

CITY OF PELHAM, ALABAMA

PELHAM, ALABAMA

Financial Statements

September 30, 2020

**CITY OF PELHAM, ALABAMA
PELHAM, ALABAMA**

MAYOR

Gary Waters

CITY COUNCIL

Rick Hayes
Mildred Lanier
Beth McMillan
Maurice Mercer
Ron Scott

CITY MANAGER

Gretchen DiFante

CITY CLERK & TREASURER

Tom Seale

CITY ATTORNEYS

Ellis, Head, Owens & Justice

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Pelham, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pelham, Alabama (the City), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pelham, Alabama as of September 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in the net pension liability and related ratios, the schedule of employer contributions - pension, the schedule of changes in total OPEB liability and related ratios and budgetary comparison information on pages 6-12 and 62-67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pelham, Alabama's basic financial statements. The introductory section and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2021, on our consideration of the City of Pelham, Alabama's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Pelham, Alabama's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Pelham, Alabama's internal control over financial reporting and compliance.

BMSS, LLC

Birmingham, Alabama
August 2, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF PELHAM, ALABAMA

The City of Pelham's (the City) Management Discussion and Analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position, identify any material deviations from the financial plan, and identify individual fund issues or concerns.

Since the Management's Discussion and Analysis is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the City's financial statements.

HIGHLIGHTS

Financial Highlights

- The City's net position for governmental activities increased by \$2.7 million.
- The total cost of the City's programs was \$61.5 million.
- During the year, the City had expenses of \$42.7 million for governmental activities and transfers of \$2.9 million to business-type activities, which was \$2.7 million less than the \$48.3 million generated in general and program revenues.
- The City's combined assets exceeded its combined liabilities by \$108.8 million, which will allow the City to continue to meet ongoing obligations to citizens and creditors.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 13 and 15) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements begin on page 16. For governmental activities, these statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail by providing information about the City's most significant funds.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 7. One of the most important questions asked about the City's finances is, "Is the City, as a whole, better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used in most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net position* and changes in them. You can think of the City's net position – the difference between assets and liabilities – as one way to measure the City's financial health or *financial position*. Over time, *increases* or *decreases* in the City's net position, are indicators of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental Activities - Most of the City's basic services are reported here, including general administration, police, fire, public works, parks and recreation, and library. Property taxes, sales taxes, program revenues, and grants finance most of these activities.
- Business-type Activities - The City's Water and Sewer System, Civic Complex and Ice Arena, Ballantrae Golf Club, Racquet Club, and Garbage Fund are reported here. The City charges a fee to customers to help cover costs of these services.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 16. The fund financial statements provide detailed information about the most significant funds and not the City as a whole. Some funds are required to be established by State law and bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two kinds of funds, governmental and proprietary, use different accounting approaches.

- Governmental Funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations following the fund financial statements.
- Proprietary Funds - When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

THE CITY AS A WHOLE

Financial Analysis of the City as a Whole

Net Position

The City's combined net position as of September 30, 2020 was \$108.8 million. The governmental activities net position was \$49.5 million, and the business-type activities net position was \$59.3 million.

GOVERNMENT-WIDE STATEMENTS

The following table reflects the condensed Statement of Net Position:

	Governmental Activities		Business-type Activities		Totals	
	For the year ended September 30,		For the year ended September 30,		For the year ended September 30,	
	2020	2019	2020	2019	2020	2019
Assets						
Current and other assets	\$77,682,003	\$73,479,764	\$ 8,269,993	\$ 6,166,461	\$ 85,951,996	\$ 79,646,225
Capital assets	62,275,541	62,787,536	63,313,624	65,162,815	125,589,165	127,950,351
Total assets	<u>139,957,544</u>	<u>136,267,300</u>	<u>71,583,617</u>	<u>71,329,276</u>	<u>211,541,161</u>	<u>207,596,576</u>
Deferred outflows of resources						
Deferred outflows related to pensions	6,748,751	6,053,652	1,505,446	1,341,674	8,254,197	7,395,326
Deferred outflows related to OPEB	6,571,504	2,991,371	-	-	6,571,504	2,991,371
Deferred charge on refunding	234,550	287,754	51,926	110,544	286,476	398,298
Total deferred outflows of resources	<u>13,554,805</u>	<u>9,332,777</u>	<u>1,557,372</u>	<u>1,452,218</u>	<u>15,112,177</u>	<u>10,784,995</u>
Liabilities						
Long-term liabilities	93,501,257	88,365,313	12,144,281	14,434,753	105,645,538	102,800,066
Other liabilities	2,687,205	1,881,438	1,531,078	1,766,671	4,218,283	3,648,109
Total liabilities	<u>96,188,462</u>	<u>90,246,751</u>	<u>13,675,359</u>	<u>16,201,424</u>	<u>109,863,821</u>	<u>106,448,175</u>
Deferred inflows of resources						
Pension deferrals	283,125	2,049,489	123,353	490,353	406,478	2,539,842
Deferred inflows related to OPEB	729,136	-	-	-	729,136	-
Property taxes levied for subsequent year	6,804,047	6,534,882	-	-	6,804,047	6,534,882
Total deferred inflows of resources	<u>7,816,308</u>	<u>8,584,371</u>	<u>123,353</u>	<u>490,353</u>	<u>7,939,661</u>	<u>9,074,724</u>
Net position						
Net investment in capital assets	55,545,124	54,856,788	57,107,640	55,967,259	112,652,764	110,824,047
Restricted	2,593,104	2,295,625	-	-	2,593,104	2,295,625
Unrestricted	(8,630,649)	(10,383,458)	2,234,637	122,458	(6,396,012)	(10,261,000)
Total net position	<u>\$49,507,579</u>	<u>\$46,768,955</u>	<u>\$59,342,277</u>	<u>\$56,089,717</u>	<u>\$108,849,856</u>	<u>\$102,858,672</u>

For more detailed information, see the Statement of Net Position on page 13.

The City's unrestricted net position for governmental activities that can be used to finance day-to-day operations was \$(8.6 million).

Changes in Net Position

The City's Change in Net Position of the governmental activities was \$2.7 million and the change in net position of business-type activities was \$3.3 million.

The following table reflects the revenue and expenses of the total primary government:

	Governmental Activities		Business-type Activities		Totals	
	For the year ended September 30,		For the year ended September 30,		For the year ended September 30,	
	2020	2019	2020	2019	2020	2019
Revenues						
Program revenues						
Fees, fines and charges for service	\$ 6,992,164	\$ 7,407,058	\$18,647,343	\$19,755,066	\$ 25,639,507	\$ 27,162,124
Operating grants and contributions	2,366,696	2,093,258	-	-	2,366,696	2,093,258
Capital grants and contributions	1,014,775	612,386	547,468	326,728	1,562,243	939,114
General revenues						
Sales taxes	28,957,497	28,258,622	-	-	28,957,497	28,258,622
Property taxes	6,768,231	6,403,768	-	-	6,768,231	6,403,768
Other taxes	335,033	306,984	-	-	335,033	306,984
Interest earnings	1,846,302	2,026,181	10,941	8,122	1,857,243	2,034,303
Gain (loss) on disposal of capital assets	-	-	2,610	111,150	2,610	111,150
Total revenues	48,280,698	47,108,257	19,208,362	20,201,066	67,489,060	67,309,323
Expenses						
General administration	15,268,806	13,803,449	-	-	15,268,806	13,803,449
Police	9,456,409	9,366,084	-	-	9,456,409	9,366,084
Fire	9,503,729	8,699,910	-	-	9,503,729	8,699,910
Public works	3,617,593	3,865,433	-	-	3,617,593	3,865,433
Parks and recreation	1,911,506	1,702,042	-	-	1,911,506	1,702,042
Library	1,329,659	1,489,489	-	-	1,329,659	1,489,489
Interest on long-term debt	1,599,235	1,692,872	-	-	1,599,235	1,692,872
Water and Sewer	-	-	9,772,265	9,083,191	9,772,265	9,083,191
Civic Complex	-	-	4,023,632	5,433,915	4,023,632	5,433,915
Ballantrae Golf Club	-	-	2,425,397	2,322,777	2,425,397	2,322,777
Racquet Club	-	-	1,176,642	1,342,435	1,176,642	1,342,435
Garbage Fund	-	-	1,413,003	1,266,016	1,413,003	1,266,016
Total expenses	42,686,937	40,619,279	18,810,939	19,448,334	61,497,876	60,067,613
Excess (deficiency) before transfers	5,593,761	6,488,978	397,423	752,732	5,991,184	7,241,710
Transfers	(2,855,137)	(2,625,521)	2,855,137	2,625,521	-	-
Change in net position	2,738,624	3,863,457	3,252,560	3,378,253	5,991,184	7,241,710
Beginning net position	46,768,955	42,905,498	56,089,717	52,711,464	102,858,672	95,616,962
Total net position	\$49,507,579	\$46,768,955	\$59,342,277	\$56,089,717	\$ 108,849,856	\$ 102,858,672

For more detailed information, see the Statement of Activities on page 15.

The governmental activities total revenues increased by 2.49% to \$48.3 million due primarily to increased grant revenue. Sales and property taxes accounted for 74.00% of all governmental activities revenues. The remaining revenues are comprised of charges for services and various other sources. The business-type activities total revenue decreased by 4.91%.

The total cost of all programs and services increased by \$1.4 million. The cost of governmental activities increased by \$2.1 million, and the cost of business-type activities decreased by \$0.6 million.

Governmental Activities

The change in net position of governmental activities was \$2.7 million, resulting primarily from an increase in transfers to business-type activities.

Business-type Activities

The change in net position of business-type activities was \$3.3 million, resulting primarily from increased Water and Sewer revenues.

THE CITY'S FUNDS

Governmental Funds

As of September 30, 2020, the governmental funds reported a combined fund balance of \$68.6 million, which is 4.8% more than the beginning of the year. The General Fund experienced a net increase of \$2.9 million resulting primarily from increased grant revenues.

Business-type Funds

As of September 30, 2020, business-type funds reported a combined net position of \$59.3 million. The business-type funds Change in Net Position totaled \$3.3 million, resulting primarily from increased Water and Sewer revenues.

General Fund Budgetary Highlights

General Fund revenues exceeded budget by \$1.5 million, largely due to greater than anticipated interest received from notes receivables. The revenue budget is based on prior year budgeted revenues and does not factor in any growth. General fund revenues do not include proceeds from debt.

General Fund budgeted amounts exceeded actual expenditures by \$1.4 million, largely due to less capital outlay than anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2020, the City had \$125.6 million, net of accumulated depreciation, invested in a broad range of capital assets, including the Water and Sewer System, Civic Complex and Ice Arena, Racquet Club, Ballantrae Golf Club, fire and police equipment, vehicles, buildings, a library, a senior citizen center, park facilities, streets, and roads. This amount represents a net decrease (including additions, disposals and depreciation) of \$2.4 million or 1.85% less than last year. The decrease can be attributed to capital asset additions offset by depreciation expense and the sale of surplus capital assets.

The following is a schedule of capital assets as of September 30:

	Governmental Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Land	\$12,424,260	\$14,041,260	\$ 8,801,321	\$ 8,801,321	\$ 21,225,581	\$ 22,842,581
Construction in progress	2,788,945	758,746	3,724,204	2,643,969	6,513,149	3,402,715
Infrastructure, net	20,297,762	21,087,688	-	-	20,297,762	21,087,688
System and facilities, net	-	-	49,142,289	52,024,792	49,142,289	52,024,792
Buildings and improvements, net	19,066,666	19,716,229	495,271	528,635	19,561,937	20,244,864
Equipment, net	7,697,908	7,183,613	1,150,539	1,164,098	8,848,447	8,347,711
Total capital assets, net	<u>\$62,275,541</u>	<u>\$62,787,536</u>	<u>\$63,313,624</u>	<u>\$65,162,815</u>	<u>\$ 125,589,165</u>	<u>\$ 127,950,351</u>

Long-Term Debt

At September 30, 2020, the City had \$54 million in warrants and capital leases payable outstanding versus \$59.7 million at September 30, 2019, a decrease of 9.51%. This decrease resulted primarily from payment on debt principal.

The following is a schedule of long-term debt as of September 30:

	Governmental Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2019
General Obligation						
Warrants	\$ 47,130,598	\$ 49,433,264	\$ 6,257,910	\$ 9,306,100	\$ 53,388,508	\$ 58,739,364
Capital lease payable	606,853	925,953	789	3,854	607,642	929,807
Totals	<u>\$ 47,737,451</u>	<u>\$ 50,359,217</u>	<u>\$ 6,258,699</u>	<u>\$ 9,309,954</u>	<u>\$ 53,996,150</u>	<u>\$ 59,669,171</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City Manager, after consulting the Mayor, City Clerk/Treasurer, Accounting Manager, department heads and supervisors, considered many factors when submitting the proposed budget for the fiscal year ending September 30, 2020. The City Council took the City Manager's proposed budget under consideration and, after further review and evaluation, adopted the fiscal year 2020 budget. Tax rates, anticipated sales tax collections, anticipated expenditures/expenses, prior year actual revenues/expenditures and the overall economy were some of these factors.

Pelham's local economy consists of commercial, retail, and light industrial business. Some of Pelham's largest businesses are the Walmart Supercenter, Publix, Home Depot, Holiday Inn, Hampton Inn, and numerous restaurants and auto dealerships.

The City continued to see an increase in commercial development in the area in 2020, and the population continues to grow. The City of Pelham's population increased from 14,369 in the 2000 census to 21,352 in the 2010 census.

These indicators were taken into account when adopting the General Fund budget for the fiscal year ended September 30, 2021. Amounts available for expenditure in the General Fund budget total \$41.8 million for the fiscal year 2021. The City took into consideration the current year increase in revenue and its effect on the City when budgeting expenditures for the fiscal year 2021.

If these estimates are realized, the City's budgetary fund balance is expected to increase by the close of fiscal year 2021.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives.

If you have questions about this report or need additional information, contact the City Clerk/Treasurer at The City of Pelham, P.O. Box 1419, Pelham, Alabama 35124.

CITY OF PELHAM, ALABAMA
Statement of Net Position
September 30, 2020

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 20,584,297	\$ 5,799,327	\$ 26,383,624
Deposit and investments	3,698,917	-	3,698,917
Accounts receivable	10,368,039	1,591,555	11,959,594
Inventory	-	389,728	389,728
Prepaid expenses	559,605	86,977	646,582
Current maturity of long-term notes receivable	2,027,500	-	2,027,500
Restricted cash and cash equivalents	2,678,645	-	2,678,645
Total current assets	<u>39,917,003</u>	<u>7,867,587</u>	<u>47,784,590</u>
Noncurrent assets			
Restricted cash	-	402,406	402,406
Notes receivable	37,765,000	-	37,765,000
Nondepreciable capital assets	15,213,205	12,525,525	27,738,730
Depreciable capital assets, net	47,062,336	50,788,099	97,850,435
Total noncurrent assets	<u>100,040,541</u>	<u>63,716,030</u>	<u>163,756,571</u>
Total assets	<u>139,957,544</u>	<u>71,583,617</u>	<u>211,541,161</u>
Deferred outflows of resources			
Deferred outflows related to pensions	6,748,751	1,505,446	8,254,197
Deferred outflows related to OPEB	6,571,504	-	6,571,504
Deferred charge on refunding	234,550	51,926	286,476
Total deferred outflows of resources	<u>13,554,805</u>	<u>1,557,372</u>	<u>15,112,177</u>
Liabilities			
Current liabilities			
Accounts payable	1,008,888	573,963	1,582,851
Unearned revenue	27,444	248,750	276,194
Accrued liabilities	1,041,747	275,893	1,317,640
Accrued interest payable	358,250	30,066	388,316
Payable from restricted assets - customer deposits	250,876	402,406	653,282
Current maturities of long-term liabilities			
Warrants payable, net	2,310,084	2,218,788	4,528,872
Capital lease payable	298,766	789	299,555
Compensated absences	872,306	143,505	1,015,811
Total current liabilities	<u>6,168,361</u>	<u>3,894,160</u>	<u>10,062,521</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PELHAM, ALABAMA
Statement of Net Position
September 30, 2020
(Continued)

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Noncurrent liabilities			
Warrants payable, net	\$ 44,820,514	\$ 4,039,122	\$ 48,859,636
Capital lease payable	308,087	-	308,087
Compensated absences	872,306	143,502	1,015,808
Total OPEB liability	20,232,560	-	20,232,560
Net pension liability	23,786,634	5,598,575	29,385,209
Total noncurrent liabilities	<u>90,020,101</u>	<u>9,781,199</u>	<u>99,801,300</u>
Total liabilities	<u>96,188,462</u>	<u>13,675,359</u>	<u>109,863,821</u>
Deferred inflows of resources			
Deferred inflows related to pension	283,125	123,353	406,478
Deferred inflows related to OPEB	729,136	-	729,136
Property taxes levied for subsequent year	6,804,047	-	6,804,047
Total deferred inflows of resources	<u>7,816,308</u>	<u>123,353</u>	<u>7,939,661</u>
Net position			
Net investment in capital assets	55,545,124	57,107,640	112,652,764
Restricted for			
Street improvements	617,982	-	617,982
Court	783,550	-	783,550
Police/municipal corrections	155,954	-	155,954
Library	72,445	-	72,445
Capital projects	963,173	-	963,173
Unrestricted	<u>(8,630,649)</u>	<u>2,234,637</u>	<u>(6,396,012)</u>
Total net position	<u>\$ 49,507,579</u>	<u>\$ 59,342,277</u>	<u>\$ 108,849,856</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PELHAM, ALABAMA
Statement of Activities
For the Year Ended September 30, 2020

Program Activities:	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Governmental activities							
General administration	\$ 15,268,806	\$ 6,926,768	\$ 205,000	\$ -	\$ (8,137,038)	\$ -	\$ (8,137,038)
Police	9,456,409	6,186	140,676	-	(9,309,547)	-	(9,309,547)
Fire	9,503,729	-	1,167,617	-	(8,336,112)	-	(8,336,112)
Public works	3,617,593	3,000	814,626	7,556	(2,792,411)	-	(2,792,411)
Parks and recreation	1,911,506	43,277	-	1,007,219	(861,010)	-	(861,010)
Library	1,329,659	12,933	38,777	-	(1,277,949)	-	(1,277,949)
Interest on long-term debt	1,599,235	-	-	-	(1,599,235)	-	(1,599,235)
Total governmental activities	42,686,937	6,992,164	2,366,696	1,014,775	(32,313,302)	-	(32,313,302)
Business-type activities							
Water and Sewer	9,772,265	12,070,991	-	547,468	-	2,846,194	2,846,194
Civic Complex and Ice Arena	4,023,632	2,802,372	-	-	-	(1,221,260)	(1,221,260)
Ballantre Golf	2,425,397	1,926,187	-	-	-	(499,210)	(499,210)
Racquet Club	1,176,642	440,873	-	-	-	(735,769)	(735,769)
Garbage Fund	1,413,003	1,406,920	-	-	-	(6,083)	(6,083)
Total business-type activities	18,810,939	18,647,343	-	547,468	-	383,872	383,872
Total primary government	\$ 61,497,876	\$ 25,639,507	\$ 2,366,696	\$ 1,562,243	(32,313,302)	383,872	(31,929,430)
General revenues and other items:							
Taxes:							
Sales					28,957,497	-	28,957,497
Property					6,768,231	-	6,768,231
Other					335,033	-	335,033
Interest earnings					1,846,302	10,941	1,857,243
Gain on disposal of capital assets					-	2,610	2,610
Transfers (out) in					(2,855,137)	2,855,137	-
Total general revenues and other items					35,051,926	2,868,688	37,920,614
Change in net position					2,738,624	3,252,560	5,991,184
Net position - beginning of year					46,768,955	56,089,717	102,858,672
Net position - end of year					\$ 49,507,579	\$ 59,342,277	\$ 108,849,856

The notes to the financial statements are an integral part of this statement.

CITY OF PELHAM, ALABAMA

Balance Sheet

Governmental Funds

September 30, 2020

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Current assets			
Cash and cash equivalents	\$ 20,584,297	\$ -	\$ 20,584,297
Deposit and investments	3,698,917	-	3,698,917
Accounts receivable	10,368,039	-	10,368,039
Prepaid expenditures	559,605	-	559,605
Current maturity of long-term notes receivable	2,027,500	-	2,027,500
Restricted cash and cash equivalents	494,837	2,183,808	2,678,645
	<u>37,733,195</u>	<u>2,183,808</u>	<u>39,917,003</u>
Non-current assets			
Note receivable	37,765,000	-	37,765,000
	<u>37,765,000</u>	<u>-</u>	<u>37,765,000</u>
Total assets	<u>\$ 75,498,195</u>	<u>\$ 2,183,808</u>	<u>\$ 77,682,003</u>
Liabilities			
Accounts payable	\$ 1,003,367	\$ 5,521	\$ 1,008,888
Unearned revenue	27,444	-	27,444
Accrued liabilities	1,041,747	-	1,041,747
Payable from restricted assets - due (from) to other funds	(18,774)	18,774	-
Payable from restricted assets - deposits	189,630	61,246	250,876
Total liabilities	<u>2,243,414</u>	<u>85,541</u>	<u>2,328,955</u>
Deferred inflow of resources			
Property taxes levied for subsequent year	6,804,047	-	6,804,047
Total deferred inflows of resources	<u>6,804,047</u>	<u>-</u>	<u>6,804,047</u>
Fund balance			
Non-spendable			
Notes receivable	39,792,500	-	39,792,500
Prepaid expenditures	559,605	-	559,605
Restricted for			
Street improvements	-	617,982	617,982
Court	494,837	288,713	783,550
Police/municipal corrections	-	155,954	155,954
Library	-	72,445	72,445
Capital projects	-	963,173	963,173
Unassigned	25,603,792	-	25,603,792
Total fund balances	<u>66,450,734</u>	<u>2,098,267</u>	<u>68,549,001</u>
Total liabilities, deferred inflows, and fund balance	<u>\$ 75,498,195</u>	<u>\$ 2,183,808</u>	<u>\$ 77,682,003</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PELHAM, ALABAMA
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
September 30, 2020

Total fund balances - governmental funds	\$	68,549,001
<p>Amounts reported for governmental activities in the Statement of Net Position are different due to the following:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		
Governmental capital assets	92,263,047	
Less accumulated depreciation	<u>(29,987,506)</u>	62,275,541
<p>Interest payable is not recognized as an expenditure in governmental funds, but rather is recognized when an expenditure is paid.</p>		
		(358,250)
<p>Long-term liabilities, including warrants payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p>		
Warrants payable	(45,008,564)	
Warrant discounts and premiums	(2,122,034)	
Deferred outflow of resources for deferred charges	234,550	
Deferred outflows of resources for pension	6,748,751	
Deferred outflows of resources for OPEB	6,571,504	
Capital lease payable	(606,853)	
Total OPEB liability	(20,232,560)	
Deferred inflows of resources for pension	(283,125)	
Deferred inflows of resources for OPEB	(729,136)	
Net pension liability	(23,786,634)	
Compensated absences	<u>(1,744,612)</u>	<u>(80,958,713)</u>
Total net position - governmental activities	\$	<u><u>49,507,579</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF PELHAM, ALABAMA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2020

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes			
Sales	\$ 28,957,497	\$ -	\$ 28,957,497
Property	6,768,231	-	6,768,231
Motor vehicle/gas	524,176	290,450	814,626
Other	335,033	-	335,033
Licenses and permits	4,925,334	-	4,925,334
Fines and forfeitures	1,020,426	426,309	1,446,735
Charges for services	516,499	12,933	529,432
Interest	1,835,965	10,337	1,846,302
Other	2,290,927	366,581	2,657,508
Total revenues	<u>47,174,088</u>	<u>1,106,610</u>	<u>48,280,698</u>
Expenditures			
General administration	12,513,083	550,694	13,063,777
Police	8,252,661	153,837	8,406,498
Fire	8,662,910	-	8,662,910
Public works	2,464,283	105,355	2,569,638
Parks and recreation	1,465,074	-	1,465,074
Library	1,072,503	41,783	1,114,286
Capital outlay	3,845,498	36,476	3,881,974
Debt service			
Principal retirement	2,390,331	-	2,390,331
Interest	1,793,275	-	1,793,275
Total expenditures	<u>42,459,618</u>	<u>888,145</u>	<u>43,347,763</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,714,470</u>	<u>218,465</u>	<u>4,932,935</u>
Other financing sources (uses)			
Proceeds from sale of capital assets	1,033,700	-	1,033,700
Interfund transfers out	<u>(2,855,137)</u>	<u>-</u>	<u>(2,855,137)</u>
Total other financing sources (uses)	<u>(1,821,437)</u>	<u>-</u>	<u>(1,821,437)</u>
Net changes in fund balance	2,893,033	218,465	3,111,498
Fund balance - beginning of year	<u>63,557,701</u>	<u>1,879,802</u>	<u>65,437,503</u>
Fund balance - end of year	<u>\$ 66,450,734</u>	<u>\$ 2,098,267</u>	<u>\$ 68,549,001</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PELHAM, ALABAMA
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures and Changes in Fund Balances to the Statement of Activities
 For the Year Ended September 30, 2020

Net changes in fund balances - governmental funds \$ 3,111,498

Amounts reported for governmental activities in the Statement of
 Activities are different due to the following:

Governmental funds report capital outlays 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.
 This is the amount by which capital outlays exceeded depreciation
 in the current period.

Capital outlay	3,881,974	
Less depreciation expense	<u>(2,693,240)</u>	1,188,734

The proceeds from the sale of capital assets (\$1,033,700) are reported as
 other financing sources in the governmental funds. However, the
 the net book value of the capital assets (\$1,700,729) is removed from
 the capital assets account in the Statement of Net Position and offset
 against the sales proceeds resulting in a loss in the Statement of
 Activities of (\$667,029). (1,700,729)

The issuance of long-term debt (e.g., warrants, notes payable, etc.)
 provides current financial resources to governmental funds, while the
 repayment of the principal of long-term debt consumes the current
 financial resources of governmental funds. Neither transaction,
 however, has any effect on net position. Also, governmental funds
 report the effect of discounts, premiums, and similar items when debt
 is first issued, whereas these amounts are deferred and amortized in
 the Statement of Activities. This amount is the net effect of these
 differences in the treatment of long-term debt and related items.

Principal retirement	2,390,331	
Bond discounts, premiums, and deferred amounts on refunding amortization expense	<u>178,231</u>	2,568,562

The notes to the financial statements are an integral part of this statement.

CITY OF PELHAM, ALABAMA
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures and Changes in Fund Balances to the Statement of Activities
 For the Year Ended September 30, 2020
 (Continued)

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.

Net increase in accrued compensated absences	\$ 1,082	
Net increase in pension expense	(1,238,498)	
Net increase in total OPEB liability	(1,207,834)	
Net increase in accrued interest	15,809	(2,429,441)
Change in net position - governmental activities		\$ 2,738,624

The notes to the financial statements are an integral part of this statement.

CITY OF PELHAM, ALABAMA

Statement of Net Position

Proprietary Funds

September 30, 2020

	Business-type Activities - Enterprise Funds				Totals
	Water and Sewer	Civic		Other Proprietary Funds	
		Complex and Ice Arena	Ballantreae Golf		
Assets					
Current assets					
Cash and cash equivalents	\$ 5,173,377	\$ 112,217	\$ 159,766	\$ 353,967	\$ 5,799,327
Accounts receivable	1,261,661	82,041	50,119	197,734	1,591,555
Inventory	179,881	125,465	64,773	19,609	389,728
Prepaid expenses	36,204	25,880	15,161	9,732	86,977
Total current assets	<u>6,651,123</u>	<u>345,603</u>	<u>289,819</u>	<u>581,042</u>	<u>7,867,587</u>
Non-current assets					
Restricted cash	402,406	-	-	-	402,406
Non-depreciable assets	4,666,942	9,880	7,463,703	385,000	12,525,525
Depreciable capital assets, net	33,408,315	12,161,314	2,774,494	2,443,976	50,788,099
Total noncurrent assets	<u>38,477,663</u>	<u>12,171,194</u>	<u>10,238,197</u>	<u>2,828,976</u>	<u>63,716,030</u>
Total assets	<u>45,128,786</u>	<u>12,516,797</u>	<u>10,528,016</u>	<u>3,410,018</u>	<u>71,583,617</u>
Deferred outflows of resources					
Contributions to pension plans	665,516	292,640	329,391	217,899	1,505,446
Deferred charge on refunding	40,244	-	8,214	3,468	51,926
Total deferred outflows of resources	<u>705,760</u>	<u>292,640</u>	<u>337,605</u>	<u>221,367</u>	<u>1,557,372</u>
Liabilities					
Current liabilities					
Accounts payable	360,550	63,670	27,430	122,313	573,963
Unearned revenue	-	248,750	-	-	248,750
Accrued liabilities	103,471	53,561	90,170	28,691	275,893
Accrued interest payable	24,890	-	2,196	2,980	30,066
Payable from restricted assets - customer deposits	402,406	-	-	-	402,406
Current maturities of long-term liabilities					
Warrants payable, net	1,419,076	-	629,800	169,912	2,218,788
Capital lease payable	-	-	789	-	789
Compensated absences	48,134	37,133	29,022	29,216	143,505
Total current liabilities	<u>2,358,527</u>	<u>403,114</u>	<u>779,407</u>	<u>353,112</u>	<u>3,894,160</u>
Noncurrent liabilities					
Warrants payable, net	2,498,543	-	1,241,418	299,161	4,039,122
Compensated absences	48,134	37,132	29,021	29,215	143,502
Net pension liability	2,600,129	1,028,175	1,231,259	739,012	5,598,575
Total noncurrent liabilities	<u>5,146,806</u>	<u>1,065,307</u>	<u>2,501,698</u>	<u>1,067,388</u>	<u>9,781,199</u>
Total liabilities	<u>7,505,333</u>	<u>1,468,421</u>	<u>3,281,105</u>	<u>1,420,500</u>	<u>13,675,359</u>
Deferred inflow of resources					
Deferred inflows related to pensions	81,655	12,217	27,219	2,262	123,353
Total deferred inflows of resources	<u>81,655</u>	<u>12,217</u>	<u>27,219</u>	<u>2,262</u>	<u>123,353</u>
Net position					
Net investment in capital assets	34,197,882	12,171,194	8,375,193	2,363,371	57,107,640
Unrestricted	4,049,676	(842,395)	(817,896)	(154,748)	2,234,637
Total net position	<u>\$ 38,247,558</u>	<u>\$ 11,328,799</u>	<u>\$ 7,557,297</u>	<u>\$ 2,208,623</u>	<u>\$ 59,342,277</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PELHAM, ALABAMA
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended September 30, 2020

	Business-type Activities - Enterprise Funds				Totals
	Water and Sewer	Civic Complex and Ice Arena	Ballantrae Golf	Other Proprietary Funds	
Operating revenues					
Charges for services	\$ 12,070,991	\$ 2,802,372	\$ 1,926,187	\$ 1,847,793	\$ 18,647,343
Total operating revenues	<u>12,070,991</u>	<u>2,802,372</u>	<u>1,926,187</u>	<u>1,847,793</u>	<u>18,647,343</u>
Operating expenses					
Salaries	1,384,334	1,038,924	1,006,049	593,461	4,022,768
Employee benefits	458,700	243,468	246,028	171,820	1,120,016
Payroll taxes	101,373	58,327	74,901	42,741	277,342
Depreciation	2,926,361	698,163	136,665	122,625	3,883,814
Water purchases	2,229,269	-	-	-	2,229,269
Contract services - garbage pickup	-	-	-	1,413,003	1,413,003
Programs and events	-	805,725	-	36,829	842,554
Utilities and telephone	604,743	312,052	65,376	22,878	1,005,049
Supplies	429,773	484,415	555,838	46,513	1,516,539
Maintenance and repairs	462,326	161,232	109,817	81,532	814,907
Insurance	80,316	79,885	55,863	23,848	239,912
Other	989,048	130,298	127,271	14,845	1,261,462
Total operating expenses	<u>9,666,243</u>	<u>4,012,489</u>	<u>2,377,808</u>	<u>2,570,095</u>	<u>18,626,635</u>
Operating income (loss)	<u>2,404,748</u>	<u>(1,210,117)</u>	<u>(451,621)</u>	<u>(722,302)</u>	<u>20,708</u>
Nonoperating expenses					
Gain (loss) on disposal of capital assets	2,610	-	-	(8,666)	(6,056)
Interest income	10,629	74	61	177	10,941
Interest expense	(106,022)	(11,143)	(47,589)	(10,884)	(175,638)
Total nonoperating expenses	<u>(92,783)</u>	<u>(11,069)</u>	<u>(47,528)</u>	<u>(19,373)</u>	<u>(170,753)</u>
Income (loss) before capital contributions and transfers (out) in	2,311,965	(1,221,186)	(499,149)	(741,675)	(150,045)
Capital contributions	547,468	-	-	-	547,468
Transfers (out) in	<u>(10,146)</u>	<u>1,075,059</u>	<u>996,443</u>	<u>793,781</u>	<u>2,855,137</u>
Change in net position	2,849,287	(146,127)	497,294	52,106	3,252,560
Net position, beginning of year	<u>35,398,271</u>	<u>11,474,926</u>	<u>7,060,003</u>	<u>2,156,517</u>	<u>56,089,717</u>
Net position, end of year	<u>\$ 38,247,558</u>	<u>\$ 11,328,799</u>	<u>\$ 7,557,297</u>	<u>\$ 2,208,623</u>	<u>\$ 59,342,277</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PELHAM, ALABAMA
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2020

	Business-type Activities - Enterprise Funds				Totals
	Water and Sewer	Civic Complex and Ice Arena	Ballantrae Golf	Other Proprietary Funds	
Cash flows from operating activities					
Cash received from customers	\$12,088,138	\$ 2,731,665	\$ 1,926,628	\$ 1,949,159	\$18,695,590
Cash paid to employees	(1,831,665)	(1,289,755)	(1,278,471)	(779,202)	(5,179,093)
Cash paid to suppliers for goods and services	(4,910,414)	(1,998,190)	(912,571)	(1,614,999)	(9,436,174)
Net cash provided (used) by operating activities	<u>5,346,059</u>	<u>(556,280)</u>	<u>(264,414)</u>	<u>(445,042)</u>	<u>4,080,323</u>
Cash flows from noncapital financing activities					
Transfers (to) from other funds	(10,146)	1,075,059	996,443	793,781	2,855,137
Net cash (used) provided by noncapital financing activities	<u>(10,146)</u>	<u>1,075,059</u>	<u>996,443</u>	<u>793,781</u>	<u>2,855,137</u>
Cash flows from capital and related financing activities					
Purchase of property, plant, and equipment	(1,502,952)	-	(20,647)	(64,071)	(1,587,670)
Proceeds from sale of capital assets	2,610	-	-	26,439	29,049
Principal payments on debt	(1,657,877)	(604,989)	(620,898)	(167,491)	(3,051,255)
Interest payments on debt	(72,182)	(5,643)	(42,426)	(8,353)	(128,604)
Net cash used by capital and related financing activities	<u>(3,230,401)</u>	<u>(610,632)</u>	<u>(683,971)</u>	<u>(213,476)</u>	<u>(4,738,480)</u>
Cash flows from investing activities					
Interest on cash and investments	10,629	74	61	177	10,941
Net cash provided by investing activities	<u>10,629</u>	<u>74</u>	<u>61</u>	<u>177</u>	<u>10,941</u>
Net increase (decrease) in cash and cash equivalents	2,116,141	(91,779)	48,119	135,440	2,207,921
Cash and cash equivalents at beginning of year	3,459,642	203,996	111,647	218,527	3,993,812
Cash and cash equivalents at end of year	<u>\$ 5,575,783</u>	<u>\$ 112,217</u>	<u>\$ 159,766</u>	<u>\$ 353,967</u>	<u>\$ 6,201,733</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PELHAM, ALABAMA
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2020
(Continued)

	Business-type Activities - Enterprise Funds				Totals
	Water and Sewer	Civic Complex and Ice Arena	Ballantrae Golf	Other Proprietary Funds	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	\$ 2,404,748	\$(1,210,117)	\$ (451,621)	\$ (722,302)	\$ 20,708
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	2,926,361	698,163	136,665	122,625	3,883,814
Bad debt	9,439	-	-	-	9,439
(Increase) decrease in:					
Accounts receivable	10,308	(37,082)	659	101,366	75,251
Deferred outflows of resources for pensions	(71,010)	(27,748)	(40,019)	(24,995)	(163,772)
Prepaid expenses	23,348	(1,559)	(1,470)	6,070	26,389
Inventory	(20,460)	9,453	41	4,276	(6,690)
Increase (decrease) in:					
Accounts payable	(128,944)	(30,029)	(958)	19,060	(140,871)
Accrued expenses	13,979	(3,279)	6,815	(8,457)	9,058
Customer deposits	6,839	-	-	-	6,839
Unearned revenue	-	(33,625)	-	-	(33,625)
Deferred inflows of resources for pension	(149,630)	(76,426)	(80,535)	(60,409)	(367,000)
Net pension liability	313,426	160,088	168,695	126,537	768,746
Compensated absences	7,655	(4,119)	(2,686)	(8,813)	(7,963)
Net cash provided (used) by operating activities	\$ 5,346,059	\$ (556,280)	\$ (264,414)	\$ (445,042)	\$ 4,080,323
Reconciliation of cash and cash equivalents					
Cash and cash equivalents in current assets	\$ 5,173,377	\$ 112,217	\$ 159,766	\$ 353,967	\$ 5,799,327
Restricted cash	402,406	-	-	-	402,406
Total cash and cash equivalents at end of year	\$ 5,575,783	\$ 112,217	\$ 159,766	\$ 353,967	\$ 6,201,733

Noncash Investing, Capital, and Financing Activities

Pelham Water and Sewer had amortization of deferred amounts on refunding of \$43,000 and had system lines contributed by developers totaling \$547,468, during the year ended September 30, 2020.

Pelham Civic Complex and Ice Arena had amortization of deferred amounts on refunding of \$6,136 during the year ended September 30, 2020.

Ballantrae Golf Club had amortization of deferred amounts on refunding of \$5,887 during the year ended September 30, 2020.

Pelham Racquet Club had amortization of deferred amounts on refunding of \$3,595 during the year ended September 30, 2020.

The notes to the financial statements are an integral part of this statement.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Pelham, Alabama (the City), an Alabama Municipal Corporation, was incorporated in 1964. The governing body is an elected Mayor and a five-member, elected City Council.

The financial statements of the City are prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The City's reporting entity applies all relevant GASB pronouncements. In preparing the financial statements, management evaluated subsequent events through August 2, 2021, the date the financial statements were available to be issued. The more significant of these accounting policies are described below.

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 include whether:

- The organization is legally separate (can sue and be sued in its 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; and
- There is fiscal dependency by the organization on the City.

Based on the aforementioned criteria, the City of Pelham has no component units.

Government-Wide and Fund Financial Statements

The basic financial statements are presented at both the government-wide (based on the City as a whole) and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally 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.

Government-Wide Financial Statements display information about the City as a whole. The effect of interfund activity has been removed from these statements. These aggregate statements consist of the *Statement of Net Position* and the *Statement of Activities*.

The *Statement of Net Position* measurement focus is full accrual basis of accounting and economic resource measurement and the statement presents information on all of the City's assets and liabilities (including long-term assets and receivables as well as long-term debt and obligations), with the difference being reported as net position.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government-Wide and Fund Financial Statements - Continued

The *Statement of Activities* demonstrates the degree to which direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items (property, sales and use taxes, certain intergovernmental revenues, etc.) not attributable to a specific program are reported as general revenues. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. The City does not employ an indirect cost allocation system.

Fund Financial Statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental or proprietary. Major individual funds are reported in separate columns in the basic financial statements. Non-major funds (by category or fund type) are consolidated into a single column of the basic financial statements.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded. The government-wide financial statements are presented on a full accrual basis of accounting with an economic resource measurement focus. An economic resource focus concentrates on an entity or fund's net position.

All transactions and events that affect the total economic resources (net position) during the period are reported. Economic resources measurement focus is connected with the full accrual basis of accounting. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash inflows and outflows.

CITY OF PELHAM, ALABAMA

Notes to Financial Statements

September 30, 2020

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus and Basis of Accounting - Continued

Governmental fund financial statements are presented on a modified accrual basis of accounting with a current financial resource measurement focus. The measurement focus concentrates on the fund's resources available for spending currently or in the near future. Only transactions and events affecting the fund's current financial resources during the period are reported. Current resources measurement is connected with 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 *measurable* and *available*). *Measurable* means the amount of the transaction can be determined and revenues are considered *available* when they are collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Revenues considered susceptible to accrual are property taxes, state, county and local shared revenues, franchise taxes and intergovernmental revenues. Expenditures are recognized when the related liability is incurred, with the exception of principal and interest on general obligation long-term debt, compensated absences and other post-employment benefits payable, and claims and judgments, which are recognized as expenditures to the extent that they have matured.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund-based financial statements into the governmental activities column of the government-wide presentation.

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of operating income and changes in net financial position and cash flows. All assets and liabilities are included on the Statement of Net Position. 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 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.

Basis of Presentation - Fund Level Financial Statements

Generally accepted accounting principles set forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section located in the supplementary information section of the financial statements. The City reports the following major governmental funds:

General Fund - To account for all revenues and expenditures applicable to the general operations of government that are not properly accounted for in another fund. All general operating revenues, which are not restricted or designated as to use by outside sources, are recorded in the General Fund.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation - Fund Level Financial Statements - Continued

Additionally, the City reports the following non-major governmental funds:

Special Revenue Funds - To account for the proceeds of specific revenue resources that are legally restricted or designated for expenditures with specified purposes.

The City reports the following major proprietary funds:

Water and Sewer System - To account for water and sewer services provided to the residents and businesses of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system, billing, and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term principal and interest for Water and Sewer debt.

Pelham Civic Complex and Ice Arena - To account for providing goods and services to the general public. The Civic Complex and Ice Arena can be used for skating, ice events, trade shows, banquets, and other events. Activities of the fund include administration, operation and maintenance of the complex and ice arena, 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 Civic Complex and Ice Arena debt.

Ballantrae Golf Club - To account for providing goods and services to the general public. Ballantrae Golf Club is a full service golf course. Activities of the fund include administration, operation and maintenance of the golf course and facilities, 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 Golf Club debt.

Additionally, the City reports the following non-major proprietary funds:

Pelham Racquet Club - To account for providing goods and services to the general public. The Racquet Club is a full service tennis facility. Activities of the fund include administration, operation and maintenance of the facilities, 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 Racquet Club debt.

Garbage Fund - To account for garbage services provided primarily to the residents of the City. Activities of the fund include administration, billing, and collections of fees related to the garbage services provided.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

The City considers all instruments with an original maturity of three months or less to be cash and cash equivalents. Cash equivalents consist of money market securities stated at fair value which approximates cost. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. These amounts represent actual account balances held by financial institutions at the end of the period, and unlike the balances reported in the financial statements, the account balances do not reflect timing delays inherent in reconciling items such as outstanding checks and deposits in transit. The City has never experienced any losses related to these balances.

The City also participates in the Alabama State Treasury's Security for Alabama Funds Enhancement (SAFE) program. The bank holding the City's deposits is a certified participant in the SAFE program. Through the SAFE program, all public funds are protected through a collateral pool administered by the Alabama State Treasury.

Allowance for Uncollectible Accounts

The City reports accounts receivable at net realizable value. Management determines the allowance for doubtful accounts based on historical losses and current economic conditions. On a continuing basis, management analyzes delinquent receivables and, once these receivables are determined to be uncollectible, they are written off through a charge against an existing allowance or through bad debt expense.

Inventory

Inventory consists of various pro shop merchandise, food and beverage supplies, and water and sewer supplies and is stated at the lower of cost, as determined by the first-in, first-out (FIFO) method, or net realizable value.

Prepaid Expenses

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year.

Restricted Assets

The use of restricted assets is limited by legal requirements or restrictions imposed externally by creditors or contributors. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted, as they are needed.

CITY OF PELHAM, ALABAMA

Notes to Financial Statements

September 30, 2020

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Interfund Transfers, Receivables and Payables

During the normal course of operations, the City has numerous transactions between funds to provide services, construct assets, and service debt. These receivables and payables are classified as “Due to/from other funds,” as they are all short-term in nature. These amounts have been eliminated on the government-wide financial statements, except for amounts outstanding between the General Fund and business-type activities.

Routine transfers of resources between City funds that are not intended to be repaid are classified separately from revenues and expenditures. Such interfund operating transfers are identified as “Interfund transfers in/(out)” in the accompanying financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (streets, roads, sidewalks and similar items) are reported in the government-wide financial statements and in the fund financial statements for proprietary funds. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Capital assets purchased or acquired are carried at historical cost or estimated historical cost.

Donated or contributed capital assets are recorded at their estimated fair value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ useful lives are charged to operations as incurred. Improvements that materially extend the useful life of an asset are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation of capital assets is computed using the straight-line method over the following estimated useful lives: building and improvements, 20 to 40 years; Water and Sewer System, 30 to 40 years; machinery and equipment, 5 to 25 years; improvements, 20 years; and infrastructure, 25 to 50 years.

Depreciation is provided in the proprietary funds in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line basis.

Fair Value

The established framework for measuring fair value provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is the price the City would expect to receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value - Continued

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs which are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Deferred Outflows of Resources

The City's Statements of Net Position report a separate section for deferred outflows of resources. This separate financial statement element reflects a decrease in net position that applies to future periods. Deferred outflows of resources reported in the financial statements are amounts of pension contributions through the end of the City's fiscal year to be recognized by the pension plan on the accrual basis of accounting in the next measurement period and are deferred amounts arising from the refunding of warrants payable. The deferred refunding amounts are being amortized over the remaining life of the refunding warrants as part of interest expense.

Unearned Revenue

Proprietary funds report unearned revenue in connection with resources that have been received but are not yet recognizable.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Long-term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column of the Statement of Net Position. Warrant premiums and discounts are deferred and amortized over the life of the warrants using the warrant outstanding method. Warrants payable are reported net of the applicable warrant premium or discount. Warrant issue costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize warrants premiums, discounts and issuance costs during the current period. The face amount of debt issued is reported as other financing sources, while premiums and discounts are reported as other financing sources and uses, respectively.

Compensated Absences

The City's employees earn vacation leave in accordance with their years of service. Vacation leave earned, but not used, during the calendar year may be accumulated up to a maximum of forty days. Vacation leave earned in excess of forty days not used by December 31 shall be forfeited. An employee who resigns or retires in good standing shall be paid for earned vacation leave up to a maximum of forty days.

The City's employees are permitted to accrue compensatory time in lieu of monetary overtime compensation for hours worked in excess of a normal week. It is granted at a rate of one and one half hours of compensatory time for each hour of overtime worked.

Employees may accrue up to 80 hours of compensatory time. All compensatory time earned is immediately 100% vested.

Upon completion of twelve months of service, an employee may use sick leave. Sick leave is earned at a rate of one work day for each month of service. Sick leave earned during the year but not used may be accumulated up to a maximum of 60 days. Employees are not paid for unused sick leave upon termination of employment. Accordingly, sick pay is charged to expense when taken. No provision has been made in the financial statements for unused sick leave.

The accrued amounts of vacation and compensatory time are recorded as noncurrent liabilities in proprietary funds, net of estimated current portion. The accrued amounts of vacation and compensatory time earned by employees whose salaries are charged to the General Fund are recorded as noncurrent liabilities in the government-wide financial statements, net of estimated current portion.

Other Post-employment Benefit Obligations (OPEB)

The City is required to report the City's actuarially determined total OPEB obligation as a long-term liability in the government-wide financial statements (See Note 12).

CITY OF PELHAM, ALABAMA

Notes to Financial Statements

September 30, 2020

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Pensions

The Employees' Retirement System of Alabama (the Plan or ERS) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the Plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with the requirements of the GASB. Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

Deferred Inflows of Resources

The City's Statement of Net Position and its governmental fund balance sheet report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position or fund balance that applies to a future period. Deferred inflows of resources reported in the financial statements are for differences between projected and actual earnings on pension plan investments and property taxes levied for subsequent years.

Net Position

The City reports information regarding its financial position and activities according to three classes of net position in the government-wide financial statements: investment in capital assets, restricted net position, and unrestricted net position.

Net Investment in Capital Assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position is reported as restricted when constraints placed on net position are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions.

Unrestricted Net Position is the residual component of net position. It consists of net position that does not meet the definition of restricted or invested in capital assets, net of related debt.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Equity

The City is required, as applicable, to present fund balances in five categories. The fund balance categories are:

Non-spendable - Includes items that are not in a spendable form because they are either legally or contractually required to be maintained intact.

Restricted - Includes items that are restricted by external creditors, grantors or contributors, or restricted by legal constitutional provisions.

Committed - Includes items committed by the City Council, by resolution of the Council. Commitments may be modified or rescinded by similar resolution.

Assigned - Includes items assigned by specific uses, authorized by the City Council or by an official body to which the Council delegates the authority.

Unassigned - This is the residual classification used for those balances not assigned to another category in the General Fund. Deficit fund balances are also presented as unassigned.

It is the City's policy to use restricted balances first, followed by committed resources, assigned resources, and finally unassigned resources, as needed.

Property Taxes

Property taxes are collected and remitted to the City by the Shelby County government. Taxes are levied annually on October 1 and are due October 1 of the following year. Major tax payments are received October through January and are recognized as revenue in the year received.

NOTE 2 - DEPOSITS AND INVESTMENTS

State statutes authorize the City to invest in obligations of the U.S. Treasury, certain U.S. agency obligations, State of Alabama obligations, county obligations, and other municipal obligations, as well as bank certificates of deposit and bank public investment accounts.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

As of September 30, 2020, the City had the following investments, which were reported at fair value in governmental activities:

Type of Investment	Fair Value	<u>Investment Maturities (in Years)</u>		
		1-5	6-10	More than 10
Government National Mortgage Association	\$ 3,698,917	\$ -	\$ -	\$ 3,698,917

The City does not have a formal investment policy that limits its allowable deposits or investments, other than those imposed by statutes discussed above, or that addresses the specific types of risks that the government is exposed to through its deposits or investments.

Interest Rate Risk - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The City does not have a formal investment policy that limits its investment choices other than those imposed by statutes discussed above, but all of the investments carry a Standard & Poor's rating of AAA.

Concentration of Credit Risk - The City places no limit on the amount it may invest in any one issuer.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investments. All of the City's investments at September 30, 2020 were insured.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 3 - RECEIVABLES AND PAYABLES

Receivables consisted of the following at September 30, 2020:

	Governmental Activities	Business-type Activities	Total
Taxes			
Sales	\$ 2,571,134	\$ -	\$ 2,571,134
Property	6,586,133	-	6,586,133
Customers	114,949	1,722,082	1,837,031
Intergovernmental	1,095,823	-	1,095,823
Gross receivables	10,368,039	1,722,082	12,090,121
Less: Allowance for uncollectible accounts	-	(130,527)	(130,527)
Net receivables	<u>\$ 10,368,039</u>	<u>\$ 1,591,555</u>	<u>\$ 11,959,594</u>

Payables consisted of the following at September 30, 2020:

	Governmental Activities	Business-type Activities	Total
Trade	\$ 1,008,888	\$ 573,963	\$ 1,582,851
Capital assets	35,356	-	35,356
Net payables	<u>\$ 1,044,244</u>	<u>\$ 573,963</u>	<u>\$ 1,618,207</u>

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 4 - NOTE RECEIVABLE

On July 19, 2016, the City entered into a note receivable agreement with the City of Pelham Commercial Development Authority (the Authority) to provide the Authority with funding for the purchase and development of property within the City. The City agreed to advance the Authority up to \$1,000,000. As of September 30, 2020, the balance on the note receivable totaled \$475,000. Principal is due at maturity, and interest is due monthly on the unpaid balance at a rate of two percent (2.00%) per year. The note is secured by revenues and receipts derived from the leasing and sale of any projects.

On September 2, 2016, the City entered into a note receivable agreement with the City of Pelham Board of Education (the Board) to provide the Board with funding for the purchase and development of property within the City for new schools. The City agreed to advance the Board \$43,570,000. As of September 30, 2020, the balance on the note receivable totaled \$38,267,500. Principal and interest are due monthly on the unpaid balance at a variable rate of two to five percent (2.00% to 5.00%) per year. The note is secured by 1% sales tax revenues earned by the City.

On August 27, 2018, the City entered into a note receivable agreement with the City of Pelham Board of Education (the Board) for the purchase of the City of Pelham Library building in the amount of \$1,300,000. As of September 30, 2020, the balance on the note receivable totaled \$1,050,000. Principal payments of \$10,000 are due monthly on the unpaid balance at a rate of zero percent interest. The note is secured by the City of Pelham Library building.

Future principal payments related to notes receivable consist of the following for the years ending September 30:

2021	\$	2,027,500
2022		1,780,000
2023		1,840,000
2024		2,232,500
2025		2,652,500
2026-2040		29,260,000
		\$ 39,792,500

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 5 - CAPITAL ASSETS

Capital assets activity for governmental activities consisted of the following for the year ended September 30, 2020:

	Governmental Activities			September 30, 2020
	October 1, 2019	Additions	Disposals	
Depreciable assets				
Infrastructure	\$ 33,018,798	\$ -	\$ -	\$ 33,018,798
Buildings and improvements	28,306,471	151,649	26,720	28,431,400
Equipment	14,450,542	1,657,346	508,244	15,599,644
	<u>75,775,811</u>	<u>1,808,995</u>	<u>534,964</u>	<u>77,049,842</u>
Less accumulated depreciation				
Infrastructure	11,931,110	789,926	-	12,721,036
Buildings and improvements	8,590,242	799,852	25,360	9,364,734
Equipment	7,266,929	1,103,462	468,655	7,901,736
	<u>27,788,281</u>	<u>2,693,240</u>	<u>494,015</u>	<u>29,987,506</u>
	47,987,530	(884,245)	40,949	47,062,336
Non-depreciable assets				
Land	14,041,260	-	1,617,000	12,424,260
Construction in progress	758,746	2,072,979	42,780	2,788,945
	<u>14,800,006</u>	<u>2,072,979</u>	<u>1,659,780</u>	<u>15,213,205</u>
	<u>\$ 62,787,536</u>	<u>\$ 1,188,734</u>	<u>\$ 1,700,729</u>	<u>\$ 62,275,541</u>

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 5 - CAPITAL ASSETS - Continued

Capital assets activity for business-type activities consisted of the following for the year ended September 30, 2020:

	Business-type Activities			
	October 1, 2019	Additions	Disposals	September 30, 2020
Depreciable assets				
System and facilities	\$ 118,257,111	\$ 818,086	\$ 109,371	\$ 118,965,826
Water and Sewer				
Buildings and improvements	1,101,001	7,015	-	1,108,016
Equipment	3,297,857	164,392	55,786	3,406,463
	<u>122,655,969</u>	<u>989,493</u>	<u>165,157</u>	<u>123,480,305</u>
Less accumulated depreciation				
System and facilities	66,232,319	3,665,484	74,266	69,823,537
Water and Sewer				
Buildings and improvements	572,366	40,379	-	612,745
Equipment	2,133,759	177,951	55,786	2,255,924
	<u>68,938,444</u>	<u>3,883,814</u>	<u>130,052</u>	<u>72,692,206</u>
	<u>53,717,525</u>	<u>(2,894,321)</u>	<u>35,105</u>	<u>50,788,099</u>
Non-depreciable assets				
Land	8,801,321	-	-	8,801,321
Construction in progress	2,643,969	1,091,640	11,405	3,724,204
	<u>11,445,290</u>	<u>1,091,640</u>	<u>11,405</u>	<u>12,525,525</u>
	<u>\$ 65,162,815</u>	<u>\$ (1,802,681)</u>	<u>\$ 46,510</u>	<u>\$ 63,313,624</u>

Depreciation expense was charged as direct expense to programs of the governmental activities as follows:

Governmental activities	
General administration	\$ 135,273
Police	620,059
Fire	437,700
Public works	918,641
Parks and recreation	422,947
Library	158,620
	<u>\$ 2,693,240</u>

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 5 - CAPITAL ASSETS - Continued

Depreciation expense was charged as direct expense to programs of the business-type activities as follows:

Business-type activities

Water and Sewer	\$	2,926,361
Civic Complex		698,163
Ballantrae Golf Club		136,665
Racquet Club		122,625
		\$ 3,883,814

NOTE 6 - LONG-TERM DEBT

The general obligation warrants payable consisted of the following at September 30, 2020:

	Governmental Activities	Business-type Activities
Series 2013-B General Obligation Warrants, dated August 8, 2013, due in semi-annual payments through August 8, 2023, bearing an interest rate of 1.92%	\$ 469,110	\$ 1,871,218
Series 2013-C General Obligation Warrants, dated August 8, 2013, due in semi-annual payments through August 8, 2029, bearing an interest rate of 2.47%	5,196,146	-
Series 2014 General Obligation Warrants, dated August 13, 2014, due in semi-annual payments through February 1, 2035, bearing interest rates of 3.00% to 5.00%	28,160,000	-
Series 2015 General Obligation Warrants, dated December 30, 2015, due in annual payments through February 1, 2040, bearing interest rates of 2.00% to 5.00%	10,725,000	-

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 6 - LONG-TERM DEBT - Continued

	Governmental Activities	Business-type Activities
Series 2016 General Obligation Warrants, dated August 19, 2016, due in semi-annual payments through November 1, 2022, bearing interest rates of 3.00% to 5.00%	\$ 458,308	\$ 4,386,692
Total warrants payable	45,008,564	6,257,910
Plus deferred amounts for:		
Unamortized discounts and premiums	2,122,034	-
Total warrants payable, net	\$ 47,130,598	\$ 6,257,910

Future principal and interest requirements of the general obligation warrants for governmental activities and business-type activities consist of the following for the years ending September 30:

	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2021	\$ 2,086,372	\$ 1,706,151	\$ 2,218,789	\$ 85,180
2022	2,499,025	1,636,373	2,244,568	48,646
2023	2,519,287	1,561,021	1,794,553	14,882
2024	2,317,995	1,486,129	-	-
2025	3,057,185	1,392,065	-	-
2026-2030	13,398,700	5,422,473	-	-
2031-2035	12,675,000	2,923,647	-	-
2036-2040	6,455,000	669,750	-	-
	\$ 45,008,564	\$ 16,797,609	\$ 6,257,910	\$ 148,708

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 6 - LONG-TERM DEBT - Continued

Changes in long-term liabilities for governmental activities consisted of the following at September 30, 2020:

Governmental Activities	October 1, 2019	Additions	Retirements	September 30, 2020	Due within one year
Warrants and notes payable:					
Capital lease payable	\$ 925,953	\$ -	\$ 319,100	\$ 606,853	\$ 298,766
General Obligation Warrants	47,079,795	-	2,071,231	45,008,564	2,086,372
	48,005,748	-	2,390,331	45,615,417	2,385,138
Plus: bond discounts and premiums	2,353,469	-	231,435	2,122,034	223,712
Total warrants and notes payable	50,359,217	-	2,621,766	47,737,451	2,608,850
Other liabilities:					
Compensated absences	1,745,694	1,105,548	1,106,630	1,744,612	872,306
	<u>\$ 52,104,911</u>	<u>\$ 1,105,548</u>	<u>\$ 3,728,396</u>	<u>\$ 49,482,063</u>	<u>\$ 3,481,156</u>

Changes in long-term liabilities for business-type activities consisted of the following at September 30, 2020:

Business-type Activities	October 1, 2019	Additions	Retirements	September 30, 2020	Due within one year
Warrants payable:					
General Obligation Warrants	\$ 9,306,100	\$ -	\$ 3,048,190	\$ 6,257,910	\$ 2,218,788
Capital lease payable	3,854	-	3,065	789	789
	9,309,954	-	3,051,255	6,258,699	2,219,577
Plus: bond discounts and premiums	-	-	-	-	-
Total warrants payable	9,309,954	-	3,051,255	6,258,699	2,219,577
Other liabilities:					
Compensated absences	294,970	177,024	184,987	287,007	143,505
	<u>\$ 9,604,924</u>	<u>\$ 177,024</u>	<u>\$ 3,236,242</u>	<u>\$ 6,545,706</u>	<u>\$ 2,363,082</u>

For governmental activities, notes payable, general obligation warrants, other post-employment benefits payable, and compensated absences are liquidated by the General Fund.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 7 - CAPITAL LEASE OBLIGATIONS

The City has entered into a capital lease agreement to finance the purchase of facilities maintenance equipment. As of September 30, 2020, the future minimum lease payments under the capital lease agreements consist of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
2021	\$ 317,700	\$ 796	\$ 318,496
2022	317,700	-	317,700
Future minimum lease payments	635,400	796	636,196
Less: amount representing interest	(28,547)	(7)	(28,554)
Present value of minimum lease payments	606,853	789	607,642
Less: current portion	(298,766)	(789)	(299,555)
Long-term capital lease obligation	<u>\$ 308,087</u>	<u>\$ -</u>	<u>\$ 308,087</u>

As of September 30, 2020, the governmental activities lease had capitalized costs totaling \$1,944,326 and accumulated depreciation of \$656,572, and a net book value of \$1,287,754. Interest expense paid under the capital lease agreement totaled \$29,016 during the year ended September 30, 2020.

As of September 30, 2020, the business-type activities lease had capitalized costs totaling \$14,167 and accumulated depreciation of \$13,223, and a net book value of \$944. Interest expense paid under the capital lease agreement totaled \$114 during the year ended September 30, 2020.

NOTE 8 - COMMITMENTS

The City leases certain office and park equipment, golf carts and golf course maintenance equipment under noncancelable operating lease agreements. Rent expense paid under the lease agreements during the year ended September 30, 2020 totaled \$90,745 for governmental activities and \$258,410 for business-type activities, respectively.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 8 - COMMITMENTS - Continued

Future minimum lease payments due under operating lease agreements consist of the following for the years ending September 30:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
2021	\$ 83,542	\$ 215,660	\$ 299,202
2022	35,206	153,026	188,232
2023	3,964	13,430	17,394
2024	814	1,232	2,046
2025	-	854	854
	<u>\$ 123,526</u>	<u>\$ 384,202</u>	<u>\$ 507,728</u>

NOTE 9 - PENSION PLAN

General Information about the Pension Plan

Plan Description

The ERS, an agent multiple-employer public employee retirement plan, was established as of October 1, 1945, pursuant to the *Code of Alabama 1975, Title 36, Chapter 27* (Act 515 of the Legislature of 1945). The purpose of the ERS is to provide retirement allowances and other specified benefits for state employees, State Police, and, on an elective basis, to all cities, counties, towns, and quasi-public organizations. The responsibility for the general administration and operation of ERS is vested in its Board of Control which consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975, Title 36, Chapter 27* grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 9 - PENSION PLAN - Continued

The ERS Board of Control consists of 13 trustees as follows:

- 1) The Governor, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Personnel Director, ex officio.
- 4) The State Director of Finance, ex officio.
- 5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
- 6) Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
 - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
 - b. Two vested active state employees.
 - c. Two vested active employees of an employer participating in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.

Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of State Police service in computing the formula method.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 9 - PENSION PLAN - Continued

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending September 30 are paid to the beneficiary.

The ERS serves approximately 907 local participating employers. The ERS membership includes approximately 93,986 participants. As of September 30, 2019, membership consisted of:

Retirees and beneficiaries currently receiving benefits	25,871
Terminated employees entitled to but not yet receiving benefits	1,794
Terminated employees not entitled to a benefit	11,001
Active members	55,222
Post-DROP retired members still in active service	98
	<u>93,986</u>

The City's membership as of the measurement date of September 30, 2019 consisted of:

Retired members or their beneficiaries currently receiving benefits	134
Vested inactive members	18
Non-vested inactive members	26
Active members	303
Post-DROP retired members still in active service	-
	<u>481</u>

Contributions

Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 9 - PENSION PLAN - Continued

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. Tier 2 State Police members of the ERS contribute 10% of earnable compensation. These contributions rates are the same for Tier 2 covered members of ERS local participating employers.

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year with additional amounts to finance any unfunded accrued liability, the preretirement death benefit, and administrative expenses of the Plan. For the year ended September 30, 2020, the City's active employee contribution rate was 5.83% of covered employee payroll, and the City's average contribution rate to fund the normal and accrued liability costs was 12.80% of pensionable payroll.

The City's contractually required contribution rate for the year ended September 30, 2020 was 14.04% of pensionable pay for Tier 1 employees, and 10.89% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation as of September 30, 2017, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the City totaled \$2,437,000 for the year ended September 30, 2020.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 9 - PENSION PLAN - Continued

Net Pension Liability

The City's net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2018, rolled forward to September 30, 2019, using standard roll-forward techniques as shown in the following table:

	Expected	Actual
(a) Total pension liability as of September 30, 2018	\$ 88,640,495	\$ 89,846,732
(b) Discount rate	7.70%	7.70%
(c) Entry age normal cost for the period October 1, 2018 - September 30, 2019	1,640,736	1,640,736
(d) Transfers among employers:	-	(289,983)
(e) Actual benefit payments and refunds for the period October 1, 2018 - September 30, 2019	(4,779,811)	(4,779,811)
(f) Total pension liability as of September 30, 2019 [(a) x (1+(b))] + (c) + (d) + [(e) x (1+0.5*(b))]	\$ 92,142,715	\$ 93,151,849
(g) Difference between expected and actual:		\$ 1,009,134
(h) Less liability transferred for immediate recognition:		(289,983)
(i) Experience (gain)/loss = (g) - (h)		\$ 1,299,117

Actuarial Assumptions

The total pension liability, as of September 30, 2019, was determined based on the annual actuarial funding valuation report prepared as of September 30, 2018. The key actuarial assumptions are summarized below:

1. An investment rate of return of 7.70% (net of pension plan investment expense), including inflation at 2.75%, per annum compounded annually on the investment of present and future assets.
2. Projected salary increases, based on age ranging from 3.25% to 5.00%.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 9 - PENSION PLAN - Continued

Mortality rates were based on the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females ages 78 and older. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

The actuarial assumptions used in the actuarial valuation as of September 30, 2017, were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 30, 2016, which became effective at the beginning of fiscal year 2016.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

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

*Includes assumed rate of inflation of 2.50%.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 9 - PENSION PLAN - Continued

Discount Rate

The discount rate used to measure the total pension liability was the long-term rate of return, 7.70%. The projection of cash flows used to determine the discount rate assumed that Plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the City's net pension liability consisted of the following at September 30, 2019:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at September 30, 2018	\$ 88,640,495	\$ 63,723,994	\$ 24,916,501
Changes for the year:			
Service cost	1,640,736	-	1,640,736
Interest	6,641,295	-	6,641,295
Changes of assumptions	-	-	-
Difference between expected and actual experience	1,299,117	-	1,299,117
Contributions - employer	-	2,320,335	(2,320,335)
Contributions - employee	-	1,175,997	(1,175,997)
Net investment income	-	1,616,108	(1,616,108)
Benefits of payments, including refunds of employee contributions	(4,779,811)	(4,779,811)	-
Transfers among employers	(289,983)	(289,983)	-
Net changes:	4,511,354	42,646	4,468,708
Balances at September 30, 2019	\$ 93,151,849	\$ 63,766,640	\$ 29,385,209

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 9 - PENSION PLAN - Continued

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the City’s net pension liability calculated using the discount rate of 7.70%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.70%) or 1-percentage-point higher (8.70%) than the current rate (dollar amounts in thousands):

	1% Decrease (6.70%)	Current Discount Rate (7.70%)	1% Increase (8.70%)
Plan’s Net Pension Liability	\$ 40,644,508	\$ 29,385,209	\$ 19,897,100

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2019. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2019. The auditor’s report on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes detail by employer and in aggregate additional information needed to comply with GASB 68. The additional financial and actuarial information is available at <http://www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/>.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 9 - PENSION PLAN - Continued

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

For the year ended September 30, 2020, the City recognized pension expense of \$3,913,472. At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 3,068,202	\$ 406,478
Changes of assumptions	1,966,612	-
Net difference between projected and actual earnings on pension plan investments	782,383	-
Employer contributions subsequent to the measurement date	2,437,000	-
	\$ 8,254,197	\$ 406,478

Amounts reported as deferred outflows of resources to pensions will be recognized in pension expense as follows for the years ended September 30:

	Deferred Outflows/ (Inflows) of Resources
2021	\$ 904,561
2022	1,109,528
2023	1,481,313
2024	1,272,276
2025	473,592
Thereafter	169,449

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 10 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund payables and receivables consisted of the following at September 30, 2020:

	Interfund Receivables (Payables)
General Fund	\$ (18,774)
Special Revenue	18,774
	\$ -

Interfund payables and receivables resulted from reimbursements made by the General Fund to the Special Revenue for various operating expenses.

Interfund transfers consisted of the following during the year ended September 30, 2020:

	Transfers In (Out)			Net Transfers Out (In)
	General Fund	Special Revenue		
Transfers Out (In)				
Water and Sewer	\$ 10,146	\$ -	\$	10,146
Civic Complex and Ice Arena	(1,075,059)	-		(1,075,059)
Ballantrae Golf	(996,443)	-		(996,443)
Racquet Club	(793,781)	-		(793,781)
Net Transfers In (Out)	\$ (2,855,137)	\$ -	\$	(2,855,137)

- Transfers from the General Fund to proprietary funds are in accordance with the normal course of the City's operations.
- Transfers between various proprietary funds are in accordance with the normal course of the City's operations.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 11 - CONTINGENCIES

The City is involved in various claims and lawsuits, both for and against the City, arising in the normal course of business. Litigation is subject to inherent uncertainties and, were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on the operations of the City for the period in which the ruling occurs.

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers' compensation; and natural disasters for which the City carries commercial insurance.

The City 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 to the grantor agency for expenditures disallowed or not incurred in a timely manner under the terms of the grant. City management believes such disallowances, if any, would be immaterial.

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS

General Information about the OPEB Plan

Plan Description

The City provides certain continuing health care and life insurance benefits for its retired employees. The City of Pelham's OPEB Plan (the OPEB Plan) is a single-employer defined benefit OPEB plan administered by the City. The authority to establish and/or amend the obligation of the employer, employees and retirees rests with the City. No assets are accumulated in a trust that meets the criteria in Governmental Accounting Standards Board (GASB) Statement No. 75, paragraph 4, *Postemployment Benefits Other Than Pensions—Reporting For Benefits Not Provided Through Trusts That Meet Specified Criteria—Defined Benefit*.

Benefits Provided

Medical benefits are provided through a comprehensive medical plan and are made available to employees upon actual retirement. The earliest retirement eligibility provisions are as follows: 25 years of service at any age; or, age 60 and 10 years of service (called "Tier I" members). Employees hired on and after January 1, 2013 (called "Tier II" members) are eligible to retire only after attainment of age 62 or later and completion of 10 years of service.

Dental insurance coverage is provided to retirees. The employer pays a flat \$25.00 monthly fee for the cost of the dental insurance for the retirees. All of the assumptions used for the valuation of the medical benefits have been used for dental insurance including zero trend.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS - Continued

Employees Covered by Benefit Terms

At September 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	100
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	288
	388

Total OPEB Liability

The City’s total OPEB liability of \$20,232,560 was measured as of September 30, 2020 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the September 30, 2020 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	4.00% including inflation
Discount rate	2.66% annually (beginning of year)
	2.21% annually (as of end of year measurement date)
Healthcare cost trend rates	0.00% annually

The discount rate was based on the average of the Bond Buyers’ 20-Year General Obligation municipal bond index as of September 30, 2020, the end of the applicable measurement period.

The actuarial assumptions used in the September 30, 2020 valuation were based on the results of ongoing evaluations of the assumptions from October 1, 2009 to September 30, 2020.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS - Continued

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at September 30, 2019	\$ 16,173,729
Changes for the year:	
Service cost	162,087
Interest	420,081
Changes of assumptions	1,121,850
Difference between expected and actual experience	3,117,208
Benefit payments and net transfers	(762,395)
Net changes	4,058,831
Balance at September 30, 2020	\$ 20,232,560

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.21%) or 1-percentage-point higher (3.21%) than the current discount rate:

	1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
Plan's total OPEB liability	\$ 23,806,031	\$ 20,232,560	\$ 17,250,033

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

Not applicable since zero trend.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS - Continued

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2020, the City recognized OPEB expense of \$1,481,164. At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 3,179,431	\$ -
Changes of assumptions	3,392,073	729,136
	\$ 6,571,504	\$ 729,136

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	Deferred Outflows/ (Inflows) of Resources
2021	\$ 898,996
2022	898,996
2023	898,996
2024	898,996
2025	898,996
Thereafter	1,347,402

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 13 - FAIR VALUE

The following is a description of the valuation methodologies used for assets measured at fair value. There were no changes in the methodologies used during the year ended September 30, 2020.

- *U.S. Government Sponsored Enterprise:* Valued based on issuance price and secondary trade data provided by recognized broker dealers.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth, by level within the fair value hierarchy, the investments at fair value as of September 30, 2020:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government				
Sponsored Enterprise:				
Government National				
Mortgage Association	\$ 3,698,917	\$ -	\$ 3,698,917	\$ -

NOTE 14 - ACCOUNTING CHANGES AND ACCOUNTING STANDARDS

The GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. There was no financial statement impact as a result of the implementation of the Statement.

The GASB issued Statement No. 84, *Fiduciary Activities* to establish criteria for identifying fiduciary activities of all state and local governments. The requirements of GASB 84 are effective for fiscal years beginning after December 15, 2019. The City is currently evaluating the impact GASB 84 may have on its financial statements.

CITY OF PELHAM, ALABAMA

Notes to Financial Statements

September 30, 2020

(Continued)

NOTE 14 - ACCOUNTING CHANGES AND ACCOUNTING STANDARDS - Continued

The GASB issued Statement No. 87, *Leases* to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of GASB 87 are effective for fiscal years beginning after June 15, 2021. The City is currently evaluating the impact GASB 87 may have on its financial statements.

The GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* to: (1) enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and (2) simplify accounting for interest cost incurred before the end of a construction period. The requirements of GASB 89 are effective for fiscal years beginning after December 15, 2020. The City is currently evaluating the impact GASB 89 may have on its financial statements.

The GASB issued Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61* to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of GASB 90 are effective for fiscal years beginning after December 15, 2019. The City is currently evaluating the impact GASB 90 may have on its financial statements.

The GASB issued Statement No. 91, *Conduit Debt Obligations* to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with: (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of GASB 91 are effective for fiscal years beginning after December 15, 2021. The City is currently evaluating the impact GASB 91 may have on its financial statements.

The GASB issued Statement No. 92, *Omnibus 2020* to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of GASB 92 are effective for fiscal years beginning after June 15, 2021. The City is currently evaluating the impact GASB 92 may have on its financial statements.

The GASB issued Statement No. 93, *Replacement of Interbank Offered Rates* to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The requirements of GASB 93 are effective for fiscal years beginning after June 15, 2021. The City is currently evaluating the impact GASB 93 may have on its financial statements.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2020
(Continued)

NOTE 14 - ACCOUNTING CHANGES AND ACCOUNTING STANDARDS - Continued

The GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The requirements of GASB 94 are effective for fiscal years beginning after June 15, 2022. The City is currently evaluating the impact GASB 94 may have on its financial statements.

The GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. The requirements of GASB 96 are effective for fiscal years beginning after June 15, 2022. The City is currently evaluating the impact GASB 96 may have on its financial statements.

NOTE 15 - UNCERTAINTIES

A novel strain of coronavirus, COVID-19, emerged in the United States in early 2020. The extent of the impact of COVID-19 on the City's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on its taxpayers, employees, and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the City's financial condition or results of operations in the near term is uncertain.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PELHAM, ALABAMA
Schedule of Changes in the Net Pension Liability and Related Ratios
Last Six Years Ended September 30,

	2019	2018	2017	2016	2015	2014
Total pension liability						
Service cost	\$ 1,640,736	\$ 1,608,609	\$ 1,584,388	\$ 1,544,506	\$ 1,527,047	\$ 1,470,956
Interest	6,641,295	6,241,092	6,032,403	5,650,936	5,297,430	5,015,542
Changes of assumptions	-	491,887	-	3,515,573	-	-
Differences between expected and actual experience	1,299,117	1,640,817	(696,818)	741,123	1,455,825	-
Benefit payments, including refunds of employee contributions	(4,779,811)	(4,206,950)	(4,063,665)	(4,247,332)	(3,475,609)	(2,450,190)
Transfers among employers	(289,983)	231,352	(91,916)	(95,878)	-	-
Net change in total pension liability	4,511,354	6,006,807	2,764,392	7,108,928	4,804,693	4,036,308
Total pension liability - beginning	88,640,495	82,633,688	79,869,296	72,760,368	67,955,675	63,919,367
Total pension liability - ending (a)	\$93,151,849	\$88,640,495	\$82,633,688	\$79,869,296	\$72,760,368	\$67,955,675
Plan fiduciary net position						
Contributions - employer	\$ 2,320,335	\$ 2,148,149	\$ 2,077,833	\$ 1,985,261	\$ 1,885,223	\$ 1,875,205
Contributions - member	1,175,997	1,095,707	1,046,834	1,053,668	996,630	969,654
Net investment income	1,616,108	5,428,909	6,758,473	4,945,320	543,034	5,281,062
Benefit payments, including refunds of employee contributions	(4,779,811)	(4,206,950)	(4,063,665)	(4,247,332)	(3,475,609)	(2,450,190)
Transfers among employers	(289,983)	231,352	(91,916)	(95,878)	191,161	50,891
Net change in plan fiduciary net position	42,646	4,697,167	5,727,559	3,641,039	140,439	5,726,622
Plan net position - beginning	63,723,994	59,026,827	53,299,268	49,658,229	49,517,790	43,791,168
Plan net position - ending (b)	\$63,766,640	\$63,723,994	\$59,026,827	\$53,299,268	\$49,658,229	\$49,517,790
Net pension liability (a) - (b)	\$ 29,385,209	\$ 24,916,501	\$ 23,606,861	\$ 26,570,028	\$ 23,102,139	\$ 18,437,885
Plan fiduciary net position as a percentage of the total pension liability	68.45%	71.89%	71.43%	66.73%	68.25%	72.87%
Covered payroll	\$ 18,626,224	\$ 18,308,059	\$ 18,412,041	\$ 17,595,089	\$ 17,534,690	\$ 17,329,276
Net pension liability as a percentage of covered payroll	157.76%	136.10%	128.21%	151.01%	131.75%	106.40%

This schedule is presented to illustrate the requirement to show information for 10 years. Until a full 10-year trend is compiled, the City of Pelham will only present information for those years for which information is available.

See notes to required supplementary information.

CITY OF PELHAM, ALABAMA
Schedule of Employer Contributions - Pension
Last Six Years Ended September 30,

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 2,368,519	\$ 2,320,335	\$ 2,080,281	\$ 2,077,833	\$ 1,985,261	\$ 1,885,223
Contributions in relation to the actuarially determined contributions	<u>2,368,519</u>	<u>2,320,335</u>	<u>2,080,281</u>	<u>2,077,833</u>	<u>1,985,261</u>	<u>1,885,223</u>
Contributions deficiency (excess)	<u>\$ -</u>					
Covered payroll	<u>\$ 18,509,094</u>	<u>\$ 18,626,224</u>	<u>\$ 18,308,059</u>	<u>\$ 18,412,041</u>	<u>\$ 17,595,089</u>	<u>\$ 17,534,690</u>
Contributions as a percentage of covered payroll	<u>12.80%</u>	<u>12.46%</u>	<u>11.36%</u>	<u>11.29%</u>	<u>11.28%</u>	<u>10.75%</u>

This schedule is presented to illustrate the requirement to show information for 10 years. Until a full 10-year trend is compiled, the City of Pelham will only present information for those years for which information is available.

See notes to required supplementary information.

CITY OF PELHAM, ALABAMA
Schedule of Changes in Total OPEB Liability and Related Ratios
For the Three Years Ended September 30,

	2020	2019	2018
Total OPEB liability			
Service cost	\$ 162,087	\$ 156,525	\$ 166,076
Interest	420,081	527,724	481,191
Differences between expected and actual experience	3,117,208	354,745	347,114
Changes of assumptions	1,121,850	2,866,732	(911,419)
Benefit payments and net transfers	(762,395)	(713,933)	(713,933)
Net change in total OPEB liability	4,058,831	3,191,793	(630,971)
Total OPEB liability - beginning	16,173,729	12,981,936	13,612,907
Total OPEB liability - ending	\$ 20,232,560	\$ 16,173,729	\$ 12,981,936
Covered payroll	\$ 17,743,006	\$ 17,755,828	\$ 17,072,911
Total OPEB liability as a percentage of covered payroll	114.03%	91.09%	76.04%

This schedule is presented to illustrate the requirement to show information for 10 years. Until a full 10-year trend is compiled, the City of Pelham will only present information for those years for which information is available.

See notes to required supplementary information.

CITY OF PELHAM, ALABAMA
Budgetary Comparison Schedule - General Fund
For the Year Ended September 30, 2020

	Budgeted Amounts		Actual GAAP Basis	Adjustments to Budgetary Basis	Actual - Budgetary Basis
	Original	Final			
Revenues					
Taxes					
Sales	\$ 28,131,529	\$ 28,150,934	\$ 28,957,497	\$ (222,577)	\$ 28,734,920
Property	6,612,134	6,730,000	6,768,231	13,691	6,781,922
Motor vehicle/gas	610,000	550,000	524,176	12,086	536,262
Other	247,900	269,146	335,033	(408)	334,625
Licenses and permits	4,826,600	4,752,350	4,925,334	-	4,925,334
Fines and forfeitures	1,115,531	338,884	1,020,426	-	1,020,426
Charges for services	743,871	714,088	516,499	118,521	635,020
Interest	245,000	237,000	1,835,965	(1,609,556)	226,409
Other	186,350	251,338	2,290,927	(1,988,982)	301,945
Total revenues	<u>42,718,915</u>	<u>41,993,740</u>	<u>47,174,088</u>	<u>(3,677,225)</u>	<u>43,496,863</u>
Expenditures					
General administration	10,097,433	9,268,771	12,513,083	(3,382,326)	9,130,757
Police	9,288,735	9,019,763	8,252,661	308,169	8,560,830
Fire	8,829,147	8,756,967	8,662,910	(15,190)	8,647,720
Public works	2,626,227	2,510,305	2,464,283	(216,685)	2,247,598
Parks and recreation	1,804,480	1,545,032	1,465,074	(16,340)	1,448,734
Library	1,153,902	1,075,192	1,072,503	5,074	1,077,577
Capital outlay	2,976,990	2,054,492	3,845,498	(2,150,026)	1,695,472
Debt service					
Principal retirement	2,470,696	2,435,696	2,390,331	42,225	2,432,556
Interest	1,775,401	1,775,401	1,793,275	-	1,793,275
Total expenditures	<u>41,023,011</u>	<u>38,441,619</u>	<u>42,459,618</u>	<u>(5,425,099)</u>	<u>37,034,519</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,695,904</u>	<u>3,552,121</u>	<u>4,714,470</u>	<u>1,747,874</u>	<u>6,462,344</u>
Other financing sources (uses)					
Proceeds from sale of capital assets	1,040,000	1,030,000	1,033,700	(1,447)	1,032,253
Interfund transfers out	-	-	(2,855,137)	(54,918)	(2,910,055)
Total other financing sources (uses)	<u>1,040,000</u>	<u>1,030,000</u>	<u>(1,821,437)</u>	<u>(56,365)</u>	<u>(1,877,802)</u>
Net changes in fund balance	<u>\$ 2,735,904</u>	<u>\$ 4,582,121</u>	<u>\$ 2,893,033</u>	<u>\$ 1,691,509</u>	<u>\$ 4,584,542</u>

See notes to required supplementary information.

CITY OF PELHAM, ALABAMA
Notes to Required Supplementary Information
September 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT PENSION PLAN PRACTICES

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2020 were based on the September 30, 2017 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period October 1, 2019 to September 30, 2020 consisted of the following:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	22.7 years
Asset valuation method	Five-year smoothed market
Inflation	2.750%
Salary increases	3.25 - 5.00%, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

NOTE 2 - SUMMARY OF SIGNIFICANT OPEB PLAN PRACTICES

Benefit Changes - There were no changes of benefit terms for the year ended September 30, 2020.

Changes in Assumptions - The discount rate as of September 30, 2019 was 2.66% and it changed to 2.21% as of September 30, 2020.

No assets are accumulated in a trust that meets the criteria in Governmental Accounting Standards Board (GASB) Statement No. 75, paragraph 4, *Postemployment Benefits Other Than Pensions - Reporting For Benefits Not Provided Through Trusts That Meet Specified Criteria - Defined Benefit* to pay related benefits.

CITY OF PELHAM, ALABAMA
Notes to Required Supplementary Information
September 30, 2020
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT OPEB PLAN PRACTICES - Continued

Methods and assumptions used to determine contribution rates for the period October 1, 2019 to September 30, 2020 consisted of the following:

Actuarial cost method	Individual Entry Age Normal
Amortization method	Level dollar, open
Remaining amortization period	30 years
Asset valuation method	Market value
Inflation	2.50%
Healthcare trend	Zero trend
Salary increases	4.00%, including inflation
Discount rate	2.66% annually (beginning of year to determine ADC) 2.21% annually (as of end of year to measurement date)
Retirement age	Five-years delay 25 years of service at any age; but not later than age 60; or attainment of age 60 and 10 years of service; employees hired on and after January 1, 2013 are not eligible to retire until age 62.
Mortality	RP-2000 without projection
Turnover	Age specific table with an average of 10% when applied to the active census

NOTE 3 - SUMMARY OF SIGNIFICANT BUDGETARY PRACTICES

The City Council adopts a budget for the General Fund at the beginning of each fiscal year in accordance with Alabama law. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and expenditures.

The City's budgets are not prepared or adopted in conformity with GAAP. Reported budget amounts are as originally adopted or as amended by the Council by resolution. Actual amounts are reported in accordance with GAAP. Adjustments to reconcile budget information to GAAP information can be found on the Budgetary Comparison Schedule - General Fund.

STATISTICAL INFORMATION

(UNAUDITED)

CITY OF PELHAM, ALABAMA
Assessed Value of Taxable Property
For the Year Ended September 30, 2020
(Unaudited)

	Property Assessed Value (after exemptions)	Motor Vehicles	Total
2020	\$ 465,559,020	\$ 57,971,600	\$ 523,530,620
2019	447,694,080	55,611,700	503,305,780
2018	422,274,640	56,273,540	478,548,180
2017	407,500,860	56,725,380	464,226,240
2016	394,291,020	59,426,580	453,717,600
2015	381,133,040	55,199,840	436,332,880
2014	365,149,760	54,011,360	419,161,120
2013	361,211,000	55,104,830	416,315,830
2012	343,448,440	52,680,940	396,129,380
2011	345,077,300	49,913,860	394,991,160

CITY OF PELHAM, ALABAMA
Gross Receipts and use Tax Receipts
For the Year Ended September 30, 2020
(Unaudited)

	<u>Gross Receipts Tax</u>		<u>Use Tax</u>		<u>Total</u>
2020	\$ 26,229,573	\$	839,510	\$	27,069,083

CITY OF PELHAM, ALABAMA
Business License Tax Receipts
For the Year Ended September 30, 2020
(Unaudited)

	<u>Business License Tax</u>
2020	\$ 4,613,688

CITY OF PELHAM, ALABAMA
Fourteen Mill Ad Valorem Tax Receipts
For the Year Ended September 30, 2020
(Unaudited)

	Fourteen Mill Ad Valorem Tax
	<hr/>
2020	\$ 6,039,192