

**THE CITY OF ORANGE BEACH, ALABAMA**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2007**

THE CITY OF ORANGE BEACH, ALABAMA  
FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the financial statements of the governmental activities, business-type activities, major funds, and remaining fund information, which collectively comprise the basic financial statements, of the City of Orange Beach, Alabama, as of and for the year ended December 31, 2007, as listed in the table of contents. These financial statements are the responsibility of the City of Orange Beach, Alabama's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, major funds, and remaining fund information of the City of Orange Beach, Alabama, as of December 31, 2007, and the changes in financial position and cash flows, where applicable, of those activities and funds and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the budgetary comparison information on pages 2 through 6 and pages 37 are not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on basic financial statements. The combining and individual fund statements and schedules described in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2008, on our consideration of the City of Orange Beach, Alabama's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide and opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.



Orange Beach, Alabama  
May 30, 2008

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 Assets provides information on all the City's assets and liabilities. The difference between the two is reported as net assets. Over time, changes (increases or decreases) in net assets may provide a useful indicator of the City's overall financial condition.

The Statement of Activities provides information on how the City's net assets changed during the fiscal year.

#### **Fund Financial Statements**

A fund is a group of related accounts used to maintain control over resources that have been segregated for specific objectives or activities. The City of Orange Beach uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund Financial Statements report the City's operations in more detail than the Government-wide Financial Statements. All of the funds of the City are governmental or proprietary.

#### **Governmental Funds**

Governmental Funds provide information, which may be useful in evaluating and determining a government's near-term financing requirements. The financial statements focus on near-term inflows and outflows of spend able 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 four enterprise funds: Refuse Fund, Sewer Fund, Tennis Center Fund, and the Baldwin County Bridge Company Fund. Enterprise funds report the same functions presented in business-type activities in the Government-wide financial statements.

#### **Notes to the Basic Financial Statements**

The notes provide additional information and are essential to the full understanding of the data in the Government-wide and Fund Financial Statements.

## Government-wide Financial Analysis

As previously noted, over time, net assets may serve as a useful indicator of a government's financial condition. At the close of Fiscal Year 2007 on December 31, 2007, the City of Orange Beach assets exceeded its liabilities by \$49,739,787 whereas at the close of Fiscal Year 2006 on December 31, 2006, the City of Orange Beach assets exceeded its liabilities by \$48,551,261. The largest portion of the City's net assets reflects its investment in capital assets (property, plant and equipment), less debt outstanding that was used for acquisition. These assets are used to provide services to the citizens and are not available for future spending. Since the capital assets cannot be used to liquidate the outstanding debt, resources needed to repay the debt must be provided from other sources.

**Table 1 below represents the City's Condensed Statement of Net Assets as of December 31, 2007 and December 31, 2006, and is derived from the Government-wide Statement of Net Assets.**

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Current and Other Assets	\$ 14,198,761	\$ 6,994,000	\$ 33,853,634	\$ 30,710,527	\$ 48,052,395	\$ 37,704,527
Capital Assets	67,836,987	65,194,124	11,418,059	11,898,507	79,255,046	77,092,631
Total Assets	<u>\$ 82,035,748</u>	<u>\$ 72,188,124</u>	<u>\$ 45,271,693</u>	<u>\$ 42,609,034</u>	<u>\$ 127,307,441</u>	<u>\$ 114,797,158</u>
Other Liabilities	\$ 8,693,690	\$ 11,688,865	\$ 2,401,045	\$ 2,106,578	\$ 11,094,735	\$ 13,795,443
Long-term Liabilities	37,113,679	22,334,464	29,359,241	30,115,990	66,472,920	52,450,454
Total Liabilities	<u>\$ 45,807,369</u>	<u>\$ 34,023,329</u>	<u>\$ 31,760,286</u>	<u>\$ 32,222,568</u>	<u>\$ 77,567,655</u>	<u>\$ 66,245,897</u>
Net Assets	<u>\$ 36,228,379</u>	<u>\$ 38,164,795</u>	<u>\$ 13,511,408</u>	<u>\$ 10,386,466</u>	<u>\$ 49,739,787</u>	<u>\$ 48,551,261</u>
Invested in Capital Assets, Net of Related Debt	\$ 24,816,994	\$ 33,604,275	\$ 5,120,759	\$ 4,763,027	\$ 29,937,753	\$ 38,367,302
Restricted	2,556,196	1,713,955	1,333,723	-	3,889,919	1,713,955
Unrestricted	8,855,189	2,846,565	7,056,926	5,623,439	15,912,115	8,470,004
Total Net Assets	<u>\$ 36,228,379</u>	<u>\$ 38,164,795</u>	<u>\$ 13,511,408</u>	<u>\$ 10,386,466</u>	<u>\$ 49,739,787</u>	<u>\$ 48,551,261</u>

## Overall Analysis

Financial highlights for the City of Orange Beach as a whole during the fiscal year ended December 31, 2007 and December 31, 2006, include the following:

The assets of the City exceeded its liabilities (net assets) at the close of the fiscal year ended December 31, 2007, by \$36,228,379 and at the close of the fiscal year ended December 31, 2006, by \$38,164,795 for Governmental Activities and by \$13,511,408 and \$10,386,466 (respectively for each year end) for Business-type Activities (See Table 1-Condensed Statement of Net Assets).

**Table 2 on the next page represents the City's Condensed Statement of Activities as of December 31, 2007 and December 31, 2006 and is derived from the Statement of Activities.**

**Table 2 – Condensed Statement of Activities**

**Table 2 - Condensed Statement of Activities**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
<b>Functions/Programs</b>						
<b>PRIMARY GOVERNMENT:</b>						
Governmental Activities:						
General Government	\$ (2,070,010)	\$ (4,952,558)	\$ -	\$ -	\$ (2,070,010)	\$ (4,952,558)
Municipal Court	(336,543)	(316,665)	-	-	(336,543)	(316,665)
Finance	(267,828)	931,419	-	-	(267,828)	931,419
Engineering Coastal	(433,460)	-	-	-	(433,460)	-
Police	(3,716,612)	(3,812,544)	-	-	(3,716,612)	(3,812,544)
Marine police	(520,436)	-	-	-	(520,436)	-
Communications	(586,927)	(582,004)	-	-	(586,927)	(582,004)
Fire	(3,389,377)	(3,431,413)	-	-	(3,389,377)	(3,431,413)
Public Works	(1,739,572)	(2,030,176)	-	-	(1,739,572)	(2,030,176)
Landscape	(803,456)	(771,371)	-	-	(803,456)	(771,371)
Parks & Recreation	(3,751,655)	(3,410,334)	-	-	(3,751,655)	(3,410,334)
Library	(684,995)	(659,914)	-	-	(684,995)	(659,914)
Community Development	(438,146)	1,705,590	-	-	(438,146)	1,705,590
Hurricane Disaster Recovery	-	(698,937)	-	-	-	(698,937)
Emergency Berm	-	(746,636)	-	-	-	(746,636)
Interest on Long-Term Debt	(1,827,672)	(1,677,041)	-	-	(1,827,672)	(1,677,041)
Total Governmental Activities	\$ (20,566,689)	\$ (20,452,584)	\$ -	\$ -	\$ (20,566,689)	\$ (20,452,584)
Business-type Activities:						
Sewer Fund	\$ -	\$ -	\$ (790,712)	\$ 1,359,469	\$ (790,712)	\$ 1,359,469
Refuse Fund	-	-	(231,911)	(170,217)	(231,911)	(170,217)
Tennis Fund	-	-	18,423	1,780	18,423	1,780
Baldwin County Bridge Fund	-	-	(229,425)	(178,064)	(229,425)	(178,064)
Public Library	-	-	(10,711)	-	(10,711)	-
Total Business-type Activities	\$ -	\$ -	\$ (1,244,336)	\$ 1,012,968	\$ (1,244,336)	\$ 1,012,968
Total Primary Government	\$ (20,566,689)	\$ (20,452,584)	\$ (1,244,336)	\$ 1,012,968	\$ (21,811,025)	\$ (19,439,616)
General Revenues:						
Taxes	\$ 20,194,156	\$ 19,048,878	\$ -	\$ -	\$ 20,194,156	\$ 19,048,878
Investment Earnings	297,011	99,945	1,159,800	971,819	1,456,811	1,071,764
Miscellaneous	449,097	228,311	24,661	563,674	473,758	791,985
Gain on Disposal of Assets	715,581	786,226	-	13,256	715,581	799,482
Insurance Claims	-	853,256	-	-	-	853,256
Transfers	(3,025,572)	3,239,131	3,025,572	(3,239,131)	-	-
Total General Revenues,	18,630,273	24,255,747	4,210,033	(1,690,382)	22,840,306	22,565,365
Change in Net Assets	(1,936,416)	3,803,163	2,965,696	(677,414)	1,029,280	3,125,749
Net Assets - Beginning	38,164,795	34,361,632	10,386,466	11,063,880	48,551,261	45,425,512
Prior period adjustment	-	-	159,245	-	159,245	-
Net Assets - Ending	\$ 36,228,379	\$ 38,164,795	\$ 13,511,407	\$ 10,386,466	\$ 49,739,786	\$ 48,551,261

The City's total net assets increased during the current year by \$1,029,280 and during the previous year by \$3,125,749. Net assets of Governmental Activities decreased by \$1,936,416 during fiscal year 2007 and increased by \$3,803,163 during fiscal year 2006 while the net assets on Business-type Activities increased by \$2,965,696 during fiscal year 2007 and decreased by \$677,414 during fiscal year 2006.

### **Financial Analysis of the Government's Funds**

The City of Orange Beach uses fund accounting to ensure and demonstrate compliance with finance related requirements. Funds that experienced significant changes in Fund Balance during the year are as follows:

#### **Governmental Funds**

At the close of the current fiscal year, the City's Governmental Funds showed a combined ending fund balance of \$11,635,991 compared to \$4,981,270 at the end of the previous fiscal year with \$4,767,650 compared to \$4,827,504 reported as unreserved fund balance. The remaining reserved amount of \$6,868,341 for fiscal year end 2007, is \$14,988 for inventories, \$142,304 for prepaid insurance, and \$6,711,049 for emergencies as compared to the fiscal year end 2006 amount of \$153,766 (\$16,094 for inventories and \$137,672 for prepaid insurance).

#### **Proprietary Funds**

As of the close of the current fiscal year the City's Proprietary Funds reported total net assets of \$13,511,407 compared to \$10,386,466 at the end of fiscal 2006.

### **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 \$7,641,101 (rounded) under the budgeted amounts. This mainly results from the City not booking the transfer of \$6,605,000 to our Natural Disaster Fund as an expense but rather as a cash account transfer (reserve). Additionally, we budgeted \$2,850,000 as a transfer to our Special Revenue Funds which was zeroed out during audit with reclassification entries which make the line item look under budget. The net of these two items thus results in expenditures actually being over budget by approximately \$1.3M. The significant expenditures in excess of the budget were \$3.45M paid to by land for a future bay bridge landing and several hundred thousand spent on professional fees associated with the City building or acquiring a marina. The most significant item budgeted but not spent was approximately \$2M for additional fields at the City's sportsplex. Actual revenues were \$3,369,166 (rounded) under the final budgeted amounts. There were four significant variances. Several grant projects did not proceed at the pace anticipated thus, \$753,844 of revenue budgeted was not received. Building permits revenue fell short of budget by approximately \$2,000,000. Debt proceeds exceeded budget by almost \$2M due primarily to the loan used to acquire the bridge landing property referenced above. And as referenced above the Special Revenue Funds transfer that is zeroed out during audit accounts for an approximate \$3M variance. Refer to the budgetary comparison schedule for the General Fund in the other RSI section of the Financial Report.

The net change in the General Fund Balance was a increase of \$5,798,783 from Fiscal Year 2006 to 2007 as compared to an increase of \$548,905 from Fiscal Year 2005 to 2006. The net change in Fund Balance from Fiscal Year 2006 to 2007 was an increase of \$6,654,721 for all Governmental Funds (compared to a decrease of \$1,514,570 the previous year) ( See Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds).

### **Capital Asset and Long-term Debt Activity**

#### **Capital Asset Activity**

At December 31, 2007, the City of Orange Beach reported net capital assets of \$67,836,987 from governmental activities and net capital asset of \$11,418,059 from business-type activities. At December 31, 2006, the City of Orange Beach reported net capital assets of \$65,194,124 from governmental activities and net capital assets of \$11,898,507 from business-type activities. Refer to Note 7 to the financial statements for additional information on capital assets.

### **Long-term Debt Activity**

As of year-end, the City had \$73,974,721 in debt outstanding compared to \$62,983,999 last year. Refer to **Note 4** 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) Significant Geographic Growth – Due to an aggressive annexation program, the City has significantly increased its geographic area, North of the Intercoastal Waterway since 2003. This brings potential growth possibility along with difficulties in meeting the additional demand for services.
- 2) The City has entered into a 30 year option to purchase the Beach Express from the Baldwin County Bridge Company (BCBC). Beginning in 2004, the City will make an annual 1.2 million dollar payment to the bridge company for ten (10) years. In exchange, the City receives a per car royalty for thirty (30) years. If the City does not exercise the option to purchase in year thirty (30), the per car royalty payment extends for a second thirty (30) year period.
- 3) In 2004, the City entered into a fifteen year agreement with AIG Baker for the development of “The Wharf”, a mixed-use commercial development on Canal Road. The City has committed one-half of the sales and lodging taxes collected from the project for public improvements associated with the project. The City does not anticipate the tax reimbursement portion of the agreement to begin until 2009.
- 4) In 2005, the City purchased the former Walker Marina on Canal Road for the development of a City owned marina. The intent of the marina is to become the home of the City's charter fishing fleet.
- 5) The City has purchased 80 acres of land north of the intercoastal canal for the development of a Business and Industrial Park. The City has sold 20 acres to Baldwin Electric Membership Cooperative and 20.42 acres to Columbia Southern University. An additional 3 acres is scheduled for sale to Licidio & Oliver in 2008. The remaining acres are being held in anticipation of providing a site for a regional medical facility.
- 6) In October 2005, the city purchased a 54 acre golf course in the heart of the City. It was renovated and opened for play in late 2007.
- 7) The City continues to facilitate efforts of potential developers of a new civic center.
- 8) The City continues to explore the feasibility of the development of the Wolf Bay Bridge Project.
- 9) The City has established a permanent reserve fund for the general fund and the sewer utility fund.
- 10) The City continues to pursue with the City of Gulf Shores a regional medical facility.
- 11) The City began construction of its new sewer plant.
- 12) Change of Administration – All elected positions with the City were up for election in August 2008. Elections have resulted in three incumbents being elected to an additional four year term. Of the remaining three, two have previous experience on our council. The City Administrator of seven years left the position in April 2008. The City Administrator position was filled internally with an employee with five years experience with the City of Orange Beach.

## BASIC FINANCIAL STATEMENTS

## GOVERNMENT - WIDE FINANCIAL STATEMENTS

THE CITY OF ORANGE BEACH, ALABAMA  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 7,887,114	\$ 7,999,704	\$ 15,886,818
Accounts receivable - net	2,715,266	2,400,987	5,116,253
Internal balances	408,965	(408,965)	-
Inventories	14,988	30,015	45,003
Prepays	155,304	4,313	159,617
Restricted assets:			
Cash and cash equivalents	2,556,196	23,533,605	26,089,801
Capital assets:			
Non-depreciable	48,791,379	343,588	49,134,967
Depreciable (net)	19,045,608	11,074,471	30,120,079
Bond issuance expenses (net)	460,928	293,976	754,904
<b>Total assets</b>	<b>\$ 82,035,748</b>	<b>\$ 45,271,693</b>	<b>\$ 127,307,442</b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 1,182,259	\$ 136,648	\$ 1,318,907
Accrued expenses	537,004	582,530	1,119,534
Accrued interest payable	561,845	-	561,845
Deferred revenue	74,812	26,390	101,202
Long-term liabilities:			
Due within one year:			
Compensated absences	307,770	41,878	349,648
Bonds payable	6,030,000	1,613,599	7,643,599
Due in more than one year:			
Compensated absences	123,686	18,112	141,798
Bonds payable	36,989,993	29,341,129	66,331,122
<b>Total liabilities</b>	<b>\$ 45,807,369</b>	<b>\$ 31,760,285</b>	<b>\$ 77,567,655</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	24,816,994	5,120,759	29,937,753
Restricted:			
Capital projects	2,556,196	-	2,556,196
Emergencies	-	1,333,723	1,333,723
Unrestricted (deficit)	8,855,189	7,056,926	15,912,115
<b>Total net assets</b>	<b>\$ 36,228,379</b>	<b>\$ 13,511,408</b>	<b>\$ 49,739,787</b>

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, 2007

Functions/Programs	Program Revenues			Primary Government			
	Expenses	Charges for Services	Capital Grants and Contributions	Governmental Activities	Business type Activities		Total
					Governmental Activities	Business type Activities	
<b>PRIMARY GOVERNMENT:</b>							
Governmental activities:							
General government	\$ 3,195,890	\$ 899,534	\$ 226,346	\$ (2,070,010)	\$	\$	(2,070,010)
Court	396,754	60,211	-	(336,543)	-	-	(336,543)
Finance	735,069	467,242	-	(267,828)	-	-	(267,828)
Engineering/ Coastal	433,460	-	-	(433,460)	-	-	(433,460)
Police	4,263,652	547,040	-	(3,716,612)	-	-	(3,716,612)
Marine police	520,436	-	-	(520,436)	-	-	(520,436)
Communications	586,927	-	-	(586,927)	-	-	(586,927)
Fire	4,040,350	311,506	339,468	(3,389,377)	-	-	(3,389,377)
Public works	1,767,620	-	28,048	(1,739,572)	-	-	(1,739,572)
Landscape	803,456	-	-	(803,456)	-	-	(803,456)
Parks and recreation	4,340,005	554,116	34,233	(3,751,655)	-	-	(3,751,655)
Library	707,869	22,874	-	(684,995)	-	-	(684,995)
Community development	1,220,529	646,181	136,202	(438,146)	-	-	(438,146)
Interest on long-term debt	1,827,672	-	-	(1,827,672)	-	-	(1,827,672)
Total governmental activities (See Note 1)	24,839,688	3,508,702	764,297	(20,566,689)	-	-	(20,566,689)
Business-type activities:							
Sewer	4,935,634	4,144,922	-	-	(790,712)	-	(790,712)
Refuse	1,840,492	1,608,581	-	-	(231,911)	-	(231,911)
Tennis	64,959	83,383	-	-	18,423	-	18,423
Baldwin County Bridge Company (BCBC)	229,425	-	-	-	(229,425)	-	(229,425)
Public Library	18,564	7,853	-	-	(10,711)	-	(10,711)
Total business-type activities	7,089,074	5,844,738	-	-	(1,244,336)	-	(1,244,336)
Total primary government	\$ 31,928,762	\$ 9,353,441	\$ 764,297	\$ (20,566,689)	\$ (1,244,336)	\$	(21,811,025)
General revenues:							
Taxes				20,194,156	-	-	20,194,156
Unrestricted investment earnings				297,011	1,159,800	-	1,456,810
Miscellaneous				449,097	24,661	-	473,758
Gain (loss) on disposal of assets				715,581	-	-	715,581
Transfers				(3,025,572)	3,025,572	-	-
Total general revenues, special items and transfers				18,630,273	4,210,033	-	22,840,305
Change in net assets				(1,936,416)	2,965,697	-	1,029,280
Net assets - beginning				38,164,795	10,386,466	-	48,551,261
Prior period adjustment				-	159,245	-	159,245
Net assets - ending				36,228,379	13,511,408	-	49,739,787

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, 2007

	General	Debt Service	Special Revenues	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 921,189	\$ -	\$ 254,885	\$ 1,176,074
Restricted cash and cash equivalents	6,863,467	2,403,769	-	9,267,236
Accounts receivable - net	2,627,809	-	100,458	2,728,267
Due from other funds	476,698	-	-	476,698
Inventory	14,988	-	-	14,988
Prepaid insurance	142,304	-	-	142,304
Total assets	\$ 11,046,454	\$ 2,403,769	\$ 355,343	\$ 13,805,567
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	978,836	2,225	-	981,061
Contractor retainage payable	23,150	-	-	23,150
Due to other funds	-	32,114	35,618	67,732
Accrued expenses	539,051	-	-	539,051
Appearance bonds	134,159	-	-	134,159
Performance bonds	32,080	-	-	32,080
Communications tower escrow funds	9,761	-	-	9,761
Accrued compensated absences	307,770	-	-	307,770
Deferred revenue	74,812	-	-	74,812
Total liabilities	2,099,619	34,339	35,618	2,169,576
<b>Fund balances:</b>				
<b>Reserved for:</b>				
Emergencies	6,711,049	-	-	6,711,049
Inventories	14,988	-	-	14,988
Prepaid insurance	142,304	-	-	142,304
<b>Unreserved, reported in:</b>				
General fund	2,078,495	-	-	2,078,495
Debt service fund	-	2,369,430	-	2,369,430
Special revenues funds	-	-	319,725	319,725
Total fund balances	8,946,836	2,369,430	319,725	11,635,991
<b>Total liabilities and fund balances</b>	<b>\$ 11,046,454</b>	<b>\$ 2,403,769</b>	<b>\$ 355,343</b>	<b>\$ 13,805,567</b>

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

THE CITY OF ORANGE BEACH, ALABAMA  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
DECEMBER 31, 2007

Fund balances - total governmental funds \$ 11,635,991

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Governmental capital assets	75,997,634	
Less accumulated depreciation	<u>(8,160,647)</u>	67,836,987

Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Bond issue costs	557,780	
Less accumulated amortization	<u>(96,852)</u>	460,928

Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds

Governmental bonds payable	(42,850,000)	
Premium on bonds issued	(328,117)	
Discount on bonds issued	98,385	
Accumulated amortization of premium / discount	59,736	
Compensated absences	<u>(123,686)</u>	(43,143,682)

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

Accrued Interest Payable		<u>(561,845)</u>
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Net assets of governmental activities		<u><u>\$ 36,228,379</u></u>
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The accompanying notes are an integral part of the financial statements.

THE CITY OF ORANGE BEACH, ALABAMA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007

	Major funds		Non-major Special Revenues	Total Governmental Funds
	General	Debt Service		
<b>REVENUES</b>				
Property taxes	\$ 2,832,605	\$ -	\$ -	\$ 2,832,605
Intergovernmental:				
State tax	115,662	-	265,713	381,375
Local tax	16,977,667	-	-	16,977,667
Grants	971,656	-	-	971,656
Other licenses, permits and fees	1,503,481	-	2,509	1,505,990
Fines and forfeitures	503,918	-	55,743	559,661
Charges for services	520,339	-	-	520,339
Rent	198,244	-	-	198,244
Investment earnings	237,037	55,772	4,202	297,011
Contracts	205,582	-	-	205,582
Miscellaneous	462,064	-	207,486	669,550
<b>TOTAL REVENUES</b>	<b>25,032,216</b>	<b>55,772</b>	<b>535,653</b>	<b>25,623,641</b>
<b>EXPENDITURES</b>				
General government	3,037,027	-	-	3,037,027
Court	396,754	-	-	396,754
Finance	733,673	-	-	733,673
Police	3,910,339	-	-	3,910,339
Marine police	520,436	-	-	520,436
Engineering and environmental	433,460	-	-	433,460
Communications	578,966	-	-	578,966
Fire	3,771,024	-	-	3,771,024
Public works	1,452,453	-	-	1,452,453
Landscape	797,412	-	-	797,412
Parks and recreation	4,081,768	-	-	4,081,768
Library	658,936	-	-	658,936
Community development	1,189,992	-	-	1,189,992
Capital improvements	2,188,889	-	-	2,188,889
Securities lending:				
Fiscal agent fees	-	13,286	-	13,286
Debt service:				
Principal payments	-	9,574,936	-	9,574,936
Interest and other	-	1,569,749	-	1,569,749
<b>TOTAL EXPENDITURES</b>	<b>23,751,130</b>	<b>11,157,970</b>	<b>-</b>	<b>34,909,101</b>
Excess (deficiency) of revenues over expenditures (carried forward)	<b>\$ 1,281,086</b>	<b>\$ (11,102,198)</b>	<b>\$ 535,653</b>	<b>\$ (9,285,460)</b>

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, 2007

(Continued)

	Major funds		Non-major	Total
	General	Debt Service	Special Revenues	Governmental Funds
Excess (deficiency) of revenues over expenditures (brought forward)	\$ 1,281,086	\$ (11,102,198)	\$ 535,653	\$ (9,285,460)
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond premium/ (discount), net	22,341	-	-	22,341
Bond issue costs	(287,767)	-	-	(287,767)
Proceeds from GO warrants	20,795,000	-	-	20,795,000
Capital improvements	(1,203,460)	-	-	(1,203,460)
Land purchases	(3,586,136)	-	-	(3,586,136)
Proceeds from disposal of land	3,225,775	-	-	3,225,775
Transfers in	356,805	11,779,288	-	12,136,093
Transfers out	(14,804,860)	-	(356,805)	(15,161,665)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>4,517,697</b>	<b>11,779,288</b>	<b>(356,805)</b>	<b>15,940,181</b>
Net change in fund balances	5,798,783	677,090	178,848	6,654,721
Fund balances - beginning	3,148,053	1,692,340	140,877	4,981,270
Fund balances - ending	\$ 8,946,836	\$ 2,369,430	\$ 319,725	\$ 11,635,991

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 ASSETS ON THE STATEMENT OF ACTIVITIES  
FOR THE PERIOD ENDED DECEMBER 31, 2007

Net change in fund balances \$ 6,654,721

Governmental funds report capital improvements as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	6,510,969	
Less current year depreciation	<u>(1,357,912)</u>	5,153,057

When recognizing the sale of capital assets, the governmental funds report the total proceeds of the sale. Only the gain or loss on the sale is reported on the statement of activities.

Proceeds from disposal of assets	(3,225,775)	
Gain on disposal of assets	<u>715,581</u>	(2,510,194)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Bond and loan proceeds	(20,795,000)	
Bond premium/ discount (net)	(22,341)	
Bond costs	287,766	
Bond premium amortization	18,260	
Principal payments	<u>9,368,936</u>	(11,142,379)

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

Amortization of current year bond costs	(42,850)	
Increase in interest accrued on long term debt	(38,636)	
Change in long term compensated absences	<u>(10,135)</u>	<u>(91,621)</u>

Change in net assets of governmental activities \$ (1,936,416)

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

THE CITY OF ORANGE BEACH, ALABAMA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2007

	Enterprise Funds					Totals
	Major funds			Non-Major		
	Sewer	Refuse	BCBC	Tennis	Public Library	
<b>ASSETS</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$ 6,503,104	\$ 1,681	\$ 3	\$ 7,721	\$ 153,472	\$ 6,665,981
Restricted cash and cash equivalents	2,138,423	-	-	-	-	2,138,423
Accounts receivable	377,046	19,637	1,095,716	-	-	1,492,399
Due from other funds	-	172,561	-	-	-	172,561
Inventory	-	-	-	30,015	-	30,015
Prepaid insurance	3,689	-	-	-	-	3,689
<b>Total current assets</b>	<b>9,022,261</b>	<b>193,879</b>	<b>1,095,718</b>	<b>37,736</b>	<b>153,472</b>	<b>10,503,066</b>
<b>Noncurrent assets</b>						
<b>Capital assets:</b>						
Land	343,588	-	-	-	-	343,588
Sewer plant	13,554,404	-	-	-	-	13,554,404
Vehicles and equipment	914,905	594,724	-	-	-	1,509,629
Distribution and collection system	10,509,555	-	-	-	-	10,509,555
Less: Accumulated depreciation	(14,145,953)	(353,163)	-	-	-	(14,499,116)
Restricted cash and cash equivalents	22,728,905	-	-	-	-	22,728,905
Unamortized bond costs - net	293,976	-	-	-	-	293,976
Accounts receivable	-	-	908,587	-	-	908,587
Utility deposits	625	-	-	-	-	625
<b>Total noncurrent assets</b>	<b>34,200,004</b>	<b>241,561</b>	<b>908,587</b>	<b>-</b>	<b>-</b>	<b>35,350,152</b>
<b>TOTAL ASSETS</b>	<b>\$43,222,265</b>	<b>\$ 435,440</b>	<b>\$2,004,306</b>	<b>\$ 37,736</b>	<b>\$ 153,472</b>	<b>\$45,853,219</b>
<b>LIABILITIES</b>						
<b>Current liabilities:</b>						
Accounts payable	\$ 30,814	\$ 103,436	\$ -	\$ 2,399	\$ -	\$ 136,649
Due to other funds	329,576	222,611	-	29,339	-	581,526
Accrued expenses	37,381	13,850	-	-	-	51,231
Accrued compensated absences	31,070	10,807	-	-	-	41,878
Accrued interest payable	506,601	-	24,698	-	-	531,298
Deferred revenue	26,390	-	-	-	-	26,390
Current portion of loans payable	-	-	878,599	-	-	878,599
Current portion of bonds payable	735,000	-	-	-	-	735,000
<b>Total current liabilities</b>	<b>1,696,831</b>	<b>350,704</b>	<b>903,297</b>	<b>31,738</b>	<b>-</b>	<b>2,982,570</b>
<b>Noncurrent liabilities:</b>						
Accrued compensated absences	14,028	4,084	-	-	-	18,112
Series 2001 Sewer Revenue Bonds - net	3,559,622	-	-	-	-	3,559,622
Series 2002 G.O. Sewer Warrant - net	1,937,858	-	-	-	-	1,937,858
Series 2006 G.O. Sewer Warrant - net	22,208,911	-	-	-	-	22,208,911
Loan Payable	-	-	1,634,737	-	-	1,634,737
<b>Total noncurrent liabilities</b>	<b>27,720,420</b>	<b>4,084</b>	<b>1,634,737</b>	<b>-</b>	<b>-</b>	<b>29,359,241</b>
<b>TOTAL LIABILITIES</b>	<b>29,417,251</b>	<b>354,788</b>	<b>2,538,034</b>	<b>31,738</b>	<b>-</b>	<b>32,341,811</b>
<b>NET ASSETS</b>						
Reserved for emergencies	1,333,723	-	-	-	-	1,333,723
Invested in capital assets, net of related debt	4,879,198	241,561	-	-	-	5,120,759
Unrestricted	7,592,093	(160,909)	(533,728)	5,998	153,472	7,056,926
<b>TOTAL NET ASSETS</b>	<b>\$13,805,014</b>	<b>\$ 80,652</b>	<b>\$ (533,728)</b>	<b>\$ 5,998</b>	<b>\$ 153,472</b>	<b>\$13,511,408</b>

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

THE CITY OF ORANGE BEACH, ALABAMA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007

	Enterprise Funds					Totals
	Major funds			Non-Major		
	Sewer	Refuse	BCBC	Tennis	Public Library	
<b>OPERATING REVENUES</b>						
Charges for services	\$ 4,144,922	\$1,608,581	\$ -	\$ -	\$ -	\$ 5,753,503
Miscellaneous income	20,381	4,220	-	681	7,853	33,134
Merchandise sales	-	-	-	82,760	-	82,760
<b>TOTAL OPERATING REVENUES</b>	<b>4,165,303</b>	<b>1,612,801</b>	<b>-</b>	<b>83,440</b>	<b>7,853</b>	<b>5,869,397</b>
<b>COST OF GOODS SOLD</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>43,057</b>	<b>-</b>	<b>43,057</b>
<b>GROSS PROFIT</b>	<b>4,165,303</b>	<b>1,612,801</b>	<b>-</b>	<b>40,383</b>	<b>7,853</b>	<b>5,826,340</b>
<b>OPERATING EXPENSES</b>						
Salaries, wages and employee benefits	1,024,471	432,100	-	-	-	1,456,571
Contractual services	-	1,184,459	-	-	-	1,184,459
Utilities	441,203	-	-	-	-	441,203
Repairs and maintenance	176,367	36,741	-	-	-	213,108
Other supplies and expenses	478,170	98,029	-	21,902	18,564	616,664
Insurance claims and expenses	4,009	23,000	-	-	-	27,009
Bond premuim amortization	(21,022)	-	-	-	-	(21,022)
Depreciation	1,459,356	66,163	-	-	-	1,525,518
<b>TOTAL OPERATING EXPENSES</b>	<b>3,562,554</b>	<b>1,840,492</b>	<b>-</b>	<b>21,902</b>	<b>18,564</b>	<b>5,443,512</b>
<b>OPERATING INCOME (LOSS)</b>	<b>602,749</b>	<b>(227,690)</b>	<b>-</b>	<b>18,481</b>	<b>(10,711)</b>	<b>382,828</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>						
Interest income	1,154,080	40	668	74	4,938	1,159,800
Interest expense	(1,348,484)	-	(229,425)	-	-	(1,577,908)
Trustee fees	(24,597)	-	-	-	-	(24,597)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(219,000)</b>	<b>40</b>	<b>(228,757)</b>	<b>74</b>	<b>4,938</b>	<b>(442,706)</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>383,749</b>	<b>(227,651)</b>	<b>(228,757)</b>	<b>18,555</b>	<b>(5,773)</b>	<b>(59,878)</b>
<b>TRANSFERS IN</b>	<b>3,100,502</b>	<b>320,482</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,420,984</b>
<b>TRANSFERS OUT</b>	<b>(395,412)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(395,412)</b>
<b>CHANGE IN NET ASSETS</b>	<b>3,088,838</b>	<b>92,832</b>	<b>(228,757)</b>	<b>18,555</b>	<b>(5,773)</b>	<b>2,965,694</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>10,716,176</b>	<b>(12,180)</b>	<b>(304,971)</b>	<b>(12,557)</b>	<b>-</b>	<b>10,386,468</b>
<b>PRIOR PERIOD ADJUSTMENT</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>159,245</b>	<b>159,245</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$13,805,014</b>	<b>\$ 80,652</b>	<b>\$ (533,728)</b>	<b>\$ 5,998</b>	<b>\$ 153,472</b>	<b>\$ 13,511,408</b>

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, 2007

	Enterprise Funds					Totals
	Major funds			Non-Major		
	Sewer	Refuse	BCBC	Tennis	Public Library	
Cash flows from operating activities:						
Receipts from customers	\$ 4,815,465	\$1,609,899	\$ 1,095,716	\$83,440	\$ 7,853	\$ 7,612,372
Payments to employees for services	(1,009,611)	(426,229)	-	-	-	(1,435,840)
Payments to suppliers of goods & services	(1,140,592)	(1,342,648)	-	(83,336)	(18,564)	(2,585,141)
Payments to other funds	103,546	(125,428)	-	4,528	-	(17,354)
Net cash provided (used) by operating activities	<u>2,768,807</u>	<u>(284,406)</u>	<u>1,095,716</u>	<u>4,632</u>	<u>(10,711)</u>	<u>3,574,037</u>
Cash flows from noncapital financing activities:						
Capital contributed	-	-	-	-	159,245	159,245
Interest income	-	40	-	74	-	113
Transfers to other funds	2,705,090	320,482	-	-	-	3,025,572
Payments to BCBC	-	-	(1,200,000)	-	-	(1,200,000)
Net cash provided (used) by noncapital financing activities	<u>2,705,090</u>	<u>320,522</u>	<u>(1,200,000)</u>	<u>74</u>	<u>159,245</u>	<u>1,984,930</u>
Cash flows from capital and related financing activities:						
Interest income	1,154,080	-	670	-	4,938	1,159,688
Payments for trustee fees	(24,597)	-	-	-	-	(24,597)
(Increase) decrease in restricted cash	(1,291,942)	-	-	-	-	(1,291,942)
Proceeds from line of credit	-	-	1,200,000	-	-	1,200,000
Repayment to line of credit	-	-	(879,264)	-	-	(879,264)
Principal repayments related to capital purposes	(715,000)	-	-	-	-	(715,000)
Interest paid on capital debt	(1,355,828)	-	-	-	-	(1,355,828)
Interest paid on other debt	-	-	(217,118)	-	-	(217,118)
Acquisition of property and equipment	(1,009,397)	(35,857)	-	-	-	(1,045,254)
Net cash provided (used) by capital and related financing activities	<u>(3,242,683)</u>	<u>(35,857)</u>	<u>104,288</u>	<u>-</u>	<u>4,938</u>	<u>(3,169,314)</u>
Net increase (decrease) in cash and cash equivalents	2,231,214	259	3	4,705	153,472	2,389,653
Cash and equivalents at beginning of year	<u>4,271,890</u>	<u>1,422</u>	<u>-</u>	<u>3,016</u>	<u>-</u>	<u>4,276,328</u>
Cash and equivalents at end of year	<u>\$ 6,503,104</u>	<u>\$ 1,681</u>	<u>\$ 3</u>	<u>\$ 7,721</u>	<u>\$ 153,472</u>	<u>\$ 6,665,981</u>

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

THE CITY OF ORANGE BEACH, ALABAMA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007

	Enterprise Funds					Totals
	Major funds			Non-Major		
	Sewer	Refuse	BCBC	Tennis	Public Library	
Operating income (loss)	\$ 602,749	\$ (227,690)	\$ -	\$ 18,481	\$ (10,711)	\$ 382,828
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	1,459,356	66,163	-	-	-	1,525,518
Amortization	(21,022)	-	-	-	-	(21,022)
(Increase) decrease in						
Accounts receivable - net	654,360	(2,901)	1,095,716	-	-	1,747,175
Due to other funds	103,546	(125,428)	-	4,528	-	(17,354)
Inventory	-	-	-	(15,000)	-	(15,000)
Prepaid insurance	(285)	-	-	-	-	(285)
Increase (decrease) in						
Accounts payable	(40,559)	(419)	-	(3,377)	-	(44,356)
Accrued expenses	3,260	2,782	-	-	-	6,042
Accrued compensated absences	11,601	3,088	-	-	-	14,688
Deferred revenue	(4,199)	-	-	-	-	(4,199)
Total adjustments	<u>2,166,058</u>	<u>(56,716)</u>	<u>1,095,716</u>	<u>(13,849)</u>	<u>-</u>	<u>3,191,209</u>
Net cash provided (used) by operating activities	<u>\$ 2,768,807</u>	<u>\$ (284,406)</u>	<u>\$ 1,095,716</u>	<u>\$ 4,632</u>	<u>\$ (10,711)</u>	<u>\$ 3,574,037</u>

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

## NOTES TO THE FINANCIAL STATEMENTS

THE CITY OF ORANGE BEACH, ALABAMA  
FINANCIAL STATEMENTS  
DECEMBER 31, 2007

**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 include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the City are described below.

**B. FINANCIAL REPORTING ENTITY**

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

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

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

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

**C. BASIS OF PRESENTATION**

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

THE CITY OF ORANGE BEACH, ALABAMA  
FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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

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

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

**FUND FINANCIAL STATEMENTS:**

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

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

**General Fund –**

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

**Debt Service Fund –**

The Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is reserved to signify the amounts that are restricted exclusively for debt service expenditures.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. 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.

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

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

**FUND FINANCIAL STATEMENTS (continued)**

**Tennis Fund-**

Tennis Fund is used to account for the operations of the tennis and golf pro shop retail operation. 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 the Baldwin County Bridge Company, LLC as described in Note 9.

**Public Library Fund-**

Public Library Fund is used to account for the operations of the Public Library board operations. All costs are financed through charges to customers and unrestricted donations. The beginning balance to the Board accounts was recorded as a prior period adjustment in the current year.

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.

**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 and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. 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.

THE CITY OF ORANGE BEACH, ALABAMA  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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), Tennis Fund (an Enterprise Fund), and the Sewer System Utility Fund (an Enterprise Fund). The annual budget for the funds is prepared on the cash and expenditure/encumbrances basis. Revenues and expenditures are budgeted in the year receipt and payment is expected. The Debt Service Fund budget is prepared to provide funding for general obligation debt service when liabilities are due for payment. The budget to actual comparison in the general purpose financial statements is presented on this basis. The City may transfer budgeted amounts between line items with the approval of the City Council. The City Council can amend the budget during the year as needed to reflect any changes in its programs or services arising during the budget period. The Enterprise Funds, do not require a budget comparison. All annual appropriations lapse at year-end except for on-going projects which are rebudgeted for the following fiscal year.

The City follows these procedures in establishing the budgetary data presented in the financial statements:

1. During the months of October and November, the Mayor and City Administrator meet with the Department heads to discuss a proposed budget for that department for the coming year commencing January 1st.
2. The Mayor then drafts a budget for all funds, which include proposed expenditures and the proposed means for financing them.
3. On or about December 1st, the Mayor presents to the Council the proposed budget. Prior to January 1st, the budget is legally enacted through passage of a resolution.
4. The City Council may amend the budget through resolutions as needed, provided adequate funds are available at the time of amendment. The City reviews its budget at mid-year and at other times as needs and circumstances dictate.

The Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results, except for the effects of unrealized investment gains and losses, which are adjusted to the actual results for this comparison.

**F. CASH AND INVESTMENTS**

For the purpose of the Statement of Net Assets, “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 no investments as of December 31, 2007.

**G. 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.

**H. INVENTORY**

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consists of gasoline and diesel fuel in the general fund and merchandise held in the Tennis Fund.

THE CITY OF ORANGE BEACH, ALABAMA  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**I. 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".

**J. 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.

**K. CAPITAL ASSETS**

Capital assets, which includes 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 retroactive reporting of infrastructure was implemented in the current fiscal year as required by GASB 34. The City's capitalization threshold for infrastructure is \$500,000. The City of Orange Beach, Alabama does not have infrastructure that exceeds the capitalization threshold.

**Sewer Utility System Fund**

During the fiscal year ending September 30, 1992, the City purchased the sewer systems in the municipality for \$5,300,000. The costs of the various items of land, buildings, plant, collection system and other equipment and vehicles were allocated based on engineering estimates of the relative values 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.

As part of this acquisition, the City is pledged to honor sewer taps issued before the System was acquired by the City. Under this agreement, anyone presenting a valid tap to the City for attaching to the System is not required to pay any additional tap fee, only the connection cost. The City believes that at the time of purchase there were approximately 2,500 of these taps. As of December 31, 2007, approximately 625 are still unassigned to specific locations representing the number of taps that would be made to the system with only the connections fee to be charged.

The City implemented a mandatory sewer connection program in order to eliminate the use of septic tanks within its city limits. As part of this program, the City offered several incentives for its residents to participate including favorable financing arrangements. If residents enrolled in the program by December 31, 2001, the City financed the cost of the connection fee, grinder pump and tap fee for 10 years at 6% interest. As a result of this program, a large number of residents enrolled before the deadline in order to take advantage of the financing.

THE CITY OF ORANGE BEACH, ALABAMA  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Assets capitalized, not including infrastructure assets, have an original cost of \$5,000 or more. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	35-50 years
Building Improvements	20-30 years
Machinery and equipment	5-15 years
Furniture and fixtures	3-15 years

**Refuse Collection Fund**

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.

**L. 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.

**M. NATURE AND PURPOSE OF RESERVATIONS AND DESIGNATIONS OF FUND BALANCE**

The fund balance reserves for revenue bond retirement and construction, prepaid items and debt service are discussed in Note 4. The fund balance designation for subsequent years' expenditures primarily represents Sewer Utility, Refuse Collection and General Fund Balances specifically identified for capital outlays, inventories, and prepaid assets.

**N. 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.

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

**P. CAPITALIZED INTEREST**

Interest costs on debt are capitalized when incurred by proprietary funds where the proceeds are used to finance the construction of assets.

**Q. ACCUMULATED DEFICIT**

At December 31, 2007, the Baldwin County Bridge Fund had accumulated deficits of \$533,728. It is anticipated that these deficits will continue to be financed by the General Fund.

**R. NET ASSETS**

Net assets represent the difference between assets and liabilities. Net assets 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 assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**NOTE 2 – CREDIT RISK**

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

At December 31, 2007 the carrying amount of the City's deposits, including a Certificate of Deposit, was \$41,972,698 and the bank balance was \$42,512,650. 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 3 - RETIREMENT PLAN**

The City of Orange Beach, Alabama, contributes to the Employees' Retirement System of Alabama, an agent multiple-employer public employee retirement system which acts as a common investment and administrative agent for the various state agencies and departments.

Substantially all employees are members of the Employees' Retirement System of Alabama. Membership is mandatory for covered or eligible employees of the City. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, and (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits, in the amount of the annual salary for the fiscal year preceding death is provided to plan members.

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**NOTE 3 - RETIREMENT PLAN (continued).**

The Employees' Retirement System was established as of October 1, 1945, under the provisions of Act 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for State employees, State police, and on an elective basis to all cities, counties, towns and quasi-public organizations. The responsibility for general administration and operation of the Employees' Retirement System is vested in the Board of Control. Benefit provisions are established by the Code of Alabama 1975, Sections 36-27-1 through 36-27-103, as amended, Sections 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Commission authority to accept or reject various Cost-Of-Living-Adjustments (COLAs) granted to retirees.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, P.O. Box 302150, Montgomery, Alabama 36130-2150.

The following is information taken from the Employees' Retirement System of Alabama, Actuarial Valuation Summary as of September 30, 2007, the latest date for which a valuation was available.

Summary of Employee Census Data

Number of active members	230
Annual compensation	\$9,133,618
Number of retired members and beneficiaries	7
Annual retirement allowances	\$82,852

Required Employer Contribution Rates

Normal cost	4.56 %
Accrued liability	1.11 %
Pre-retirement death benefit	0.15 %
Administrative expense	0.18 %
Total	6.00 %
5% Employer contribution factor (6.00%/5%)	1.200
6% Employer contribution factor (6.00%/6%)	1.000

Comments on Employer Contribution Rates:

1. Additional contributions are made for cost of living benefit increases granted on or after October 1, 1978.
2. Employer contributions may increase due to the granting of pay raises in excess of the expected and for any future cost of living adjustments granted to retirees.
3. These contribution rates are determined under the parameters of GASB 25 and 27. Any contributions above the required employer contribution rate, such as lump sum payments, will result in a negative Net Pension Obligation.

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**NOTE 3 - RETIREMENT PLAN (continued)**

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Entry Age (b) <sup>1</sup>	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/30/2000	\$ 3,227,521	\$ 3,369,428	\$ 141,907	95.8%	\$ 4,484,659	3.2%
9/30/2001 <sup>2</sup>	\$ 3,917,195	\$ 4,422,746	\$ 505,551	88.6%	\$ 5,113,070	9.9%
9/30/2002 <sup>3</sup>	\$ 4,503,758	\$ 4,770,847	\$ 267,089	94.0%	\$ 5,478,061	5.0%
9/30/2003 <sup>4</sup>	\$ 5,336,242	\$ 5,789,610	\$ 453,368	92.2%	\$ 6,155,372	7.4%
9/30/2004 <sup>5</sup>	\$ 6,349,834	\$ 7,000,145	\$ 650,311	90.7%	\$ 7,047,550	9.2%
09/30/2005	\$ 7,700,535	\$ 9,155,322	\$ 1,454,786	84.1%	\$ 9,133,618	15.9%

<sup>1</sup> Reflects liability for cost of living benefit increases granted on or after October 1, 1978.

<sup>2</sup> Reflects change in actuarial assumption (as of September 30, 2001). Also reflects DROP if unit elected to enroll.

<sup>3</sup> Reflects effect of DROP if unit elected to enroll prior to June 30, 2003.

<sup>4</sup> Reflects effect of DROP if unit elected to enroll prior to May 18, 2004.

<sup>5</sup> Reflects effect of DROP if unit elected to enroll prior to August 14, 2005.

Valuation date	09/30/2005
Actuarial cost method	Entry Age
Amortization method	Level percent open
Remaining amortization period	20 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return *	8.00%
Projected salary increases *	4.61%-7.75%
* Included inflation at	4.50%
Cost of living adjustments	None

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)
09/30/2003	\$ 336,552	100.0%	\$ -
09/30/2004	\$ 376,853	100.0%	\$ -
09/30/2005	\$ 469,997	100.0%	\$ -

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**NOTE 3 - RETIREMENT PLAN (continued)**

The following general information applies to the Employees' Retirement System valuation as of December 31, 2007:

1. Since the previous valuation, there have been no changes in the actuarial cost method.
2. Actuarial gains and losses are reflected in the unfunded actuarial accrued liability. In previous valuations, these were amortized within a 30-year period. In this valuation, they are being amortized within a 20-year period.

Total contributions to the pension plan for the fiscal year ending December 31, 2007 were \$681,204. The contributed amounts were actuarially determined as described above and were based on an actuarial valuation as of September 30, 2006. The pension contributions represent funding for normal cost. Contributions made by the City of Orange Beach and its employees represents 6.00%/5% and 6.00%/6%, respectively, of covered payroll for the year.

**NOTE 4 – CHANGES IN LONG TERM DEBT**

At December 31, 2007, governmental long term debt consisted of the following individual issues:

General Fund

General Obligation Warrants:

On September 1, 1998, the City issued a General Obligation Warrant, Series 1998 A, in the amount of \$5,390,000 to JPMorgan/Chase Bank to pay off Sewer Fund promissory notes. The Warrant is payable in annual installments varying from \$185,000 to \$390,000 principal plus interest varying from 3.60% to 4.60% beginning August 15, 1999 with a final payment on August 15, 2018.

On September 1, 1998, the City issued a General Obligation Warrant, Series 1998 B, in the amount of \$2,675,000 to JPMorgan/Chase Bank to purchase various properties for City parks and administration. The Warrant is payable in annual installments varying from \$95,000 to \$195,000 principal plus interest varying from 3.60% to 4.60% beginning August 15, 1999 with a final payment on August 15, 2018.

On February 1, 1999, the City issued a General Obligation Warrant, Series 1999, in the amount of \$7,000,000 to JPMorgan/Chase Bank for the acquisition and construction of numerous capital improvements. The Warrant is payable in variable annual payments from \$230,000 to \$515,000 principal plus interest from 3.40% to 4.75% beginning February 15, 2000 with a final payment on February 15, 2019.

On July 1, 2001, the City issued a General Obligation Warrant, Series 2001 B, in the amount of \$5,500,000 to JPMorgan/Chase Bank to finance the City's portion of the beach nourishment project. The Warrant is payable in annual installments varying from \$155,000 to \$415,000 principal plus interest from 3.00% to 5.10% beginning August 15, 2002 with a final payment on August 15, 2021.

On February 1, 2005, the City issued a General Obligation Warrant, Series 2005, in the amount of \$9,285,000 to JPMorgan/Chase Bank for the acquisition and construction of numerous capital improvements. The Warrant is payable in annual installments varying from \$820,000 to \$1,070,000 principal plus interest from 2.375% to 5.00% beginning August 1, 2005 with a final payment on February 1, 2015.

On May 1, 2007, the City issued a General Obligation Warrant, Series 2007A, in the amount of \$8,240,000 to Bank of New York for reimbursement of capital improvements. The Warrant is payable in annual installments varying from \$805,000 to \$1,225,000 principal plus interest of 5.00% beginning November 1, 2007 with a final payment on May 1, 2015.

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**NOTE 4 - CHANGES IN LONG TERM DEBT (Continued)**

On May 1, 2007, the City issued a General Obligation Warrant, Series 2007B, in the amount of \$9,105,000 to Bank of New York for the acquisition and construction of numerous capital improvements, and retirement of the loans for the Golf Course and Robinson Island. The Warrant is payable in annual installments varying from \$1,130,000 to \$1,470,000 principal plus interest from 4.0% to 5.00% beginning November 1, 2007 with a final payment on May 1, 2022.

On May 15, 2007, the City issued a Taxable General Obligation Warrant, Series, in the amount of \$3,450,000 to Vision Bank for the acquisition of land. The Warrant is payable in one payment of \$3,450,000 on May 15, 2008 plus interest of 7.75% beginning August 15, 2007 with a final payment on May 15, 2008.

Sewer Fund

General Obligation Warrants and Sewer Revenue Warrants:

At December 31, 2007, the long term debt for the proprietary fund consisted of the following individual issues:

On July 1, 2001, the City issued \$7,690,000 Sewer Revenue Warrants Series 2001 A. The Warrant is payable in annual installments varying from \$420,000 to \$865,000 principal plus interest from 3.70% to 4.70% beginning August 15, 2001 with a final payment on October 1, 2013.

On June 1, 2002, the City issued \$2,655,000 of its Series 2002 General Obligation Sewer Warrants for the purpose of certain capital improvements to its Sewer Plant and System infrastructure. The Warrant is payable in annual installments varying from \$135,000 to \$230,000 principal plus interest from 2.00% to 4.60% beginning July 15, 2002 with a final payment on October 1, 2017.

On March 1, 2006 the City issued \$21,630,000 of its Series 2006 General Obligation Sewer Warrants for the purpose of construction of a new sewer plant and system infrastructure. The warrant is payable in annual installments varying from \$645,000 to \$2,035,000 principal plus interest from 4.00% to 5.00% beginning August 1, 2006 with a final payment on February 1, 2030.

Baldwin County Bridge Company Fund

Line of Credit Payable:

On April 20, 2004, the City executed an open line of credit with Vision Bank. Interest is at a variable rate of floating prime. The rate adjusts annually on the anniversary date of the line.

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**NOTE 4 - CHANGES IN LONG TERM DEBT (Continued)**

General Obligation Warrants for governmental activities of the City were comprised of the following at December 31, 2007:

\$5,390,000 General Obligation Warrants Series 1998 A dated September 1, 1998, principal and interest due in annual installments varying from \$185,000 to \$390,000 through August 15, 2018; variable interest rate from 3.6% to 4.6%	\$ 3,490,000
\$2,675,000 General Obligation Warrants Series 1998 B dated September 1, 1998, principal and interest due in annual installments varying from \$95,000 to \$195,000 through August 15, 2018; variable interest rate from 3.6% to 4.6%	1,725,000
\$7,000,000 General Obligation Warrants Series 1999 dated February 1, 1999, principal and interest due in annual installments varying from \$230,000 to \$515,000 through February 15, 2019; variable interest rate from 3.6% to 4.6%	4,885,000
\$5,500,000 General Obligation Warrant Series 2001 B dated July 1, 2001, principal and interest due in annual installments varying from \$155,000 to \$415,000 through August 15, 2021; variable interest rate from 3.00% to 5.10%	4,325,000
\$9,285,000 General Obligation Warrant Series 2005 dated February 1, 2005, principal and interest due in annual installments varying from \$820,000 to \$1,070,000 through February 1, 2015; variable interest rate from 2.375% to 5.00%	7,775,174
\$8,240,000 General Obligation Warrant Series 2007A dated May 1, 2007, principal and interest due in annual installments varying from \$805,000 to \$1,225,000 through May 1, 2015; interest rate 5.00%	8,148,788
\$9,105,000 General Obligation Warrant Series 2007B dated May 1, 2007, principal and interest due in annual installments varying from \$1,130,000 to \$1,470,000 through May 1, 2022; variable interest rate from 4.00% to 5.00%	9,221,031
\$3,450,000 note payable to Vision Bank dated May 15, 2007, principal due May 15, 2008, the loan maturity; quarterly interest payments made beginning August 15, 2007 and ending May 15, 2008.	<u>3,450,000</u>
TOTAL WARRANTS AND NOTES OUTSTANDING	43,019,993
Compensated Absences	<u>431,456</u>
TOTAL GENERAL LONG-TERM DEBT	<u><u>\$43,451,449</u></u>

THE CITY OF ORANGE BEACH, ALABAMA  
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DECEMBER 31, 2007

**NOTE 4 - CHANGES IN LONG TERM DEBT (Continued)**

Revenue Warrants for business-type activities of the City of Orange Beach were comprised of the following at December 31, 2007:

\$7,690,000 Sewer Revenue Warrant Series 2001 A dated July 1, 2001, principal and interest due in annual installments varying from \$420,000 to \$865,000 through October 1, 2013; variable interest rate from 3.70% to 4.70%	\$ 4,134,865
\$2,655,000 General Obligation Sewer Warrant Series 2002 dated June 1, 2002, principal and interest due in annual installments varying from \$135,000 to \$230,000 through October 1, 2017; variable interest rate from 2.00% to 4.60%	2,097,616
\$21,630,000 General Obligation Sewer Warrant Series 2006 dated March 1, 2006, principal and interest due in annual installments varying from \$645,000 to \$2,035,000 through February 1, 2030; variable interest rate from 4.00% to 5.00%	22,208,911
An open line of credit with Vision bank dated April 20, 2004; interest rate is floating prime. Adjusts annually on anniversary date	<u>2,513,336</u>
<b>TOTAL BUSINESS-TYPE ACTIVITY DEBT</b>	<b><u><u>\$ 30,954,728</u></u></b>

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:					
September 1, 1998, General Obligation Warrants, Series 1998 A	\$ 3,735,000	\$ -	\$ 245,000	\$ 3,490,000	\$ 255,000
September 1, 1998, General Obligation Warrants, Series 1998 B	1,845,000	-	120,000	1,725,000	125,000
February 1, 1999, General Obligation Warrants, Series 1999	5,190,000	-	305,000	4,885,000	315,000
July 1, 2001, General Obligation Warrants, Series 2001 B	4,545,000	-	220,000	4,325,000	225,000
February 1, 2005, General Obligation Warrants, Series 2005 - Net of premium.	8,630,913	-	855,738	7,775,175	855,000
May 1, 2007, General Obligation Warrants, Series 2007A - Net of discount.	-	8,148,788	-	8,148,788	805,000
May 1, 2007, General Obligation Warrants, Series 2007B - Net of premium.	-	9,221,030	-	9,221,030	-
May 15, 2007, General Obligation Warrants, Series 2007VB	-	3,450,000	-	3,450,000	3,450,000
Total Bonds payable	<u>\$ 23,945,913</u>	<u>\$ 20,819,818</u>	<u>\$ 1,745,738</u>	<u>\$ 43,019,993</u>	<u>\$ 6,030,000</u>

THE CITY OF ORANGE BEACH, ALABAMA  
FINANCIAL STATEMENTS  
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**NOTE 4 - CHANGES IN LONG TERM DEBT (Continued)**

Obligation	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Loans payable:					
October 17, 2005, Note Payable- Golf Course Loan	\$ 5,920,742	\$ -	\$ 5,920,742	\$ -	\$ -
June 30, 2004, Note Payable- Robinson Island	1,723,194	-	1,723,194	-	-
Total Loans payable	<u>7,643,936</u>	<u>-</u>	<u>7,643,936</u>	<u>-</u>	<u>-</u>
Other liabilities:					
Compensated Absences	410,414	21,042	-	431,456	307,770
Governmental activities long term liabilities	<u>\$ 32,000,263</u>	<u>\$ 20,838,383</u>	<u>\$ 9,387,196</u>	<u>\$ 43,451,449</u>	<u>\$ 6,337,770</u>
Business -type activities					
Bonds and loans payable net of premiums and discounts.					
July 1, 2001, Sewer Revenue Warrants, Series 2001 A	\$ 4,701,041	\$ -	\$ 566,176	\$ 4,134,865	\$ 575,000
June 1, 2002, General Obligation Sewer Warrants, Series 2002	2,247,065	-	149,449	2,097,616	160,000
March 1, 2006 General Obligation Sewer Warrants, Series 2006	22,253,443	-	44,532	22,208,911	-
April 20, 2004, Open Line of Credit	<u>2,192,601</u>	<u>1,200,000</u>	<u>879,265</u>	<u>2,513,336</u>	<u>576,087</u>
Business-type activities long term liabilities	<u>\$ 31,394,150</u>	<u>\$ 1,200,000</u>	<u>\$ 1,639,422</u>	<u>\$ 30,954,728</u>	<u>\$ 1,311,087</u>

**Annual Requirements to Retire Debt Obligations-**

The annual aggregate maturities for each bond type for the years subsequent to December 31, 2007, are as follows:

**General Obligation Bonds**

Year Ending December 31,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Totals
2008	\$ 6,030,000	\$ 1,930,880	\$ 7,960,880	\$ 1,311,087	\$ 1,504,517	\$ 2,815,604
2009	2,755,000	1,622,223	4,377,223	1,391,087	1,474,316	2,865,403
2010	2,865,000	1,506,005	4,371,005	1,314,339	1,262,380	2,576,719
2011	2,985,000	1,382,871	4,367,871	915,000	1,221,717	2,136,717
2012	3,115,000	1,251,883	4,366,883	975,000	1,181,353	2,156,353
2013 and thereafter	<u>25,100,000</u>	<u>4,967,220</u>	<u>30,067,220</u>	<u>25,048,215</u>	<u>12,431,337</u>	<u>37,479,552</u>
Total	<u>\$ 42,850,000</u>	<u>\$ 12,661,082</u>	<u>\$ 55,511,082</u>	<u>\$ 30,954,728</u>	<u>\$ 19,075,620</u>	<u>\$ 50,030,348</u>

THE CITY OF ORANGE BEACH, ALABAMA  
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**NOTE 5 - 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>
4/20/95 - 4/19/15	\$ 4,507	\$ 54,085
<u>Renewal Periods</u>		
4/20/15 - 4/19/20	\$ 1,667	\$ 20,000
4/20/20 - 4/19/25	\$ 1,667	\$ 20,000

**NOTE 6 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The following is a detail of the interfund receivables and payables on the combined balance sheet of the City as of December 31, 2007:

<u>Due To</u>	<u>Due From</u>					<u>Total</u>
	<u>Special Revenue Fund</u>	<u>Debt Service</u>	<u>Refuse Fund</u>	<u>Sewer Utility</u>	<u>Tennis Fund</u>	
General Fund	\$ 35,618	\$ 32,114	\$ 222,611	\$ 157,015	\$ 29,339	\$ 476,697
Debt Service	-	-	-	-	-	-
Special Revenues	-	-	-	-	-	-
Refuse	-	-	-	172,561	-	172,561
Sewer Utility	-	-	-	-	-	-
<b>Total</b>	<u>\$ 35,618</u>	<u>\$ 32,114</u>	<u>\$ 395,172</u>	<u>\$ 141,720</u>	<u>\$ 29,339</u>	<u>\$ 649,258</u>

The above balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers during the year ended December 31, 2007, were as follows:

<u>Transfers Out</u>	<u>Transfers In</u>				<u>Total</u>
	<u>General Fund</u>	<u>Debt Service</u>	<u>Refuse Fund</u>	<u>Sewer Fund</u>	
General Fund	\$ -	\$ 11,383,876	\$ 320,482	\$ 3,100,502	\$ 14,804,860
Debt Service	-	-	-	-	-
Special Revenues	356,805	-	-	-	356,805
Sewer Utility	-	395,412	-	-	395,412
<b>Total</b>	<u>\$ 356,805</u>	<u>\$ 11,779,288</u>	<u>\$ 320,482</u>	<u>\$ 3,100,502</u>	<u>\$ 15,557,077</u>

THE CITY OF ORANGE BEACH, ALABAMA  
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**NOTE 6 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)**

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them, to the fund that statute or budget that requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts, to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE 7 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Non-Depreciable Assets:				
Land & Improvements	\$ 46,114,912	\$ 6,386,661	\$ 3,710,194	\$ 48,791,378
Depreciable Assts:				
Buildings & Infrastructure	18,855,570	912,447	-	19,768,017
Equipment & Vehicles	7,026,377	411,861	-	7,438,238
<b>Totals at historical cost</b>	<u>71,996,859</u>	<u>7,710,969</u>	<u>3,710,194</u>	<u>75,997,634</u>
Less accumulated depreciation for:				
Buildings & Improvements	3,624,317	627,983	-	4,252,300
Infrastructure & Parks Improvements	10,462	16,456	-	26,918
Equipment & Vehicles	3,167,956	713,472	-	3,881,428
<b>Total accumulated depreciation</b>	<u>6,802,735</u>	<u>1,357,912</u>	<u>-</u>	<u>8,160,647</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 65,194,124</u>	<u>\$ 6,353,057</u>	<u>\$ 3,710,194</u>	<u>\$ 67,836,987</u>

Depreciation expense was charged  
to governmental functions as follows:

Administration	\$ 121,631
Finance	1,396
Police	339,457
Communications	7,961
Fire	283,181
Public Works	108,616
Parks & Recreation	416,470
Library	30,267
Community Development	48,933
<b>Total depreciation expense</b>	<u>\$ 1,357,912</u>

THE CITY OF ORANGE BEACH, ALABAMA  
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**NOTE 7 – CAPITAL ASSETS (Continued)**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<b>Business-type Activities</b>				
Nondepreciable Assets:				
Land	\$ -	\$ 343,588	\$ -	\$ 343,588
Depreciable Assets:				
Buildings	13,554,404	-	-	13,554,404
Equipment	550,878	35,790	-	586,668
Vehicles	843,178	79,783	-	922,961
Distribution and collection systems	9,923,645	585,910	-	10,509,555
<b>Totals at historical cost</b>	<u>24,872,105</u>	<u>1,045,071</u>	<u>-</u>	<u>25,917,176</u>
Less accumulated depreciation for:				
Buildings	8,391,250	1,198,461	-	9,589,711
Equipment	288,201	34,632	-	322,833
Vehicles	601,749	124,355	-	726,104
Distribution and collection systems	3,692,398	168,071	-	3,860,469
<b>Total accumulated depreciation</b>	<u>12,973,598</u>	<u>1,525,518</u>	<u>-</u>	<u>14,499,116</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 11,898,507</u>	<u>\$ (480,448)</u>	<u>\$ -</u>	<u>\$ 11,418,059</u>

**NOTE 8 - POST-EMPLOYMENT HEALTH CARE BENEFITS**

The City does not provide post-employment health care benefits except for the following:

- Those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and no direct costs are incurred by the City.
- For employees that retired during the period September 1, 2003 through January 31, 2004, the City agreed to pay on their behalf the cost of single coverage under the City's health plan until such time as those employees become eligible for Medicare benefits. The City currently has three employees under this program, with two still receiving benefit.

**NOTE 9 – 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 spans 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.

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**NOTE 9 – THE BALDWIN COUNTY BRIDGE COMPANY PROJECT (Continued)**

The BCBC will repay the above amount monthly based on a Variable Traffic Fee formula as described in the following table:

Annual Car Count	Rate per Vehicle
0 – 2,000,000	\$0.10
2,000,001 – 3,000,000	\$0.21
3,000,000 – 4,000,000	\$0.36
4,000,000- above	\$0.46

For the year ended December 31, 2007 the City received payments from the BCBC of \$1,095,716 for the twelve months the agreement was in effect, based on the above formula.

Based on the above payments from the City and the above repayment schedule from BCBC, the BCBC shall never be obligated to pay Variable Traffic Fees in a cumulative amount to exceed \$12,000,000. If at anytime during the term of the agreement, BCBC shall have paid Traffic Fees equal to the \$12,000,000, or if, prior to January 1, 2014, 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, 2014 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, 2014 and March 31, 2014 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.

Bridge Option:

The City shall be entitled to exercise the option to purchase the Bridge at any time between January 1, 2033 and December 31, 2033 for the sum equal to ten (10) multiplied by the revenue produced by toll-charges paid for usage of the Bridge for the highest of the previous three (3) full calendar years preceding the date of the commencement of the option term. There are allowances for Force Majeure events.

If the City declines the Bridge Option, the \$0.30 fixed traffic fees will automatically be extended for an additional thirty years.

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

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

THE CITY OF ORANGE BEACH, ALABAMA  
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**NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued)**

The City will issue a limited-obligation warrant to Baker in the amount of \$25,000,000 bearing an interest rate of 8%, or the rate at which 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. 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 “Bond Validation Proceeding” for the issuance of this warrant was completed on December 13, 2004. This proceeding had a favorable outcome.

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.

Other commitments at December 31, 2007 are as follows:

- 1) \$830,669 remaining on the construction contract with James Brothers Excavating for the commerce park infrastructure.
- 2) \$171,306 remaining on the contract with Pope Contracting, for construction of the Gulf Bay Box Culvert Project.
- 3) \$308,600 remaining on the contract with J Reed Constructors for the construction of the fire training tower.

**NOTE 11 – PENDING LITIGATION**

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.

While the outcome of the above noted proceedings cannot be predicted, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

**REQUIRED SUPPLEMENTARY INFORMATION**

THE CITY OF ORANGE BEACH, ALABAMA  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Over (Under)
<b>Resources (inflows)</b>				
Property taxes	\$ 3,000,000	\$ 3,000,000	\$ 2,832,605	\$ (167,395)
Intergovernmental:				
State tax	104,000	104,000	115,662	11,662
Local tax	16,910,000	16,910,000	16,977,667	67,666
Federal operating grant	1,725,500	1,725,500	971,656	(753,844)
Other licenses, permits and fees	3,547,000	3,547,000	1,503,481	(2,043,519)
Fines and forfeitures	622,000	622,000	503,918	(118,082)
Charges for services	617,000	617,000	520,339	(96,661)
Rent	185,000	185,000	198,244	13,244
Investment earnings	40,000	40,000	237,037	197,037
Contracts	195,000	195,000	205,582	10,582
Miscellaneous	50,000	50,000	462,064	412,064
Proceeds from general long term debt	19,000,000	19,000,000	20,817,341	1,817,341
Proceeds from surplus	25,000	25,000	-	(25,000)
Proceeds from land sales	2,900,000	2,900,000	3,225,775	325,775
Transfers from other funds	3,105,300	3,105,300	356,805	(2,748,495)
<b>Amounts Available for Appropriations</b>	<u>52,025,800</u>	<u>52,025,800</u>	<u>49,432,136</u>	<u>(2,593,664)</u>
<b>Charges to appropriations (outflows)</b>				
General government	2,192,700	2,192,700	3,037,027	844,326
Court	406,850	406,850	396,754	(10,096)
Finance	697,300	697,300	733,673	36,373
Police	3,982,578	3,982,578	3,910,339	(72,239)
Marine police	535,520	535,520	520,436	(15,084)
Engineering and environmental	779,650	779,650	433,460	(346,190)
Communications	623,400	623,400	578,966	(44,434)
Fire	3,689,000	3,689,000	3,771,024	82,024
Public works	1,628,881	1,628,881	1,452,453	(176,428)
Landscape	873,950	873,950	797,412	(76,538)
Parks and recreation	4,633,300	4,633,300	4,081,768	(551,531)
Library	659,400	659,400	658,936	(464)
Community development	1,515,000	1,515,000	1,189,992	(325,009)
Capital expenditures	6,110,423	6,110,423	6,978,486	868,063
Bond issue costs	-	-	287,767	287,767
Transfers to other funds	22,171,000	22,171,000	14,804,860	(7,366,140)
<b>Total Charges to Appropriations</b>	<u>50,498,953</u>	<u>50,498,953</u>	<u>43,633,354</u>	<u>(6,865,599)</u>
<b>Excess (Deficiency) of Resources Over</b>				
<b>Charges to Appropriations</b>	1,526,847	1,526,847	5,798,783	4,271,935
<b>Statutory revenue reduction</b>	<u>(2,702,050)</u>	<u>(2,702,050)</u>	<u>-</u>	<u>2,702,050</u>
<b>Excess (Deficiency) of Resources Over</b>				
<b>Charges to Appropriations</b>	<u>\$ (1,175,203)</u>	<u>\$(1,175,203)</u>	<u>\$ 5,798,783</u>	<u>\$ 6,973,985</u>

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

**COMPLIANCE AND INTERNAL CONTROL SECTION**

THE CITY OF ORANGE BEACH, ALABAMA  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 DECEMBER 31, 2007

Name of Agency	CFDA #	Name of Program	Total Federal award expended
Department of Transportation	20.219	Recreational Trail Grant	\$ 410,407
Department of Homeland Security	97.039	Hazard Mitigation Grant	390,195
Department of Justice	16.541	Juvenile Justice and Delinquency Prevention	56,459
Department of Commerce	11.419	Coastal Zone Management	34,233
Department of Transportation	20.513	Capital Assistance Programs for Elderly Persons	33,921
Department of Homeland Security	97.044	Assistance to Firefighter Grant	29,016
Department of Agriculture	10.664	Reforestation Grant	<u>17,425</u>
Total federal awards Expended			<u>\$ 971,656</u>

NOTES TO SCHEDULE:

1. The City followed the modified accrual basis of accounting in preparing this schedule. This method is consistent with the method used in the preparation of the City's financial statements.

THE CITY OF ORANGE BEACH, ALABAMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
DECEMBER 31, 2007

**SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Orange Beach, Alabama.
2. There were significant control deficiencies related to the audit of the basic financial statements which are reported in the 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*. These significant control deficiencies are not considered to be material weaknesses.
3. One instance of noncompliance material to the financial statements of the City of Orange Beach, Alabama, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. One reportable conditions related to the audit of the major federal award programs are reported in the INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.
5. The auditor's report on compliance for the major federal award programs for the City of Orange Beach, Alabama expresses an unqualified opinion on the major federal award program.
6. There was one audit findings relative to the major federal award programs for the City of Orange Beach, Alabama.
7. The programs tested as a major program was the U.S. Department of Homeland Security-, Hazard Mitigation Grants Program- Federal Emergency Management Agency, CFDA No. 97.039 and the U.S. Department of Justice- Developing, Testing and Demonstrating promising new Program, CFDA No. 16.541 and U.S. Department of Justice – Capital Assistance Projects for Transportation CFDA No. 20.513.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Orange Beach, Alabama is a high risk auditee for 2007.

**FINDINGS – FINANCIAL STATEMENT AUDIT**

Significant control deficiencies in internal control reportable under *Generally Accepted Auditing Standards*, which are not material weaknesses:

1. *Condition:* Lack of control over non-routine and non-systematic transactions. The transactions to record new debt issued in the current year were incorrectly recorded.

*Criteria:* Internal controls should be in place to provide reasonable assurance that non-routine or non-systematic transactions are correctly recorded.

*Effect:* As a result of incorrect posting, debt service interest expense was overstatement by \$357,256 and bond issue costs and interest income were understated by \$287,767 and \$69,488, respectively, in the General Fund.

*Recommendations:* The finance department should inquiry a third party (CPA's ) on how to recorded non-routine transaction. Non-routine transaction reviewed approved by a certified public accountant with expertise on the subject.

THE CITY OF ORANGE BEACH, ALABAMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
DECEMBER 31, 2007

**FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)**

2. *Condition:* Identification by the auditor of a misstatement in the financial statement for grant receivables and revenues for the period under audit that was not initially identified by the entity's internal control.

*Criteria:* Procedures regarding grant administration, grant spending, and request for reimbursement for grant should be communicated to the Finance department.

*Effect:* Because of the lack of controls noted above, the financial statements revenues and receivables were overstated for the Department of Justice (Teen Center Grant) in the amount of \$48,541 in the general fund. In addition, the Department of Justice (Teen Center grant) required a quarterly progress report outlining the funds spend at the end of each quarter. During the audit, we noted that the 4<sup>th</sup> quarter report was not cut off on December 31, 2007. Funds that were spent subsequent to year-ended were listed on the report. The receivable and corresponding revenue were recorded based on this financial status report and therefore overstated.

Also general fund revenues and expenses were understated by \$33,921 for contributed revenues by ALDOT for a bus received for the Capital Assistance Grant for the Elderly Persons. The finance department recorded the value of the buses as the City's match (paid amount) not the value paid by the granting agency. Although this is a wash on the fund level financial statement, Fixed assets on the Government-wide statement were understated by this amount.

*Recommendations:* We recommend that procedures are implemented requiring communication between the finance department and the various department receiving grants. Communication should include but are not limited to copies of grant documents, copies of request for reimbursement, and monthly grant expense reports. This will ensure that the financial statements properly reflect grant financial transactions revenues and receivables.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT**

Finding 2007-1

*Criteria:* Identification by the auditor of a misstatement in the financial statement for grant receivables and revenues for the period under audit that was not initially identified by the entity's internal control. (See Financial statement finding #2)

*Condition:* Reporting Compliance Requirement

*Effect:* See above Finance Statement Finding #2.

*Cause:* See above Finance Statement Finding #2.

*Recommendation:* See above Finance Statement Finding #2.

*Management Response:*

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

- There were no findings in the prior year.

# GRANT, SANDERS & TAYLOR, P.C.

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Orange Beach, Alabama, for the year ended December 31, 2007, which collectively comprise the City of Orange Beach, Alabama's basic financial statements and have issued our report thereon dated May 30, 2008. 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.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City of Orange Beach, Alabama's, internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly we do not express an opinion on the effectiveness of the City of Orange Beach, Alabama's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the internal control over financial reporting that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant control deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Orange Beach, Alabama's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Orange Beach, Alabama's financial statements that is more than inconsequential will not be prevented or detected by the City of Orange Beach, Alabama's internal control. We consider the two deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. The two significant deficiencies are described further in the letter to management.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Orange Beach, Alabama's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

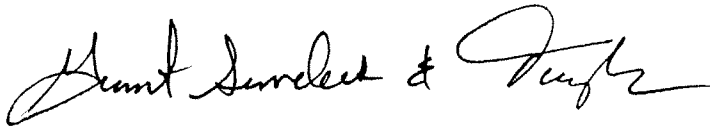
**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Orange Beach, Alabama's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs.

We also noted the significant deficiencies and certain matters that we reported to management of The City of Orange Beach, Alabama in a separate letter dated May 30, 2008.

The City of Orange Beach, Alabama's responses to the findings identified in our audit are described in the letter to management. We did not audit the City of Orange Beach, Alabama's responses and, accordingly we express no opinion on them.

This report is intended solely for the information and use of management, the Mayor and City Council. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script, appearing to read "Grant Savelle & Co.", written in black ink.

Orange Beach, Alabama  
May 30, 2008

# GRANT, & SANDERS & TAYLOR, P.C.

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

### Compliance

We have audited the compliance of the City of Orange Beach, Alabama, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Orange Beach, Alabama's management. Our responsibility is to express an opinion on the City of Orange Beach, Alabama's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Orange Beach's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Orange Beach, Alabama's compliance with those requirements.

As described in item 2007-1 in the accompanying schedule of findings and questioned costs, the City of Orange Beach did not comply with requirements regarding Reporting that are applicable to its U.S. Department of Justice- Developing, Testing and Demonstrating promising new Program, CFDA No. 16.541. Compliance with such requirements is necessary, in our opinion, for the City of Orange Beach, Alabama to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Orange Beach, Alabama, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

### Internal Control Over Compliance

The management of the City of Orange Beach, Alabama, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Orange Beach, Alabama's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Internal Control Over Compliance (continued)

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiency or material weaknesses as described below. However as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

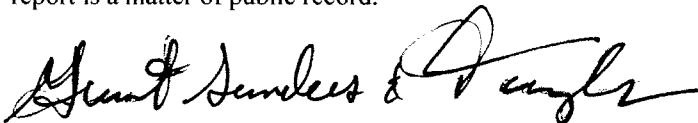
A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as 2007-1 to be significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented by the entity's internal control. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Orange Beach, Alabama as of and for the year ended December 31, 2007, and have issued our report thereon dated May 30, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Orange Beach, Alabama's, basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements of the City of Orange Beach, Alabama. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information and, in our opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of management, the Mayor and City Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.



Orange Beach, Alabama  
May 30, 2008