

THE CITY OF ORANGE BEACH, ALABAMA
FINANCIAL STATEMENTS
DECEMBER 31, 2022

THE CITY OF ORANGE BEACH, ALABAMA
TABLE OF CONTENTS
DECEMBER 31, 2022

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL SECTION	
Management's Discussion and Analysis	3-10
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Governmental Fund Financial Statements:	
Balance Sheet	13
Reconciliation of the Balance Sheet to the Statement of Net Position	14
Statement of Revenues, Expenditures, and Changes in Fund Balance	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	16
Proprietary Fund Financial Statements:	
Statement of Net Position	17
Statement of Revenues, Expenses, and Changes in Net Position	18
Statement of Cash Flows	19
Notes to the Financial Statements	20-46
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule:	
General Fund	47
Sewer Fund	48
Refuse Fund	49
Schedule of Employer Contributions to the Retirement Systems of Alabama	50
Schedule of Employer Changes in the Net Pension Liability	51

THE CITY OF ORANGE BEACH, ALABAMA
TABLE OF CONTENTS
DECEMBER 31, 2022

	<u>Page</u>
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet – Nonmajor Governmental Funds	52
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Governmental Funds	53
Combining Statement of Net Position – Nonmajor Enterprise Funds	54
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position – Nonmajor Enterprise Funds	55
Combining Statement of Cash Flows – Nonmajor Enterprise Funds	56
COMPLIANCE AND INTERNAL CONTROL SECTION	
Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>GOVERNMENT AUDITING STANDARDS</i>	57-58
Independent Auditors’ Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by Uniform Guidance	59-60
Schedule of Expenditures of Federal Awards	61
Notes to Schedule of Expenditures of Federal Awards	62
Schedule of Findings and Questioned Costs	63



Jackson & Smith
CPA Group, PC

25051 CANAL ROAD, 2ND FLOOR
POST OFFICE BOX 1616
ORANGE BEACH, AL 36561
251-979-8878 OFFICE
251-929-4200 FAX

13700 PERDIDO KEY DRIVE
UNIT B-224
PERDIDO KEY, FL 32507
850-619-9256 OFFICE

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, 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, 2022, and the related notes to the financial statements, which collectively comprise the City of Orange Beach, Alabama's basic financial statements as listed in the table of contents.

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Orange Beach, Alabama, as of December 31, 2022, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Orange Beach, Alabama and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Orange Beach, Alabama's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Orange Beach, Alabama’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Orange Beach, Alabama’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 10 and 47 through 51 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary 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 accompanying combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 and the schedule of expenditures of federal awards 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 April 17, 2024, 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 City of Orange Beach, Alabama’s internal control over financial reporting and compliance.



Jackson & Smith CPA Group, PC
 Orange Beach, Alabama
 April 17, 2024

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, Alabama 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.

Discretely Presented Component Units

The Orange Beach Board of Education is a discretely presented component unit of the primary government of the City of Orange Beach, Alabama.

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 2022 on December 31, 2022, the City of Orange Beach's assets exceeded its liabilities by \$158,254,198 whereas at the close of Fiscal Year 2021 on December 31, 2021, the City of Orange Beach's assets exceeded its liabilities by \$186,955,635. 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, 2022 and December 31, 2021 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, 2022 and December 31, 2021 and is derived from the Statement of Activities.

Table 1 - Condensed Statement of Net Position

	Governmental		Business-Type		Total		Total	
	Activities		Activities		Primary Government		Component Units	
	2021	2022	2021	2022	2021	2022	2021	2022
Current and other assets	\$ 114,359,593	\$ 135,386,917	\$ 6,669,516	\$ 4,341,707	\$ 12,1029,109	\$ 139,728,624	\$ -	\$ 4,973,479
Capital assets	115,021,119	125,742,746	24,800,444	23,830,664	139,821,563	149,573,410	-	79,544,504
Total assets	229,380,712	261,129,663	31,469,960	28,172,371	260,850,672	289,302,034	-	84,517,983
Deferred outflows of resources	5,240,021	10,422,538	1,157,528	876,107	6,397,549	11,298,645	-	20,419,488
Other liabilities	2,575,546	9,883,125	211,316	2,169,393	2,786,862	12,052,518	-	979,934
Long-term liabilities	55,749,020	115,366,232	17,277,430	13,423,635	73,026,450	128,789,867	-	19,231,191
Total liabilities	58,324,566	125,249,357	17,488,746	15,593,028	75,813,312	140,842,385	-	20,211,125
Deferred inflows of resources	4,423,902	351,135	55,372	58,291	4,479,274	409,426	-	5,643,405
Invested in capital assets								
Net of related debt	63,515,950	21,392,573	7,639,937	8,595,664	71,155,887	29,988,237	-	79,544,504
Restricted	37,935,506	39,853,169	6,090,771	4,878,348	44,026,277	44,731,517	-	333,479
Unrestricted	70,420,809	84,705,967	1,352,662	(76,853)	71,773,471	84,629,114	-	(795,042)
Total net position	\$ 171,872,265	\$ 145,951,709	\$ 15,083,370	\$ 13,397,159	\$ 186,955,635	\$ 159,348,868	\$ -	\$ 79,082,941

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, 2022 and December 31, 2021 include the following:

The assets of the City exceeded its liabilities (net assets) at the close of the fiscal year ended December 31, 2022 by \$145,951,709 and at the close of the fiscal year ended December 31, 2021 by \$171,872,265 for Governmental Activities and by \$13,397,159 and \$15,083,370 (respectively for each year end) for Business-Type Activities. Net capital assets increased by \$10,721,627 from 2021 to 2022 for Governmental Activities and decreased by \$969,780 from 2021 to 2022 for Business-Type Activities. Long-term liabilities increased from 2021 to 2022 for Governmental Activities by \$59,617,212 and decreased by \$3,853,795 for Business-Type Activities. Unrestricted net position increased from 2021 to 2022 by \$14,285,158 and decreased by \$1,429,515 for Governmental Activities and Business-Type Activities, respectively. Restricted net position increased by \$1,917,663 and decreased by \$1,212,423 from 2021 to 2022 for Governmental Activities and Business-Type Activities, respectively.

Overall Analysis (continued)

Table 2 - Condensed Statement of Activities

	Governmental		Business-Type		Total		Total	
	Activities		Activities		Primary Government		Component Units	
	2021	2022	2021	2022	2021	2022	2021	2022
PRIMARY GOVERNMENT:								
Revenues								
Charges for services	\$ 9,830,085	\$ 9,380,244	\$ 12,454,644	\$ 13,262,515	\$ 22,284,729	\$ 22,642,759	\$ -	\$ 1,486,956
Operating grants and contributions	6,423,109	2,540,054	-	-	6,423,109	2,540,054	-	5,723
Capital grants and contributions	57,584	984,594	7,100	5,581,204	64,684	6,565,798	-	26,407
General revenues								
Taxes	58,490,606	63,204,334	-	-	58,490,606	63,204,334	-	-
Investment earnings (losses)	151,449	607,927	83,633	(13,085)	235,082	594,842	-	-
Reimbursed expenses	185,759	333,612	-	-	185,759	333,612	-	-
Miscellaneous	1,164,028	426,691	17,191	25,424	1,181,219	452,115	-	303,054
Gain on disposal of assets	279,813	38,129	-	-	279,813	38,129	-	-
Appropriations from the City	-	-	-	-	-	-	-	44,052,634
Donated assets	-	-	-	-	-	-	-	44,125,104
Total revenues	<u>76,582,433</u>	<u>77,515,585</u>	<u>12,562,568</u>	<u>18,856,058</u>	<u>89,145,001</u>	<u>96,371,643</u>	<u>-</u>	<u>89,999,878</u>
Expenses								
General government	16,623,587	6,108,1369	-	-	16,623,587	6,108,1369	-	-
Municipal court	494,362	524,184	-	-	494,362	524,184	-	-
Finance	1,064,602	1,230,500	-	-	1,064,602	1,230,500	-	-
Police	6,733,146	8,502,459	-	-	6,733,146	8,502,459	-	-
Corrections	770,277	912,471	-	-	770,277	912,471	-	-
Communications	604,017	675,823	-	-	604,017	675,823	-	-
Fire	9,253,074	10,945,520	-	-	9,253,074	10,945,520	-	-
Public works	3,919,995	4,807,316	-	-	3,919,995	4,807,316	-	-
Landscape	1,829,510	2,126,742	-	-	1,829,510	2,126,742	-	-
Parks & recreation	2,321,437	3,837,956	-	-	2,321,437	3,837,956	-	-
Library	694,196	730,603	-	-	694,196	730,603	-	-
Community development	1,585,316	1,615,576	-	-	1,585,316	1,615,576	-	-
Coastal resources	3,019,963	2,764,204	-	-	3,019,963	2,764,204	-	-
Recreation center	954,885	1,039,319	-	-	954,885	1,039,319	-	-
Performing arts	-	486,465	-	-	-	486,465	-	-
Expect Excellence	2,037,144	2,210,466	-	-	2,037,144	2,210,466	-	-
Interest on long-term debt	1,925,469	2,698,544	-	-	1,925,469	2,698,544	-	-
Sewer fund	-	-	5,967,933	12,532,984	5,967,933	12,532,984	-	-
Refuse fund	-	-	3,270,197	3,532,089	3,270,197	3,532,089	-	-
Events Center fund	-	-	568,896	674,774	568,896	674,774	-	-
Arts Center fund	-	-	960,309	1,049,046	960,309	1,049,046	-	-
Total expenses	<u>53,830,980</u>	<u>106,189,517</u>	<u>10,767,335</u>	<u>17,788,893</u>	<u>64,598,315</u>	<u>123,978,410</u>	<u>-</u>	<u>-</u>
COMPONENT UNIT:								
Expenses								
Orange Beach Board of Education	-	-	-	-	-	-	-	10,916,937
Increase (decrease) in net position								
before transfers	22,751,453	(28,673,932)	1,795,233	1,067,165	24,546,686	(27,606,767)	-	79,082,941
Transfers	2,338,321	2,753,376	(2,338,321)	(2,753,376)	-	-	-	-
Change in net position	25,089,774	(25,920,556)	(543,088)	(1,686,211)	24,546,686	(27,606,767)	-	79,082,941
Net position - beginning	146,782,491	171,872,265	15,626,458	15,083,370	162,408,949	186,955,635	-	-
Net position - ending	<u>\$ 171,872,265</u>	<u>\$ 145,951,709</u>	<u>\$ 15,083,370</u>	<u>\$ 13,397,159</u>	<u>\$ 186,955,635</u>	<u>\$ 159,348,868</u>	<u>\$ -</u>	<u>\$ 79,082,941</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, 2022 and December 31, 2021 include the following:

The City's total net position decreased during the current year by \$27,606,767 and increased during the previous year by \$24,546,686. Net position of Governmental Activities decreased during the current year by \$25,920,556 and increased during the previous year by \$25,089,774. Net position of Business-Type Activities decreased during the current year by \$1,686,211 and decreased in the previous year by \$543,088.

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 \$130,399,661 as compared to \$112,280,597 at the end of the previous fiscal year with \$86,657,681 unassigned compared to \$71,146,310 reported as unassigned fund balance in the prior year. The remaining reserved amount of \$43,741,980 for fiscal year end 2022 is \$280,465 nonspendable, \$40,488,943 restricted, \$2,670,014 committed, and \$302,558 assigned as compared to the fiscal year ended 2021 reserved amount of \$41,134,287, \$232,508 nonspendable, \$37,936,121 restricted, \$2,660,828 committed, and \$304,830 assigned.

Proprietary Funds

As of the close of the current fiscal year the City's Proprietary Funds reported total net position of \$13,397,159 compared to \$15,083,370 at the end of fiscal year 2021.

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 \$22,759,999 over the budgeted amounts. This mainly resulted from unforeseen expenses related to appropriations to the Orange Beach Board of Education. Actual revenues were \$14,775,574 over the budgeted amounts. Local taxes exceeded budget by \$17,886,809 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, 2022, the City of Orange Beach reported net capital assets of \$125,742,746 and \$23,830,664 from Governmental Activities and Business-Type Activities, respectively. At December 31, 2021, the City of Orange Beach reported net capital assets of \$115,021,119 and \$24,800,444 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, 2022, the City of Orange Beach reported long-term debt of \$115,366,232 and \$13,423,635 from Governmental Activities and Business-Type Activities, respectively. At December 31, 2021, the City of Orange Beach reported long-term debt of \$55,749,020 and \$17,277,430 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 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 2022, negotiations broke down between the Alabama Department of Transportation (ALDOT) and the owners of the Foley Beach Express Bridge, aka the Baldwin County Bridge Company, owned by DIF Capital Partners. Several years of planning by ALDOT to construct a new bridge just west of the Foley Beach Express Toll Bridge came to fruition with the letting of the project in late 2022. The Baldwin County Bridge Company filed suit shortly thereafter and construction was halted in mid-2023, pending the outcome of the lawsuit. The City of Orange Beach is working to maintain its financial position via the existing contract and protection of the value of the contract and future revenues, working to secure controlled tolls for residents of local municipalities and within Baldwin County to assist with local movement and workforce attraction, and guaranteeing improved flow and volume capacity on an expanded toll bridge and toll facility.
- 2) In 2004, the City entered into a 15-year agreement with AIG Baker for the development of "The Wharf," a mixed-use commercial development on Canal Road. The City has committed one-half of the sales and lodging taxes collected from the project for public improvements associated with the project. The tax reimbursement portion of the agreement began in 2011; however, the City renegotiated a \$1 million escrow account to build up before any tax payments are shared. Along with this renegotiation the City acquired a one-acre tract of land on a prime corner lot. In 2012, The Wharf came into new ownership and aggressively attracted new investment. A Springhill Suites by Marriott opened in 2016 with 132 rooms along with a restaurant adjacent to the city-owned Orange Beach Event Center. In 2019, the City swapped land with the Wharf obtaining land next to the Art Center and the Public Library for a corner piece of land at the Wharf. The City also extended original term of the Wharf Warrant for 10 years to December 31, 2035.
- 3) In 2005, the City purchased 80 acres of land north of the Intracoastal Waterway on the Beach Express for the development of the Orange Beach Commerce Park. The City sold 20 acres to Baldwin Electric Membership Cooperative, 20.42 acres to Columbia Southern University, and an approximate 3 acres to VDL Holdings, LLC. Approximately 17 acres consists of undevelopable wetlands. The City has listed the remaining 19+ acres for sale or lease.
- 4) In May 2009, the Governor of Alabama signed legislation that allowed the construction of the Gulf State Park's Hotel and Conference Center in Gulf Shores. 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. This addition to the Gulf State Park has generated revenue for the entire Alabama State Park System and resulted in a positive economic impact across the Alabama Gulf Coast including Orange Beach. Gulf State Park has also 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, which were part of the now-retired National Geographic's Unique Lodges of the World program; and a new learning campus, which opened in the summer of 2019. Construction on the Gulf Coast Center for Ecotourism & Sustainability began in 2022 and is expected to open in the fall of 2024.
- 5) The City continues to explore the feasibility of the Wolf Bay Bridge Project. In 2011, the City paid off a loan for \$3.45 million and now holds title to several acres of property, which will eventually 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. As of year-end 2022, the city's consultant was still awaiting the U.S. Army Corps of Engineers permit for the Wolf Bay Bridge project. At present, the city has no immediate plans to construct the bridge but the permits will be good for up to 10 years.
- 6) In 2017, the City Council approved a 2% lodging tax increase, effective May 1, 2018, with revenue specifically funding infrastructure projects, including the completion of the widening of Canal Road to five lanes, which has provided a significant improvement with traffic flow on and off the island.

- 7) In March 2022, the Orange Beach City Council made the bold leap to begin the process of forming the city's own school system, breaking away from the Baldwin County School System. Thanks to the drive and determination of city officials and the community, the State of Alabama's newest independent city school system was established on July 1, 2022. Going from one of many cities in a 32,000-student county system to a locally operated city system with about 1,100 students, the opportunity to create excellence became a reality. With a local school board appointed by the city, the control, mission, vision and daily operation now best fits the personality of the community. Residents will receive top quality education and extracurricular activities for minimum tax investment due to a strong tourism economy driving much of the funding via lodging and sales tax. The split from the county system came on the heels of the completion of the \$26 million Orange Beach Middle/High School, which opened in August 2020 and is housed on 40 acres of prime real estate the City donated. The City also committed to fund a Performing Arts Center, which opened in the fall of 2021 with 710 seats holding numerous performances and meetings. The facility now serves as a hallmark venue for performing arts on the Gulf Coast. As part of the formation of the city system, the city had to purchase all school buildings in the city from the county system. As anticipated, the opening of the City's first-ever middle/high school and then the formation of a City School System resulted in an influx of new families and a rise in property values.
- 8) In April 2022, the City Council approved a 3% lodging tax increase with 2% effective on May 1, 2023 and 1% effective on Sept. 1, 2023. The increase is expected to bring in \$12 million in additional annual revenue. Part of the revenue will go toward funding the new Orange Beach City School System and the remainder is designated for capital improvements in the city.
- 9) 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. The reserve fund was utilized and depleted down related to expenses of Hurricane Sally cleanup and operations. With FEMA reimbursement the funds are being replenished as such reimbursement is received. The city continues to work to get maximum reimbursement of approved cleanup costs.
- 10) In May 2021, the South Baldwin Regional Medical Center freestanding emergency department opened in Gulf Shores on Hwy. 59. The \$15 million freestanding ER is located on 11 acres owned by the City of Gulf Shores. 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. In its first years of operation the 14,000-square-foot emergency medical facility provided substantial relief to the SBRMC emergency room in Foley and saw strong usage in its 7 day per week operation with patients and cases.
- 11) In 2022, the City Council moved ahead with a plan to upgrade and lease the City of Orange Beach Medical Arts Building to Southern Rapid Care to further improve medical services in the city.
- 12) 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, which remains.
- 13) In February 2021, a 2021 warrant issue of \$50 million was approved by the City Council to go toward capital projects throughout the City. In March of 2022, the City approved an additional \$50 million warrant for expenses related to the new school system. A 2022 warrant of \$25 million was approved to be used on an as-needed basis for capital projects in the City. The City has the ability to borrow upwards of \$300 million and still be in excellent standing.
- 14) 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 traffic capacity in the city.

Projects 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 allocated at the time of each grant initiation.

- 15) 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.
- 16) 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. Since its opening in 2016, the 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 in the facility.
- 17) 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. In 2022, Novelis Inc., an Atlanta-based aluminum producer, announced plans for a \$2.5 billion aluminum recycling and rolling plant on the Mega Site in Bay Minette. The factory will be able to produce 600 kilotons of aluminum per year. More than half is destined for beverage cans, and most of the rest for the automotive market. The Novelis plant "will be the first fully integrated aluminum mill built in the U.S. in 40 years," the company said. This project is an economic boon for Baldwin County as a whole, including Orange Beach. Novelis expects to be operational by mid-2025.
- 18) 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, a 250-foot vessel named "The New Venture" was sunk about 20 nautical miles south of Orange Beach. These 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.
- 19) The City recently saw the opening of several properties including Phoenix Orange Beach and Phoenix Orange Beach 2, which added near 300 units. Phoenix Gulf Towers I and II will be Orange Beach's newest resort development with the first tower opening in 2023. Each tower offers 112 units. Overall, commercial and residential construction permits continue to rise substantially. Assessed property value in the City of Orange Beach now exceeds \$1.4 billion leading the Baldwin County Tax Assessor data.
- 20) 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 133,000 room nights on the entire Gulf Coast in 2022 with an estimated economic impact of \$93 million. These events are building on off-season months in attracting visitors. The City continues to invest in its sports facilities to attract and retain events, such as upgraded baseball/softball fields for USSSA tournaments, new sand volleyball courts, and vastly upgraded baseball and softball fields for Orange Beach High School to seat hundreds of spectators each. The City also hosts the NAIA Women's National Soccer Championship in December annually providing a strong off-season economic impact.
- 21) The City of Foley issued a \$25 million bond 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, 7-on-7 football 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.

- 22) The Poarch Band of Creek Indians has constructed the OWA development and started with 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. While the Alabama Gulf Coast already hosts 8 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 and is now called Tropical Falls. In 2019, Phase II began as a \$100 million investment of an indoor waterpark and outdoor wave pool, which opened in late 2022, a 200-room hotel, a condominium complex, and a resort level RV park, which is under construction. 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. Overall, the OWA development is expected to generate close to 3,500 jobs.
- 23) The City continues to make key property acquisitions 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.
- 24) 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 basically 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.
- 25) 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 inches 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.
- 26) Recent Quality of Life investments:
 - a. Opening of the Coastal Arts Center of Orange Beach - \$2.5 million includes a 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.
 - d. The City of Orange Beach purchased near 4 acres of beachfront property with approximately 400 linear feet along the Gulf of Mexico with usage of 800 linear feet total by the adjacent development of CoastAL restaurant for a public citizen beach. The City investment of \$13 million provides the first-ever, city-owned citizen beach access with parking in the city’s history. The first phase of the restaurant, as well as city beach parking, opened in December 2022.

BASIC FINANCIAL STATEMENTS

GOVERNMENT – WIDE FINANCIAL STATEMENTS

THE CITY OF ORANGE BEACH, ALABAMA
STATEMENT OF NET POSITION
DECEMBER 31, 2022

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Totals	Orange Beach Board of Education
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 75,144,026	\$ 8,174,017	\$ 83,318,043	\$ 4,946,787
Accounts receivable - net	8,923,645	2,474,954	11,398,599	26,672
Internal balances	11,185,612	(11,185,612)	-	-
Prepays	280,465	-	280,465	20
Restricted assets:				
Cash and cash equivalents	39,853,169	4,878,348	44,731,517	-
Capital assets:				
Non-depreciable	86,608,645	2,214,907	88,823,552	386,175
Depreciable (net)	39,134,101	21,615,757	60,749,858	79,158,329
TOTAL ASSETS	<u>261,129,663</u>	<u>28,172,371</u>	<u>289,302,034</u>	<u>84,517,983</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred employer pension contributions	603,390	-	603,390	-
Deferred pension losses	9,375,353	-	9,375,353	13,797,000
Deferred OPEB losses	-	-	-	6,622,488
Defeasance cost (net)	443,795	876,107	1,319,902	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>10,422,538</u>	<u>876,107</u>	<u>11,298,645</u>	<u>20,419,488</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 2,840,317	\$ 114,934	\$ 2,955,251	\$ 14,448
Accrued expenses	2,101,374	66,630	2,168,004	-
Accrued interest payable	809,389	59,430	868,819	-
Long-term liabilities:				
Due within one year:				
Compensated absences	533,262	78,399	611,661	965,486
Bonds payable	3,598,783	1,850,000	5,448,783	-
Due in more than one year:				
Net pension liability	14,353,048	-	14,353,048	17,732,000
Compensated absences	261,794	38,635	300,429	1,499,191
Bonds payable	100,751,390	13,385,000	114,136,390	-
TOTAL LIABILITIES	<u>125,249,357</u>	<u>15,593,028</u>	<u>140,842,385</u>	<u>20,211,125</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred pension gains	305,570	-	305,570	430,000
Deferred OPEB gains	-	-	-	5,213,405
Unearned revenue	45,565	58,291	103,856	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>351,135</u>	<u>58,291</u>	<u>409,426</u>	<u>5,643,405</u>
NET POSITION				
Invested in capital assets, net of related debt	21,392,573	8,595,664	29,988,237	79,544,504
Restricted:				
Capital projects	37,183,155	-	37,183,155	-
Education	-	-	-	333,479
Emergencies	2,670,014	4,878,348	7,548,362	-
Unrestricted	84,705,967	(76,853)	84,629,114	(795,042)
TOTAL NET POSITION	<u>\$ 145,951,709</u>	<u>\$ 13,397,159</u>	<u>\$ 159,348,868</u>	<u>\$ 79,082,941</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, 2022

Functions/Programs	Program Revenues				Primary Government			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business type Activities	Total	Orange Beach Board of Education
PRIMARY GOVERNMENT								
Governmental activities:								
General government	\$ 61,081,369	\$ 529,331	\$ -	\$ 908,408	\$ (59,643,630)		\$ (59,643,630)	
Court	524,184	77,332	-	-	(446,852)		(446,852)	
Finance	1,230,500	3,456,725	-	-	2,226,225		2,226,225	
Police	8,502,460	476,485	-	-	(8,025,975)		(8,025,975)	
Corrections	912,471	-	-	-	(912,471)		(912,471)	
Communications	675,823	-	-	-	(675,823)		(675,823)	
Fire	10,945,520	1,679,134	-	-	(9,266,386)		(9,266,386)	
Public works	4,807,316	-	1,181,661	76,186	(3,549,469)		(3,549,469)	
Landscape	2,126,742	-	-	-	(2,126,742)		(2,126,742)	
Parks and recreation	3,837,956	1,978,514	-	-	(1,859,442)		(1,859,442)	
Library	730,603	44,343	7,778	-	(678,482)		(678,482)	
Community development	1,615,576	1,138,380	37,950	-	(439,246)		(439,246)	
Coastal resources	2,764,204	-	1,312,665	-	(1,451,539)		(1,451,539)	
Recreation center	1,039,319	-	-	-	(1,039,319)		(1,039,319)	
Performing arts	486,465	-	-	-	(486,465)		(486,465)	
Expect Excellence	2,210,466	-	-	-	(2,210,466)		(2,210,466)	
Interest on long-term debt	2,698,544	-	-	-	(2,698,544)		(2,698,544)	
Total governmental activities (See Note 1)	106,189,518	9,380,244	2,540,054	984,594	(93,284,626)		(93,284,626)	
Business-type activities:								
Sewer	12,532,983	7,958,926	-	5,581,204	-	1,007,147	1,007,147	
Refuse	3,532,089	2,784,758	-	-	-	(747,331)	(747,331)	
Events Center	674,774	121,375	-	-	-	(553,399)	(553,399)	
Baldwin County Bridge Company (BCBC)	-	1,673,376	-	-	-	1,673,376	1,673,376	
Arts Center	1,049,046	724,079	-	-	-	(324,967)	(324,967)	
Total business-type activities	17,788,892	13,262,514	-	5,581,204	-	1,054,826	1,054,826	
Total primary government	\$ 123,978,410	\$ 22,642,758	\$ 2,540,054	\$ 6,565,798	\$ (93,284,626)	\$ 1,054,826	\$ (92,229,800)	
COMPONENT UNIT								
Orange Beach Board of Education	\$ 10,916,937	\$ 1,486,956	\$ 5,723	\$ 26,407				\$ (9,397,851)
General revenues:								
Property taxes					5,569,458	-	5,569,458	
Local taxes					32,310,395	-	32,310,395	
Franchise taxes					1,691,799	-	1,691,799	
State taxes					1,038,068	-	1,038,068	
Sales taxes					22,594,615	-	22,594,615	
Unrestricted investment earnings (losses)					607,927	(13,085)	594,842	
Reimbursed expenses					333,612	-	333,612	
Miscellaneous					426,691	25,424	452,115	303,054
Gain on disposal of assets					38,129	-	38,129	
Transfers					2,753,376	(2,753,376)	-	
Appropriations from the City of Orange Beach					-	-	-	44,052,634
Donated assets					-	-	-	44,125,104
Total general revenues, special items and transfers					67,364,070	(2,741,037)	64,623,033	88,480,792
Change in net position					(25,920,556)	(1,686,211)	(27,606,767)	79,082,941
Net position - beginning					171,872,265	15,083,370	186,955,635	-
Net position - ending					\$ 145,951,709	\$ 13,397,159	\$ 159,348,868	\$ 79,082,941

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, 2022

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 74,834,588	\$ 309,438	\$ 75,144,026
Restricted cash and cash equivalents	37,678,978	2,174,191	39,853,169
Accounts receivable - net	8,758,409	165,236	8,923,645
Due from other funds	11,387,723	-	11,387,723
Prepaid expenses	280,465	-	280,465
TOTAL ASSETS	\$ 132,940,163	\$ 2,648,865	\$ 135,589,028
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable	2,840,317	-	2,840,317
Due to other funds	-	202,111	202,111
Accrued expenses	1,975,587	17,596	1,993,183
Appearance bonds	70,956	-	70,956
Performance bonds	33,545	-	33,545
Communications tower escrow funds	3,690	-	3,690
Total liabilities	4,924,095	219,707	5,143,802
 Deferred inflows of resources:			
Unearned revenue	45,565	-	45,565
 Fund balances:			
Nonspendable	280,465	-	280,465
Spendable:			
Restricted	38,362,343	2,126,600	40,488,943
Committed	2,670,014	-	2,670,014
Assigned	-	302,558	302,558
Unassigned	86,657,681	-	86,657,681
Total fund balances	127,970,503	2,429,158	130,399,661
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 132,940,163	\$ 2,648,865	\$ 135,589,028

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, 2022

Fund balances - total governmental funds		\$ 130,399,661
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.</p>		
Governmental capital assets	159,987,429	
Less: accumulated depreciation	<u>(34,244,683)</u>	125,742,746
<p>Certain deferred outflows of resources used in governmental activities are not financial resources and therefore are not reported in the governmental funds.</p>		
Deferred employer pension contributions	603,390	
Deferred pension losses	9,375,353	
Loss on advance refunding	880,250	
Less: accumulated amortization	<u>(436,455)</u>	10,422,538
<p>Certain deferred inflows of resources used in governmental activities are not financial uses and therefore are not reported in the governmental funds.</p>		
Deferred pension gains	<u>(305,570)</u>	(305,570)
<p>Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds.</p>		
Governmental bonds payable	(96,240,000)	
Premium on bonds issued	(9,860,675)	
Discount on bonds issued	42,033	
Accumulated amortization of premium/discount	1,708,469	
Net pension liability	(14,353,048)	
Compensated absences	<u>(795,056)</u>	(119,498,277)
<p>Accrued interest payable on debt in the governmental funds is susceptible to full accrual on the entity wide basis.</p>		
Accrued interest payable		<u>(809,389)</u>
Net position of governmental activities		<u>\$ 145,951,709</u>

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

THE CITY OF ORANGE BEACH, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2022

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	\$ 5,569,458	\$ -	\$ 5,569,458
Intergovernmental:			
State tax	268,038	582,587	850,625
Local tax	56,596,809	-	56,596,809
Grants	3,440,684	7,778	3,448,462
Personnel service reimbursement	333,612	-	333,612
Other licenses, permits and fees	5,379,476	2,451	5,381,927
Fines and forfeitures	421,379	37,012	458,391
Charges for services	2,063,980	-	2,063,980
Rent	76,797	-	76,797
Investment earnings	595,586	12,341	607,927
Contracts	1,131,032	-	1,131,032
Miscellaneous	665,573	324,507	990,080
TOTAL REVENUES	<u>76,542,424</u>	<u>966,676</u>	<u>77,509,100</u>
EXPENDITURES			
General government	56,183,270	-	56,183,270
Coastal resources	2,445,760	-	2,445,760
Court	522,822	-	522,822
Finance	1,223,704	-	1,223,704
Police	8,235,271	-	8,235,271
Corrections	910,123	-	910,123
Community development	1,529,139	-	1,529,139
Communications	674,523	-	674,523
Fire	8,858,978	-	8,858,978
Public works	3,333,610	-	3,333,610
Landscape	2,066,674	-	2,066,674
Parks and recreation	1,917,299	-	1,917,299
Performing arts	485,748	-	485,748
Recreation center	1,039,319	-	1,039,319
Expect Excellence	2,205,910	-	2,205,910
Library	-	696,736	696,736
Capital improvements	20,643,935	-	20,643,935
Securities lending:			
Fiscal agent fees	-	2,400	2,400
Debt service:			
Principal payments	-	2,855,000	2,855,000
Interest and other	-	2,490,676	2,490,676
TOTAL EXPENDITURES	<u>112,276,085</u>	<u>6,044,812</u>	<u>118,320,897</u>
Excess (deficiency) of revenues over expenditures	<u>(35,733,661)</u>	<u>(5,078,136)</u>	<u>(40,811,797)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from disposal of assets	6,486	-	6,486
Proceeds from debt issue	56,250,000	-	56,250,000
Cost of debt issue	(79,000)	-	(79,000)
Transfers in	3,382,865	5,170,509	8,553,374
Transfers out	(5,170,509)	(629,489)	(5,799,998)
TOTAL OTHER FINANCING SOURCES (USES)	<u>54,389,842</u>	<u>4,541,020</u>	<u>58,930,862</u>
NET CHANGE IN FUND BALANCES	18,656,181	(537,116)	18,119,065
FUND BALANCES - BEGINNING	<u>109,314,322</u>	<u>2,966,274</u>	<u>112,280,596</u>
FUND BALANCES - ENDING	<u>\$ 127,970,503</u>	<u>\$ 2,429,158</u>	<u>\$ 130,399,661</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, 2022

Net change in fund balances		\$ 18,119,065
<p>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.</p>		
Expenditures for capital assets	15,000,793	
Less: current year depreciation	<u>(4,279,167)</u>	10,721,626
<p>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.</p>		
Proceeds of 2022 A & B GO Debt issue	(56,250,000)	
Bond premium/discount amortization	549,996	
Principal payments	<u>2,855,000</u>	(52,845,004)
<p>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.</p>		
Amortization of loss on refunding	(44,012)	
Increase in interest accrued on long term debt	(126,468)	
Increase in compensated absences	(84,561)	
Decrease in deferred employer pension contributions	37,345	
Increase in deferred pension losses	5,189,184	
Decrease in deferred pension gains	3,931,961	
Increase in net pension liability	<u>(10,819,692)</u>	<u>(1,916,243)</u>
Change in net position of governmental activities		<u><u>\$(25,920,556)</u></u>

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, 2022

	Sewer	Refuse	Other Proprietary Funds	Total Proprietary Funds
ASSETS				
Current assets				
Cash and cash equivalents	\$ 8,060,102	\$ -	\$ 113,915	\$ 8,174,017
Restricted cash and cash equivalents	4,878,348	-	-	4,878,348
Accounts receivable - net	2,451,360	23,594	-	2,474,954
Due from other funds	-	1,400,956	-	1,400,956
Total current assets	<u>\$15,389,810</u>	<u>\$ 1,424,550</u>	<u>\$ 113,915</u>	<u>\$16,928,275</u>
Noncurrent assets				
Capital assets:				
Land	343,588	-	158,648	502,236
Buildings	-	-	3,820,516	3,820,516
Sewer plant	30,476,427	-	-	30,476,427
Vehicles and equipment	3,466,590	1,462,536	157,734	5,086,860
Distribution and collection system	13,763,412	-	-	13,763,412
Less: Accumulated depreciation	<u>(27,532,140)</u>	<u>(1,211,977)</u>	<u>(1,074,670)</u>	<u>(29,818,787)</u>
Total noncurrent assets	<u>20,517,877</u>	<u>250,559</u>	<u>3,062,228</u>	<u>23,830,664</u>
TOTAL ASSETS	<u>35,907,687</u>	<u>1,675,109</u>	<u>3,176,143</u>	<u>40,758,939</u>
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized loss on refunding - net	<u>876,107</u>	<u>-</u>	<u>-</u>	<u>876,107</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 100,307	12,884	\$ 1,743	\$ 114,934
Due to other funds	4,892,560	3,984,591	3,709,417	12,586,568
Accrued expenses	41,550	8,734	16,346	66,630
Accrued compensated absences	50,834	12,021	15,544	78,399
Accrued interest payable	59,430	-	-	59,430
Current portion of bonds payable	<u>1,850,000</u>	<u>-</u>	<u>-</u>	<u>1,850,000</u>
Total current liabilities	<u>6,994,681</u>	<u>4,018,230</u>	<u>3,743,050</u>	<u>14,755,961</u>
Noncurrent liabilities				
Accrued compensated absences	30,803	3,473	4,359	38,635
Series 2020 G.O. Sewer Warrant - net	<u>13,385,000</u>	<u>-</u>	<u>-</u>	<u>13,385,000</u>
Total noncurrent liabilities	<u>13,415,803</u>	<u>3,473</u>	<u>4,359</u>	<u>13,423,635</u>
TOTAL LIABILITIES	<u>20,410,484</u>	<u>4,021,703</u>	<u>3,747,409</u>	<u>28,179,596</u>
DEFERRED INFLOWS OF RESOURCES				
Unearned revenue	<u>58,291</u>	<u>-</u>	<u>-</u>	<u>58,291</u>
NET POSITION				
Invested in capital assets, net of related debt	5,282,877	250,559	3,062,228	8,595,664
Unrestricted	<u>11,032,142</u>	<u>(2,597,153)</u>	<u>(3,633,494)</u>	<u>4,801,495</u>
TOTAL NET POSITION	<u>\$16,315,019</u>	<u>\$ (2,346,594)</u>	<u>\$ (571,266)</u>	<u>\$13,397,159</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, 2022

	Sewer	Refuse	Other Proprietary Funds	Total Proprietary Funds
OPERATING REVENUES				
Charges for services	\$ 7,958,926	\$ 2,784,758	\$ 2,239,064	\$12,982,748
Miscellaneous income	4,029	21,395	6,147	31,571
Merchandise sales	-	-	308,637	308,637
TOTAL OPERATING REVENUES	<u>7,962,955</u>	<u>2,806,153</u>	<u>2,553,848</u>	<u>13,322,956</u>
COST OF GOODS SOLD	<u>-</u>	<u>-</u>	<u>193,520</u>	<u>193,520</u>
GROSS PROFIT	<u>7,962,955</u>	<u>2,806,153</u>	<u>2,360,328</u>	<u>13,129,436</u>
OPERATING EXPENSES				
Salaries, wages and employee benefits	2,245,750	567,095	1,001,019	3,813,864
Contractual services	239,668	2,561,674	54,301	2,855,643
Utilities	1,631,666	7,725	119,196	1,758,587
Repairs and maintenance	5,971,417	120,635	150,348	6,242,400
Other supplies and expenses	413,966	121,801	112,492	648,259
Bad debt expense	(5,295)	-	-	(5,295)
Bond premium amortization	125,913	-	-	125,913
Depreciation	1,707,337	153,159	127,962	1,988,458
TOTAL OPERATING EXPENSES	<u>12,330,422</u>	<u>3,532,089</u>	<u>1,565,318</u>	<u>17,427,829</u>
OPERATING INCOME (LOSS)	<u>(4,367,467)</u>	<u>(725,936)</u>	<u>795,010</u>	<u>(4,298,393)</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest income	(13,225)	-	140	(13,085)
Interest expense	(202,562)	-	-	(202,562)
Capital grants	5,581,204	-	-	5,581,204
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>5,365,417</u>	<u>-</u>	<u>140</u>	<u>5,365,557</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>997,950</u>	<u>(725,936)</u>	<u>795,150</u>	<u>1,067,164</u>
TRANSFERS IN (OUT)	<u>(1,080,000)</u>	<u>-</u>	<u>(1,673,376)</u>	<u>(2,753,376)</u>
CHANGE IN NET POSITION	<u>(82,050)</u>	<u>(725,936)</u>	<u>(878,226)</u>	<u>(1,686,212)</u>
NET POSITION - BEGINNING	<u>16,397,069</u>	<u>(1,620,658)</u>	<u>306,960</u>	<u>15,083,371</u>
NET POSITION - ENDING	<u>\$16,315,019</u>	<u>\$ (2,346,594)</u>	<u>\$ (571,266)</u>	<u>\$13,397,159</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, 2022

	Sewer	Refuse	Other Proprietary Funds	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 5,595,473	\$ 2,807,985	\$ 2,553,845	\$10,957,303
Payments to employees for services	(2,239,587)	(571,160)	(1,002,301)	(3,813,048)
Payments to suppliers of goods & services	(8,221,276)	(2,806,775)	(643,416)	(11,671,467)
Payments from (to) other funds	<u>3,645,146</u>	<u>569,950</u>	<u>781,311</u>	<u>4,996,407</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(1,220,244)</u>	<u>-</u>	<u>1,689,439</u>	<u>469,195</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	<u>(1,080,000)</u>	<u>-</u>	<u>(1,673,376)</u>	<u>(2,753,376)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest income	(13,225)	-	142	(13,083)
Decrease in restricted cash	1,212,423	-	-	1,212,423
Capital grants	5,581,204	-	-	5,581,204
Principal repayments for capital purposes	(1,925,507)	-	-	(1,925,507)
Interest paid on capital debt	(41,334)	-	-	(41,334)
Acquisition of property and equipment	<u>(1,018,677)</u>	<u>-</u>	<u>-</u>	<u>(1,018,677)</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>3,794,884</u>	<u>-</u>	<u>142</u>	<u>3,795,026</u>
NET INCREASE (DECREASE) IN CASH	1,494,640	-	16,205	1,510,845
CASH & EQUIVALENTS - BEG. OF YEAR	<u>6,565,462</u>	<u>-</u>	<u>97,710</u>	<u>6,663,172</u>
CASH & EQUIVALENTS - END OF YEAR	<u>\$ 8,060,102</u>	<u>\$ -</u>	<u>\$ 113,915</u>	<u>\$ 8,174,017</u>
Operating income (loss)	<u>\$ (4,367,467)</u>	<u>\$ (725,936)</u>	<u>\$ 795,010</u>	<u>\$ (4,298,393)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities				
Depreciation	1,707,337	153,159	127,962	1,988,458
Amortization	125,913	-	-	125,913
(Increase) decrease in:				
Accounts receivable	(2,375,697)	1,832	-	(2,373,865)
Due to other funds	3,645,146	569,950	781,311	4,996,407
Increase (decrease) in:				
Accounts payable	31,753	5,060	(13,562)	23,251
Accrued expenses	3,689	-	-	3,689
Accrued payroll	6,163	(4,065)	(1,282)	816
Deferred revenue	<u>2,919</u>	<u>-</u>	<u>-</u>	<u>2,919</u>
Total adjustments	<u>3,147,223</u>	<u>725,936</u>	<u>894,429</u>	<u>4,767,588</u>
Net cash provided (used) by operating activities	<u>\$ (1,220,244)</u>	<u>\$ -</u>	<u>\$ 1,689,439</u>	<u>\$ 469,195</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, 2022

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.

Component Units

The Orange Beach Board of Education is a separate legal entity that is included as a component unit in the financial reporting entity. It is included as a result of being financially accountable and fiscally dependent. The entity does not provide services entirely or almost entirely to the City, nor does it exclusively benefit the City, therefore they do not meet the criterion for blending, and must be discretely presented in the basic financial statements of the primary government. The Orange Beach Board of Education does not have substantially the same governing body as the City. The component unit has elected to report on a September 30th year end, whereas the City reports on a December 31st year end. Generally accepted accounting principles allow the presentation of these component units as part of the reporting entity if the component unit's year end falls within the year end of the primary government. Significant interfund transfers and borrowing between the City and the component units that occur from October 1 to December 31 each year will be disclosed in a note, if applicable. Separately issued audited financial statements of the Orange Beach Board of Education can be obtained from the Board.

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.

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

FUND FINANCIAL STATEMENTS:

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

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

General Fund -

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

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

Sewer Utility System -

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

Refuse Collection -

Refuse Collection Fund is used to account for operations of solid waste collection and disposal services. All costs are financed through charges to refuse customers.

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.

The following discretely presented component unit is presented as a major fund:

Orange Beach Board of Education -

This fund accounts for all operating revenues and expenditures of the Orange Beach Board School System. This governmental fund does not provide services entirely to the primary government, nor does it primarily benefit the primary government. The governing board is not the same as the City.

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.

Baldwin County Bridge Company (BCBC) Fund -

BCBC Fund is used to account for the transactions between the City and American Roads as described in Note 12.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2022

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 \$48,509,584 invested in the JP Morgan 100% U.S. Treasury Securities Money Market Fund #677 as of December 31, 2022. 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, 2022

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, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

A schedule of fund balances is as follows:

	General Fund	Debt Service Fund	Special Revenue Fund	Library Fund	Total Governmental Funds
Fund Balances:					
Nonspendable:					
Prepaid expenses	\$ 280,465	\$ -	\$ -	\$ -	\$ 280,465
Restricted for:					
Grants	4,019,975	-	-	-	4,019,975
Municipal court	71,683	-	-	-	71,683
Debt service	826,316	1,276,713	-	-	2,103,029
Capital outlay	33,444,369	-	849,887	-	34,294,256
Committed to:					
Emergencies	2,670,014	-	-	-	2,670,014
Assigned to:					
Library	-	-	-	302,558	302,558
Unassigned:	<u>86,657,681</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>86,657,681</u>
Total Fund Balance:	<u>\$ 127,970,503</u>	<u>\$ 1,276,713</u>	<u>\$ 849,887</u>	<u>\$ 302,558</u>	<u>\$ 130,399,661</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, 2022, the Events Center Fund and Refuse Fund had accumulated deficits of \$1,069,101 and \$2,346,594, respectively. It is anticipated that the Events Center Fund and Refuse Fund deficits will continue to be financed by the General Fund.

S. NET POSITION

Net position represents the difference between assets plus deferred outflow of resources and liabilities plus deferred inflow of resources. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 2 – CASH AND RESTRICTED CASH

A detail of cash as of December 31, 2022 is as follows:

	Governmental-type Funds	Business-type Funds
Cash on hand	\$ 3,905	\$ 100
Cash in banks		
Operations	75,140,121	8,173,917
Reserved- Disaster	2,670,014	3,104,016
Reserved- Capital projects	35,008,964	-
Reserved- Special revenues	897,478	-
Reserved- Debt service	1,276,713	1,774,332
	<u>\$ 114,997,195</u>	<u>\$ 13,052,365</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, 2022 the carrying amount of the City's deposits, including Certificates of Deposit, was \$128,045,656 and the bank balance was \$130,967,502. 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 or ERS) 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 the 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 Annual Comprehensive Financial Report.

B. GENERAL INFORMATION ABOUT THE PENSION PLAN

Plan description. The ERS, an agent multiple-employer public employee retirement plan, was established as of October 1, 1945, pursuant to the *Code of Alabama 1975, Title 36, Chapter 27* (Act 515 of the Legislature of 1945). The purpose of the ERS is to provide 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 which consists of 15 trustees. Act 390 of the Legislature of 2021 created two additional representatives to the ERS Board of Control Effective October 1, 2021. The Plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975, Title 36, Chapter 27* grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 4 – RETIREMENT PLAN (continued)

B. GENERAL INFORMATION ABOUT THE PENSION PLAN (continued)

The ERS Board of Control consists of 15 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) Eight 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. One vested active employee of a participating municipality or city in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.
 - d. One vested active employee of a participating county in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.
 - e. One vested active employee or retiree of a participating employer in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.
 - f. One vested active employee of a participating employer other than a municipality, city or county in ERS pursuant to the *Code of Alabama 1975, Section 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 formula method. 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 up to 80% of their average final compensation. 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 equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending September 30 are paid to the beneficiary.

Act 132 of the Legislature of 2019 allowed employers who participate in the ERS pursuant to *Code of Alabama 1975, Section 36-27-6* to provide Tier 1 retirement benefits to their Tier 2 members. Tier 2 members of employers adopting Act 2019-132 will contribute 7.5% of earnable compensation for regular employees and 8.5% for firefighters and law enforcement officers. A total of 608 employers adopted Act 2019-132 as of September 30, 2022.

Act 316 of the Legislature of 2019 allows employees at the time of retirement to receive a partial lump sum (PLOP) distribution as a single payment not to exceed the sum of 24 months of the maximum monthly retirement allowance the member could receive. This option may be selected in addition to the election of another retirement allowance option at a reduced amount based upon the amount of partial lump sum distribution selected.

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 4 – RETIREMENT PLAN (continued)

B. GENERAL INFORMATION ABOUT THE PENSION PLAN (continued)

The ERS serves approximately 886 local participating employers. The ERS membership includes approximately 108,890 participants. As of September 30, 2022, the City's membership consisted of:

Retired members or their beneficiaries currently receiving benefits	75
Vested inactive members	11
Non-vested inactive members	78
Active members	430
Post-DROP retired members still in active service	-
Total	594

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.

Employers participating in the ERS pursuant to *Code of Alabama 1975, Section 36-27-6* were not required by statute to increase covered member contribution rates but were provided the opportunity to do so through Act 2011-676. By adopting Act 2011-676, Tier 1 regular members' contribution rates increased from 5% to 7.5% of earnable compensation and Tier 1 certified law enforcement, correctional officers', and firefighters' member contribution rates increased from 6% to 8.5% of earnable compensation.

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 preretirement death benefit, and administrative expenses of the Plan. For the year ended December 31, 2022, 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, 2022 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, 2019, 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 \$1,156,216 for the year ended December 31, 2022.

C. NET PENSION LIABILITY

The City's net pension liability was measured as of September 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2020 rolled forward to September 30, 2021 using standard roll-forward techniques as shown in the following table:

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 4 – RETIREMENT PLAN (continued)

C. NET PENSION LIABILITY (continued)

	<u>Expected</u>	<u>Actual Before Plan Changes</u>	<u>Actual After Plan Changes</u>
(a) TPL as of September 30, 2021	\$ 56,687,289	\$ 57,183,693	\$ 57,231,516
(b) Discount rate	7.45%	7.45%	7.45%
(c) Entry age normal cost for the period October 1, 2021 - September 30, 2022	2,080,539	2,080,539	2,082,310
(d) Transfers among employees	-	(124,566)	(124,566)
(e) Actual benefit payments and refunds for the period October 1 2021 -September 30, 2022	<u>(2,125,506)</u>	<u>(2,125,506)</u>	<u>(2,125,506)</u>
(f) TPL as of September 30, 2022 = [(a) x (1 + (b))] + (c) + (d) + [(e) x (1 + 0.5 x (b))]	<u>\$ 60,786,350</u>	<u>\$ 61,195,170</u>	<u>\$ 61,248,327</u>
(g) Difference between expected and actual		\$ 408,820	
(h) Less liability transferred for immediate recognition		<u>(124,566)</u>	
(i) Difference between Expected and Actual - Experience (gain) / loss = (g) - (h)		<u>\$ 533,386</u>	
(j) Difference between Actual TPL Before and After Plan Changes - Benefit Change (gain) / loss			<u>\$ 53,157</u>

Actuarial assumptions: The total pension liability as of September 30, 2022 was determined based on the annual actuarial funding valuation report prepared as of September 30, 2021. The key actuarial assumptions are summarized below:

Inflation	2.50%
Salary increases	3.25%-6.00%
Investment rate of return*	7.45%, including inflation

* Net of pension plan investment expense

Mortality rates were based on the Pub-2010 Below-Median Tables, projected generationally using the MP-2020 scale, which is adjusted by 66-2/3% beginning with year 2019:

Group	Membership Table	Set Forward (+)/ Setback (-)	Adjustment to Rates
Non-FLC Service Retirees	General Healthy Below Median	Male: +2, Female: +2	Male: 90% ages < 65, 96% ages >= 65 Female: 96% all ages
FLC/State Police Service Retirees	Public Safety Healthy Below Median	Male: +1, Female: none	None
Beneficiaries	Contingent Survivor Below Median	Male: +2, Female: +2	None
Non-FLC Disabled Retirees	General Disability	Male: +7, Female: +3	None
FLC/State Police Disabled Retirees	Public Safety Disability	Male: +7, Female: none	None

The actuarial assumptions used in the September 30, 2021 valuation were based on the results of an actuarial experience study for the period October 1, 2015 – September 30, 2020.

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:

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 4 – RETIREMENT PLAN (continued)

C. NET PENSION LIABILITY (continued)

	Target Allocation	Long-Term Expected Rate of Return*
Fixed income	15.00%	2.80%
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%	9.00%
Real estate	10.00%	6.50%
Cash equivalents	5.00%	1.50%
Total	<u>100.00%</u>	

* Includes assumed rate of inflation of 2.00%.

Discount rate: The discount rate used to measure the total pension liability was the long-term rate of return, 7.45%. 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.

Changes in Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at September 30, 2021	\$ 56,687,289	\$ 53,153,933	\$ 3,533,356
Changes for the year:			
Service cost	2,080,539	-	2,080,539
Interest	4,144,028	-	4,144,028
Changes of benefit terms	53,157	-	53,157
Changes of assumptions	-	-	-
Difference between expected and actual experience	533,386	-	533,386
Contributions - employer	-	1,199,000	(1,199,000)
Contributions - employee	-	1,627,070	(1,627,070)
Net investment income	-	(6,834,652)	6,834,652
Benefit payments, including refunds of employee contributions	(2,125,506)	(2,125,506)	-
Administrative expense	-	-	-
Transfers among employees	(124,566)	(124,566)	-
Net changes	<u>4,561,038</u>	<u>(6,258,654)</u>	<u>10,819,692</u>
Balance at September 30, 2022	<u>\$ 61,248,327</u>	<u>\$ 46,895,279</u>	<u>\$ 14,353,048</u>

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 7.45%, 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 (6.45%) or 1-percentage-point higher (8.45%) than the current rate:

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 4 – RETIREMENT PLAN (continued)

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

	1% Decrease (6.45%)	Current Discount (7.45%)	1% Increase (8.45%)
Plan's Net Pension Liability	\$ 22,923,064	\$ 14,353,048	\$ 7,258,130

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, 2022. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2022. The auditor's report dated August 19, 2022 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.

For the year ended December 31, 2022, the City recognized pension expense of \$1,156,216. At December 31, 2022, 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	\$ 1,546,237	\$ 305,570
Changes of assumptions	2,209,837	-
Net difference between projected and actual earnings on plan investments	5,619,279	-
Employer contributions subsequent to the measurement date	603,390	-
Total	\$ 9,978,743	\$ 305,570

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:	
2023	\$ 2,243,697
2024	1,664,022
2025	1,520,627
2026	2,680,319
2027	520,202
Thereafter	440,916

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

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

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					Amounts Recog. In Pension Expense / Deferred Outflow	Amounts Recog. In Pension Expense / Deferred Inflow	Ending Balance	
	Initial Balance of Losses / Deferred Outflow	Initial Balance of Gains / Deferred Inflow		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)	(e)	(f)	(e)	(b) + (d) - (f)
2022	\$ 533,386	\$ -	7.6	\$ -	\$ -	\$ 533,386	\$ -	\$ 70,182	\$ -	\$ 463,204	\$ -
2021	1,077,245	-	7.7	937,343	-	-	-	139,902	-	797,441	-
2020	-	291,520	7.5	-	213,782	-	-	-	38,869	-	174,913
2019	130,650	-	8.0	81,657	-	-	-	16,331	-	65,326	-
2018	518,534	-	8.0	259,266	-	-	-	64,817	-	194,449	-
2017	-	503,971	8.1	-	192,876	-	-	-	62,219	-	130,657
2016	23,081	-	8.2	6,191	-	-	-	2,815	-	3,376	-
2015	920,209	-	8.2	134,662	-	-	-	112,221	-	22,441	-
Total				<u>\$ 1,419,119</u>	<u>\$ 406,658</u>	<u>\$ 533,386</u>	<u>\$ -</u>			<u>\$ 1,546,237</u>	<u>\$ 305,570</u>

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

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 Recog. In Pension Expense / Deferred Outflow	Amounts Recog. 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)	Deferred Inflows (b)
2022	\$ -	\$ -	7.6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2021	2,537,576	-	7.7	2,208,021	-	-	-	329,555	-	1,878,466	-
2020	-	291,520	7.5	-	-	-	-	-	-	-	-
2019	-	-	8.0	-	-	-	-	-	-	-	-
2018	258,582	-	8.0	129,290	-	-	-	32,323	-	96,967	-
2017	-	503,971	8.1	-	-	-	-	-	-	-	-
2016	1,601,749	-	8.2	429,739	-	-	-	195,335	-	234,404	-
Total				<u>\$2,767,050</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>			<u>\$ 2,209,837</u>	<u>\$ -</u>

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

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 Recogn. In Pension Expense / Deferred Outflow	Amounts Recogn. In Pension Expense / Deferred Inflow	Ending Balance		
	of Losses / Deferred Outflow	of Gains / Deferred Inflow		Deferred Outflows	Deferred Inflows	Losses / Deferred Outflows	Gains / Deferred Inflows			Deferred Outflows (a)	Deferred Inflows (b)	Deferred Outflows (c) + (e)
2022	\$ 10,816,076	\$ -	5.0	\$ -	\$ -	\$10,816,076	\$ -	\$2,163,215	\$ -	\$ 8,652,861	\$ -	
2021	-	6,253,030	5.0	-	5,002,424	-	-	-	1,250,606	-	3,751,818	
2020	798,809	-	5.0	479,285	-	-	-	159,762	-	319,523	-	
2019	1,993,569	-	5.0	797,427	-	-	-	398,714	-	398,713	-	
2018	-	525,801	5.0	-	105,161	-	-	-	105,161	-	-	
2017	-	1,526,162	5.0	-	-	-	-	-	-	-	-	
Total				<u>\$ 1,276,712</u>	<u>\$ 5,107,585</u>	<u>\$10,816,076</u>	<u>\$ -</u>			<u>\$ 9,371,097</u>	<u>\$ 3,751,818</u>	
Net difference between projected and actual earnings on investments										<u>\$ (5,619,279)</u>		

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 5 – LONG TERM DEBT

General Fund

General Obligation Warrants

At December 31, 2022, 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.

On February 1, 2021, the City issued a General Obligation Warrant, in the amount of 41,395,000 to Bank of New York. The Warrant is payable in annual installments varying from \$117,000 to \$1,641,750 principal plus interest with an average coupon of 3.996% beginning February 1, 2022 with a final payment on August 1, 2041.

On June 1, 2022, the City issued a General Obligation Warrant in the amount of \$50,000,000 to Regions Capital Advantage, Inc. The Warrant is payable in annual installments varying from \$44,343 to \$3,660,615 principal plus interest with an average coupon of 3.080% beginning June 1, 2023 with a final payment on June 1, 2042.

On June 1, 2022, the City issued a General Obligation Warrant B in the amount of \$25,000,000 to Regions Capital Advantage, Inc. The City is making monthly principal draws of \$1,041,667 beginning July 1, 2022 and ending June 1, 2024, with principal drawn not to exceed \$25,000,000. Interest only installments due until June 1, 2025, at which time principal and interest due in annual installments through June 1, 2042. Variable interest with average coupon of 2.990%.

Sewer Fund

General Obligation Warrants

At December 31, 2022, the long-term debt for the proprietary fund consisted of the following individual issues:

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
DECEMBER 31, 2022

NOTE 5 – LONG TERM DEBT (continued)

General Obligation Warrants for governmental activities of the City were comprised of the following at December 31, 2022:

\$41,395,000 General Obligation Warrants Series 2021 dated February 1, 2021, principal and interest due in annual installments varying from \$117,000 to \$1,641,750 through August 1, 2041; variable interest rate with average coupon of 3.996%.	\$ 39,990,000
\$50,000,000 General Obligation Warrants Series 2022 A dated June 1, 2022, principal and interest due in annual installments varying from \$44,343 to \$3,660,615 through June 1, 2042; variable interest rate with average coupon of 3080%.	50,000,000
\$25,000,000 General Obligation Warrants Series 2022 B dated June 1, 2022, with the City making monthly principal draws of \$1,041,667 beginning July 1, 2022 and ending June 1, 2024, with principal drawn not to exceed \$25,000,000 aggregate. Interest only installments due until June 1, 2025, at which time principal and interest due in annual installments through June 1, 2042. Variable interest with average coupon of 2.990%.	6,250,000
Unamortized bond premium/ discount (net)	<u>8,110,173</u>
TOTAL WARRANTS AND NOTES OUTSTANDING	104,350,173
Compensated absences	795,056
Net pension liability	<u>14,353,048</u>
TOTAL GENERAL LONG-TERM DEBT	<u>\$ 119,498,277</u>

General Obligation and Revenue Warrants for business-type activities of the City were comprised of the following at December 31, 2022:

\$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.	\$ 15,235,000
TOTAL WARRANTS AND NOTES OUTSTANDING	15,235,000
Compensated absences	<u>117,034</u>
TOTAL BUSINESS-TYPE ACTIVITY DEBT	<u>\$ 15,352,034</u>

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 5 – LONG TERM DEBT (continued)

The annual aggregate maturities, including principal and interest, for the years subsequent to December 31, 2022, are as follows:

Year Ending December 31,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2023	\$ 3,598,783	\$ 3,238,456	\$ 6,837,239	\$ 1,850,000	\$ 160,204	\$ 2,010,204
2024	3,691,951	2,981,785	6,673,736	1,855,000	152,082	2,007,082
2025	3,785,631	2,853,708	6,639,339	1,865,000	140,117	2,005,117
2026	3,879,828	2,722,186	6,602,014	1,885,000	126,037	2,011,037
2027	3,979,553	2,587,203	6,566,756	1,905,000	108,054	2,013,054
2028 and thereafter	77,304,254	19,788,018	97,092,272	5,875,000	176,938	6,051,938
Unamortized bond discount / premium	8,110,173	-	8,110,173	-	-	-
Total	<u>\$104,350,173</u>	<u>\$34,171,356</u>	<u>\$138,521,529</u>	<u>\$ 15,235,000</u>	<u>\$ 863,432</u>	<u>\$ 16,098,432</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:					
February 1, 2013, G.O. Warrants, Series 2013	\$ 1,450,000	\$ -	\$ (1,450,000)	\$ -	\$ -
February 1, 2021, G.O. Warrants, Series 2021	41,395,000	-	(1,405,000)	39,990,000	1,445,000
June 1, 2022, G.O. Warrants, Series 2022 A	-	50,000,000	-	50,000,000	2,153,783
June 1, 2022, G.O. Warrants, Series 2022 B	-	6,250,000	-	6,250,000	-
Unamortized bond premium/ discount (net)	<u>8,660,169</u>	<u>-</u>	<u>(549,996)</u>	<u>8,110,173</u>	<u>-</u>
Total bonds payable	51,505,169	56,250,000	(3,404,996)	104,350,173	3,598,783
Other long-term liabilities:					
Compensated absences	710,495	84,561	-	795,056	533,262
Net pension liability	<u>3,533,356</u>	<u>10,819,692</u>	<u>-</u>	<u>14,353,048</u>	<u>-</u>
Total other long-term liabilities	<u>4,243,851</u>	<u>10,904,253</u>	<u>-</u>	<u>15,148,104</u>	<u>533,262</u>
Governmental activities long-term liabilities	<u>\$ 55,749,020</u>	<u>\$ 67,154,253</u>	<u>\$ (3,404,996)</u>	<u>\$ 119,498,277</u>	<u>\$ 4,132,045</u>

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

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	\$ 1,445,000	\$ -	\$ (1,445,000)	\$ -	\$ -
October 17, 2020 G.O. Sewer Warrants, Series 2020	15,560,000	-	(325,000)	15,235,000	1,850,000
Unamortized bond premium/ discount (net)	<u>155,507</u>	<u>-</u>	<u>(155,507)</u>	<u>-</u>	<u>-</u>
Total bonds payable	17,160,507	-	(1,925,507)	15,235,000	1,850,000
Other long-term liabilities:					
Compensated absences	<u>116,923</u>	<u>111</u>	<u>-</u>	<u>117,034</u>	<u>78,399</u>
Total other long-term liabilities	<u>116,923</u>	<u>111</u>	<u>-</u>	<u>117,034</u>	<u>78,399</u>
Business-type activities long-term liabilities	<u>\$ 17,277,430</u>	<u>\$ 111</u>	<u>\$ (1,925,507)</u>	<u>\$ 15,352,034</u>	<u>\$ 1,928,399</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, 2022

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 outlined 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.

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

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, 2022:

Due From	Due To	
	General Fund	Refuse Fund
General Fund	\$ -	\$ -
Special Revenue Fund	198,591	-
Debt Service Fund	-	-
Refuse Fund	3,984,591	-
BCBC Fund	-	-
Sewer Fund	3,491,604	1,400,956
Event Center Fund	2,236,428	-
Library Fund	3,520	-
Art Center Fund	1,472,989	-
Total	\$ 11,387,723	\$ 1,400,956

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, 2022 were as follows:

Transfers Out	Transfers In			Total
	General Fund	Library Fund	Debt Service Fund	
General Fund	\$ -	\$ 663,299	\$ 4,507,210	\$ 5,170,509
Debt Service Fund	456	-	-	456
BCBC Fund	1,673,376	-	-	1,673,376
Special Revenue Fund	629,033	-	-	629,033
Sewer Fund	1,080,000	-	-	1,080,000
Total	\$ 3,382,865	\$ 663,299	\$ 4,507,210	\$ 8,553,374

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, 2022

NOTE 10 – CAPITAL ASSETS

Capital asset activity for governmental and business-type activities for the year ended December 31, 2022 was as follows:

	Beginning Balance	Additions	Disposals & Reclassifications	Ending Balance
Governmental activities:				
Non depreciable assets:				
Land & improvements	\$ 68,751,649	\$ 849,592	\$ -	\$ 69,601,241
Construction in progress	10,131,057	7,814,030	(937,683)	17,007,404
Depreciable assets:				
Buildings & improvements	32,894,916	937,683	-	33,832,599
Infrastructure	12,178,169	3,000,000	-	15,178,169
Equipment & vehicles	21,168,581	3,337,172	(137,738)	24,368,015
Total historical cost of assets:	145,124,372	15,938,477	(1,075,421)	159,987,428
Less accumulated depreciation for:				
Buildings & improvements	13,276,443	1,202,058	-	14,478,501
Infrastructure	2,579,277	234,664	-	2,813,941
Equipment & vehicles	14,247,533	2,842,445	(137,738)	16,952,240
Total accumulated depreciation:	30,103,253	4,279,167	(137,738)	34,244,682
Governmental activities capital assets, net:	<u>\$ 115,021,119</u>	<u>\$ 11,659,310</u>	<u>\$ (937,683)</u>	<u>\$ 125,742,746</u>

Depreciation expense was charged
to governmental functions as follows:

Administration	\$ 162,358
Finance	2,322
Police	829,191
Fire	1,385,936
Public works	615,036
Parks & recreation	1,203,390
Library	33,867
Community development	47,067
Total depreciation expense:	<u>\$ 4,279,167</u>

	Beginning Balance	Additions	Disposals & Reclassifications	Ending Balance
Business-type activities:				
Non depreciable assets:				
Land & improvements	\$ 502,236	\$ -	\$ -	\$ 502,236
Construction in progress	1,003,533	709,138	-	1,712,671
Depreciable assets:				
Buildings & improvements	32,824,417	-	-	32,824,417
Equipment	2,451,555	18,545	(8,850)	2,461,250
Vehicles	2,094,472	290,993	-	2,385,465
Distribution & collection systems	13,763,412	-	-	13,763,412
Total historical cost of assets:	52,639,625	1,018,676	(8,850)	53,649,451
Less accumulated depreciation for:				
Buildings & improvements	11,579,700	102,787	-	11,682,487
Equipment	1,719,887	292,108	(8,850)	2,003,145
Vehicles	1,627,767	159,205	-	1,786,972
Distribution & collection systems	12,911,827	1,434,356	-	14,346,183
Total accumulated depreciation:	27,839,181	1,988,456	(8,850)	29,818,787
Business-type activities capital assets, net:	<u>\$ 24,800,444</u>	<u>\$ (969,780)</u>	<u>\$ -</u>	<u>\$ 23,830,664</u>

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 10 – CAPITAL ASSETS (continued)

Capital asset activity for the discretely presented component unit, the Orange Beach Board of Education for the year ended September 30, 2022 was as follows:

	Beginning Balance	Additions	Disposals & Reclassifications	Ending Balance
Governmental activities:				
Non depreciable assets:				
Construction in progress	\$ -	\$ 386,175	\$ -	\$ 386,175
Depreciable assets:				
Buildings & improvements	-	63,585,556	-	63,585,556
Equipment	-	16,822,297	-	16,822,297
Total historical cost of assets:	-	80,794,028	-	80,794,028
Less accumulated depreciation for:				
Buildings & improvements	-	408,409	-	408,409
Equipment	-	841,115	-	841,115
Total accumulated depreciation:	-	1,249,524	-	1,249,524
Governmental activities capital assets, net:	<u>\$ -</u>	<u>\$ 79,544,504</u>	<u>\$ -</u>	<u>\$ 79,544,504</u>

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

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

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

Based on the above payments from the City and the above repayment schedule from BCBC, the BCBC shall never be obligated to pay Variable Traffic Fees in a cumulative amount to exceed \$12,000,000. If at 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.

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, 2022, the City received payments from American Roads totaling \$1,673,376 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 OF ORANGE BEACH, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 12 – COMMITMENTS AND CONTINGENCIES (continued)

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 11 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.

Construction, engineering, and design contracts for material commitments at December 31, 2022 are as follows:

Contractor/Engineer	Project	Resolution Number	Contract Amount Including Change Orders	Approximate Expenditures Incurred To Date	Approximate Balance of Contract
Burk-Kleinpeter, Inc.	Wolf Bay Bridge	18-095	\$ 3,333,375	\$ 3,114,057	\$ -
Thompson Engineering, Inc.	Wolf Bay Bridge	20-219	Reassigned	2,742	216,575
McCollough Architecture, Inc.	Fire Station No. 3	21-038	84,000	78,918	5,083
M.W. Rogers	Fire Station No. 3	22-009	5,545,052.67	3,386,370.41	2,158,682
Sawgrass Consulting, LLC	Rosemary Trail Cabins	21-154	45,000	30,880	14,120
Thompson Engineering, Inc.	Perdido Pass Seawall	21-152	104,000.00	50,529.63	53,470
McCollough Architecture, Inc.	City Hall Finance Wing Addition	22-225	98,800.00	-	98,800.00
Steward Construction Company, Inc.	Fire Admin & Post Office Roof Replacements	22-097	340,000.00	320,849.40	19,150.60
Sawgrass Consulting, LLC	Powerline Road	22-183	227,600.00	29,580.00	198,020.00
Black Diamond Construction, LLC	Waterfront Park Pier	22-044	696,419.00	660,483.53	35,935.47
R&B Contracting Company, Inc.	Sewer Force Main Canal Road to CR-12	21-253	5,924,221.20	5,581,203.85	343,017.35
Telepak Networks, Inc. (dba Cspire)	Fiber to Residential Neighborhoods	22-223	114,800.00	-	114,800.00
t Broadband Fiber Holdings, LLC (dba Island F	Fiber to Residential Neighborhoods	22-224	505,000.00	400,000.00	105,000.00
Finishing Solutions, LLC	Medical Arts Building Repairs	22-190	652,547.24	219,375.00	433,172.24
5K Company, LLC (dba Gulf Coast Dockmaster	Cross Lane Dune Walkover Repairs	22-243	48,899.00	-	48,899.00
Thompson Engineering, Inc.	Sportsplex Baseball Field Dugouts	22-234	16,500.00	-	16,500.00
Sports Fields, Inc.	Sportsplex Softball Field Turf Installation	22-199	447,320.00	436,137.00	11,183.00
Sawgrass Consulting, LLC	Sportsplex Softball Field Turf Conversion	22-103	88,920.00	68,135.00	20,785.00

NOTE 13 – SUBSEQUENT EVENTS

Subsequent events were evaluated from January 1, 2023 through the financial statement issuance date, April 17, 2024.

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, 2022

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With
	Original	Final		Final Budget Over/(Under)
RESOURCES (INFLOWS)				
Property taxes	\$ 4,802,049	\$ 4,802,049	\$ 5,569,458	\$ 767,409
Intergovernmental:				
State tax	106,000	106,000	268,038	162,038
Local tax	38,710,000	38,710,000	56,596,809	17,886,809
Grants	9,938,901	9,938,901	3,440,684	(6,498,217)
Personnel service reimbursement	141,000	141,000	333,612	192,612
Other licenses, permits and fees	4,271,000	4,271,000	5,379,476	1,108,476
Fines and forfeitures	511,000	511,000	421,379	(89,621)
Charges for services	1,210,000	1,210,000	2,063,980	853,980
Rent	150,000	150,000	76,797	(73,203)
Investment earnings	450,000	450,000	595,586	145,586
Insurance proceeds	-	-	-	-
Contracts	859,000	859,000	1,131,032	272,032
Miscellaneous	617,900	617,900	665,573	47,673
AMOUNTS AVAILABLE FOR APPROPRIATION	61,766,850	61,766,850	76,542,424	14,775,574
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
General government	8,723,564	8,723,564	56,183,270	47,459,706
Coastal resources	2,234,275	2,234,275	2,445,760	211,485
Court	487,556	487,556	522,822	35,266
Finance	978,689	978,689	1,223,704	245,015
Police	7,309,366	7,309,366	8,235,271	925,905
Corrections	780,022	780,022	910,123	130,101
Community development	1,660,515	1,660,515	1,529,139	(131,376)
Communications	588,081	588,081	674,523	86,442
Fire	7,157,123	7,157,123	8,858,978	1,701,855
Public works	3,092,285	3,092,285	3,333,610	241,325
Landscape	1,810,482	1,810,482	2,066,674	256,192
Parks and recreation	1,809,412	1,809,412	1,917,299	107,887
Performing arts	594,346	594,346	485,748	(108,598)
Recreation center	1,039,250	1,039,250	1,039,319	69
Expect Excellence	1,730,088	1,730,088	2,205,910	475,822
Capital improvements	34,745,460	34,745,460	20,643,935	(14,101,525)
TOTAL CHARGES TO APPROPRIATIONS	74,740,514	74,740,514	112,276,085	37,535,571
EXCESS OF AMOUNTS AVAILABLE FOR OVER CHARGES TO APPROPRIATIONS	(12,973,664)	(12,973,664)	(35,733,661)	(22,759,997)
OTHER FINANCING SOURCES (USES)				
Proceeds from disposal of assets	50,000	50,000	6,486	(43,514)
Proceeds from debt issue	-	-	56,250,000	56,250,000
Cost of debt issue	-	-	(79,000)	(79,000)
Transfers in	3,507,000	3,507,000	3,382,865	(124,135)
Transfers out	(6,468,672)	(6,468,672)	(5,170,509)	1,298,163
TOTAL OTHER FINANCING (USES)	(2,911,672)	(2,911,672)	54,389,842	57,301,514
STATUTORY REVENUE REDUCTION	(6,002,895)	(6,002,895)	-	6,002,895
EXCESS (DEFICIENCY) OF RESOURCES OVER				
CHARGES TO APPROPRIATIONS	(21,888,231)	(21,888,231)	18,656,181	40,544,412
FUND BALANCES - BEGINNING	109,314,322	109,314,322	109,314,322	-
FUND BALANCES - ENDING	\$87,426,091	\$87,426,091	\$ 127,970,503	\$ 40,544,412

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, 2022

	Original	Final	Actual Amounts (Budgetary Basis)	Variance With Final Budget Over/(Under)
OPERATING REVENUES				
Charges for services	\$ 6,950,000	\$ 6,950,000	\$ 7,958,926	\$ 1,008,926
Miscellaneous income	5,000	5,000	4,029	(971)
TOTAL OPERATING REVENUES	<u>6,955,000</u>	<u>6,955,000</u>	<u>7,962,955</u>	<u>1,007,955</u>
OPERATING EXPENSES				
Salaries, wages and employee benefits	1,801,608	1,801,608	2,245,750	444,142
Contractual services	300,000	300,000	239,668	(60,332)
Utilities	1,086,000	1,086,000	1,631,666	545,666
Repairs and maintenance	6,865,000	6,865,000	5,971,417	(893,583)
Other supplies and expenses	409,000	409,000	413,966	4,966
Bad debt expense	-	-	(5,295)	(5,295)
Bond premium amortization	-	-	125,913	125,913
Depreciation	-	-	1,707,337	1,707,337
TOTAL OPERATING EXPENSES	<u>10,461,608</u>	<u>10,461,608</u>	<u>12,330,422</u>	<u>1,868,814</u>
OPERATING INCOME (LOSS)	<u>(3,506,608)</u>	<u>(3,506,608)</u>	<u>(4,367,467)</u>	<u>(860,859)</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest income	100,000	100,000	(13,225)	(113,225)
Interest expense	-	-	(202,562)	(202,562)
Capital grants	5,000,000	5,000,000	5,581,204	581,204
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>5,100,000</u>	<u>5,100,000</u>	<u>5,365,417</u>	<u>265,417</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>1,593,392</u>	<u>1,593,392</u>	<u>997,950</u>	<u>(595,442)</u>
TRANSFERS IN (OUT)	<u>-</u>	<u>-</u>	<u>(1,080,000)</u>	<u>(1,080,000)</u>
CHANGE IN NET POSITION	<u>1,593,392</u>	<u>1,593,392</u>	<u>(82,050)</u>	<u>(1,675,442)</u>
NET POSITION - BEGINNING	<u>16,397,069</u>	<u>16,397,069</u>	<u>16,397,069</u>	<u>-</u>
NET POSITION - ENDING	<u>\$ 17,990,461</u>	<u>\$ 17,990,461</u>	<u>\$ 16,315,019</u>	<u>\$ (1,675,442)</u>

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

THE CITY OF ORANGE BEACH, ALABAMA
REFUSE FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2022

	Original	Final	Actual Amounts (Budgetary Basis)	Variance With Final Budget Over/(Under)
OPERATING REVENUES				
Charges for services	\$ 2,650,000	\$ 2,650,000	\$ 2,784,758	\$ 134,758
Miscellaneous income	<u>5,000</u>	<u>5,000</u>	<u>21,395</u>	<u>16,395</u>
TOTAL OPERATING REVENUES	<u>2,655,000</u>	<u>2,655,000</u>	<u>2,806,153</u>	<u>151,153</u>
OPERATING EXPENSES				
Salaries, wages and employee benefits	402,973	402,973	567,095	164,122
Contractual services	2,300,000	2,300,000	2,561,674	261,674
Utilities	7,800	7,800	7,725	(75)
Repairs and maintenance	102,000	102,000	120,635	18,635
Other supplies and expenses	92,550	92,550	121,801	29,251
Depreciation	<u>-</u>	<u>-</u>	<u>153,159</u>	<u>153,159</u>
TOTAL OPERATING EXPENSES	<u>2,905,323</u>	<u>2,905,323</u>	<u>3,532,089</u>	<u>626,766</u>
OPERATING INCOME (LOSS)	<u>(250,323)</u>	<u>(250,323)</u>	<u>(725,936)</u>	<u>(475,613)</u>
NET POSITION - BEGINNING	<u>(1,620,658)</u>	<u>(1,620,658)</u>	<u>(1,620,658)</u>	<u>-</u>
NET POSITION - ENDING	<u>\$ (1,870,981)</u>	<u>\$ (1,870,981)</u>	<u>\$ (2,346,594)</u>	<u>\$ (475,613)</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, 2022

	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contributions	\$ 1,171,841	\$ 1,084,916	\$ 1,007,589	\$ 912,787	\$ 860,452	\$ 746,774	\$ 850,584	\$ 800,331
Contributions in relation to the actuarially determined contribution	<u>1,171,841</u>	<u>1,084,916</u>	<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>	<u>\$ -</u>	<u>\$ -</u>
 Covered payroll	 23,850,424	 21,843,594	 20,898,846	 18,487,298	 17,100,269	 14,999,922	 14,393,677	 13,508,477
 Contributions as a percentage of covered payroll	 4.91%	 4.97%	 4.82%	 4.94%	 5.03%	 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 2022 were based on the September 30, 2019 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period January 1, 2022 to September 30, 2022:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	14 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

Methods and assumptions used to determine contribution rates for the period October 1, 2022 to December 31, 2022:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	14.9 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, 2022

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability									
Service cost	\$ 2,080,539	\$ 1,786,762	\$ 1,469,240	\$ 1,425,842	\$ 1,317,681	\$ 1,245,314	\$ 1,213,069	\$ 1,168,947	\$ 1,090,244
Interest	4,144,028	3,710,888	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	53,157	-	1,243,089	-	-	-	-	-	-
Difference between expected and actual experience	533,386	1,077,245	(291,520)	130,650	518,534	(503,971)	23,081	920,209	-
Changes of assumptions	-	2,537,576	-	-	258,582	-	1,601,749	-	-
Benefit payments, including refunds of employee contributions	(2,125,506)	(1,717,068)	(1,343,369)	(1,337,845)	(1,160,003)	(853,462)	(641,884)	(552,344)	(516,402)
Transfers among employers	(124,566)	239,995	(516,798)	46,310	124,934	181,799	29,622	-	-
Net change in total pension liability	<u>4,561,038</u>	<u>7,635,398</u>	<u>3,979,497</u>	<u>3,420,635</u>	<u>3,937,623</u>	<u>2,746,593</u>	<u>4,627,190</u>	<u>3,649,950</u>	<u>2,489,276</u>
Total pension liability - beginning	<u>56,687,289</u>	<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>	<u>24,201,127</u>
Total pension liability - ending (a)	<u>\$61,248,327</u>	<u>\$56,687,289</u>	<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>
Plan fiduciary net position									
Contributions - employer	\$ 1,199,000	\$ 1,089,725	\$ 921,337	\$ 849,129	\$ 786,837	\$ 804,848	\$ 806,700	\$ 801,525	\$ 782,020
Contributions - member	1,627,070	1,341,292	1,141,547	1,011,541	1,013,613	862,030	773,424	728,225	703,936
Net investment income	(6,834,652)	9,572,104	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	(2,125,506)	(1,717,068)	(1,343,369)	(1,337,845)	(1,160,003)	(853,462)	(641,884)	(552,344)	(516,402)
Transfers among employers	(124,566)	239,995	(516,798)	46,310	124,934	181,799	29,622	327,982	231,356
Net change in plan fiduciary net position	<u>(6,258,654)</u>	<u>10,526,048</u>	<u>2,501,448</u>	<u>1,566,586</u>	<u>3,999,284</u>	<u>4,861,611</u>	<u>3,668,160</u>	<u>1,602,939</u>	<u>3,753,588</u>
Plan net position - beginning	<u>53,153,933</u>	<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>	<u>20,674,269</u>
Plan net position - ending (b)	<u>\$46,895,279</u>	<u>\$53,153,933</u>	<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>
Net pension liability - ending (a) - (b)	<u>\$14,353,048</u>	<u>\$ 3,533,356</u>	<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>
Plan fiduciary net position as a percentage of the total pension liability	76.57%	93.77%	86.90%	89.03%	92.58%	91.64%	84.93%	85.80%	91.52%
Covered payroll	23,850,424	21,843,594	20,898,846	18,487,298	17,100,269	14,999,922	14,393,677	13,508,477	13,175,276
Net pension liability as a percentage of covered payroll	60.18%	16.18%	30.74%	26.75%	18.08%	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, 2022

	Special Revenues	Debt Service	Library	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ 309,438	\$ 309,438
Restricted cash and cash equivalents	897,478	1,276,713	-	2,174,191
Accounts receivable - net	151,000	-	14,236	165,236
TOTAL ASSETS	\$ 1,048,478	\$ 1,276,713	\$ 323,674	\$ 2,648,865
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Due to other funds	198,591	-	3,520	202,111
Accrued expenses	-	-	17,596	17,596
Total liabilities	198,591	-	21,116	219,707
Fund balances:				
Nonspendable	-	-	-	-
Spendable:				
Restricted	849,887	1,276,713	-	2,126,600
Committed	-	-	-	-
Assigned	-	-	302,558	302,558
Unassigned	-	-	-	-
Total fund balances	849,887	1,276,713	302,558	2,429,158
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 1,048,478	\$ 1,276,713	\$ 323,674	\$ 2,648,865

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, 2022

	Special Revenues	Debt Service	Library	Total Governmental Funds
REVENUES				
Intergovernmental:				
State tax	\$ 582,587	-	\$ -	\$ 582,587
Grants	-	-	7,778	7,778
Other licenses, permits and fees	2,451	-	-	2,451
Fines and forfeitures	37,012	-	-	37,012
Investment earnings	3,432	8,531	378	12,341
Miscellaneous	301,498	-	23,009	324,507
TOTAL REVENUES	926,980	8,531	31,165	966,676
EXPENDITURES				
Library	-	-	696,736	696,736
Securities lending:				
Fiscal agent fees	-	2,400	-	2,400
Debt service:				
Principal payments	-	2,855,000	-	2,855,000
Interest and other	-	2,490,676	-	2,490,676
TOTAL EXPENDITURES	-	5,348,076	696,736	6,044,812
Excess (deficiency) of revenues over expenditures	926,980	(5,339,545)	(665,571)	(5,078,136)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	4,507,210	663,299	5,170,509
Transfers out	(629,033)	(456)	-	(629,489)
TOTAL OTHER FINANCING SOURCES (USES)	(629,033)	4,506,754	663,299	4,541,020
NET CHANGE IN FUND BALANCES	297,947	(832,791)	(2,272)	(537,116)
FUND BALANCES - BEGINNING	551,940	2,109,504	304,830	2,966,274
FUND BALANCES - ENDING	\$ 849,887	\$ 1,276,713	\$ 302,558	\$ 2,429,158

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, 2022

	Events Center	BCBC	Arts Center	Total Nonmajor Proprietary Funds
ASSETS				
Current assets				
Cash and cash equivalents	\$ -	\$ -	\$ 113,915	\$ 113,915
Total current assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 113,915</u>	<u>\$ 113,915</u>
Noncurrent assets				
Capital assets:				
Land	158,648	-	-	158,648
Buildings	1,667,975	-	2,152,541	3,820,516
Vehicles and equipment	76,104	-	81,630	157,734
Less: Accumulated depreciation	<u>(716,671)</u>	<u>-</u>	<u>(357,999)</u>	<u>(1,074,670)</u>
Total noncurrent assets	<u>1,186,056</u>	<u>-</u>	<u>1,876,172</u>	<u>3,062,228</u>
TOTAL ASSETS	<u>1,186,056</u>	<u>-</u>	<u>1,990,087</u>	<u>3,176,143</u>
LIABILITIES				
Current liabilities				
Accounts payable	28	-	1,715	1,743
Due to other funds	2,236,428	-	1,472,989	3,709,417
Accrued expenses	6,612	-	9,734	16,346
Accrued compensated absences	8,303	-	7,241	15,544
Total current liabilities	<u>2,251,371</u>	<u>-</u>	<u>1,491,679</u>	<u>3,743,050</u>
Noncurrent liabilities				
Accrued compensated absences	3,786	-	573	4,359
Total noncurrent liabilities	<u>3,786</u>	<u>-</u>	<u>573</u>	<u>4,359</u>
TOTAL LIABILITIES	<u>2,255,157</u>	<u>-</u>	<u>1,492,252</u>	<u>3,747,409</u>
NET POSITION				
Invested in capital assets, net of related debt	1,186,056	-	1,876,172	3,062,228
Unrestricted	<u>(2,255,157)</u>	<u>-</u>	<u>(1,378,337)</u>	<u>(3,633,494)</u>
TOTAL NET POSITION	<u>\$ (1,069,101)</u>	<u>\$ -</u>	<u>\$ 497,835</u>	<u>\$ (571,266)</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, 2022

	Events Center	BCBC	Arts Center	Total Nonmajor Proprietary Funds
OPERATING REVENUES				
Charges for services	\$ 121,375	\$ 1,673,376	\$ 444,313	\$ 2,239,064
Miscellaneous income	-	-	6,147	6,147
Merchandise sales	-	-	308,637	308,637
TOTAL OPERATING REVENUES	<u>121,375</u>	<u>1,673,376</u>	<u>759,097</u>	<u>2,553,848</u>
COST OF GOODS SOLD	<u>-</u>	<u>-</u>	<u>193,520</u>	<u>193,520</u>
GROSS PROFIT	<u>121,375</u>	<u>1,673,376</u>	<u>565,577</u>	<u>2,360,328</u>
OPERATING EXPENSES				
Salaries, wages and employee benefits	394,363	-	606,656	1,001,019
Contractual services	1,200	-	53,101	54,301
Utilities	69,816	-	49,380	119,196
Repairs and maintenance	112,344	-	38,004	150,348
Other supplies and expenses	36,721	-	75,771	112,492
Depreciation	60,330	-	67,632	127,962
TOTAL OPERATING EXPENSES	<u>674,774</u>	<u>-</u>	<u>890,544</u>	<u>1,565,318</u>
OPERATING INCOME (LOSS)	<u>(553,399)</u>	<u>1,673,376</u>	<u>(324,967)</u>	<u>795,010</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest income	-	-	140	140
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>-</u>	<u>-</u>	<u>140</u>	<u>140</u>
INCOME (LOSS) BEFORE TRANSFERS	(553,399)	1,673,376	(324,827)	795,150
TRANSFERS IN (OUT)	<u>-</u>	<u>(1,673,376)</u>	<u>-</u>	<u>(1,673,376)</u>
CHANGE IN NET POSITION	(553,399)	-	(324,827)	(878,226)
NET POSITION - BEGINNING	<u>(515,702)</u>	<u>-</u>	<u>822,662</u>	<u>306,960</u>
NET POSITION - ENDING	<u>\$ (1,069,101)</u>	<u>\$ -</u>	<u>\$ 497,835</u>	<u>\$ (571,266)</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, 2022

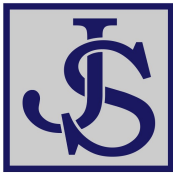
	Events Center	BCBC	Arts Center	Total Nonmajor Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 121,375	\$ 1,673,376	\$ 759,094	\$ 2,553,845
Payments to employees for services	(395,020)	-	(607,281)	(1,002,301)
Payments to suppliers of goods & services	(220,118)	-	(423,298)	(643,416)
Payments from (to) other funds	493,763	-	287,548	781,311
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>-</u>	<u>1,673,376</u>	<u>16,063</u>	<u>1,689,439</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	<u>-</u>	<u>(1,673,376)</u>	<u>-</u>	<u>(1,673,376)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest income	<u>-</u>	<u>-</u>	<u>142</u>	<u>142</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>	<u>-</u>	<u>142</u>	<u>142</u>
NET (DECREASE) IN CASH	<u>-</u>	<u>-</u>	<u>16,205</u>	<u>16,205</u>
CASH & EQUIVALENTS AT BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>97,710</u>	<u>97,710</u>
CASH & EQUIVALENTS AT END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 113,915</u>	<u>\$ 113,915</u>
Operating income (loss)	<u>\$ (553,399)</u>	<u>\$ 1,673,376</u>	<u>\$ (324,967)</u>	<u>\$ 795,010</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities				
Depreciation	60,330	-	67,632	127,962
(Increase) decrease in:				
Due to other funds	493,763	-	287,548	781,311
Increase (decrease) in:				
Accounts payable	(37)	-	(13,525)	(13,562)
Accrued payroll	(657)	-	(625)	(1,282)
Total adjustments	<u>553,399</u>	<u>-</u>	<u>341,030</u>	<u>894,429</u>
Net cash provided (used) by operating activities	<u>\$ -</u>	<u>\$ 1,673,376</u>	<u>\$ 16,063</u>	<u>\$ 1,689,439</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

25051 CANAL ROAD, 2ND FLOOR
POST OFFICE BOX 1616
ORANGE BEACH, AL 36561
251-979-8878 OFFICE
251-929-4200 FAX

13700 PERDIDO KEY DRIVE
UNIT B-224
PERDIDO KEY, FL 32507
850-619-9256 OFFICE

INDEPENDENT AUDITORS' 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, the aggregate discretely presented component units, 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, 2022, 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 April 17, 2024.

Report on 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on 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*.

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
April 17, 2024



Jackson & Smith
CPA Group, PC

25051 CANAL ROAD, 2ND FLOOR
POST OFFICE BOX 1616
ORANGE BEACH, AL 36561
251-979-8878 OFFICE
251-929-4200 FAX

13700 PERDIDO KEY DRIVE
UNIT B-224
PERDIDO KEY, FL 32507
850-619-9256 OFFICE

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Orange Beach, Alabama's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City of Orange Beach, Alabama's major federal programs for the year ended December 31, 2022. The City of Orange Beach, Alabama's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City of Orange Beach, Alabama complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City of Orange Beach, Alabama and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City of Orange Beach, Alabama's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City of Orange Beach, Alabama's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Orange Beach, Alabama's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City of Orange Beach, Alabama's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City of Orange Beach, Alabama's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City of Orange Beach, Alabama's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City of Orange Beach, Alabama's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Jackson & Smith CPA Group, PC
Orange Beach, Alabama
April 17, 2024

THE CITY OF ORANGE BEACH, ALABAMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2022

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 7,635,007
Assistance to Firefighters	97.044	112,381
Port Security Grant	97.056	517,549
Homeland Security Grant Program	97.067	<u>46,576</u>
Total U.S. Department of Homeland Security		8,311,513
U.S. Department of the Treasury		
State and Local Fiscal Recovery Fund	21.027	<u>741,117</u>
Total U.S. Department of the Treasury		741,117
U.S. Department of the Interior		
GoMESA	15.435	<u>140,806</u>
Total U.S. Department of the Interior		140,806
U.S. Department of Commerce		
Habitat Conservation	11.463	<u>157,147</u>
Total U.S. Department of Commerce		157,147
Gulf Coast Ecosystem Restoration Council (RESTORE Council)		
Gulf Coast Ecosystem Restoration Council Comprehensive Plan Component Program	87.051	100,516
Gulf Coast Ecosystem Restoration Council Oil Spill Impact Program	87.052	<u>6,839,459</u>
Total Gulf Coast Ecosystem Restoration Council (RESTORE Council)		<u>6,939,975</u>
Total Federal Awards		<u>\$ 16,290,558</u>

THE CITY OF ORANGE BEACH, ALABAMA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying schedule of Federal Awards is presented based on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related liability is incurred. In applying the susceptible-to-accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of such revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to the purpose of expenditure and substantially irrevocable; i.e., revocable only for failure to comply with prescribed compliance requirements, such as with equal employment opportunity. These resources are reflected as revenues at the time of receipt or earlier if they meet the availability criteria.

For purposes of the SEFA, federal awards include all grants, contracts, and similar agreements entered into directly with the federal government and other pass-through entities. The City has obtained Catalog of Federal Domestic Assistance (CFDA) numbers to ensure that all programs have been identified in the SEFA. CFDA numbers have been appropriately listed by applicable programs.

NOTE 2 – EXPENDITURES INCLUDED ON SEFA INCURRED IN PRIOR PERIOD

In accordance with the guidance included in the 2022 Compliance Supplement for CFDA 97.036 Disaster Grants – Public Assistance (Presidentially Declared Disasters), grant expenditures are recorded on the SEFA when 1) FEMA has approved the entity’s Project Worksheet and 2) the eligible expenditures have been incurred. See reconciliation below of grant expenditures recorded on financial statements to the amount recorded on the SEFA.

Expended 2020-2021	\$ 7,331,512
Expended in 2022	<u>303,495</u>
Total Reported on SEFA	<u><u>\$ 7,635,007</u></u>

THE CITY OF ORANGE BEACH, ALABAMA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED DECEMBER 31, 2022

SECTION I – SUMMARY OF AUDITORS’ RESULTS:

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:
 Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified that are
 not considered to be material weakness(es)? Yes X No

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major program:
 Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified that are
 not considered to be material weakness(es)? Yes X No

Type of auditors' report issued on compliance for major program: Unmodified Opinion

Any audit findings disclosed that are required to be reported in
 accordance with 2 CFR Part 200.516(a)? Yes X No

Identification of Major Programs

Federal CFDA Number	Federal Program or Cluster
97.036	Disaster Grants - Public Assistance
87.052	Gulf Coast Ecosystem Restoration Council Oil Spill Impact Program

Dollar threshold used to distinguish between
 type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes X No

SECTION II – FINANCIAL STATEMENT FINDINGS:

No matters were reportable.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS:

No matters were reportable.