

**THE CITY OF ORANGE BEACH, ALABAMA**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

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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, 2020, 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, 2020, 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 46 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2022, 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 CPA Group, PC  
Orange Beach, Alabama  
February 24, 2022

## 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 2020 on December 31, 2020, the City of Orange Beach's assets exceeded its liabilities by \$162,408,949 whereas at the close of Fiscal Year 2019 on December 31, 2019, the City of Orange Beach's assets exceeded its liabilities by \$154,540,153. 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, 2020 and December 31, 2019 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, 2020 and December 31, 2019 and is derived from the Statement of Activities.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 61,205,778	\$ 62,999,202	\$ 8,023,151	\$ 8,363,916	\$ 69,228,929	\$ 71,363,118
Capital assets	97,998,845	89,216,740	25,620,145	27,640,395	123,618,990	116,857,135
Total assets	<u>159,204,623</u>	<u>152,215,942</u>	<u>33,643,296</u>	<u>36,004,311</u>	<u>192,847,919</u>	<u>188,220,253</u>
Deferred outflows of resources	<u>3,883,517</u>	<u>3,440,840</u>	<u>1,438,948</u>	<u>1,848,000</u>	<u>5,322,465</u>	<u>5,288,840</u>
Other liabilities	6,871,833	3,873,315	2,046,668	385,592	8,918,501	4,258,907
Long-term liabilities	<u>8,259,404</u>	<u>12,463,553</u>	<u>17,354,649</u>	<u>20,330,703</u>	<u>25,614,053</u>	<u>32,794,256</u>
Total liabilities	<u>15,131,237</u>	<u>16,336,868</u>	<u>19,401,317</u>	<u>20,716,295</u>	<u>34,532,554</u>	<u>37,053,163</u>
Deferred inflows of resources	<u>1,174,412</u>	<u>974,564</u>	<u>54,469</u>	<u>41,213</u>	<u>1,228,881</u>	<u>1,015,777</u>
Invested in capital assets						
Net of related debt	94,956,825	82,333,645	6,829,131	6,513,695	101,785,956	88,847,340
Restricted	15,530,581	13,954,691	7,099,739	8,417,360	22,630,320	22,372,051
Unrestricted	<u>36,295,085</u>	<u>42,057,014</u>	<u>1,697,588</u>	<u>1,263,748</u>	<u>37,992,673</u>	<u>43,320,762</u>
Total net position	<u>\$ 146,782,491</u>	<u>\$ 138,345,350</u>	<u>\$ 15,626,458</u>	<u>\$ 16,194,803</u>	<u>\$ 162,408,949</u>	<u>\$ 154,540,153</u>

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, 2020 and December 31, 2019 include the following:

The assets of the City exceeded its liabilities (net assets) at the close of the fiscal year ended December 31, 2020 by \$146,782,491 and at the close of the fiscal year ended December 31, 2019 by \$138,345,350 for Governmental Activities and by \$15,626,458 and \$16,194,803 (respectively for each year end) for Business-Type Activities. Net capital assets increased by \$8,782,105 from 2019 to 2020 for Governmental Activities and decreased by \$2,020,250 from 2019 to 2020 for Business-Type Activities. Long-term liabilities decreased from 2019 to 2020 by \$4,204,149 and \$2,976,054 for Governmental Activities and Business-Type Activities, respectively. Unrestricted net position decreased from 2019 to 2020 by \$5,761,929 and increased by \$433,840 for Governmental Activities and Business-Type Activities, respectively. Restricted net position increased from 2019 to 2020 by \$1,575,890 and decreased by \$1,317,621 for Governmental Activities and Business-Type Activities, respectively.

**Overall Analysis (continued)**

**Table 2 - Condensed Statement of Activities**

	Governmental		Business-Type		Total	
	Activities		Activities		Primary Government	
	2020	2019	2020	2019	2020	2019
<b>PRIMARY GOVERNMENT:</b>						
Revenues						
Charges for services	\$ 8,639,351	\$ 7,160,641	\$ 11,794,200	\$ 11,273,277	\$ 20,433,551	\$ 18,433,918
Operating grants and contributions	11,406,630	541,509	-	-	11,406,630	541,509
Capital grants and contributions	54,813	51,205	-	-	54,813	51,205
General revenues					-	-
Taxes	41,241,236	43,202,040	-	-	41,241,236	43,202,040
Investment earnings	388,437	580,750	164,131	185,911	552,568	766,661
Reimbursed expenses	222,276	272,427	-	-	222,276	272,427
Miscellaneous	653,401	224,377	29,406	127,860	682,807	352,237
Gain on disposal of assets	2,448	578,374	-	-	2,448	578,374
Total revenues	<u>62,608,592</u>	<u>52,611,323</u>	<u>11,987,737</u>	<u>11,587,048</u>	<u>74,596,329</u>	<u>64,198,371</u>
Expenses						
General government	22,426,516	8,256,444	-	-	22,426,516	8,256,444
Municipal court	482,490	538,505	-	-	482,490	538,505
Finance	992,168	937,859	-	-	992,168	937,859
Police	6,971,818	6,707,733	-	-	6,971,818	6,707,733
Corrections	692,536	661,107	-	-	692,536	661,107
Communications	636,753	650,173	-	-	636,753	650,173
Fire	8,397,235	7,277,337	-	-	8,397,235	7,277,337
Public works	3,741,668	4,425,432	-	-	3,741,668	4,425,432
Landscape	1,805,717	1,758,259	-	-	1,805,717	1,758,259
Parks & recreation	3,006,335	3,235,167	-	-	3,006,335	3,235,167
Library	762,880	727,602	-	-	762,880	727,602
Community development	1,786,407	1,872,708	-	-	1,786,407	1,872,708
Coastal resources	2,257,430	1,857,337	-	-	2,257,430	1,857,337
Recreation center	16,907	-	-	-	16,907	-
Expect Excellence	1,196,072	-	-	-	1,196,072	-
Interest on long-term debt	78,519	220,975	-	-	78,519	220,975
Sewer fund	-	-	7,028,325	6,312,082	7,028,325	6,312,082
Refuse fund	-	-	3,044,339	2,839,155	3,044,339	2,839,155
Events Center fund	-	-	588,007	588,661	588,007	588,661
Baldwin County Bridge fund	-	-	-	-	-	-
Arts Center fund	-	-	835,411	841,466	835,411	841,466
Total expenses	<u>55,251,451</u>	<u>39,126,638</u>	<u>11,476,082</u>	<u>10,581,364</u>	<u>66,727,533</u>	<u>49,708,002</u>
Increase (decrease) in net position						
before transfers	7,357,141	13,484,685	511,655	1,005,684	7,868,796	14,490,369
Transfers	<u>1,080,000</u>	<u>675,084</u>	<u>(1,080,000)</u>	<u>(675,084)</u>	-	-
Change in net position	8,437,141	14,159,769	(568,345)	330,600	7,868,796	14,490,369
Net position - beginning	<u>138,345,350</u>	<u>124,185,581</u>	<u>16,194,803</u>	<u>15,864,203</u>	<u>154,540,153</u>	<u>140,049,784</u>
Net position - ending	<u>\$ 146,782,491</u>	<u>\$ 138,345,350</u>	<u>\$ 15,626,458</u>	<u>\$ 16,194,803</u>	<u>\$ 162,408,949</u>	<u>\$ 154,540,153</u>

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, 2020 and December 31, 2019 include the following:

The City's total net position increased during the current year by \$7,868,796 and during the previous year by \$14,490,369. Net position of Governmental Activities increased during the current year by \$8,437,141 and during the previous year by \$14,159,769. Net position of Business-Type Activities decreased during the current year by \$568,345 and increased in the previous year by \$330,600.

## 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 \$55,579,807 as compared to \$58,527,195 at the end of the previous fiscal year with \$38,562,209 unassigned compared to \$44,063,420 reported as unassigned fund balance in the prior year. The remaining reserved amount of \$17,017,598 for fiscal year end 2020 is \$991,947 nonspendable, \$13,086,603 restricted, \$2,653,456 committed, and \$285,592 assigned as compared to the fiscal year ended 2019 amount of 14,463,775 \$271,431 nonspendable, \$4,576,885 restricted, \$9,375,773 committed, and \$239,686 assigned).

### Proprietary Funds

As of the close of the current fiscal year the City's Proprietary Funds reported total net position of \$15,626,458 compared to \$16,194,803 at the end of fiscal year 2019.

## 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 \$13,657,863 over the budgeted amounts. This mainly resulted from unforeseen expenses related to Hurricane Sally cleanup. Actual revenues were \$14,312,193 over the budgeted amounts. Local taxes exceeded budget by \$2,540,259 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, 2020, the City of Orange Beach reported net capital assets of \$97,998,845 and \$25,620,145 from Governmental Activities and Business-Type Activities, respectively. At December 31, 2019, the City of Orange Beach reported net capital assets of \$89,216,740 and \$26,740,394 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, 2020, the City of Orange Beach reported long-term debt of \$10,163,007 and \$18,914,453 from Governmental Activities and Business-Type Activities, respectively. At December 31, 2019, the City of Orange Beach reported long-term debt of \$12,463,553 and \$20,330,703 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 more than 30 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 was certified as a Living Building of which there are less than 20 in the world; the cottages on Lake Shelby are part of the 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) In June 2020, a groundbreaking ceremony was held for a South Baldwin Regional Medical Center freestanding emergency department in Gulf Shores, just north of Jack Edwards Airport on Hwy. 59. The \$15 million freestanding ER will be located on 11 acres owned by the City of Gulf Shores. The new emergency medical facility is expected to be open and ready for patient by May 2021. The City of Orange Beach worked in partnership with the City of Gulf Shores on this regional freestanding ER along with goals of regional healthcare improvements through 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 of Orange Beach to Aa1 in Spring of 2018. In September of 2020, S&P Global Ratings reaffirmed the City of Orange Beach's AA+ bond rating.

- 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 being 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. The funding for the majority of the City’s RESTORE projects has been approved and will be allocated at the time of each grant initiation.
- 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 megasite is one of the last certified sites in the Southeast and continues to hold great potential for jobs and should generate great economic benefits to the area, including Orange Beach. 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. The “Southern Heritage” a 50 foot shrimp boat was sunk in May 2020 as an Eagle Scout project led by Garrett Ard with the city funding \$10,000 of the total \$25,000 project costs continuing in reef development and investment.
- 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 – one opened in 2019 and one to open in early 2021 - 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 117,000 room nights on the entire Gulf Coast in 2019 with an estimated economic impact of \$121.4 million. 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. In 2019, Phase II began as a \$100 million investment of an indoor waterpark, which is under construction, a 200 room hotel, 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's \$26 million Orange Beach Middle/High School opened in August 2020. The City donated 40 acres of prime real estate for the school. The City has committed to fund a Performing Arts Center and an athletic training complex as part of the school's campus, estimated investment of around \$16 million in the two facilities. As anticipated, the opening of the City's first-ever middle/high school resulted in an influx of new families and a rise in property values. The Performing Arts Center will be a state-of-the-art facility with 710 seats and is scheduled to open in the summer of 2021. 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 2019, totaling \$2.9 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.
- 21) Impactful economic event- Pandemic: On March 19, 2020 Alabama Governor Kay Ivey closed all public and private beaches in the State of Alabama due to the coronavirus pandemic concerns. This closure continued through the month of April essentially stopping tourism for the one and a half months. The local economy rebounded once beaches reopened with restrictions and mandates in place such as social distancing and Orange Beach saw a banner summer season.
- 22) Impactful economic event – Hurricane Sally: On September 16, 2020, Hurricane Sally made a direct impact on Orange Beach, Alabama at almost Category 3 strength. The storm grew in intensity in its final hours of approach which had caused no mandatory evacuation. Moving at only 1mph, Sally deposited 30" of rainfall along with sustained winds near 110mph for hours. The damage and devastation was broad with severe impacts on marine related structures such as docks and marinas, vessels and the charter fishing and tour boat industry based in Orange Beach. Flooding was severe throughout the city. The city set very aggressive goals of cleanup and restoration which by end of the calendar year 2020 was met and by spring break of the following tourist season around 90% operation was back in force.

## BASIC FINANCIAL STATEMENTS

**GOVERNMENT – WIDE FINANCIAL STATEMENTS**

THE CITY OF ORANGE BEACH, ALABAMA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2020

	Primary Government		Totals
	Governmental Activities	Business-type Activities	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 36,019,482	\$ 4,826,296	\$ 40,845,778
Accounts receivable - net	15,101,965	104,614	15,206,579
Internal balances	4,011,187	(4,011,187)	-
Inventories	27,620	-	27,620
Prepays	964,327	3,689	968,016
Restricted assets:			
Cash and cash equivalents	5,081,197	7,099,739	12,180,936
Capital assets:			
Non-depreciable	75,081,861	1,034,710	76,116,571
Depreciable (net)	22,916,984	24,585,435	47,502,419
<b>TOTAL ASSETS</b>	<u>159,204,623</u>	<u>33,643,296</u>	<u>192,847,919</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred employer pension contributions	567,418	-	567,418
Deferred pension losses	2,784,280	-	2,784,280
Defeasance cost (net)	531,819	1,438,948	1,970,767
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>3,883,517</u>	<u>1,438,948</u>	<u>5,322,465</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 3,064,969	\$ 190,719	\$ 3,255,688
Accrued expenses	1,894,336	163,732	2,058,068
Accrued interest payable	8,925	132,413	141,338
Long-term liabilities:			
Due within one year:			
Compensated absences	483,603	84,804	568,407
Bonds payable	1,420,000	1,475,000	2,895,000
Due in more than one year:			
Net pension liability	6,424,006	-	6,424,006
Compensated absences	213,378	38,635	252,013
Bonds payable	1,622,020	17,316,014	18,938,034
<b>TOTAL LIABILITIES</b>	<u>15,131,237</u>	<u>19,401,317</u>	<u>34,532,554</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred pension gains	507,746	-	507,746
Unearned revenue	666,666	54,469	721,135
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>1,174,412</u>	<u>54,469</u>	<u>1,228,881</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	94,956,825	6,829,131	101,785,956
Restricted:			
Capital projects	1,417,216	-	1,417,216
Emergencies	14,113,365	7,099,739	21,213,104
Unrestricted	36,295,085	1,697,588	37,992,673
<b>TOTAL NET POSITION</b>	<u>\$ 146,782,491</u>	<u>\$ 15,626,458</u>	<u>\$ 162,408,949</u>

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

THE CITY OF ORANGE BEACH, ALABAMA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2020

Functions/Programs	Program Revenues				Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business type Activities	Total
<b>PRIMARY GOVERNMENT</b>							
Governmental activities:							
General government	\$ 22,426,516	\$ 550,731	\$ 10,709,942	\$ -	\$ (11,165,843)		\$ (11,165,843)
Court	482,490	94,695	-	-	(387,795)		(387,795)
Finance	992,168	3,063,312	-	-	2,071,144		2,071,144
Police	6,971,818	521,623	-	-	(6,450,195)		(6,450,195)
Corrections	692,536	-	-	-	(692,536)		(692,536)
Communications	636,753	-	-	-	(636,753)		(636,753)
Fire	8,397,235	1,185,510	-	-	(7,211,725)		(7,211,725)
Public works	3,741,668	-	-	54,813	(3,686,855)		(3,686,855)
Landscape	1,805,717	-	-	-	(1,805,717)		(1,805,717)
Parks and recreation	3,006,335	1,219,320	37,500	-	(1,749,515)		(1,749,515)
Library	762,880	63,768	7,000	-	(692,112)		(692,112)
Community development	1,786,407	1,940,392	34,500	-	188,485		188,485
Coastal resources	2,257,430	-	617,688	-	(1,639,742)		(1,639,742)
Recreation center	16,907	-	-	-	(16,907)		(16,907)
Expect Excellence	1,196,072	-	-	-	(1,196,072)		(1,196,072)
Interest on long-term debt	78,519	-	-	-	(78,519)		(78,519)
Total governmental activities (See Note 1)	<u>55,251,451</u>	<u>8,639,351</u>	<u>11,406,630</u>	<u>54,813</u>	<u>(35,150,657)</u>		<u>(35,150,657)</u>
Business-type activities:							
Sewer	7,028,325	7,422,045	-	-	-	393,720	393,720
Refuse	3,044,339	2,666,784	-	-	-	(377,555)	(377,555)
Events Center	568,007	65,796	-	-	-	(502,211)	(502,211)
Baldwin County Bridge Company (BCBC)	-	1,281,976	-	-	-	1,281,976	1,281,976
Arts Center	835,411	357,599	-	-	-	(477,812)	(477,812)
Total business-type activities	<u>11,476,082</u>	<u>11,794,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>318,118</u>	<u>318,118</u>
Total primary government	<u>\$ 66,727,533</u>	<u>\$ 20,433,551</u>	<u>\$ 11,406,630</u>	<u>\$ 54,813</u>	<u>\$ (35,150,657)</u>	<u>\$ 318,118</u>	<u>\$ (34,832,539)</u>
General revenues:							
Property taxes					4,582,165	-	4,582,165
Local taxes					20,015,420	-	20,015,420
Franchise taxes					1,544,984	-	1,544,984
State taxes					698,812	-	698,812
Sales taxes					14,399,855	-	14,399,855
Unrestricted investment earnings					388,437	164,131	552,568
Reimbursed expenses					222,276	-	222,276
Miscellaneous					653,401	29,406	682,807
Gain on disposal of assets					2,448	-	2,448
Transfers					1,080,000	(1,080,000)	-
Total general revenues, special items and transfers					<u>43,587,798</u>	<u>(886,463)</u>	<u>42,701,335</u>
Change in net position					8,437,141	(568,345)	7,868,796
Net position - beginning					<u>138,345,350</u>	<u>16,194,803</u>	<u>154,540,153</u>
Net position - ending					<u>\$ 146,782,491</u>	<u>\$ 15,626,458</u>	<u>\$ 162,408,949</u>

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, 2020

	General	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 35,715,695	\$ 303,787	\$ 36,019,482
Restricted cash and cash equivalents	3,738,489	1,342,708	5,081,197
Accounts receivable - net	15,006,378	95,587	15,101,965
Due from other funds	5,029,103	-	5,029,103
Inventory	27,620	-	27,620
Prepaid expenses	964,327	-	964,327
<b>TOTAL ASSETS</b>	<b>\$ 60,481,612</b>	<b>\$ 1,742,082</b>	<b>\$ 62,223,694</b>
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	3,064,969	-	3,064,969
Due to other funds	778,291	239,625	1,017,916
Accrued expenses	1,777,850	15,440	1,793,290
Appearance bonds	56,816	-	56,816
Performance bonds	33,545	-	33,545
Communications tower escrow funds	10,685	-	10,685
<b>Total liabilities</b>	<b>5,722,156</b>	<b>255,065</b>	<b>5,977,221</b>
 <b>Deferred inflows of resources:</b>			
Unearned revenue	666,666	-	666,666
 <b>Fund balances:</b>			
Nonspendable	991,947	-	991,947
<b>Spendable:</b>			
Restricted	11,885,178	1,201,425	13,086,603
Committed	2,653,456	-	2,653,456
Assigned	-	285,592	285,592
Unassigned	38,562,209	-	38,562,209
<b>Total fund balances</b>	<b>54,092,790</b>	<b>1,487,017</b>	<b>55,579,807</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 60,481,612</b>	<b>\$ 1,742,082</b>	<b>\$ 62,223,694</b>

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, 2020

Fund balances - total governmental funds \$ 55,579,807

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	125,819,946	
Less: accumulated depreciation	<u>(27,821,101)</u>	97,998,845

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	567,418	
Deferred pension losses	2,784,280	
Loss on advance refunding	880,250	
Less: accumulated amortization	<u>(348,431)</u>	3,883,517

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

Deferred pension gains	<u>(507,746)</u>	(507,746)
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Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds.

Governmental bonds payable	(2,870,000)	
Premium on bonds issued	(822,532)	
Discount on bonds issued	42,033	
Accumulated amortization of premium/discount	608,479	
Net pension liability	(6,424,006)	
Compensated absences	<u>(696,981)</u>	(10,163,007)

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

Accrued interest payable		<u>(8,925)</u>
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Net position of governmental activities \$ 146,782,491

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, 2020

	General	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Property taxes	\$ 4,582,166	\$ -	\$ 4,582,166
Intergovernmental:			
State tax	214,539	463,099	677,638
Local tax	35,960,259	-	35,960,259
Grants	11,399,630	7,000	11,406,630
BP proceeds	352,927	-	352,927
Personnel service reimbursement	222,276	-	222,276
Other licenses, permits and fees	6,180,438	1,878	6,182,316
Fines and forfeitures	460,873	43,929	504,802
Charges for services	989,836	-	989,836
Rent	158,703	-	158,703
Investment earnings	376,122	12,315	388,437
Contracts	747,457	-	747,457
Miscellaneous	289,917	142,781	432,698
<b>TOTAL REVENUES</b>	<u>61,935,143</u>	<u>671,002</u>	<u>62,606,145</u>
<b>EXPENDITURES</b>			
General government	17,187,375	-	17,187,375
Coastal resources	1,961,210	-	1,961,210
Court	482,490	-	482,490
Finance	989,846	-	989,846
Police	6,373,723	-	6,373,723
Corrections	692,536	-	692,536
Community development	1,798,354	-	1,798,354
Communications	625,796	-	625,796
Fire	7,483,506	-	7,483,506
Public works	3,119,578	-	3,119,578
Landscape	1,805,717	-	1,805,717
Parks and recreation	2,449,604	-	2,449,604
Recreation center	6,850	-	6,850
Expect Excellence	1,196,072	-	1,196,072
Library	-	729,013	729,013
Capital improvements	15,849,635	-	15,849,635
Securities lending:			
Fiscal agent fees	-	1,632	1,632
Debt service:			
Principal payments	-	3,780,000	3,780,000
Interest and other	-	126,520	126,520
<b>TOTAL EXPENDITURES</b>	<u>62,022,292</u>	<u>4,637,165</u>	<u>66,659,457</u>
Excess (deficiency) of revenues over expenditures	<u>(87,149)</u>	<u>(3,966,163)</u>	<u>(4,053,312)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from disposal of assets	25,926	-	25,926
Transfers in	1,638,868	2,404,572	4,043,440
Transfers out	(2,404,572)	(558,868)	(2,963,440)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(739,778)</u>	<u>1,845,704</u>	<u>1,105,926</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(826,927)</u>	<u>(2,120,459)</u>	<u>(2,947,386)</u>
<b>FUND BALANCES - BEGINNING</b>	<u>54,919,717</u>	<u>3,607,476</u>	<u>58,527,193</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 54,092,790</u>	<u>\$ 1,487,017</u>	<u>\$ 55,579,807</u>

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

THE CITY OF ORANGE BEACH, ALABAMA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL ACTIVITIES  
TO THE CHANGES IN NET POSITION ON THE STATEMENT OF ACTIVITIES  
DECEMBER 31, 2020

Net change in fund balances \$ (2,947,386)

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	11,253,615	
Less: current year depreciation	(2,448,032)	
Less: book value of disposed assets	<u>(23,478)</u>	8,782,105

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	<u>3,780,000</u>	3,841,075

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

Amortization of loss on refunding	(44,012)	
Decrease in interest accrued on long term debt	49,633	
Increase in compensated absences	(62,482)	
Increase in deferred employer pension contributions	143,982	
Increase in deferred pension losses	342,707	
Increase in deferred pension gains	(190,432)	
Increase in net pension liability	<u>(1,478,049)</u>	<u>(1,238,653)</u>

Change in net position of governmental activities \$ 8,437,141

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, 2020

	Sewer	Other Proprietary Funds	Total Proprietary Funds
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 4,763,372	\$ 62,924	\$ 4,826,296
Restricted cash and cash equivalents	7,099,739	-	7,099,739
Accounts receivable - net	77,901	26,713	104,614
Due from other funds	778,291	896,831	1,675,122
Prepaid expenses	3,689	-	3,689
Total current assets	<u>\$12,722,992</u>	<u>\$ 986,468</u>	<u>\$13,709,460</u>
<b>Noncurrent assets</b>			
<b>Capital assets:</b>			
Land	343,588	158,648	502,236
Buildings	-	3,820,517	3,820,517
Sewer plant	29,296,230	-	29,296,230
Vehicles and equipment	2,544,368	1,635,684	4,180,052
Distribution and collection system	13,763,412	-	13,763,412
Less: Accumulated depreciation	(24,192,876)	(1,749,426)	(25,942,302)
Utility deposits	-	-	-
Total noncurrent assets	<u>21,754,722</u>	<u>3,865,423</u>	<u>25,620,145</u>
<b>TOTAL ASSETS</b>	<u>34,477,714</u>	<u>4,851,891</u>	<u>39,329,605</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Unamortized loss on refunding - net	<u>1,438,948</u>	<u>-</u>	<u>1,438,948</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 149,633	\$ 41,086	\$ 190,719
Due to other funds	896,831	4,789,478	5,686,309
Accrued expenses	96,118	67,614	163,732
Accrued compensated absences	53,524	31,280	84,804
Accrued interest payable	132,413	-	132,413
Current portion of bonds payable	1,475,000	-	1,475,000
Total current liabilities	<u>2,803,519</u>	<u>4,929,458</u>	<u>7,732,977</u>
<b>Noncurrent liabilities</b>			
Accrued compensated absences	30,803	7,832	38,635
Series 2020 G.O. Sewer Warrant - net	15,560,000	-	15,560,000
Series 2012 G.O. Sewer Warrant - net	1,756,014	-	1,756,014
Total noncurrent liabilities	<u>17,346,817</u>	<u>7,832</u>	<u>17,354,649</u>
<b>TOTAL LIABILITIES</b>	<u>20,150,336</u>	<u>4,937,290</u>	<u>25,087,626</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unearned revenue	<u>54,469</u>	<u>-</u>	<u>54,469</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	5,845,428	3,865,423	9,710,851
Unrestricted	<u>9,866,429</u>	<u>(3,950,822)</u>	<u>5,915,607</u>
<b>TOTAL NET POSITION</b>	<u>\$15,711,857</u>	<u>\$ (85,399)</u>	<u>\$15,626,458</u>

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

THE CITY OF ORANGE BEACH, ALABAMA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2020

	Sewer	Other Proprietary Funds	Total Proprietary Funds
OPERATING REVENUES			
Charges for services	\$ 7,422,045	\$ 4,200,333	\$11,622,378
Miscellaneous income	20,668	10,861	31,529
Merchandise sales	-	187,028	187,028
TOTAL OPERATING REVENUES	<u>7,442,713</u>	<u>4,398,222</u>	<u>11,840,935</u>
COST OF GOODS SOLD	<u>-</u>	<u>115,913</u>	<u>115,913</u>
GROSS PROFIT	<u>7,442,713</u>	<u>4,282,309</u>	<u>11,725,022</u>
OPERATING EXPENSES			
Salaries, wages and employee benefits	1,823,028	1,345,313	3,168,341
Contractual services	551,994	2,233,667	2,785,661
Utilities	865,987	111,137	977,124
Repairs and maintenance	791,206	195,696	986,902
Other supplies and expenses	319,280	169,403	488,683
Bad debt expense	13,265	-	13,265
Bond premium amortization	16,400	-	16,400
Depreciation	1,662,441	293,956	1,956,397
TOTAL OPERATING EXPENSES	<u>6,043,601</u>	<u>4,349,172</u>	<u>10,392,773</u>
OPERATING INCOME (LOSS)	<u>1,399,112</u>	<u>(66,863)</u>	<u>1,332,249</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	164,090	41	164,131
Interest expense	(780,091)	-	(780,091)
Bond issue costs	(204,630)	-	(204,630)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(820,631)</u>	<u>41</u>	<u>(820,590)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>578,481</u>	<u>(66,822)</u>	<u>511,659</u>
TRANSFERS IN (OUT)	<u>(1,080,000)</u>	<u>-</u>	<u>(1,080,000)</u>
CHANGE IN NET POSITION	<u>(501,519)</u>	<u>(66,822)</u>	<u>(568,341)</u>
NET POSITION - BEGINNING	<u>16,213,376</u>	<u>(18,577)</u>	<u>16,194,799</u>
NET POSITION - ENDING	<u>\$15,711,857</u>	<u>\$ (85,399)</u>	<u>\$15,626,458</u>

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

THE CITY OF ORANGE BEACH, ALABAMA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2020

	Sewer	Other Proprietary Funds	Total Proprietary Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 7,475,263	\$ 4,491,759	\$11,967,022
Payments to employees for services	(1,781,382)	(1,321,932)	(3,103,314)
Payments to suppliers of goods & services	(2,460,352)	(2,841,128)	(5,301,480)
Payments from (to) other funds	<u>(811,260)</u>	<u>(342,028)</u>	<u>(1,153,288)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>2,422,269</u>	<u>(13,329)</u>	<u>2,408,940</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers to other funds	<u>(1,080,000)</u>	-	<u>(1,080,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Interest income	164,090	39	164,129
Increase in restricted cash	1,317,621	-	1,317,621
Proceeds from Series 2020 G.O. Warrants	15,660,000	-	15,660,000
Series 2020 G.O. Warrants bond issue costs	(204,630)	-	(204,630)
Principal repayments for capital purposes	(17,095,686)	-	(17,095,686)
Interest paid on capital debt	(384,561)	-	(384,561)
Acquisition of property and equipment	<u>(836,148)</u>	-	<u>(836,148)</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,379,314)</u>	<u>39</u>	<u>(1,379,275)</u>
NET INCREASE (DECREASE) IN CASH	<u>(37,045)</u>	<u>(13,290)</u>	<u>(50,335)</u>
CASH & EQUIVALENTS - BEG. OF YEAR	<u>4,800,417</u>	<u>76,214</u>	<u>4,876,631</u>
CASH & EQUIVALENTS - END OF YEAR	<u>\$ 4,763,372</u>	<u>\$ 62,924</u>	<u>\$ 4,826,296</u>

Operating income (loss)	<u>\$ 1,399,112</u>	<u>\$ (66,863)</u>	<u>\$ 1,332,249</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	1,662,441	293,956	1,956,397
Amortization	16,400	-	16,400
(Increase) decrease in:			
Accounts receivable	31,934	93,537	125,471
Due to other funds	(811,260)	(342,028)	(1,153,288)
Deposits	625	-	625
Increase (decrease) in:			
Accounts payable	68,115	(15,312)	52,803
Accrued payroll	41,646	23,381	65,027
Deferred revenue	<u>13,256</u>	-	<u>13,256</u>
Total adjustments	<u>1,023,157</u>	<u>53,534</u>	<u>1,076,691</u>
Net cash provided (used) by operating activities	<u>\$ 2,422,269</u>	<u>\$ (13,329)</u>	<u>\$ 2,408,940</u>

Supplemental Disclosures

Noncash Investing and Financing Activities: NONE

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

NOTES TO THE FINANCIAL STATEMENTS

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020

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

**A. GENERAL STATEMENT**

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

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

**B. FINANCIAL REPORTING ENTITY**

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

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

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

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

**C. BASIS OF PRESENTATION**

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020

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

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

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

**FUND FINANCIAL STATEMENTS:**

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

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

**General Fund -**

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

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

**Sewer Utility System -**

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

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020

**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.

**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:*

**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.

**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.

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020

**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 budgeted 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.

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020

**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 \$4,741,934 invested in the JP Morgan 100% U.S. Treasury Securities Money Market Fund #677 as of December 31, 2020. 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.

THE CITY OF ORANGE BEACH, ALABAMA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2020

**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.

Assets capitalized, not including infrastructure assets, have varying capitalization thresholds depending on the asset type. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives and capitalization thresholds are as follows:

	Useful Life	Capitalization Threshold Before 2/5/19	Capitalization Threshold After 2/5/19
Buildings	35-50 years	\$ 100,000	\$ 100,000
Building improvements	20-30 years	100,000	100,000
Machinery, vehicles and equipment	5-15 years	7,500	15,000
Furniture and fixtures	3-15 years	7,500	15,000
Land	n/a	7,500	10,000

**Sewer Utility System Fund**

During 2007, The City began constructing a new wastewater 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.

**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.

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

**O. PROPERTY TAXES**

All ad valorem taxes levied by the State, County and the City are assessed and collected by the Tax Collector of Baldwin County, Alabama. The Baldwin County tax calendar requires the Tax Assessor to assess and attach taxes as enforceable liens on property as of September 30, and taxes are due October 1 through December 31 of each year. Property taxes not paid by January 1, are considered as delinquent. Tax collections received by the County Tax Collector are remitted to the City on a monthly basis. All amounts paid to the City within the bill paying period are included in revenues. The City currently assesses 4 mills on property within the City Limits. The Council has the authority to increase property taxes at its discretion, within certain statutory limits.

**P. 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 nor 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.

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020

**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
<b>Fund Balances:</b>					
<b>Nonspendable:</b>					
Inventories	\$ 27,620	\$ -	\$ -	\$ -	\$ 27,620
Prepaid expenses	964,327	-	-	-	964,327
<b>Restricted for:</b>					
Grants	11,459,909	-	-	-	11,459,909
Municipal court	57,089	-	-	-	57,089
Debt service	368,180	824,152	-	-	1,192,332
Capital outlay	-	-	377,273	-	377,273
<b>Committed to:</b>					
Emergencies	2,653,456	-	-	-	2,653,456
<b>Assigned to:</b>					
Library	-	-	-	285,592	285,592
<b>Unassigned:</b>	<u>38,562,209</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,562,209</u>
<b>Total Fund Balance:</b>	<u>\$ 54,092,790</u>	<u>\$ 824,152</u>	<u>\$ 377,273</u>	<u>\$ 285,592</u>	<u>\$ 55,579,807</u>

**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, 2020, the Events Center Fund, Refuse Fund and Baldwin County Bridge Fund had accumulated deficits of \$53,001, \$1,096,619, and \$103,110, respectively. It is anticipated that the Events Center Fund and Refuse Fund deficits 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.

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020

**NOTE 2 – CASH AND RESTRICTED CASH**

A detail of cash as of December 31, 2020 is as follows:

	Governmental-type Funds	Business-type Funds
Cash on hand	\$ 3,905	\$ 100
Cash in banks		
Operations	36,015,577	4,826,194
Reserved- Disaster	3,313,219	7,092,565
Reserved- Special revenues	387,026	-
Reserved- Debt service	1,380,952	7,176
	<u>\$ 41,100,679</u>	<u>\$ 11,926,035</u>

**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-1 through 41-14A-14. Under the SAFE Program all public funds are protected through the collateral pool administered by the Alabama State Treasurer's Office under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged failed to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

At December 31, 2020 the carrying amount of the City's deposits, including Certificates of Deposit, was \$68,624,254 and the bank balance was \$71,221,873. 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](http://www.rsa-al.gov).

THE CITY OF ORANGE BEACH, ALABAMA  
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**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, 2019, the City's membership consisted of:

Retired members or their beneficiaries currently receiving benefits	62
Vested inactive members	14
Non-vested inactive members	61
Active members	405
Post-DRDP retired members still in active service	-
Total	542

THE CITY OF ORANGE BEACH, ALABAMA  
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**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, 2020, 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, 2020 was 6.23% of pensionable pay for Tier 1 employees, and 3.27% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2018, 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 \$1,071,208 for the year ended December 31, 2020.

**C. NET PENSION LIABILITY**

The City's net pension liability was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2019 rolled forward to September 30, 2020 using standard roll-forward techniques as shown in the following table:

	Expected	<u>Actual Before</u> Act 2019-132	<u>Actual After</u> Act 2019-132
(a) TPL as of September 30, 2019	\$ 45,072,394	\$ 44,801,716	\$ 45,762,746
(b) Discount rate	7.70%	7.70%	7.70%
(c) Entry age normal cost for the period October 1, 2019 - September 30, 2020	1,469,240	1,469,240	1,677,299
(d) Transfers among employees	-	(516,798)	(516,798)
(e) Actual benefit payments and refunds for the period October 1 2019 - September 30, 2020	<u>(1,343,369)</u>	<u>(1,343,369)</u>	<u>(1,343,369)</u>
(f) TPL as of September 30, 2020 = [(a) x (1 + (b))] + (c) + (d) + [(e) x (1 + 0.5 x (b))]	<u>\$ 48,617,120</u>	<u>\$ 47,808,801</u>	<u>\$ 49,051,890</u>
(g) Difference between expected and actual		\$ (808,318)	
(h) Less liability transferred for immediate recognition		<u>(516,798)</u>	
(i) Experience (gain) / loss = (g) - (h)		<u>\$ (291,520)</u>	
(j) Difference between Actual TPL before and after Act 2019-132 benefit change (gain) / loss			\$ 1,243,088

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

**C. NET PENSION LIABILITY (continued)**

*Actuarial assumptions:* The total pension liability in the September 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.25% - 5.0%
Investment rate of return*	7.70%

\* 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, 2019 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, 2018. The Board of Control accepted and approved these changes in September 2018, which became effective at the beginning of fiscal year 2018.

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	<u>100.00%</u>	

\* Includes assumed rate of inflation of 2.50%.

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

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
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**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, 2019	\$ 45,072,394	\$ 40,126,437	\$ 4,945,957
Changes for the year:			
Service cost	1,469,240	-	1,469,240
Interest	3,418,855	-	3,418,855
Changes of benefit terms	1,243,089	-	1,243,089
Changes of assumptions	-	-	-
Difference between expected and actual experience	(291,520)	-	(291,520)
Contributions - employer	-	921,337	(921,337)
Contributions - employee	-	1,141,547	(1,141,547)
Net investment income	-	2,298,731	(2,298,731)
Benefit payments, including refunds of employee contributions	(1,343,369)	(1,343,369)	-
Administrative expense	-	-	-
Transfers among employees	(516,798)	(516,798)	-
Net changes	3,979,497	2,501,448	1,478,049
Balance at September 30, 220	\$ 49,051,891	\$ 42,627,885	\$ 6,424,006

*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	\$ 13,119,717	\$ 6,424,006	\$ 846,281

*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, 2020. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2020. The auditor's report dated April 30, 2021 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

THE CITY OF ORANGE BEACH, ALABAMA  
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**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, 2020, the City recognized pension expense of \$1,684,991. At December 31, 2020, 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	\$ 677,960	\$ 507,746
Changes of assumptions	786,687	-
Net difference between projected and actual earnings on plan investments	1,319,633	-
Employer contributions subsequent to the measurement date	567,418	-
Total	\$ 3,351,698	\$ 507,746

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:	
2022	\$ 470,836
2023	776,069
2024	791,449
2025	211,774
2026	68,379
Thereafter	(41,973)

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

THE CITY OF ORANGE BEACH, ALABAMA  
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**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

Year	Beginning Balance		Amort. Period						Ending Balance		
	Initial Balance of Losses / Deferred Outflow	Initial Balance of Gains / Deferred Inflow		Deferred Outflows	Deferred Inflows	Losses / Deferred Outflows	Gains / Deferred Inflows	Amounts Recog. In Pension Expense / Deferred Outflow	Amounts Recog. In Pension Expense / Deferred Inflow	Deferred Outflows (a) + (c) - (e)	Deferred Inflows (b) + (d) - (f)
	(a)	(b)		(c)	(d)	(e)	(f)	(e)	(b) + (d) - (f)		
2020	\$ -	\$ 291,520	7.5	\$ -	\$ -	\$ -	\$ 291,520	\$ -	\$ 38,869	\$ -	\$ 252,651
2019	130,650	-	8.0	114,319	-	-	-	16,331	-	97,988	-
2018	518,534	-	8.0	388,900	-	-	-	64,817	-	324,083	-
2017	-	503,971	8.1	-	317,314	-	-	-	62,219	-	255,095
2016	23,081	-	8.2	11,821	-	-	-	2,815	-	9,006	-
2015	920,209	-	8.2	<u>359,104</u>	<u>-</u>	<u>-</u>	<u>-</u>	112,221	-	<u>246,883</u>	<u>-</u>
Total				<u>\$ 874,144</u>	<u>\$ 317,314</u>	<u>\$ -</u>	<u>\$ 291,520</u>			<u>\$ 677,960</u>	<u>\$ 507,746</u>

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020

**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											
Year				<u>Beginning Balance</u>				Amounts Recogn. In Pension Expense / Deferred Outflow	Amounts Recogn. In Pension Expense / Deferred Inflow	<u>Ending Balance</u>	
	Initial Balance of Losses / Deferred Outflow	Initial Balance of Gains / Deferred Inflow	Amort. Period	Deferred Outflows	Deferred Inflows	Losses / Deferred Outflows	Gains / Deferred Inflows			Deferred Outflows (a) + (c) - (e)	Deferred Inflows (b) + (d) - (f)
	(a)	(b)		(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
2018	\$ 258,582	\$ -	8.0	\$ 193,936	\$ -	\$ -	\$ -	\$ 32,323	\$ -	\$ 161,613	\$ -
2017	-	-	8.1	-	-	-	-	-	-	-	-
2016	1,601,749	-	8.2	<u>820,409</u>	<u>-</u>	<u>-</u>	<u>-</u>	195,335	-	<u>625,074</u>	<u>-</u>
Total				<u>\$ 1,014,345</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>			<u>\$ 786,687</u>	<u>\$ -</u>

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
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**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											
Year	Initial Balance		Amort. Period	Beginning Balance				Amounts Recog. In Pension Expense /	Amounts Recog. In Pension Expense /	Ending Balance	
	of Losses / Deferred Outflow	of Gains / Deferred Inflow		Deferred Outflows	Deferred Inflows	Losses / Deferred Outflows	Gains / Deferred Inflows			Deferred Outflow	Deferred Inflow
				(a)	(b)	(c)	(d)	(e)	(f)	(e)	(b) + (d) - (f)
2020	\$ 798,809	\$ -	5.0	\$ -	\$ -	\$ 798,809	\$ -	\$ 159,762	\$ -	\$ 639,047	\$ -
2019	1,993,569	-	5.0	1,594,855	-	-	-	398,714	-	1,196,141	-
2018	-	525,801	5.0	-	315,481	-	-	-	105,160	-	210,321
2017	-	1,526,162	5.0	-	610,466	-	-	-	305,232	-	305,234
2016	-	579,120	5.0	-	115,824	-	-	-	115,824	-	-
Total				<u>\$ 1,594,855</u>	<u>\$ 1,041,771</u>	<u>\$ 798,809</u>	<u>\$ -</u>			<u>\$ 1,835,188</u>	<u>\$ 515,555</u>
Net difference between projected and actual earnings on investments (f) - (e)										<u>\$ (1,319,633)</u>	

THE CITY OF ORANGE BEACH, ALABAMA  
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**NOTE 5 – LONG TERM DEBT**

General Fund

General Obligation Warrants

At December 31, 2020, governmental long-term debt consisted of the following individual issues:

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 1, 2022.

Sewer Fund

General Obligation Warrants

At December 31, 2020, the long-term debt for the proprietary fund consisted of the following individual issues:

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. The City issued warrants in 2020, partially refunding the Series 2012 General Obligation Sewer Warrants. The remaining warrants are payable in annual installments with a final payment on February 1, 2022.

On October 17, 2020, the City issued \$15,660,000 of its Series 2020 General Obligation Sewer Warrants for the partial refunding of the previous Series 2012 General Obligation Sewer Warrants. The warrant is payable in annual installments varying from \$100,000 to \$1,990,000 principal plus interest from .235% - 1.564% beginning February 1, 2021 with a final payment on February 1, 2030.

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 5 – LONG TERM DEBT (continued)**

General Obligation Warrants for governmental activities of the City were comprised of the following at December 31, 2020:

\$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%	\$ 2,870,000
Unamortized bond premium/ discount (net)	<u>172,020</u>
<b>TOTAL WARRANTS AND NOTES OUTSTANDING</b>	<b>3,042,020</b>
Compensated absences	696,981
Net pension liability	<u>6,424,006</u>
<b>TOTAL GENERAL LONG-TERM DEBT</b>	<b><u>\$ 10,163,007</u></b>

General Obligation and Revenue Warrants for business-type activities of the City were comprised of the following at December 31, 2020:

\$22,975,000 General Obligations Sewer Warrants Series 2012 dated October 1, 2012, principal and interest due in annual installments varying from \$1,305,000 to \$2,070,000 through February 1, 2022; variable interest rate from 2.00% - 5.00%; partially refunded in 2020	\$ 2,820,000
\$15,660,000 General Obligations Sewer Warrants Series 2020 dated October 17, 2020, principal and interest due in annual installments varying from \$100,000 to \$1,990,000 through February 1, 2030; variable interest rate from .235% to 1.564%; issued in 2020 to partially refund the 2012 Warrants	15,660,000
Unamortized bond premium/ discount (net)	<u>311,014</u>
<b>TOTAL WARRANTS AND NOTES OUTSTANDING</b>	<b>18,791,014</b>
Compensated absences	<u>123,439</u>
<b>TOTAL BUSINESS-TYPE ACTIVITY DEBT</b>	<b><u>\$ 18,914,453</u></b>

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020

**NOTE 5 – LONG TERM DEBT (continued)**

The annual aggregate maturities, including principal and interest, for the years subsequent to December 31, 2020, are as follows:

Year Ending December 31,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 1,420,000	\$ 41,425	\$ 1,461,425	\$ 1,475,000	\$ 752,347	\$ 2,227,347
2022	1,450,000	14,500	1,464,500	1,770,000	800,842	2,570,842
2023	-	-	-	1,850,000	160,204	2,010,204
2024	-	-	-	1,855,000	152,082	2,007,082
2025	-	-	-	1,865,000	140,117	2,005,117
2026 and thereafter	-	-	-	9,665,000	411,029	10,076,029
Unamortized bond discount / premium	172,020	-	172,020	311,014	-	311,014
Total	<u>\$ 3,042,020</u>	<u>\$ 55,925</u>	<u>\$ 3,097,945</u>	<u>\$ 18,791,014</u>	<u>\$ 2,416,621</u>	<u>\$ 21,207,635</u>

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:					
August 1, 2010, G.O. Warrants, Series 2010A	\$ 1,340,000	\$ -	\$ (1,340,000)	\$ -	\$ -
August 1, 2010, G.O. Warrants, Series 2010B	1,050,000	-	(1,050,000)	-	-
February 1, 2013, G.O. Warrants, Series 2013	4,260,000	-	(1,390,000)	2,870,000	1,420,000
Unamortized bond premium/ discount (net)	<u>233,095</u>	<u>-</u>	<u>(61,075)</u>	<u>172,020</u>	<u>-</u>
Total bonds payable	6,883,095	-	(3,841,075)	3,042,020	1,420,000
Other long-term liabilities:					
Compensated absences	634,501	62,480	-	696,981	483,603
Net pension liability	<u>4,945,957</u>	<u>1,478,049</u>	<u>-</u>	<u>6,424,006</u>	<u>-</u>
Total other long-term liabilities	<u>5,580,458</u>	<u>1,540,529</u>	<u>-</u>	<u>7,120,987</u>	<u>483,603</u>
Governmental activities long-term liabilities	<u>\$ 12,463,553</u>	<u>\$ 1,540,529</u>	<u>\$ (3,841,075)</u>	<u>\$ 10,163,007</u>	<u>\$ 1,903,603</u>

THE CITY OF ORANGE BEACH, ALABAMA  
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**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:					
October 1, 2012 G.O. Sewer Warrants, Series 2012	\$ 18,555,000	\$ -	\$(15,735,000)	\$ 2,820,000	\$ 1,375,000
October 17, 2020 G.O. Sewer Warrants, Series 2020	-	15,660,000	-	15,660,000	100,000
Unamortized bond premium/ discount (net)	<u>1,671,700</u>	<u>-</u>	<u>(1,360,686)</u>	<u>311,014</u>	<u>-</u>
Total bonds payable	20,226,700	15,660,000	(17,095,686)	18,791,014	1,475,000
Other long-term liabilities:					
Compensated absences	<u>104,003</u>	<u>19,436</u>	<u>-</u>	<u>123,439</u>	<u>84,804</u>
Total other long-term liabilities	<u>104,003</u>	<u>19,436</u>	<u>-</u>	<u>123,439</u>	<u>84,804</u>
Business-type activities long-term liabilities	<u>\$ 20,330,703</u>	<u>\$ 15,679,436</u>	<u>\$(17,095,686)</u>	<u>\$ 18,914,453</u>	<u>\$ 1,559,804</u>

**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.

On October 27, 2020, \$15,660,000 million in Sewer Fund general obligation bonds with an average interest rate of 1.20% were issued to advance refund \$14,430,000 of outstanding bonds with an average interest rate of 3.87%. The net proceeds of \$15,451,767 (after payment of \$208,233 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 10 years by \$1,049,838 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 996,504.

THE CITY OF ORANGE BEACH, ALABAMA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2020

**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:

<u>Term</u>	<u>Monthly Rental</u>	<u>Yearly Rental</u>
4/20/15 - 4/19/20	\$ 1,667	\$ 20,000
4/20/20 - 4/19/25	1,667	20,000

Medical Arts Building

The City entered into an agreement with various doctors and medical facilities to rent space in the Medical Arts Building. The following schedule details the lease revenues accruing to the City outline in the lease documents:

<u>Year</u>	<u>Yearly Rental Revenue</u>
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 2019, the City received \$154,128 in principal and \$28,743 in interest payments.

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020

**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, 2020:

Due From	Due To		
	General Fund	Refuse Fund	Sewer Fund
General Fund	\$ -	\$ -	\$ 778,291
Special Revenue Fund	105,340	-	-
Debt Service Fund	131,530	-	-
Refuse Fund	2,504,959	-	-
BCBC Fund	103,110	-	-
Sewer Fund	-	896,831	-
Event Center Fund	1,326,258	-	-
Library Fund	2,755	-	-
Art Center Fund	855,151	-	-
<b>Total</b>	<b>\$ 5,029,103</b>	<b>\$ 896,831</b>	<b>\$ 778,291</b>

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, 2020 were as follows:

Transfers Out	Transfers In						Total
	General Fund	Arts Center Fund	Events Center Fund	Library Fund	Debt Service Fund	Sewer Fund	
General Fund	\$ -	\$ -	\$ -	\$ 749,890	\$ 1,654,682	\$ -	\$ 2,404,572
Debt Service Fund	-	-	-	-	-	-	-
Special Revenue Fund	558,868	-	-	-	-	-	558,868
Sewer Fund	1,080,000	-	-	-	-	-	1,080,000
<b>Total</b>	<b>\$ 1,638,868</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 749,890</b>	<b>\$ 1,654,682</b>	<b>\$ -</b>	<b>\$ 4,043,440</b>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget 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.

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020

**NOTE 10 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals &amp; Reclassifications</u>	<u>Ending Balance</u>
Governmental activities:				
Non depreciable assets:				
Land & improvements	\$ 56,610,042	\$ 1,951,825	\$ -	\$ 58,561,867
Construction in progress	8,350,338	8,169,656	-	16,519,994
Depreciable assets:				
Buildings & improvements	20,632,475	-	-	20,632,475
Infrastructure	12,178,169	-	-	12,178,169
Equipment & vehicles	<u>16,965,604</u>	<u>1,132,133</u>	<u>(170,294)</u>	<u>17,927,443</u>
Total historical cost of assets:	114,736,628	11,253,614	(170,294)	125,819,948
Less accumulated depreciation for:				
Buildings & improvements	11,746,029	686,894	-	12,432,923
Infrastructure	2,436,543	71,367	-	2,507,910
Equipment & vehicles	<u>11,337,316</u>	<u>1,689,770</u>	<u>(146,816)</u>	<u>12,880,270</u>
Total accumulated depreciation:	<u>25,519,888</u>	<u>2,448,031</u>	<u>(146,816)</u>	<u>27,821,103</u>
Governmental activities capital assets, net:	<u>\$ 89,216,740</u>	<u>\$ 8,805,583</u>	<u>\$ (23,478)</u>	<u>\$ 97,998,845</u>

Depreciation expense was charged  
to governmental functions as follows:

Administration	\$ 151,609
Police	409,593
Communications	10,957
Fire	855,120
Public works	293,218
Parks & recreation	576,294
Library	33,867
Community development	<u>117,373</u>
Total depreciation expense:	<u>\$ 2,448,031</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals &amp; Reclassifications</u>	<u>Ending Balance</u>
Business-type activities:				
Non depreciable assets:				
Land & improvements	\$ 502,236	\$ -	\$ -	\$ 502,236
Construction in progress	-	532,474	-	532,474
Depreciable assets:				
Buildings & improvements	32,824,417	-	-	32,824,417
Equipment	1,705,349	204,451	-	1,909,800
Vehicles	1,948,837	99,223	(17,952)	2,030,108
Distribution & collection systems	<u>13,763,412</u>	<u>-</u>	<u>-</u>	<u>13,763,412</u>
Total historical cost of assets:	50,744,251	836,148	(17,952)	51,562,447
Less accumulated depreciation for:				
Buildings & improvements	11,374,126	102,787	-	11,476,913
Equipment	1,181,831	310,965	-	1,492,796
Vehicles	1,455,637	53,024	(17,952)	1,490,709
Distribution & collection systems	<u>9,992,263</u>	<u>1,489,621</u>	<u>-</u>	<u>11,481,884</u>
Total accumulated depreciation:	<u>24,003,857</u>	<u>1,956,397</u>	<u>(17,952)</u>	<u>25,942,302</u>
Business-type activities capital assets, net:	<u>\$ 26,740,394</u>	<u>\$ (1,120,249)</u>	<u>\$ -</u>	<u>\$ 25,620,145</u>

THE CITY OF ORANGE BEACH, ALABAMA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2020

**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. If at any time during the term of the agreement, BCBC shall have paid Traffic Fees equal to the \$12,000,000, or if, prior to January 1, 2015, BCBC shall pay to the City an amount equal to the difference between the Traffic Fees paid to the City and \$12,000,000, then the payment obligations of the BCBC under the above mentioned agreement shall immediately terminate (the "Termination Event").

Upon the first to occur of (i) the Termination Event, or (ii) January 1, 2015 and continuing through December 31, 2033, the BCBC shall pay to the City Fixed Traffic Fees in the amount of \$0.30 per Vehicle Usage.

Real Estate Option:

The City shall be entitled to exercise an option to purchase land adjacent to the Bridge any time between January 1, 2015 and March 31, 2015 for \$1,000 provided, however, the Real Estate Option shall automatically terminate if the above mentioned Termination Event occurs prior to the commencement of the option period. This provision has been amended in the subsequent period by The Wharf Agreement.

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

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020

**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, 2020, the City received payments from American Roads totaling \$1,438,682 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 Public Land. During 2012, "The Wharf" was purchased by Wharf Retail Properties LLC.

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

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

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

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

THE CITY OF ORANGE BEACH, ALABAMA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020

**NOTE 12 – COMMITMENTS AND CONTINGENCIES (continued)**

Construction, engineering, and design contracts for material commitments at December 31, 2020 are as follows:

Contractor/Engineer	Construction/Professional Services Project	Resolution Number	Contract Amount Including Change Orders	Approximate Expenditures Incurred To Date	Approximate Balance of Contract
Burk-Kleinpfer, Inc.	Wolf Bay Bridge	18-095	\$ 3,120,433	\$ 464,591	2,655,842
Baldwin County Board of Education	Performing Arts Center at OBHS	19-017	9,773,369	4,631,292	5,142,077
Highland Wake Construction, LLC	New Gym at Recreation Center	19-068	1,263,674	1,130,077	133,597
Davis Architects, Inc.	Adult Fitness Center	19-172	236,000	208,152	27,848
Davis Architects, Inc.	Baseball/Softball Field Renovations	19-173	109,500	89,790	19,710
Phil Harris Construction, Inc.	Coastal Resources Building	19-243	1,037,678	706,121	331,558
Asphalt Services, Inc.	Coastal Resources Center Site Work	19-244	694,695	317,541	377,154
A&B Electric Company of Mobile, Inc.	Public Works Building Electrical Work	20-019	276,199	199,823	76,376
Ammons & Blackmon Construction, LLC	Rec Ctr Drainage & Tennis Court Imp	20-091	1,480,282	1,325,551	154,731
M. W. Rogers Construction Co., L.L.C.	Sewer Office Building	20-102	621,000	527,974	93,026
E-J Builders, Inc.	Baseball/Softball Field Renovations	20-131	2,423,706	214,937	2,208,769
Goodwyn, Mills & Cawood, Inc.	Orange Beach Soccer Stadium	20-212	169,250	5,500	163,750

**NOTE 13 – HURRICANE SALLY**

In September 2020, the City suffered major damage from Hurricane Sally and the President declared the area a Major Disaster. The City incurred \$12,239,934 in 2020 of expenses related to the cleanup efforts after the storm. Clean up efforts were still ongoing at December 31, 2020. In April 2021, the Federal Emergency Management Agency approved a Disaster Grant for partial reimbursement of expenses incurred. Per the provisions of the Office of Management and Budget’s August 2020 Compliance Supplement (2 CFR Part 200, Appendix XI), expenses are not included on the Schedule of Federal Awards until the year in which the Disaster Grant is approved.

**NOTE 14 – SUBSEQUENT EVENTS**

Subsequent events were evaluated from January 1, 2021 through the financial statement issuance date, February 24, 2022.

**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, 2020

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final	(Budgetary Basis)	Final Budget Over/(Under)
<b>RESOURCES (INFLOWS)</b>				
Property taxes	\$ 4,198,000	\$ 4,198,000	\$ 4,582,166	\$ 384,166
Intergovernmental:				
State tax	208,832	208,832	214,539	5,707
Local tax	33,420,000	33,420,000	35,960,259	2,540,259
Grants	2,048,218	2,048,218	11,399,630	9,351,412
BP proceeds	-	-	352,927	352,927
Personnel service reimbursement	120,000	120,000	222,276	102,276
Other licenses, permits and fees	4,301,000	4,301,000	6,180,438	1,879,438
Fines and forfeitures	511,000	511,000	460,873	(50,127)
Charges for services	1,290,000	1,290,000	989,836	(300,164)
Rent	50,000	50,000	158,703	108,703
Investment earnings	450,000	450,000	376,122	(73,878)
Contracts	724,000	724,000	747,457	23,457
Miscellaneous	301,900	301,900	289,917	(11,983)
<b>AMOUNTS AVAILABLE FOR APPROPRIATION</b>	<u>47,622,950</u>	<u>47,622,950</u>	<u>61,935,143</u>	<u>14,312,193</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS)</b>				
General government	6,556,800	6,556,800	17,187,375	10,630,575
Coastal resources	2,273,605	2,273,605	1,961,210	(312,395)
Court	617,058	617,058	482,490	(134,568)
Finance	1,038,270	1,038,270	989,846	(48,424)
Police	6,809,970	6,809,970	6,373,723	(436,247)
Corrections	993,980	993,980	692,536	(301,444)
Community development	1,779,155	1,779,155	1,798,354	19,199
Communications	793,004	793,004	625,796	(167,208)
Fire	7,317,285	7,317,285	7,483,506	166,221
Public works	3,214,573	3,214,573	3,119,578	(94,995)
Landscape	1,957,957	1,957,957	1,805,717	(152,240)
Parks and recreation	3,004,800	3,004,800	2,449,604	(555,196)
Recreation center	-	-	6,850	6,850
Expect Excellence	1,369,500	1,369,500	1,196,072	(173,428)
Capital improvements	23,642,005	23,642,005	15,849,635	(7,792,370)
<b>TOTAL CHARGES TO APPROPRIATIONS</b>	<u>61,367,962</u>	<u>61,367,962</u>	<u>62,022,292</u>	<u>654,330</u>
<b>EXCESS OF AMOUNTS AVAILABLE FOR OVER CHARGES TO APPROPRIATIONS</b>	<u>(13,745,012)</u>	<u>(13,745,012)</u>	<u>(87,149)</u>	<u>13,657,863</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from disposal of assets	50,000	50,000	25,926	(24,074)
Transfers in	1,622,000	1,622,000	1,638,868	16,868
Transfers out	(3,280,126)	(3,280,126)	(2,404,572)	875,554
<b>TOTAL OTHER FINANCING (USES)</b>	<u>(1,608,126)</u>	<u>(1,608,126)</u>	<u>(739,778)</u>	<u>868,348</u>
<b>STATUTORY REVENUE REDUCTION</b>	<u>(4,753,905)</u>	<u>(4,753,905)</u>	<u>-</u>	<u>4,753,905</u>
<b>EXCESS (DEFICIENCY) OF RESOURCES OVER CHARGES TO APPROPRIATIONS</b>	<u>(20,107,043)</u>	<u>(20,107,043)</u>	<u>(826,927)</u>	<u>19,280,116</u>
<b>FUND BALANCES - BEGINNING</b>	<u>54,919,717</u>	<u>54,919,717</u>	<u>54,919,717</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$34,812,674</u>	<u>\$34,812,674</u>	<u>\$ 54,092,790</u>	<u>\$ 19,280,116</u>

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, 2020

	Original	Final	Actual Amounts (Budgetary Basis)	Variance With Final Budget Over/(Under)
<b>OPERATING REVENUES</b>				
Charges for services	\$ 6,870,000	\$ 6,870,000	\$ 7,422,045	\$ 552,045
Miscellaneous income	35,000	35,000	20,668	(14,332)
<b>TOTAL OPERATING REVENUES</b>	<u>6,905,000</u>	<u>6,905,000</u>	<u>7,442,713</u>	<u>537,713</u>
<b>OPERATING EXPENSES</b>				
Salaries, wages and employee benefits	1,817,200	1,817,200	1,823,028	5,828
Contractual services	100,000	100,000	551,994	451,994
Utilities	986,000	986,000	865,987	(120,013)
Repairs and maintenance	750,000	750,000	791,206	41,206
Other supplies and expenses	309,000	309,000	319,280	10,280
Bad debt expense	-	-	13,265	13,265
Bond premium amortization	-	-	16,400	16,400
Depreciation	-	-	1,662,441	1,662,441
<b>TOTAL OPERATING EXPENSES</b>	<u>3,962,200</u>	<u>3,962,200</u>	<u>6,043,601</u>	<u>2,081,401</u>
<b>OPERATING INCOME (LOSS)</b>	<u>2,942,800</u>	<u>2,942,800</u>	<u>1,399,112</u>	<u>(1,543,688)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest income	100,000	100,000	164,090	64,090
Interest expense	(404,918)	(404,918)	(780,091)	(375,173)
Bond issue costs	-	-	(204,630)	(204,630)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u>(304,918)</u>	<u>(304,918)</u>	<u>(820,631)</u>	<u>(515,713)</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<u>2,637,882</u>	<u>2,637,882</u>	<u>578,481</u>	<u>(2,059,401)</u>
<b>TRANSFERS IN (OUT)</b>	<u>(3,199,192)</u>	<u>(3,199,192)</u>	<u>(1,080,000)</u>	<u>2,119,192</u>
<b>CHANGE IN NET POSITION</b>	<u>(561,310)</u>	<u>(561,310)</u>	<u>(501,519)</u>	<u>59,791</u>
<b>NET POSITION - BEGINNING</b>	<u>16,213,376</u>	<u>16,213,376</u>	<u>16,213,376</u>	<u>-</u>
<b>NET POSITION - ENDING</b>	<u>\$15,652,066</u>	<u>\$15,652,066</u>	<u>\$ 15,711,857</u>	<u>\$ 59,791</u>

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

THE CITY OF ORANGE BEACH, ALABAMA  
SCHEDULE OF EMPLOYER CONTRIBUTIONS TO THE RETIREMENT SYSTEMS OF ALABAMA  
FOR THE YEAR ENDED DECEMBER 31, 2020

	2020	2019	2018	2017	2016	2015
Actuarially determined contributions	\$ 1,007,589	\$ 912,787	\$ 860,452	\$ 746,774	\$ 850,584	\$ 800,331
Contributions in relation to the actuarially determined contribution	<u>1,007,589</u>	<u>912,787</u>	<u>860,452</u>	<u>746,774</u>	<u>850,584</u>	<u>800,331</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered payroll	 19,671,177	 17,379,983	 15,958,994	 14,999,922	 14,393,677	 13,508,477
Contributions as a percentage of covered payroll	5.12%	5.25%	5.39%	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 2020 were based on the September 30, 2017 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period January 1, 2020 to September 30, 2020:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	15.8 years
Asset valuation method	Five year smoothed market
Inflation	3.0%
Salary increases	3.25% - 5.0% including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Methods and assumptions used to determine contribution rates for the period October 1, 2020 to December 31, 2020:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	15 years
Asset valuation method	Five year smoothed market
Inflation	2.75%
Salary increases	3.25% - 5.0% including inflation
Investment rate of return	7.70%, 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, 2020

	2020	2019	2018	2017	2016	2015	2014
<b>Total pension liability</b>							
Service cost	\$ 1,469,240	\$ 1,425,842	\$ 1,317,681	\$ 1,245,314	\$ 1,213,069	\$ 1,168,947	\$ 1,090,244
Interest	3,418,855	3,155,678	2,877,895	2,676,913	2,401,553	2,113,138	1,915,434
Changes of benefit terms	1,243,089	-	-	-	-	-	-
Difference between expected and actual experience	(291,520)	130,650	518,534	(503,971)	23,081	920,209	-
Changes of assumptions	-	-	258,582	-	1,601,749	-	-
Benefit payments, including refunds of employee contributions	(1,343,369)	(1,337,845)	(1,160,003)	(853,462)	(641,884)	(552,344)	(516,402)
Transfers among employers	(516,798)	46,310	124,934	181,799	29,622	-	-
<b>Net change in total pension liability</b>	3,979,497	3,420,635	3,937,623	2,746,593	4,627,190	3,649,950	2,489,276
<b>Total pension liability - beginning</b>	45,072,394	41,651,759	37,714,136	34,967,543	30,340,353	26,690,403	24,201,127
<b>Total pension liability - ending (a)</b>	<u>\$ 49,051,891</u>	<u>\$ 45,072,394</u>	<u>\$ 41,651,759</u>	<u>\$ 37,714,136</u>	<u>\$ 34,967,543</u>	<u>\$ 30,340,353</u>	<u>\$ 26,690,403</u>
<b>Plan fiduciary net position</b>							
Contributions - employer	\$ 921,337	\$ 849,129	\$ 786,837	\$ 804,848	\$ 806,700	\$ 801,525	\$ 782,020
Contributions - member	1,141,547	1,011,541	1,013,613	862,030	773,424	728,225	703,936
Net investment income	2,298,731	997,451	3,233,903	3,866,396	2,700,298	297,551	2,552,678
Benefit payments, including refunds of employee contributions	(1,343,369)	(1,337,845)	(1,160,003)	(853,462)	(641,884)	(552,344)	(516,402)
Transfers among employers	(516,798)	46,310	124,934	181,799	29,622	327,982	231,356
<b>Net change in plan fiduciary net position</b>	2,501,448	1,566,586	3,999,284	4,861,611	3,668,160	1,602,939	3,753,588
<b>Plan net position - beginning</b>	40,126,437	38,559,851	34,560,567	29,698,956	26,030,796	24,427,857	20,674,269
<b>Plan net position - ending (b)</b>	<u>\$ 42,627,885</u>	<u>\$ 40,126,437</u>	<u>\$ 38,559,851</u>	<u>\$ 34,560,567</u>	<u>\$ 29,698,956</u>	<u>\$ 26,030,796</u>	<u>\$ 24,427,857</u>
<b>Net pension liability - ending (a) - (b)</b>	<u>\$ 6,424,006</u>	<u>\$ 4,945,957</u>	<u>\$ 3,091,908</u>	<u>\$ 3,153,569</u>	<u>\$ 5,268,587</u>	<u>\$ 4,309,557</u>	<u>\$ 2,262,546</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	86.90%	89.03%	92.58%	91.64%	84.93%	85.80%	91.52%
<b>Covered payroll</b>	19,671,177	17,379,983	15,958,994	14,999,922	14,393,677	13,508,477	13,175,276
<b>Net pension liability as a percentage of covered payroll</b>	32.66%	28.46%	19.37%	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, 2020

	Special Revenues	Debt Service	Library	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ -	\$ 303,787	\$ 303,787
Restricted cash and cash equivalents	387,026	955,682	-	1,342,708
Accounts receivable - net	95,587	-	-	95,587
TOTAL ASSETS	\$ 482,613	\$ 955,682	\$ 303,787	\$ 1,742,082
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
Liabilities:				
Due to other funds	105,340	131,530	2,755	239,625
Accrued expenses	-	-	15,440	15,440
Total liabilities	105,340	131,530	18,195	255,065
 Fund balances:				
Nonspendable	-	-	-	-
Spendable:				
Restricted	377,273	824,152	-	1,201,425
Committed	-	-	-	-
Assigned	-	-	285,592	285,592
Unassigned	-	-	-	-
Total fund balances	377,273	824,152	285,592	1,487,017
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 482,613	\$ 955,682	\$ 303,787	\$ 1,742,082

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, 2020

	<u>Special Revenues</u>	<u>Debt Service</u>	<u>Library</u>	<u>Total Governmental Funds</u>
REVENUES				
Intergovernmental:				
State tax	\$ 463,099	-	\$ -	\$ 463,099
Grants	-	-	7,000	7,000
Other licenses, permits and fees	1,878	-	-	1,878
Fines and forfeitures	43,929	-	-	43,929
Investment earnings	379	11,822	114	12,315
Miscellaneous	<u>124,865</u>	<u>-</u>	<u>17,916</u>	<u>142,781</u>
TOTAL REVENUES	<u>634,150</u>	<u>11,822</u>	<u>25,030</u>	<u>671,002</u>
EXPENDITURES				
Library	-	-	729,013	729,013
Securities lending:				
Fiscal agent fees	-	1,632	-	1,632
Debt service:				
Principal payments	-	3,780,000	-	3,780,000
Interest and other	<u>-</u>	<u>126,520</u>	<u>-</u>	<u>126,520</u>
TOTAL EXPENDITURES	<u>-</u>	<u>3,908,152</u>	<u>729,013</u>	<u>4,637,165</u>
Excess (deficiency) of revenues over expenditures	<u>634,150</u>	<u>(3,896,330)</u>	<u>(703,983)</u>	<u>(3,966,163)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	1,654,682	749,890	2,404,572
Transfers out	<u>(558,868)</u>	<u>-</u>	<u>-</u>	<u>(558,868)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(558,868)</u>	<u>1,654,682</u>	<u>749,890</u>	<u>1,845,704</u>
NET CHANGE IN FUND BALANCES	75,282	(2,241,648)	45,907	(2,120,459)
FUND BALANCES - BEGINNING	<u>301,991</u>	<u>3,065,800</u>	<u>239,685</u>	<u>3,607,476</u>
FUND BALANCES - ENDING	<u>\$ 377,273</u>	<u>\$ 824,152</u>	<u>\$ 285,592</u>	<u>\$ 1,487,017</u>

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

THE CITY OF ORANGE BEACH, ALABAMA  
STATEMENT OF NET POSITION  
NONMAJOR PROPRIETARY FUNDS  
DECEMBER 31, 2020

	Events Center	Refuse	BCBC	Arts Center	Total Nonmajor Proprietary Funds
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 62,924	\$ 62,924
Accounts receivable - net	-	26,713	-	-	26,713
Due from other funds	-	896,831	-	-	896,831
Total current assets	<u>\$ -</u>	<u>\$ 923,544</u>	<u>\$ -</u>	<u>\$ 62,924</u>	<u>\$ 986,468</u>
<b>Noncurrent assets</b>					
<b>Capital assets:</b>					
Land	158,648	-	-	-	158,648
Buildings	1,667,976	-	-	2,152,541	3,820,517
Vehicles and equipment	76,104	1,477,950	-	81,630	1,635,684
Less: Accumulated depreciation	<u>(596,011)</u>	<u>(932,624)</u>	<u>-</u>	<u>(220,791)</u>	<u>(1,749,426)</u>
Total noncurrent assets	<u>1,306,717</u>	<u>545,326</u>	<u>-</u>	<u>2,013,380</u>	<u>3,865,423</u>
<b>TOTAL ASSETS</b>	<u>1,306,717</u>	<u>1,468,870</u>	<u>-</u>	<u>2,076,304</u>	<u>4,851,891</u>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Accounts payable	2,792	17,401	-	20,893	41,086
Due to other funds	1,326,258	2,504,959	103,110	855,151	4,789,478
Accrued expenses	16,765	25,817	-	25,032	67,614
Accrued compensated absences	<u>10,117</u>	<u>13,839</u>	<u>-</u>	<u>7,324</u>	<u>31,280</u>
Total current liabilities	<u>1,355,932</u>	<u>2,562,016</u>	<u>103,110</u>	<u>908,400</u>	<u>4,929,458</u>
<b>Noncurrent liabilities</b>					
Accrued compensated absences	<u>3,786</u>	<u>3,473</u>	<u>-</u>	<u>573</u>	<u>7,832</u>
<b>TOTAL LIABILITIES</b>	<u>1,359,718</u>	<u>2,565,489</u>	<u>103,110</u>	<u>908,973</u>	<u>4,937,290</u>
<b>NET POSITION</b>					
Invested in capital assets, net of related debt	1,306,717	545,326	-	2,013,380	3,865,423
Unrestricted	<u>(1,359,718)</u>	<u>(1,641,945)</u>	<u>(103,110)</u>	<u>(846,049)</u>	<u>(3,950,822)</u>
<b>TOTAL NET POSITION</b>	<u>\$ (53,001)</u>	<u>\$ (1,096,619)</u>	<u>\$ (103,110)</u>	<u>\$ 1,167,331</u>	<u>\$ (85,399)</u>

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

THE CITY OF ORANGE BEACH, ALABAMA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
NONMAJOR PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2020

	Events Center	Refuse	BCBC	Arts Center	Total Nonmajor Proprietary Funds
<b>OPERATING REVENUES</b>					
Charges for services	\$ 65,796	\$ 2,666,784	\$ 1,281,977	\$ 185,776	\$ 4,200,333
Miscellaneous income	-	8,738	-	2,123	10,861
Merchandise sales	-	-	-	187,028	187,028
<b>TOTAL OPERATING REVENUES</b>	<u>65,796</u>	<u>2,675,522</u>	<u>1,281,977</u>	<u>374,927</u>	<u>4,398,222</u>
<b>COST OF GOODS SOLD</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>115,913</u>	<u>115,913</u>
<b>GROSS PROFIT</b>	<u>65,796</u>	<u>2,675,522</u>	<u>1,281,977</u>	<u>259,014</u>	<u>4,282,309</u>
<b>OPERATING EXPENSES</b>					
Salaries, wages and employee benefits	339,679	514,007	-	491,627	1,345,313
Contractual services	-	2,196,134	-	37,533	2,233,667
Utilities	59,090	7,137	-	44,910	111,137
Repairs and maintenance	71,385	102,174	-	22,137	195,696
Other supplies and expenses	36,523	61,837	-	71,043	169,403
Depreciation	61,330	163,050	-	69,576	293,956
<b>TOTAL OPERATING EXPENSES</b>	<u>568,007</u>	<u>3,044,339</u>	<u>-</u>	<u>736,826</u>	<u>4,349,172</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(502,211)</u>	<u>(368,817)</u>	<u>1,281,977</u>	<u>(477,812)</u>	<u>(66,863)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Interest income	-	-	-	41	41
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41</u>	<u>41</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<u>(502,211)</u>	<u>(368,817)</u>	<u>1,281,977</u>	<u>(477,771)</u>	<u>(66,822)</u>
<b>CHANGE IN NET POSITION</b>	<u>(502,211)</u>	<u>(368,817)</u>	<u>1,281,977</u>	<u>(477,771)</u>	<u>(66,822)</u>
<b>NET POSITION - BEGINNING</b>	<u>449,210</u>	<u>(727,802)</u>	<u>(1,385,087)</u>	<u>1,645,102</u>	<u>(18,577)</u>
<b>NET POSITION - ENDING</b>	<u>\$ (53,001)</u>	<u>\$ (1,096,619)</u>	<u>\$ (103,110)</u>	<u>\$ 1,167,331</u>	<u>\$ (85,399)</u>

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

THE CITY OF ORANGE BEACH, ALABAMA  
STATEMENT OF CASH FLOWS  
NONMAJOR PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2020

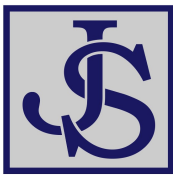
	Events Center	Refuse	BCBC	Arts Center	Total Nonmajor Proprietary Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 65,796	\$ 2,679,473	\$ 1,371,563	\$ 374,927	\$ 4,491,759
Payments to employees for services	(334,465)	(503,833)	-	(483,634)	(1,321,932)
Payments to suppliers of goods & services	(182,535)	(2,370,180)	-	(288,413)	(2,841,128)
Payments from (to) other funds	451,204	194,540	(1,371,563)	383,791	(342,028)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,329)</u>	<u>(13,329)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Interest income	-	-	-	39	39
<b>NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39</u>	<u>39</u>
<b>NET (DECREASE) IN CASH</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,290)</u>	<u>(13,290)</u>
<b>CASH &amp; EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>76,214</u>	<u>76,214</u>
<b>CASH &amp; EQUIVALENTS AT END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62,924</u>	<u>\$ 62,924</u>
<b>Operating income (loss)</b>	<u>\$ (502,211)</u>	<u>\$ (368,817)</u>	<u>\$ 1,281,977</u>	<u>\$ (477,812)</u>	<u>\$ (66,863)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities					
Depreciation	61,330	163,050	-	69,576	293,956
(Increase) decrease in:					
Accounts receivable	-	3,951	89,586	-	93,537
Due to other funds	451,204	194,540	(1,371,563)	383,791	(342,028)
Increase (decrease) in:					
Accounts payable	(15,537)	(2,898)	-	3,123	(15,312)
Accrued payroll	5,214	10,174	-	7,993	23,381
<b>Total adjustments</b>	<u>502,211</u>	<u>368,817</u>	<u>(1,281,977)</u>	<u>464,483</u>	<u>53,534</u>
<b>Net cash provided (used) by operating activities</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (13,329)</u>	<u>\$ (13,329)</u>

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, 2020, 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 February 24, 2022.

**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 2020-1 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.

A handwritten signature in blue ink that reads "Jackson & Smith". The signature is written in a cursive, flowing style.

Jackson & Smith CPA Group, PC  
Orange Beach, Alabama  
February 24, 2022

## FINDING – INTERNAL CONTROL OVER FINANCIAL REPORTING

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

### 2020-1

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 year end closing entries are recorded correctly.

Effect: CONDITION 1 > The journal entry to bring the library activity onto the City's general ledger was posted incorrectly, resulting in an overstatement of assets of \$58,478, understatement of equity of \$66,088, and understatement of expenses of \$7,610.

Recommendations: The finance department should perform a year end post-closing review of all year-end closing entries to ensure that amounts are posted properly.

Views of responsible officials and planned corrective action plan: The City will establish procedures to ensure that equity accounts roll over properly.

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### 2019-1

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 \$917,942 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: 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.

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.