016, 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 City were $912,988 for the year ended December 31, 2018.

C. NET PENSION LIABILITY

The City's net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017 rolled forward to September 30, 2018 using standard roll-forward techniques as shown in the following table:

	Expected	Actual	Actual
(a) TPL as of September 30, 2017	$ 37,714,136	$ 38,195,374	$ 38,442,008
(b) Discount rate	7.75%	7.75%	7.70%
(c) Entry age normal cost for the period October 1, 2017 - September 30, 2018	1,317,681	1,317,681	1,329,446
(d) Transfers among employees	-	124,934	124,934
(e) Actual benefit payments and refunds for the period October 1 2017 - September 30, 2018	(1,160,003)	(1,160,003)	(1,160,003)
(f) TPL as of September 30, 2018 = [(a) x (1 + (b))] + (c) + (d) + [(e) x (1 + 0.5 x (b))]	$ 40,749,709	$ 41,393,177	$ 41,651,760
(g) Difference between expected and actual		$ 643,468	
(h) Less liability transferred for immediate recognition		124,934	
(i) Experience (gain) / loos = (g) - (h)		$ 518,534	
(j) Difference between actual at 7.70% and actual at 7.75% [Assumption change (gain) / loss]			$ 258,582

NOTE 4 – RETIREMENT PLAN (continued)

C. NET PENSION LIABILITY (continued)

Actuarial assumptions: The total pension liability in the September 30, 2018 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, 2016. The Board of Control accepted and approved these changes in September 2017, which became effective at the beginning of fiscal year 2017.

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:

	Target Allocation	Long-Term Expected Rate of Return*
Fixed income	17.00%	4.40%
U.S. large stocks	32.00%	8.00%
U.S. mid stocks	9.00%	10.00%
U.S. small stocks	4.00%	11.00%
International developed market stock	12.00%	9.50%
International emerging market stocks	3.00%	11.00%
Alternative	10.00%	10.10%
Real estate	10.00%	7.50%
Cash equivalents	3.00%	1.50%
Total	100.00%	

Discount rate: The discount rate used to measure the total pension liability was the long term rate of return, 7.70%. 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.

NOTE 4 – RETIREMENT PLAN (continued)

C. NET PENSION LIABILITY (continued)

Changes in Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at September 30, 2017	$ 37,714,136	$ 34,560,567	$ 3,153,569
Changes for the year:			
Service cost	1,317,681	-	1,317,681
Interest	2,877,895	-	2,877,895
Changes of assumptions	258,582	-	258,582
Difference between expected and actual experience	518,534	-	518,534
Contributions - employer	-	786,837	(786,837)
Contributions - employee	-	1,013,613	(1,013,613)
Net investment income	-	3,233,903	(3,233,903)
Benefit payments, including refunds of employee contributions	(1,160,003)	(1,160,003)	-
Administrative expense	-	-	-
Transfers amoung employees	124,934	124,934	-
Net changes	3,937,623	3,999,284	(61,661)
Balance at September 30, 2018	$ 41,651,759	$ 38,559,851	$ 3,091,908

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 7.70%, 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 (6.70%) or 1-percentage-point higher (8.70%) than the current rate:

	1% Decrease (6.70%)	Current Discount (7.70%)	1% Increase (8.70%)
Plan's Net Pension Liability	$ 8,833,249	$ 3,091,908	$ (1,714,408)

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, 2018. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2018. The auditor's report dated September 17, 2019 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.

NOTE 4 – RETIREMENT PLAN (continued)

D. PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

For the year ended December 31, 2018, the City recognized pension expense of $470,300. At December 31, 2018, 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	$ 939,678	$ 379,533
Changes of assumptions	1,242,003	-
Net difference between projected and actual earnings on plan investments	-	1,226,210
Employer contributions subsequent to the measurement date	463,020	-
Total	$ 2,644,701	$ 1,605,743

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:	
2020	$ 160,853
2021	(180,924)
2022	(65,102)
2023	240,131
2024	255,512
Thereafter	165,468

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

NOTE 4 – RETIREMENT PLAN (continued)

D. PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (continued)

Collective Deferred Outflows and Inflows between Expected and Actual Experience

				Beginning Balance						Ending Balance	
Year	Initial Balance of Losses / Deferred Outflow	Initial Balance of Gains / Deferred Inflow	Amort. Period	Deferred Outflows (a)	Deferred Inflows (b)	Losses / Deferred Outflows (c)	Gains / Deferred Inflows (d)	Amounts Recog. In Pension Expense / Deferred Outflow (e)	Amounts Recog. In Pension Expense / Deferred Inflow (f)	Deferred Outflows (a) + (c) - (e)	Deferred Inflows (b) + (d) - (f)
2018	$ 518,534	$ -	8.0	$ -	$ -	$ 518,534	$ -	$ 64,817	$ -	$ 453,717	$ -
2017	-	503,971	8.1	-	441,752	-	-	-	62,219	-	379,533
2016	23,081	-	8.2	17,451	-	-	-	2,815	-	14,636	-
2015	920,209	-	8.2	583,546	-	-	-	112,221	-	471,325	-
Total				$ 600,997	$ 441,752	$ 518,534	$ -			$ 939,678	$ 379,533

NOTE 4 – RETIREMENT PLAN (continued)

D. PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (continued)

Collective Deferred Outflows and Inflows for Differences from Assumption Changes

				Beginning Balance						Ending Balance	
Year	Initial Balance of Losses / Deferred Outflow	Initial Balance of Gains / Deferred Inflow	Amort. Period	Deferred Outflows (a)	Deferred Inflows (b)	Losses / Deferred Outflows (c)	Gains / Deferred Inflows (d)	Amounts Recog. In Pension Expense / Deferred Outflow (e)	Amounts Recog. In Pension Expense / Deferred Inflow (f)	Deferred Outflows (a) + (c) - (e)	Deferred Inflows (b) + (d) - (f)
2018	$ 258,582	$ -	8.0	$ -	$ -	$ 258,582	$ -	$ 32,323	$ -	$ 226,259	$ -
2017	-	-	8.1	-	-	-	-	-	-	-	-
2016	1,601,749	-	8.2	1,211,079	-	-	-	195,335	-	1,015,744	-
2015	-	-	8.2	-	-	-	-	-	-	-	-
Total				$ 1,211,079	$ -	$ 258,582	$ -			$ 1,242,003	$ -

NOTE 4 – RETIREMENT PLAN (continued)

D. PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (continued)

Collective Deferred Outflows and Inflows for Differences in Investment Experience

				Beginning Balance						Ending Balance	
Year	Initial Balance of Losses / Deferred Outflow	Initial Balance of Gains / Deferred Inflow	Amort. Period	Deferred Outflows (a)	Deferred Inflows (b)	Losses / Deferred Outflows (c)	Gains / Deferred Inflows (d)	Amounts Recog. In Pension Expense / Deferred Outflow (e)	Amounts Recog. In Pension Expense / Deferred Inflow (f)	Deferred Outflows (a) + (c) - (e)	Deferred Inflows (b) + (d) - (f)
2018	$ -	$ 525,801	5.0	$ -	$ -	$ -	$ 525,801	$ -	$ 105,160	$ -	$ 420,641
2017	-	1,526,162	5.0	-	1,220,930	-	-	-	305,232	-	915,698
2016	-	579,120	5.0	-	347,472	-	-	-	115,824	-	231,648
2015	1,708,893	-	5.0	683,556	-	-	-	341,779	-	341,777	-
2014	-	850,700	5.0	-	170,140	-	-	-	170,140	-	-
Total				$ 683,556	$ 1,738,542	$ -	$ 525,801			$ 341,777	$ 1,567,987

Net difference between projected and actual earnings on investments (f) - (e) $ 1,226,210

NOTE 5 – LONG TERM DEBT

General Fund

General Obligation Warrants

At December 31, 2018, governmental long term debt 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 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 l, 2011 with a final payment on August 1, 2020.

On August l, 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, 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% - 3.00% beginning May 1, 2013 with a final payment on May l, 2022.

Sewer Fund

General Obligation Warrants

At December 31, 2018, 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% - 5.00% beginning February 1, 2013 with a final payment on February 1, 2030.

NOTE 5 – LONG TERM DEBT (continued)

General Obligation Warrants for governmental activities of the City were comprised of the following at December 31, 2018:

$9,537,350 General Obligations 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%	$ 914,250
$6,170,000 General Obligation Warrants Series 2010A dated August 1, 2010, principal and interest due in annual installments varying from $259,035 to $1,374,910 through August 1, 2020; variable interest rate from 3.71% - 4.60%	2,625,000
$4,905,000 General Obligation Warrants Series 2010B dated August 1, 2010, principal and interest due in annual installments varying from $165,150 to $1,073,275 through August 1, 2020; variable interest rate from 3.00% - 4.00%	2,060,000
$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 .55% - 3.00%	5,615,000
Unamortized bond premium / discount (net)	294,170
TOTAL WARRANTS AND NOTES OUTSTANDING	11,508,420
Compensated absences	586,312
Net pension liability	3,091,908
TOTAL GENERAL LONG-TERM DEBT	$ 15,186,640

General Obligation and Revenue Warrants for business-type activities of the City were comprised of the following at December 31, 2018:

$8,457,650 General Obligations Sewer 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%	$ 810,750
$22,975,000 General Obligations Sewer Warrants 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% - 5.00%	19,795,000
Unamortized bond premium / discount (net)	1,916,083
TOTAL WARRANTS AND NOTES OUTSTANDING	22,521,833
Compensated absences	106,245
TOTAL BUSINESS-TYPE ACTIVITY DEBT	$ 22,628,078

NOTE 5 – LONG TERM DEBT (continued)

The annual aggregate maturities, including principal and interest, for the years subsequent to December 31, 2018, are as follows:

Year Ending	Governmental Activities			Business-type Activities		
December 31,	Principal	Interest	Total	Principal	Interest	Total
2019	$ 4,564,250	$ 293,045	$ 4,857,295	$ 1,663,000	$ 871,308	$ 2,534,308
2020	3,780,000	126,520	3,906,520	1,495,350	7,922,743	9,418,093
2021	1,420,000	41,425	1,461,425	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	-	-	-	1,520,000	565,588	2,085,588
2024 and thereafter	-	-	-	12,910,000	1,724,669	14,634,669
Unamortized bond discount / premium	294,170	-	294,170	1,916,083	-	1,916,083
Total	$ 11,508,420	$ 475,490	$ 11,983,910	$ 22,521,833	$ 12,442,031	$ 34,963,864

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, G.O. Warrants, Series 2009	$ 1,682,750	$ -	$ (768,500)	$ 914,250	$ 914,250
August 1, 2010, G.O. Warrants, Series 2010A	3,855,000	-	(1,230,000)	2,625,000	1,285,000
August 1, 2010, G.O. Warrants, Series 2010B	3,040,000	-	(980,000)	2,060,000	1,010,000
February 1, 2013, G.O. Warrants, Series 2013	6,945,000	-	(1,330,000)	5,615,000	1,355,000
Unamortized bond premium / discount (net)	355,245	-	(61,075)	294,170	-
Total bonds payable	15,877,995	-	(4,369,575)	11,508,420	4,564,250
Other long-term liabilities:					
Compensated absences	563,667	22,645	-	586,312	383,901
Net pension liability	3,153,569	-	(61,661)	3,091,908	-
Total other long-term liabilities	3,717,236	22,645	(61,661)	3,678,220	383,901
Governmental activities long-term liabilities	$ 19,595,231	$ 22,645	$ (4,431,236)	$ 15,186,640	$ 4,948,151

NOTE 5 – LONG TERM DEBT (continued)

Changes in Business-Type Long Term Debt during the year were as follows:

Obligation	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Business-type activities:					
Bonds payable:					
April 1, 2009, G.O. Sewer Warrants, Series 2009	$ 1,492,250	$ -	$ (681,500)	$ 810,750	$ 810,750
October 1, 2012 G.O. Sewer Warrants, Series 2012	20,585,000	-	(790,000)	19,795,000	1,240,000
Unamortized bond premium / discount (net)	2,101,215	-	(185,132)	1,916,083	-
Total bonds payable	24,178,465	-	(1,656,632)	22,521,833	2,050,750
Other long-term liabilities:					
Compensated absences	77,571	28,674	-	106,245	67,610
Total other long-term liabilities	77,571	28,674	-	106,245	67,610
Business-type activities long-term liabilities	$ 24,256,036	$ 28,674	$ (1,656,632)	$ 22,628,078	$ 2,118,360

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% were issued to advance refund $9,105,000 of outstanding bonds with an average interest rate of 4.22%. The net proceeds of $10,032,143 (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 LEASES

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:

Term	Monthly Rental	Yearly Rental
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 outline in the lease documents:

Year	Yearly Rental Revenue
2019	$ 51,224
2020	52,424
2021	47,424
Thereafter	-

NOTE 8 – 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 LLC., 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 2018, the City received $149,579 in principal and $33,293 in interest payments.

NOTE 9 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The following is detail of the interfund receivables and payables on the combined balance sheet of the City as of December 31, 2018:

	Due To	
Due From	General Fund	Sewer Fund
Special Revenue Fund	$ 106,644	$ -
Debt Service Fund	127,824	-
Refuse Fund	884,504	9,728
BCBC Fund	2,823,767	-
Sewer Fund	482,929	-
Event Center Fund	412,370	-
Art Center Fund	210,222	-
Total	$ 5,048,260	$ 9,728

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.

Interfund transfers during the year ended December 31, 2018 were as follows:

	Transfers In						
Transfers Out	General Fund	Arts Center Fund	Events Center Fund	Library Fund	Debt Service Fund	Sewer Fund	Total
General Fund	$ -	$ -	$ -	$ 626,567	$ 4,695,041	$ -	$ 5,321,608
Debt Service Fund	-	-	-	-	-	82,567	82,567
Special Revenue Fund	612,809	-	-	-	-	-	612,809
Sewer Fund	720,000	-	-	-	-	-	720,000
Total	$ 1,332,809	$ -	$ -	$ 626,567	$ 4,695,041	$ 82,567	$ 6,736,984

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 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 10 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 was as follows:

	Beginning Balance	Additions	Disposals & Reclassifications	Ending Balance
Governmental actities:				
Non depreciable assets:				
Land & improvements	$ 52,823,104	$ 3,036,635	$ (1,381,080)	$ 54,478,659
Construction in progress	880,128	1,757,296	(539,365)	2,098,059
Depreciable assets:				
Buildings & improvements	20,632,475	-	-	20,632,475
Infrastructure	11,638,805	539,364	-	12,178,169
Equipment & vehicles	14,275,530	1,320,261	(338,427)	15,257,364
Total historical cost of assets:	100,250,042	6,653,556	(2,258,872)	104,644,726
Less accumulated depreciation for:				
Buildings & improvements	10,732,026	327,109	-	11,059,135
Infrastructure	1,805,373	431,152	-	2,236,525
Equipment & vehicles	9,681,503	1,364,988	(303,292)	10,743,199
Total accumulated depreciation:	22,218,902	2,123,249	(303,292)	24,038,859
Governmental activities capital assets, net:	$ 78,031,140	$ 4,530,307	$ (1,955,580)	$ 80,605,867

Depreciation expense was charged to governmental functions as follows:	
Administration	$ 143,951
Police	443,011
Communications	21,480
Fire	540,878
Public works	304,339
Parks & recreation	516,808
Library	31,467
Community development	121,315
Total depreciation expense:	$ 2,123,249

	Beginning Balance	Additions	Disposals & Reclassifications	Ending Balance
Business-type actities:				
Non depreciable assets:				
Land & improvements	$ 502,236	$ -	$ -	$ 502,236
Construction in progress	$ -	$ 200,010		200,010
Depreciable assets:				
Buildings & improvements	32,448,834	-	-	32,448,834
Equipment	1,120,811	221,550	(101,279)	1,241,082
Vehicles	1,811,270	254,935	(45,632)	2,020,573
Distribution & collection systems	13,259,612	-	-	13,259,612
Total historical cost of assets:	49,142,763	676,495	(146,911)	49,672,347
Less accumulated depreciation for:				
Buildings & improvements	8,684,383	1,343,828	-	10,028,211
Equipment	1,065,787	166,219	(101,279)	1,130,727
Vehicles	1,383,431	136,767	(45,632)	1,474,566
Distribution & collection systems	9,537,721	229,228	-	9,766,949
Total accumulated depreciation:	20,671,322	1,876,042	(146,911)	22,400,453
Business-type activities capital assets, net:	$ 28,471,441	$ (1,199,547)	$ -	$ 27,271,894

NOTE 11 – THE BALDWIN COUNTY BRIDGE COMPANY 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
3,000,001 - 4,000,000	0.36
4,000,000 +	0.46

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. Ifat 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.

NOTE 11 – THE BALDWIN COUNTY BRIDGE COMPANY PROJECT (continued)

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 $.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, 2018, the City received payments from American Roads totaling $1,338,523 for the twelve months the agreement was in effect, based on fixed fee of $.30 per vehicle.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

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

The City will issue non-recourse limited-obligation warrant to AIG Baker in the amount of $25,000,000 bearing an interest rate of 3.5%, or the rate at which AIG Baker is able to obtain for its construction financing, for the purchase of the Public Land. This amount will be amortized over 15 years and will be paid monthly. The funds to pay the warrant will be provided exclusively by ½ of all tax revenues (defined as sales tax or lodging tax) levied by the City on the businesses. AIG Baker will remit sales and lodging tax to the City. The developer will also make payments-in-lieu of taxes for the amounts that would have been assessed on the property. The commencement date of this transaction shall be the date upon which the Deed and the Assignment of Leasehold Interest are executed and delivered. The agreement was amended on April 10, 2010 requiring that AIG Baker to set up an escrow account to satisfy the Bridge Security Agreement. See note 12 for more information.

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

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

The City is party to various legal proceedings, which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that my result from these proceedings.

Construction, engineering, and design contracts for material commitments at December 31, 2018 are as follows:

Contractor/Engineer	Project	Resolution Number	Contract Amount Including Change Orders	Approximate Expenditures Incurred To Date	Approximate Balance of Contract
Burk-Kleinpter, Inc.	Wolf Bay Bridge	18-095	$ 3,120,433	$ 464,591	$ 2,655,842
Hughes Plumbing & Utility Contractors, Inc.	Fire Break Force Main	18-144	484,000	200,010	283,990
Sun Coast Builders, Inc.	Metal Buildings at WTP	18-171	470,583	-	470,583
Cunningham Delaney Construction, LLC	Backcountry Trail Loop and Sidewalks	18-162	652,243	-	652,243

NOTE 13 – SUBSEQUENT EVENTS

Subsequent events were evaluated from January 1, 2019 through the financial statement issuance date, October 8, 2019.

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, 2018

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance With Final Budget Over/(Under)
RESOURCES (INFLOWS)				
Property taxes	$ 3,700,000	$ 3,700,000	$ 3,969,081	$ 269,081
Intergovernmental:				
State tax	129,000	129,000	132,241	3,241
Local tax	21,606,000	21,606,000	35,314,958	13,708,958
Grants	554,500	554,500	198,114	(356,386)
BP state grant	-	-	157,715	157,715
Personnel service reimbursement	70,000	70,000	70,396	396
Other licenses, permits and fees	3,891,800	3,891,800	4,932,501	1,040,701
Fines and forfeitures	498,000	498,000	494,452	(3,548)
Charges for services	993,000	993,000	1,154,913	161,913
Rent	73,700	73,700	103,040	29,340
Investment earnings	30,000	30,000	264,964	234,964
Contracts	422,500	422,500	428,243	5,743
Miscellaneous	3,480,596	3,480,596	332,724	(3,147,872)
AMOUNTS AVAILABLE FOR APPROPRIATION	35,449,096	35,449,096	47,553,342	12,104,246
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
General government	3,094,900	3,094,900	3,552,000	457,100
Court	495,220	495,220	554,198	58,978
Finance	821,330	821,330	890,001	68,671
Police	6,206,674	6,206,674	6,081,607	(125,067)
Corrections	774,693	774,693	670,146	(104,547)
Engineering and environmental	1,564,666	1,564,666	1,652,689	88,023
Communications	642,870	642,870	620,434	(22,436)
Fire	5,597,800	5,597,800	5,786,795	188,995
Public works	3,010,265	3,010,265	2,991,874	(18,391)
Landscape	1,930,300	1,930,300	1,827,146	(103,154)
Parks and recreation	3,049,400	3,049,400	2,741,855	(307,545)
BP oil spill	1,728,307	1,728,307	1,778,626	50,319
Capital improvements	4,528,339	4,528,339	7,741,527	3,213,188
TOTAL CHARGES TO APPROPRIATIONS	33,444,764	33,444,764	36,888,898	3,444,134
EXCESS OF AMOUNTS AVAILABLE FOR OVER CHARGES TO APPROPRIATIONS	2,004,332	2,004,332	10,664,444	8,660,112
OTHER FINANCING SOURCES (USES)				
Proceeds from disposal of assets	50,000	50,000	19,848	(30,152)
Transfers in	1,262,000	1,262,000	1,332,809	70,809
Transfers out	(5,544,874)	(5,544,874)	(5,321,608)	223,266
TOTAL OTHER FINANCING SOURCES (USES)	(4,232,874)	(4,232,874)	(3,968,951)	263,923
STATUTORY REVENUE REDUCTION	(3,166,354)	(3,166,354)	-	3,166,354
EXCESS (DEFICIENCY) OF RESOURCES OVER CHARGES TO APPROPRIATIONS	(5,394,896)	(5,394,896)	6,695,493	12,090,389
FUND BALANCES - BEGINNING	46,764,285	46,764,285	46,764,285	-
FUND BALANCES - ENDING	$41,369,389	$41,369,389	$ 53,459,778	$ 12,090,389

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

THE CITY OF ORANGE BEACH, ALABAMA
SEWER FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2018

	Original	Final	Actual Amounts (Budgetary Basis)	Variance With Final Budget Over/(Under)
OPERATING REVENUES				
Charges for services	$ 6,671,000	$ 6,671,000	$ 7,226,016	$ 555,016
Miscellaneous income	35,000	35,000	1,890	(33,110)
TOTAL OPERATING REVENUES	6,706,000	6,706,000	7,227,906	521,906
OPERATING EXPENSES				
Salaries, wages and employee benefits	1,586,322	1,586,322	1,635,600	49,278
Contractual services	30,000	30,000	26,036	(3,964)
Utilities	811,000	811,000	938,733	127,733
Repairs and maintenance	4,030,000	4,030,000	451,874	(3,578,126)
Other supplies and expenses	167,000	167,000	174,077	7,077
Insurance claims and expenses	22,000	22,000	21,518	(482)
Bad debt expense	-	-	43,777	43,777
Bond premium amortization	-	-	6,164	6,164
Depreciation	-	-	1,608,443	1,608,443
TOTAL OPERATING EXPENSES	6,646,322	6,646,322	4,906,222	(1,740,100)
OPERATING INCOME (LOSS)	59,678	59,678	2,321,684	2,262,006
NON-OPERATING REVENUES (EXPENSES)				
Interest income	4,000	4,000	99,468	95,468
Interest expense	(887,638)	(887,638)	(938,703)	(51,065)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(883,638)	(883,638)	(839,235)	44,403
INCOME (LOSS) BEFORE TRANSFERS	(823,960)	(823,960)	1,482,449	2,306,409
TRANSFERS IN (OUT)	(1,510,000)	(1,510,000)	(637,433)	872,567
CHANGE IN NET POSITION	(2,333,960)	(2,333,960)	845,016	3,178,976
NET POSITION - BEGINNING	14,813,605	14,813,605	14,813,605	-
NET POSITION - ENDING	$12,479,645	$12,479,645	$ 15,658,621	$ 3,178,976

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

THE CITY OF ORANGE BEACH, ALABAMA
REFUSE FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2018

	Original	Final	Actual Amounts (Budgetary Basis)	Variance With Final Budget Over/(Under)
OPERATING REVENUES				
Charges for services	$ 2,550,000	$ 2,550,000	$ 2,555,090	$ 5,090
Miscellaneous income	10,000	10,000	28,629	18,629
TOTAL OPERATING REVENUES	2,560,000	2,560,000	2,583,719	23,719
OPERATING EXPENSES				
Salaries, wages and employee benefits	492,970	492,970	489,315	(3,655)
Contractual services	1,886,000	1,886,000	2,022,084	136,084
Utilities	8,860	8,860	8,658	(202)
Repairs and maintenance	102,000	102,000	97,481	(4,519)
Other supplies and expenses	73,300	73,300	48,586	(24,714)
Insurance claims and expenses	22,000	22,000	9,414	(12,586)
Depreciation	-	-	138,456	138,456
TOTAL OPERATING EXPENSES	2,585,130	2,585,130	2,813,994	228,864
OPERATING INCOME (LOSS)	(25,130)	(25,130)	(230,275)	(205,145)
NON-OPERATING REVENUES (EXPENSES)				
Interest income	-	-	50,185	50,185
CHANGE IN NET POSITION	(25,130)	(25,130)	(180,090)	(154,960)
NET POSITION - BEGINNING	(334,279)	(334,279)	(334,279)	-
NET POSITION - ENDING	$ (359,409)	$ (359,409)	$ (514,369)	$ (154,960)

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

THE CITY OF ORANGE BEACH, ALABAMA
BCBC FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2018

	Original	Final	Actual Amounts (Budgetary Basis)	Variance With Final Budget Over/(Under)
OPERATING REVENUES				
Charges for services	$ 1,000,000	$ 1,000,000	$ -	$ (1,000,000)
TRANSFERS IN (OUT)	(1,000,000)	(1,000,000)	-	1,000,000
CHANGE IN NET POSITION	-	-	-	-
NET POSITION - BEGINNING	(2,171,327)	(2,171,327)	(2,171,327)	-
NET POSITION - ENDING	$ (2,171,327)	$ (2,171,327)	$ (2,171,327)	$ -

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO THE RETIREMENT SYSTEMS OF ALABAMA
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017	2016	2015
Actuarially determined contributions	$ 860,452	$ 746,774	$ 850,584	$ 800,331
Contributions in relation to the actuarially determined contribution	860,452	746,774	850,584	800,331
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	17,723,251	14,999,922	14,393,677	13,508,477
Contributions as a percentage of covered payroll	4.85%	4.98%	5.91%	5.92%

Notes to Schedule

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2019 were based on the September 30, 2016 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period January 1, 2018 to September 30, 2018:

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

Methods and assumptions used to determine contribution rates for the period October 1, 2018 to December 31, 2018:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	15.7 years
Asset valuation method	Five year smoothed market
Inflation	2.875%
Salary increases	3.375% - 5.125% including inflation
Investment rate of return	7.875%, net of pension plan investment expense, including inflation

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

THE CITY OF ORANGE BEACH, ALABAMA
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017	2016	2015	2014
Total pension liability					
Service cost	$ 1,317,681	$ 1,245,314	$ 1,213,069	$ 1,168,947	$ 1,090,244
Interest	2,877,895	2,676,913	2,401,553	2,113,138	1,915,434
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	518,534	(503,971)	23,081	920,209	-
Changes of assumptions	258,582	-	1,601,749	-	-
Benefit payments, including refunds of employee contributions	(1,160,003)	(853,462)	(641,884)	(552,344)	(516,402)
Transfers among employers	124,934	181,799	29,622	-	-
Net change in total pension liability	3,937,623	2,746,593	4,627,190	3,649,950	2,489,276
Total pension liability - beginning	37,714,136	34,967,543	30,340,353	26,690,403	24,201,127
Total pension liability - ending (a)	$ 41,651,759	$ 37,714,136	$ 34,967,543	$ 30,340,353	$ 26,690,403
Plan fiduciary net position					
Contributions - employer	$ 786,837	$ 804,848	$ 806,700	$ 801,525	$ 782,020
Contributions - member	1,013,613	862,030	773,424	728,225	703,936
Net investment income	3,233,903	3,866,396	2,700,298	297,551	2,552,678
Benefit payments, including refunds of employee contributions	(1,160,003)	(853,462)	(641,884)	(552,344)	(516,402)
Transfers among employers	124,934	181,799	29,622	327,982	231,356
Net change in plan fiduciary net position	3,999,284	4,861,611	3,668,160	1,602,939	3,753,588
Plan net position - beginning	34,560,567	29,698,956	26,030,796	24,427,857	20,674,269
Plan net position - ending (b)	$ 38,559,851	$ 34,560,567	$ 29,698,956	$ 26,030,796	$ 24,427,857
Net pension liability - ending (a) - (b)	$ 3,091,908	$ 3,153,569	$ 5,268,587	$ 4,309,557	$ 2,262,546
Plan fiduciary net position as a percentage of the total pension liability	92.58%	91.64%	84.93%	85.80%	91.52%
Covered payroll	17,723,251	14,999,922	14,393,677	13,508,477	13,175,276
Net pension liability as a percentage of covered payroll	17.45%	21.02%	36.60%	31.90%	17.17%

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

OTHER SUPPLEMENTARY INFORMATION

THE CITY OF ORANGE BEACH, ALABAMA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2018

	Special Revenues	Library	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	$ -	$ 267,940	$ 267,940
Restricted cash and cash equivalents	276,971	-	276,971
Accounts receivable - net	96,254	-	96,254
TOTAL ASSETS	$ 373,225	$ 267,940	$ 641,165
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Due to other funds	106,644	-	106,644
Accrued expenses	-	13,739	13,739
Total liabilities	106,644	13,739	120,383
Fund balances:			
Nonspendable	-	-	-
Spendable:			
Restricted	266,581	-	266,581
Committed	-	-	-
Assigned	-	254,201	254,201
Unassigned	-	-	-
Total fund balances	266,581	254,201	520,782
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 373,225	$ 267,940	$ 641,165

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, 2018

	Special Revenues	Library	Total Governmental Funds
REVENUES			
Intergovernmental:			
State tax	$ 384,026	$ -	$ 384,026
Grants	-	10,228	10,228
Other licenses, permits and fees	2,240	-	2,240
Fines and forfeitures	66,027	-	66,027
Investment earnings	259	1,751	2,010
Miscellaneous	118,809	27,659	146,468
TOTAL REVENUES	571,361	39,638	610,999
EXPENDITURES			
Library	-	706,160	706,160
Excess (deficiency) of revenues over expenditures	571,361	(666,522)	(95,161)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	626,567	626,567
Transfers out	(612,809)	-	(612,809)
TOTAL OTHER FINANCING SOURCES (USES)	(612,809)	626,567	13,758
NET CHANGE IN FUND BALANCES	(41,448)	(39,955)	(81,403)
FUND BALANCES - BEGINNING	308,029	294,156	602,185
FUND BALANCES - ENDING	$ 266,581	$ 254,201	$ 520,782

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, 2018

	Events Center	Arts Center	Total Nonmajor Proprietary Funds
ASSETS			
Current assets			
Cash and cash equivalents	$ -	$ 70,620	$ 70,620
Noncurrent assets			
Capital assets:			
Land	158,648	-	158,648
Buildings	1,667,976	2,152,541	3,820,517
Vehicles and equipment	76,104	81,630	157,734
Less: Accumulated depreciation	(471,951)	(81,638)	(553,589)
Total noncurrent assets	1,430,777	2,152,533	3,583,310
TOTAL ASSETS	1,430,777	2,223,153	3,653,930
LIABILITIES			
Current labilities			
Accounts payable	81,198	9,977	91,175
Due to other funds	412,370	210,223	622,593
Accrued expenses	12,050	15,345	27,395
Accrued compensated absences	7,558	9,572	17,130
Total current liabilities	513,176	245,117	758,293
Noncurrent labilities			
Accrued compensated absences	3,786	573	4,359
TOTAL LIABILITIES	516,962	245,690	762,652
NET POSITION			
Invested in capital assets, net of related debt	1,430,777	2,152,533	3,583,310
Unrestricted	(516,962)	(175,070)	(692,032)
TOTAL NET POSITION	913,815	1,977,463	2,891,278

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, 2018

	Events Center	Arts Center	Total Nonmajor Proprietary Funds
OPERATING REVENUES			
Charges for services	$ 165,192	$ 266,965	$ 432,157
Miscellaneous income	-	6,133	6,133
Merchandise sales	-	188,254	188,254
TOTAL OPERATING REVENUES	165,192	461,352	626,544
COST OF GOODS SOLD	-	110,447	110,447
GROSS PROFIT	165,192	350,905	516,097
OPERATING EXPENSES			
Salaries, wages and employee benefits	327,637	451,097	778,734
Contractual services	2,728	25,775	28,503
Utilities	63,970	48,041	112,011
Repairs and maintenance	203,560	49,458	253,018
Other supplies and expenses	39,639	66,892	106,531
Depreciation	63,821	65,322	129,143
TOTAL OPERATING EXPENSES	701,355	706,585	1,407,940
OPERATING INCOME (LOSS)	(536,163)	(355,680)	(891,843)
NON-OPERATING REVENUES (EXPENSES)			
Interest income	-	136	136
CHANGE IN NET POSITION	(536,163)	(355,544)	(891,707)
NET POSITION - BEGINNING	1,449,978	2,333,007	3,782,985
NET POSITION - ENDING	$ 913,815	$ 1,977,463	$ 2,891,278

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, 2018

	Events Center	Arts Center	Total Nonmajor Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	$ 165,192	$ 461,352	$ 626,544
Payments to employees for services	(316,586)	(445,024)	(761,610)
Payments to suppliers of goods & services	(237,321)	(302,997)	(540,318)
Payments from other funds	412,370	210,223	622,593
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	23,655	(76,446)	(52,791)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Interest income	-	136	136
Acquisition of property and equipment	(23,655)	(37,633)	(61,288)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(23,655)	(37,497)	(61,152)
NET (DECREASE) IN CASH	-	(113,943)	(113,943)
CASH & EQUIVALENTS AT BEGINNING OF YEAR	-	184,563	184,563
CASH & EQUIVALENTS AT END OF YEAR	$ -	$ 70,620	$ 70,620
Operating income (loss)	$ (536,163)	$ (355,680)	$ (891,843)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	63,821	65,322	129,143
(Increase) decrease in:			
Due to other funds	412,370	210,223	622,593
Increase (decrease) in:			
Accounts payable	72,576	(2,384)	70,192
Accrued payroll	11,051	6,073	17,124
Total adjustments	559,818	279,234	839,052
Net cash provided (used) by operating activities	$ 23,655	$ (76,446)	$ (52,791)

Supplemental Disclosures
Noncash Investing and Financing Activities: NONE

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

COMPLIANCE AND INTERNAL CONTROL SECTION

Jackson & Smith
CPA Group, PC

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Orange Beach, Alabama, as of and for the year ended December 31, 2018, 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 October 8, 2019.

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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as item 2018-1 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Orange Beach, Alabama's financial statements are free from 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 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Orange Beach, Alabama's Response to Findings

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

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.

Jackson & Smith

Jackson & Smith CPA Group, PC
Orange Beach, Alabama
October 8, 2019

FINDING – INTERNAL CONTROL OVER FINANCIAL REPORTING

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

2018-1

Condition: Lack of controls over the year-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 accruals and receivables are correctly recorded.

Effect: CONDITION 1 > The prior year accrual for year-end payroll was not reversed in the current year. As a result, liabilities and expenses were overstated by $666,939 prior to adjustment.

CONDITION 2 > The prior year accrual for local taxes receivable was not reversed in the current year. As a result, receivables and revenues were overstated by $943,830 prior to adjustment.

CONDITION 3 > Entries were not made to accrue amounts due to The Wharf per the terms of the agreement. As a result, payables and expenses were understated by $449,634.

Recommendations: The finance department should perform a year end post-closing review of all accruals recorded and tie balance sheet accounts to supporting documentation.

Views of responsible officials and planned corrective action plan: After transitioning to new accounting software in 2017, certain manual year end accruals are now automated. As a result, some manual prior year accruals were not reversed and some of the current year manual accruals were not made. The City will establish review procedures over year end nonrecurring adjustments as suggested by the auditors.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

2017-1

Condition: Lack of controls over the year-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 accruals and receivables 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 and tie balance sheet accounts to supporting documentation.

Views of responsible officials and planned corrective action plan: The City will establish review procedures over year end nonrecurring adjustments.