

**CITY OF PELHAM**  
**FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2010**



## CITY OF PELHAM, ALABAMA

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**INDEPENDENT AUDITOR'S REPORT**

The Honorable Mayor and City Council  
The City of Pelham, Alabama

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, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Pelham, Alabama's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of funding progress, and budgetary comparison information on pages 2 through 8, page 40, and page 41 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 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.

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 statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Moses, Phillips, Young, Brannon and Henninger LLP*

Birmingham, Alabama  
March 16, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### CITY OF PELHAM, ALABAMA

The City of Pelham's Management's 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 assets for governmental activities decreased by \$415,241.
- The total cost of all the City's programs was \$41,272,137.
- During the year, the City had expenses of \$25,607,533 for governmental activities and transfers of \$2,528,833 to business-type activities, which was \$415,241 more than the \$27,721,125 generated in general and program revenues.
- The City's combined assets exceeded its combined liabilities by \$73,964,843, 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 Assets and the Statement of Activities (on pages 9 and 10) 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 11. 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 3. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets 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 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 assets* and changes in them. You can think of the City's net assets - 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 assets, is one indicator 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 Assets 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, Ballantrae Golf, 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 6. The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by State law and by 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 Assets and the Statement of Activities) and governmental funds in reconciliations after 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 Assets 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 Assets**

The City's combined net assets increased by \$1,272,511 from 2009 to 2010. The governmental activities net assets decreased approximately 1.0%. This decrease in governmental activities resulted from transfers to the business-type activities. The increase in business-type activities net assets resulted from transfers from the governmental activities.

## GOVERNMENT-WIDE STATEMENTS

The following table reflects the condensed Statement of Net Assets:

### Statement of Net Assets

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2009	2010	2009	2010	2009	2010
Current and other assets	\$ 29,569,992	\$ 29,957,196	\$ 12,784,518	\$ 13,125,386	\$ 42,354,510	\$ 43,082,582
Capital assets	30,427,782	29,721,875	67,282,493	65,349,368	97,710,275	95,071,243
Total assets	<u>59,997,774</u>	<u>59,679,071</u>	<u>80,067,011</u>	<u>78,474,754</u>	<u>140,064,785</u>	<u>138,153,825</u>
Long-term liabilities	12,176,754	12,102,969	47,467,232	44,373,191	59,643,986	56,476,160
Other liabilities	6,288,116	6,458,439	1,440,351	1,254,383	7,728,467	7,712,822
Total liabilities	<u>18,464,870</u>	<u>18,561,408</u>	<u>48,907,583</u>	<u>45,627,574</u>	<u>67,372,453</u>	<u>64,188,982</u>
Net assets:						
Invested in capital assets,						
net of related debt	20,103,205	19,731,426	20,134,680	21,307,638	40,237,885	41,039,064
Restricted	1,240,448	1,254,052	112,845	-	1,353,293	1,254,052
Unrestricted	20,189,251	20,132,185	10,911,903	11,539,542	31,101,154	31,671,727
Total net assets	<u>\$ 41,532,904</u>	<u>\$ 41,117,663</u>	<u>\$ 31,159,428</u>	<u>\$ 32,847,180</u>	<u>\$ 72,692,332</u>	<u>\$ 73,964,843</u>

For more detailed information see the Statement of Net Assets on page 9.

The City's combined net assets increased to \$73,964,843 from \$72,692,332, or 1.75% as a result of the decrease in net assets of the governmental activities of \$415,241 and the increase in net assets of business-type activities of \$1,687,752. The City's unrestricted net assets for governmental activities, the part of net assets that can be used to finance day-to-day operations, were \$20,132,185.

### Changes in Net Assets

The City's total revenues increased by approximately .3% to \$27,721,125 due primarily to an increase in grant revenue. Sales taxes account for approximately 53.0% of all revenues. Property taxes account for approximately 19.5%. The majority of the remaining revenues come from charges for services.

The total cost of all programs and services decreased by \$764,024. Business-type activities decreased \$209,136, and the cost of governmental activities decreased by \$554,888.

The table on the following page shows the revenue and expenses of the total primary government.

## Statement of Activities

	Governmental		Business-type		Totals	
	Activities		Activities		Totals	
	For the year ended September 30,		For the year ended September 30,		For the year ended September 30,	
	2009	2010	2009	2010	2009	2010
<b>REVENUES</b>						
Program revenues:						
Fees, fines, and charges						
for services	\$ 5,510,721	\$ 5,263,554	\$ 12,918,534	\$ 14,094,004	\$ 18,429,255	\$ 19,357,558
Operating grants and contributions	1,035,612	1,330,347	14,000	14,000	1,049,612	1,344,347
Capital grants and contributions	374,580	392,560	556,650	574,502	931,230	967,062
General revenues:						
Sales taxes	14,754,618	14,705,186	-	-	14,754,618	14,705,186
Property taxes	5,345,929	5,415,590	-	-	5,345,929	5,415,590
Other taxes	239,966	162,242	-	-	239,966	162,242
Interest earnings	606,341	447,731	252,983	141,017	859,324	588,748
Gain (loss) on disposal of capital assets	<u>(233,590)</u>	<u>3,915</u>	<u>-</u>	<u>-</u>	<u>(233,590)</u>	<u>3,915</u>
Total revenues	27,634,177	27,721,125	13,742,167	14,823,523	41,376,344	42,544,648
<b>EXPENSES</b>						
General administration	4,910,489	4,875,937	-	-	4,910,489	4,875,937
Police	7,950,676	7,955,513	-	-	7,950,676	7,955,513
Fire	7,610,218	7,556,672	-	-	7,610,218	7,556,672
Public works	2,965,767	2,445,049	-	-	2,965,767	2,445,049
Parks and recreation	1,096,772	1,169,226	-	-	1,096,772	1,169,226
Library	1,190,676	1,179,915	-	-	1,190,676	1,179,915
Interest on long-term debt	437,823	425,221	-	-	437,823	425,221
Water and Sewer	-	-	7,991,651	7,950,616	7,991,651	7,950,616
Civic Complex	-	-	3,042,143	2,819,449	3,042,143	2,819,449
Ballantrae Golf Club	-	-	2,416,602	2,415,242	2,416,602	2,415,242
Racquet Club	-	-	1,214,540	1,232,497	1,214,540	1,232,497
Garbage Fund	-	-	1,208,804	1,246,800	1,208,804	1,246,800
Total expenses	26,162,421	25,607,533	15,873,740	15,664,604	42,036,161	41,272,137
Excess (deficiency) before transfers	1,471,756	2,113,592	(2,131,573)	(841,081)	(659,817)	1,272,511
Capital Contributions from proprietary funds	29,423	-	(29,423)	-	-	-
Transfers	<u>(2,493,591)</u>	<u>(2,528,833)</u>	<u>2,493,591</u>	<u>2,528,833</u>	<u>-</u>	<u>-</u>
Change in net assets	(992,412)	(415,241)	332,595	1,687,752	(659,817)	1,272,511
Beginning net assets	<u>47,655,169</u>	<u>41,532,904</u>	<u>30,826,833</u>	<u>31,159,428</u>	<u>78,482,002</u>	<u>72,692,332</u>
Prior period adjustment	<u>(5,129,853)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,129,853)</u>	<u>-</u>
Ending net assets	<u>\$ 41,532,904</u>	<u>\$ 41,117,663</u>	<u>\$ 31,159,428</u>	<u>\$ 32,847,180</u>	<u>\$ 72,692,332</u>	<u>\$ 73,964,843</u>

### **Governmental Activities**

The change in net assets of governmental activities was \$(415,241), resulting primarily from routine transfers to governmental activities.

### **Business-type Activities**

The change in net assets of business-type activities of \$1,687,752 resulted from routine transfers from governmental activities and interest earnings.

## **THE CITY'S FUNDS**

### **Governmental Funds**

As of the year-end, the Governmental Funds reported a combined fund balance of \$23,626,483, which is approximately .9% more than the beginning of the year. The General Fund experienced a net increase of \$205,236, resulting primarily from excess of revenues over expenditures and transfers.

### **Business-type Funds**

As of the year-end, Business-type Funds reported combined net assets of \$32,847,180, which is approximately 5.4% more than the beginning of the year. The Proprietary Funds experienced a net increase of \$1,687,752, resulting primarily from routine transfers from the General Fund.

### **General Fund Budgetary Highlights**

General Fund revenues exceeded budget by \$463,723, largely due to greater than anticipated property tax, grant money, and business license revenue. The revenue budget is based on prior year actual revenues and does not factor any growth. General fund revenues do not include proceeds from debt.

General Fund expenditures were less than budgeted amounts by \$378,701 largely due to decreased spending city-wide in response to decrease in sales tax revenues.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2010, the City has \$95,071,243 invested in a broad range of capital assets, including the Water and Sewer System, Civic Complex, 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 and deductions) of \$2,639,032, or approximately 2.7% over last year. The decrease can be attributed to depreciation expense and a decrease in capital asset purchases.

### Capital Assets

	Governmental Activities		Business-type Activities		Totals	
	2009	2010	2009	2010	2009	2010
Land	\$ 2,730,044	\$ 3,066,604	\$ 8,778,973	\$ 8,810,569	\$ 11,509,017	\$ 11,877,173
Construction in progress	134,692	61,337	813,225	750,093	947,917	811,430
Infrastructure, net	10,821,395	10,593,749	-	-	10,821,395	10,593,749
System and facilities, net	-	-	56,823,298	55,016,366	56,823,298	55,016,366
Buildings and improvements, net	11,997,081	11,499,756	462,933	436,329	12,460,014	11,936,085
Equipment, net	4,744,570	4,500,429	404,064	336,011	5,148,634	4,836,440
<b>Total capital assets, net</b>	<b>\$ 30,427,782</b>	<b>\$ 29,721,875</b>	<b>\$ 67,282,493</b>	<b>\$ 65,349,368</b>	<b>\$ 97,710,275</b>	<b>\$ 95,071,243</b>

### Commitments

The City entered into certain agreements to aid in attracting businesses to the City of Pelham. These agreements maintain that the City will refund an agreed upon amount of sales tax collected from these entities for a specified period of time. Liabilities resulting from the collection of sales tax not yet refunded to the entities as of September 30, 2010, were reported as accrued liabilities on the fund financial statements.

The Water and Sewer System had contractual commitments at September 30, 2010, of approximately \$2,198,285 for improvements to the waste water treatment plant.

### Debt

At September 30, 2010, the City had \$53,934,669 in bonds, notes, and capital leases outstanding versus \$57,472,391 at September 30, 2009, a decrease of 6.2%. This decrease results primarily from payment of debt.

The City's warrants payable carry an insured rating of AAA from Standard & Poor's. All of the City's other debt, primarily notes and capital leases, are not rated. Other obligations of the City include compensated absences and other post employment benefits payable.

	Governmental Activities		Business-type Activities		Totals	
	2009	2010	2009	2010	2009	2010
General Obligation Warrants	\$ 10,110,851	\$ 9,805,927	\$ 47,137,611	\$ 43,932,676	\$ 57,248,462	\$ 53,738,603
Notes payable	213,726	184,521	-	-	213,726	184,521
Capital lease	-	-	10,203	11,545	10,203	11,545
<b>Totals</b>	<b>\$ 10,324,577</b>	<b>\$ 9,990,448</b>	<b>\$ 47,147,814</b>	<b>\$ 43,944,221</b>	<b>\$ 57,472,391</b>	<b>\$ 53,934,669</b>

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's Mayor, Revenue Director, and City Clerk/Finance Director considered many factors when setting the budget for the fiscal year ended September 30, 2011. 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 Wal-Mart Supercenter, Publix, Food World, Home Depot, Stacks Furniture, Holiday Inn, Hampton Inn, and numerous restaurants and auto dealerships.

The City continues to see a slowing in commercial development in the area in 2011. However, the population continues to grow. The City of Pelham 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 fiscal year ended September 30, 2011. Amounts available for expenditure in the General Fund budget are \$25,547,431. The City expects a decrease in sales and property taxes. The City also took into consideration the decrease in revenue and its effect on the City when budgeting expenditures.

If these estimates are realized, the City's budgetary fund balance is expected to increase moderately by the close of fiscal year 2011.

## **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 at the City of Pelham, P.O. Box 1419, Pelham, Alabama 35124.

**City of Pelham, Alabama**  
**Statement of Net Assets**  
**September 30, 2010**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and investments	\$ 21,545,663	\$ 11,115,794	\$ 32,661,457
Accounts receivable	6,407,954	1,128,089	7,536,043
Accrued interest	45,556	3,052	48,608
Due from (to) proprietary funds	(116,184)	116,184	-
Prepaid items	262,359	91,538	353,897
Inventory	-	213,594	213,594
Restricted assets:			
Cash and investments	1,735,120	298,496	2,033,616
Accounts receivable	6,750	-	6,750
Accrued interest	105	-	105
Nondepreciable capital assets	3,127,941	9,560,662	12,688,603
Depreciable capital assets, net	26,593,934	55,788,706	82,382,640
Warrant issue costs, net	69,873	158,639	228,512
<b>Total Assets</b>	<b>\$ 59,679,071</b>	<b>\$ 78,474,754</b>	<b>\$ 138,153,825</b>
<b>Liabilities</b>			
Accounts payable	\$ 132,461	\$ 208,944	\$ 341,405
Deferred revenue	5,168,020	31,327	5,199,347
Accrued liabilities	935,608	336,184	1,271,792
Accrued interest payable	14,427	463,803	478,230
Payable from restricted assets:			
Accounts payable	24,751	-	24,751
Customer deposits	-	200,125	200,125
Deferred revenue	-	14,000	14,000
Accrued interest payable	183,172	-	183,172
Noncurrent liabilities			
Due within one year	960,081	3,589,988	4,550,069
Due within one year - payable from restricted assets	280,000	-	280,000
Due in more than one year	10,862,888	40,699,203	51,562,091
Due in more than one year - payable from restricted assets	-	84,000	84,000
<b>Total Liabilities</b>	<b>18,561,408</b>	<b>45,627,574</b>	<b>64,188,982</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	19,731,426	21,307,638	41,039,064
Restricted for:			
Street improvements	70,884	-	70,884
Court	466,846	-	466,846
Police	155,131	-	155,131
Library	104,573	-	104,573
Capital projects	456,618	-	456,618
Unrestricted	20,132,185	11,539,542	31,671,727
<b>Total Net Assets</b>	<b>41,117,663</b>	<b>32,847,180</b>	<b>73,964,843</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 59,679,071</b>	<b>\$ 78,474,754</b>	<b>\$ 138,153,825</b>

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

**City of Pelham, Alabama**  
**Statement of Activities**  
**For the Year Ended September 30, 2010**

Program Activities:	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Fees, Fines, & Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Business-type Activities		Total
					Governmental Activities	Business-type Activities	
<b>Governmental Activities:</b>							
General Administration	\$ 4,875,937	\$ 4,788,263	\$ 123,200	\$ -	\$ 35,526	\$ -	\$ 35,526
Police	7,955,513	241,068	50,610	56,000	(7,607,835)	-	(7,607,835)
Fire	7,556,672	-	40,688	-	(7,515,984)	-	(7,515,984)
Public Works	2,445,049	4,500	1,097,186	336,560	(1,006,803)	-	(1,006,803)
Parks and Recreation	1,169,226	172,076	-	-	(997,150)	-	(997,150)
Library	1,179,915	57,647	18,663	-	(1,103,605)	-	(1,103,605)
Interest on long-term debt	425,221	-	-	-	(425,221)	-	(425,221)
<b>Total Governmental Activities</b>	<b>25,607,533</b>	<b>5,263,554</b>	<b>1,330,347</b>	<b>392,560</b>	<b>(18,621,072)</b>	<b>-</b>	<b>(18,621,072)</b>
<b>Business-type Activities:</b>							
Water and Sewer	7,950,616	8,459,991	-	574,502	-	1,083,877	1,083,877
Civic Complex	2,819,449	1,882,257	-	-	-	(937,192)	(937,192)
Ballantreae Golf	2,415,242	1,849,098	14,000	-	-	(552,144)	(552,144)
Racquet Club	1,232,497	582,351	-	-	-	(650,146)	(650,146)
Garbage Fund	1,246,800	1,320,307	-	-	-	73,507	73,507
<b>Total Business-type Activities</b>	<b>15,664,604</b>	<b>14,094,004</b>	<b>14,000</b>	<b>574,502</b>	<b>-</b>	<b>(982,098)</b>	<b>(982,098)</b>
<b>Total Government</b>	<b>\$ 41,272,137</b>	<b>\$ 19,357,558</b>	<b>\$ 1,344,347</b>	<b>\$ 967,062</b>	<b>(18,621,072)</b>	<b>(982,098)</b>	<b>(19,603,170)</b>
<b>General Revenues:</b>							
<b>Taxes:</b>							
Sales		14,705,186					14,705,186
Property		5,415,590					5,415,590
Other		162,242					162,242
Interest earnings		447,731			141,017		588,748
Gain on disposal of capital assets		3,915			-		3,915
Transfers		(2,528,833)			2,528,833		-
Total general revenues and transfers		18,205,831			2,669,850		20,875,681
Change in net assets		(415,241)			1,687,752		1,272,511
Net assets - beginning		41,532,904			31,159,428		72,692,332
Net assets - ending		\$ 41,117,663			\$ 32,847,180		\$ 73,964,843

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

**City of Pelham, Alabama**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2010**

	General Fund	Other Governmental Funds	Total
<b>Assets</b>			
Cash and investments	\$ 21,545,663	\$ -	\$ 21,545,663
Accounts receivable	6,407,954	-	6,407,954
Accrued interest	45,556	-	45,556
Prepaid items	262,359	-	262,359
Restricted assets:			
Cash	463,172	1,271,948	1,735,120
Accounts receivable	-	6,750	6,750
Accrued interest	-	105	105
	<u>28,724,704</u>	<u>1,278,803</u>	<u>30,003,507</u>
<b>Total Assets</b>	<b>\$ 28,724,704</b>	<b>\$ 1,278,803</b>	<b>\$ 30,003,507</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 132,461	\$ -	\$ 132,461
Deferred revenue	5,168,020	-	5,168,020
Accrued liabilities	935,608	-	935,608
Due to proprietary funds	116,184	-	116,184
Payable from restricted assets:			
Accounts payable	-	24,751	24,751
	<u>6,352,273</u>	<u>24,751</u>	<u>6,377,024</u>
<b>Total Liabilities</b>	<b>6,352,273</b>	<b>24,751</b>	<b>6,377,024</b>
Fund Balances:			
Reserved for:			
Prepaid items	262,359	-	262,359
Debt Service	463,172	-	463,172
Unreserved, reported in:			
General Fund	21,646,900	-	21,646,900
Special Revenue Funds	-	1,254,052	1,254,052
	<u>22,372,431</u>	<u>1,254,052</u>	<u>23,626,483</u>
<b>Total Fund Balances</b>	<b>22,372,431</b>	<b>1,254,052</b>	<b>23,626,483</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 28,724,704</b>	<b>\$ 1,278,803</b>	<b>\$ 30,003,507</b>

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

**City of Pelham, Alabama**  
**Reconciliation of the Balance Sheet to the Statement of Net Assets**  
**Governmental Funds**  
**September 30, 2010**

Fund Balances - Total Governmental Funds		\$ 23,626,483
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:</p>		
Governmental capital assets	46,781,738	
Less: accumulated depreciation	<u>(17,059,863)</u>	29,721,875
<p>Warrant issue costs in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		
		69,873
<p>Interest payable used in the governmental activities are not payable from current resources and, therefore, are not reported in the governmental funds.</p>		
		(197,599)
<p>Long-term liabilities are not due and payable in the current year and, therefore, are not reported in the governmental funds, but are reported in the Statement of Net Assets:</p>		
Notes payable	184,521	
General Obligation Warrants	9,805,927	
Other post employment benefits payable	481,828	
Compensated absences	<u>1,630,693</u>	<u>(12,102,969)</u>
Net Assets of Governmental Activities		<u>\$ 41,117,663</u>

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

**City of Pelham, Alabama**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended September 30, 2010**

	General	Other Governmental Funds	Total Governmental Funds
<b>Operating Revenues:</b>			
Taxes:			
Sales	\$ 14,705,186	\$ -	\$ 14,705,186
Property	5,415,590	-	5,415,590
Motor Vehicle / Gas	634,176	181,211	815,387
Other	162,242	-	162,242
Licenses and Permits	3,734,986	-	3,734,986
Fines and Forfeitures	469,348	377,725	847,073
Charges for Services	215	-	215
Interest	424,655	23,076	447,731
Other	757,519	376,978	1,134,497
<b>Total Revenues</b>	<b>26,303,917</b>	<b>958,990</b>	<b>27,262,907</b>
<b>Expenditures:</b>			
Current:			
General Administration	3,780,106	559,676	4,339,782
Police	7,210,572	191,306	7,401,878
Fire	7,280,582	-	7,280,582
Public Works	1,809,020	136,992	1,946,012
Parks and Recreation	1,045,962	-	1,045,962
Library	1,034,193	54,912	1,089,105
Debt Service:			
Principal	478,118	-	478,118
Interest	414,909	-	414,909
Capital Outlay	686,262	-	686,262
<b>Total Expenditures</b>	<b>23,739,724</b>	<b>942,886</b>	<b>24,682,610</b>
Excess of Revenues over Expenditures	2,564,193	16,104	2,580,297
<b>Other Financing Sources (Uses):</b>			
Proceeds from Sale of Capital Assets	31,740	-	31,740
Proceeds from Notes Payable	135,636	-	135,636
Transfers in	3,156,604	-	3,156,604
Transfers out	(5,682,937)	(2,500)	(5,685,437)
<b>Total Other Financing Sources (Uses)</b>	<b>(2,358,957)</b>	<b>(2,500)</b>	<b>(2,361,457)</b>
<b>Net Change in Fund Balances</b>	<b>205,236</b>	<b>13,604</b>	<b>218,840</b>
Fund Balances, Beginning	22,167,195	1,240,448	23,407,643
Fund Balances, Ending	<u>\$ 22,372,431</u>	<u>\$ 1,254,052</u>	<u>\$ 23,626,483</u>

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

**City of Pelham, Alabama**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended September 30, 2010**

Net Change in Fund Balances - Total Governmental Funds \$ 218,840

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives:

Expenditures for capital assets	686,262	
Less current year depreciation	<u>(1,756,904)</u>	(1,070,642)

Donations of capital assets do not provide current financial resources and are not recorded in governmental funds. However, donations of capital assets increase net assets. 392,560

The proceeds from the sale of capital assets (\$31,740) are reported as other financing sources in the governmental funds. However, the net book value of the capital assets (\$27,825) is removed from the capital assets account in the Statement of Net Assets and offset against the sales proceeds resulting in a gain in the Statement of Activities of \$3,915. (27,825)

Debt proceeds are reported as financing sources in governmental funds. However, the debt proceeds increase liabilities in the Statement of Net Assets and do not affect the Statement of Activities. (135,636)

Repayment of debt principal is reported as an expenditure in governmental funds. However, the principal payments reduce liabilities in the Statement of Net Assets and do not result in an expense in the Statement of Activities. 478,118

Bond discounts, premiums, and issue costs are recorded as expenditures in the fund statements but are amortized in the statement of activities. (15,068)

The following expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Net decrease in compensated absences		47,123
Net increase in post employment benefit payable		(307,467)
Change in accrued interest expense		<u>4,756</u>

Change in Net Assets of Governmental Funds \$ (415,241)

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

**City of Pelham, Alabama**  
**Statement of Proprietary Fund Net Assets**  
**September 30, 2010**

	<u>Water &amp; Sewer</u>	<u>Civic Complex</u>	<u>Ballantreae Golf</u>	<u>Other Proprietary Funds</u>	<u>Total Proprietary Funds</u>
<b>Assets</b>					
Current:					
Cash	\$ 7,370,814	\$ 11,065	\$ 18,954	\$ 430,758	\$ 7,831,591
Certificate of deposit	3,284,203	-	-	-	3,284,203
Due from General Fund	37,903	30,703	28,480	19,098	116,184
Accounts receivable	1,012,709	59,542	55,838	-	1,128,089
Accrued interest	2,915	-	137	-	3,052
Prepaid items	35,025	22,766	21,452	12,295	91,538
Inventory	106,909	29,792	55,596	21,297	213,594
Unamortized warrant issue cost	16,528	2,613	5,524	1,321	25,986
<b>Total Current Assets</b>	<b>11,867,006</b>	<b>156,481</b>	<b>185,981</b>	<b>484,769</b>	<b>12,694,237</b>
Noncurrent:					
Restricted cash	200,125	-	-	-	200,125
Restricted certificate of deposit	-	-	98,371	-	98,371
Non-Depreciable assets	1,702,079	9,880	7,463,703	385,000	9,560,662
Depreciable capital assets, net	41,535,527	6,765,335	4,006,829	3,481,015	55,788,706
Unamortized warrant issue cost, net of current portion	76,050	14,693	34,349	7,561	132,653
<b>Total Noncurrent Assets</b>	<b>43,513,781</b>	<b>6,789,908</b>	<b>11,603,252</b>	<b>3,873,576</b>	<b>65,780,517</b>
<b>Total Assets</b>	<b>\$ 55,380,787</b>	<b>\$ 6,946,389</b>	<b>\$ 11,789,233</b>	<b>\$ 4,358,345</b>	<b>\$ 78,474,754</b>
<b>Liabilities</b>					
Current:					
Accounts payable	\$ 49,234	\$ 33,732	\$ 16,477	\$ 109,501	\$ 208,944
Payable from restricted assets:					
Customer deposits	200,125	-	-	-	200,125
Deferred revenue	-	-	14,000	-	14,000
Deferred revenue	-	31,327	-	-	31,327
Accrued liabilities	206,549	42,692	62,425	24,518	336,184
Accrued interest payable	348,548	56,835	23,640	34,780	463,803
Current portion of compensated absences	66,790	33,585	37,119	34,992	172,486
Current portion of long-term debt	2,542,258	220,257	428,496	226,491	3,417,502
<b>Total Current Liabilities</b>	<b>3,413,504</b>	<b>418,428</b>	<b>582,157</b>	<b>430,282</b>	<b>4,844,371</b>
Noncurrent:					
Payable from restricted assets:					
Deferred revenue	-	-	84,000	-	84,000
Long-term debt, net of current portion	27,993,366	4,147,282	6,713,464	1,672,607	40,526,719
Compensated absences	66,790	33,585	37,118	34,991	172,484
<b>Total Noncurrent Liabilities</b>	<b>28,060,156</b>	<b>4,180,867</b>	<b>6,834,582</b>	<b>1,707,598</b>	<b>40,783,203</b>
<b>Total Liabilities</b>	<b>31,473,660</b>	<b>4,599,295</b>	<b>7,416,739</b>	<b>2,137,880</b>	<b>45,627,574</b>
<b>Net Assets</b>					
Invested in capital, net of related debt	12,701,981	2,407,676	4,328,572	1,869,409	21,307,638
Unrestricted (deficit)	11,205,146	(60,582)	43,922	351,056	11,539,542
<b>Total Net Assets</b>	<b>23,907,127</b>	<b>2,347,094</b>	<b>4,372,494</b>	<b>2,220,465</b>	<b>32,847,180</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 55,380,787</b>	<b>\$ 6,946,389</b>	<b>\$ 11,789,233</b>	<b>\$ 4,358,345</b>	<b>\$ 78,474,754</b>

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

**City of Pelham, Alabama**  
**Statement of Revenues, Expenses, and Changes in Proprietary Fund Net Assets**  
**For the Year Ended September 30, 2010**

	<u>Water &amp; Sewer</u>	<u>Civic Complex</u>	<u>Ballantrae Golf</u>	<u>Other Proprietary Funds</u>	<u>Total Proprietary Funds</u>
<b>Operating Revenues</b>	<u>\$ 8,459,991</u>	<u>\$ 1,882,257</u>	<u>\$ 1,863,098</u>	<u>\$ 1,902,658</u>	<u>\$ 14,108,004</u>
<b>Operating Expenses</b>					
Salaries	1,375,546	1,116,408	927,723	550,856	3,970,533
Employee benefits	310,577	171,104	152,756	101,321	735,758
Payroll taxes	100,533	67,685	67,888	38,991	275,097
Depreciation	2,460,558	281,036	178,082	124,508	3,044,184
Program and event expenses	-	193,142	-	93,952	287,094
Utilities and telephone	569,088	360,173	80,021	31,225	1,040,507
Supplies expense	1,000,145	116,857	411,854	50,335	1,579,191
Maintenance and repairs	244,978	132,516	145,371	87,888	610,753
Insurance	76,054	38,848	50,336	24,314	189,552
Other	322,232	100,749	91,859	1,276,534	1,791,374
<b>Total Operating Expenses</b>	<u>6,459,711</u>	<u>2,578,518</u>	<u>2,105,890</u>	<u>2,379,924</u>	<u>13,524,043</u>
<b>Operating Income</b>	<u>2,000,280</u>	<u>(696,261)</u>	<u>(242,792)</u>	<u>(477,266)</u>	<u>583,961</u>
<b>Non Operating Revenues (Expenses)</b>					
Interest income	135,524	491	2,672	2,330	141,017
Interest expense	(1,483,475)	(239,886)	(307,252)	(97,895)	(2,128,508)
Trustee fees	(7,430)	(1,045)	(2,100)	(1,478)	(12,053)
<b>Total Non Operating Revenues (Expenses)</b>	<u>(1,355,381)</u>	<u>(240,440)</u>	<u>(306,680)</u>	<u>(97,043)</u>	<u>(1,999,544)</u>
<b>Income (Loss) Before Capital Contributions and Interfund Operating Transfers</b>	<u>644,899</u>	<u>(936,701)</u>	<u>(549,472)</u>	<u>(574,309)</u>	<u>(1,415,583)</u>
Capital Contributions	574,502	-	-	-	574,502
Interfund Transfers In	5,485	1,022,334	753,207	748,254	2,529,280
Transfers (Out)	-	(447)	-	-	(447)
<b>Change in Net Assets</b>	<u>1,224,886</u>	<u>85,186</u>	<u>203,735</u>	<u>173,945</u>	<u>1,687,752</u>
<b>Net Assets, Beginning of Year</b>	<u>22,682,241</u>	<u>2,261,908</u>	<u>4,168,759</u>	<u>2,046,520</u>	<u>31,159,428</u>
<b>Net Assets, End of Year</b>	<u>\$ 23,907,127</u>	<u>\$ 2,347,094</u>	<u>\$ 4,372,494</u>	<u>\$ 2,220,465</u>	<u>\$ 32,847,180</u>

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

**City of Pelham, Alabama**  
**Statement of Proprietary Fund Cash Flows**  
**For the Year Ended September 30, 2010**

	Water and Sewer	Civic Complex	Ballantrae Golf	Other Proprietary Funds	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash received from customers	\$ 8,338,483	\$ 1,864,069	\$ 1,861,833	\$ 1,902,658	\$ 13,967,043
Cash paid to employees	(1,781,655)	(1,357,032)	(1,161,949)	(687,085)	(4,987,721)
Cash paid to suppliers for goods and services	(2,231,145)	(1,048,770)	(763,110)	(1,558,646)	(5,601,671)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>4,325,683</u>	<u>(541,733)</u>	<u>(63,226)</u>	<u>(343,073)</u>	<u>3,377,651</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers (to) from other funds	5,485	1,021,887	753,207	748,254	2,528,833
Due from City of Pelham	(37,903)	(32,544)	(30,897)	(20,284)	(121,628)
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>(32,418)</u>	<u>989,343</u>	<u>722,310</u>	<u>727,970</u>	<u>2,407,205</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Purchase of property, plant, and equipment	(447,006)	(65,449)	(6,415)	-	(518,870)
Principal payments on debt	(2,470,800)	(275,271)	(425,000)	(231,995)	(3,403,066)
Interest payments on debt	(1,334,604)	(173,946)	(290,263)	(89,282)	(1,888,095)
Trustee fees	(7,430)	(1,045)	(2,100)	(1,478)	(12,053)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(4,259,840)</u>	<u>(515,711)</u>	<u>(723,778)</u>	<u>(322,755)</u>	<u>(5,822,084)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest on cash and investments	135,524	491	3,064	2,330	141,409
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>135,524</u>	<u>491</u>	<u>3,064</u>	<u>2,330</u>	<u>141,409</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	168,949	(67,610)	(61,630)	64,472	104,181
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>7,401,990</u>	<u>78,675</u>	<u>80,584</u>	<u>366,286</u>	<u>7,927,535</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 7,570,939</u>	<u>\$ 11,065</u>	<u>\$ 18,954</u>	<u>\$ 430,758</u>	<u>\$ 8,031,716</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>					
Operating income (loss)	\$ 2,000,280	\$ (696,261)	\$ (242,792)	\$ (477,266)	\$ 583,961
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	2,460,558	281,036	178,082	124,508	3,044,184
(Increase) decrease in:					
Accounts receivable	(130,883)	(37,590)	(4,142)	-	(172,615)
Prepaid expenses	(10,769)	(18,062)	(17,758)	467	(46,122)
Inventory	(2,801)	(24,187)	21,759	(10,279)	(15,508)
Increase (decrease) in:					
Accounts payable	(16,238)	(62,131)	(5,111)	5,410	(98,070)
Accrued expenses	11,519	2,270	8,823	4,879	27,491
Customer deposits	9,375	-	-	-	9,375
Deferred revenue	-	19,403	-	-	19,403
Compensated absences	4,642	13,789	(2,087)	9,208	25,552
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ 4,325,683</u>	<u>\$ (541,733)</u>	<u>\$ (63,226)</u>	<u>\$ (343,073)</u>	<u>\$ 3,377,651</u>

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

**City of Pelham, Alabama**  
**Statement of Proprietary Fund Cash Flows - continued**  
**For the Year Ended September 30, 2010**

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Pelham Water and Sewer issued warrants in the amount of \$4,920,000. The net proceeds were used to refund \$4,920,000 of Water & Sewer's Series 1998-A warrants. In addition, the Water and Sewer issued warrants in the amount of \$7,045,000. The net proceeds were used to refund \$7,045,000 of Water & Sewer's Series 1998-B warrants.

Pelham Water and Sewer had amortization of bond discounts of \$21,865, amortization of bond premiums of \$48,210, amortization of bond issue costs of \$18,421, and amortization of deferred bond refunding costs of \$183,678.

System lines contributed by developers to Pelham Water and Sewer were \$574,502.

Pelham Civic Complex had amortization of warrant discounts of \$8,763, amortization of warrant issue costs of \$2,775, and amortization of deferred warrant refunding costs of \$56,696.

Ballantrae Golf Club had amortization of bond discounts of \$12,220 and amortization of bond issue costs of \$5,868.

Pelham Racquet Club had amortization of warrant discounts of \$2,707, amortization of warrant premiums of \$5,727, amortization of warrant issue costs of \$1,745, and amortization of deferred warrant refunding costs of \$13,030.

Pelham Racquet Club acquired equipment in the amount of \$17,686 through a capital lease.

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

**City of Pelham, Alabama**  
**Statement of Proprietary Fund Cash Flows**  
**For the Year Ended September 30, 2010**

	Water and Sewer	Civic Complex	Ballantrae Golf	Other Proprietary Funds	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash received from customers	\$ 8,338,483	\$ 1,864,069	\$ 1,861,833	\$ 1,902,658	\$ 13,967,043
Cash paid to employees	(1,781,655)	(1,357,032)	(1,161,949)	(687,085)	(4,987,721)
Cash paid to suppliers for goods and services	(2,231,145)	(1,048,770)	(763,110)	(1,558,646)	(5,601,671)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>4,325,683</u>	<u>(541,733)</u>	<u>(63,226)</u>	<u>(343,073)</u>	<u>3,377,651</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers (to) from other funds	5,485	1,021,887	753,207	748,254	2,528,833
Due from City of Pelham	(37,903)	(32,544)	(30,897)	(20,284)	(121,628)
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>(32,418)</u>	<u>989,343</u>	<u>722,310</u>	<u>727,970</u>	<u>2,407,205</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Purchase of property, plant, and equipment	(447,006)	(65,449)	(6,415)	-	(518,870)
Principal payments on debt	(2,470,800)	(275,271)	(425,000)	(231,995)	(3,403,066)
Interest payments on debt	(1,334,604)	(173,946)	(290,263)	(89,282)	(1,888,095)
Trustee fees	(7,430)	(1,045)	(2,100)	(1,478)	(12,053)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(4,259,840)</u>	<u>(515,711)</u>	<u>(723,778)</u>	<u>(322,755)</u>	<u>(5,822,084)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest on cash and investments	135,524	491	3,064	2,330	141,409
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>135,524</u>	<u>491</u>	<u>3,064</u>	<u>2,330</u>	<u>141,409</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	168,949	(67,610)	(61,630)	64,472	104,181
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>7,401,990</u>	<u>78,675</u>	<u>80,584</u>	<u>386,286</u>	<u>7,927,535</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 7,570,939</u>	<u>\$ 11,065</u>	<u>\$ 18,954</u>	<u>\$ 430,758</u>	<u>\$ 8,031,716</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>					
Operating income (loss)	\$ 2,000,280	\$ (696,261)	\$ (242,792)	\$ (477,266)	\$ 583,961
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	2,460,558	281,036	178,082	124,508	3,044,184
(Increase) decrease in:					
Accounts receivable	(130,883)	(37,590)	(4,142)	-	(172,615)
Prepaid expenses	(10,769)	(18,062)	(17,758)	467	(46,122)
Inventory	(2,801)	(24,187)	21,759	(10,279)	(15,508)
Increase (decrease) in:					
Accounts payable	(16,238)	(82,131)	(5,111)	5,410	(98,070)
Accrued expenses	11,519	2,270	8,823	4,879	27,491
Customer deposits	9,375	-	-	-	9,375
Deferred revenue	-	19,403	-	-	19,403
Compensated absences	4,642	13,789	(2,087)	9,208	25,552
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ 4,325,683</u>	<u>\$ (541,733)</u>	<u>\$ (63,226)</u>	<u>\$ (343,073)</u>	<u>\$ 3,377,651</u>

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

**City of Pelham, Alabama**  
**Statement of Proprietary Fund Cash Flows - continued**  
**For the Year Ended September 30, 2010**

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Pelham Water and Sewer issued warrants in the amount of \$4,920,000. The net proceeds were used to refund \$4,920,000 of Water & Sewer's Series 1998-A warrants. In addition, the Water and Sewer issued warrants in the amount of \$7,045,000. The net proceeds were used to refund \$7,045,000 of Water & Sewer's Series 1998-B warrants.

Pelham Water and Sewer had amortization of bond discounts of \$21,865, amortization of bond premiums of \$48,210, amortization of bond issue costs of \$18,421, and amortization of deferred bond refunding costs of \$183,678.

System lines contributed by developers to Pelham Water and Sewer were \$574,502.

Pelham Civic Complex had amortization of warrant discounts of \$8,763, amortization of warrant issue costs of \$2,775, and amortization of deferred warrant refunding costs of \$56,696.

Ballantrae Golf Club had amortization of bond discounts of \$12,220 and amortization of bond issue costs of \$5,868.

Pelham Racquet Club had amortization of warrant discounts of \$2,707, amortization of warrant premiums of \$5,727, amortization of warrant issue costs of \$1,745, and amortization of deferred warrant refunding costs of \$13,030.

Pelham Racquet Club acquired equipment in the amount of \$17,686 through a capital lease.

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

## NOTES TO FINANCIAL STATEMENTS

City of Pelham, Alabama

September 30, 2010

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### NOTE A - SUMMARY OF ACCOUNTING POLICIES

1. General Statement

The City of Pelham (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 have been prepared in conformity with U.S. generally accepted accounting principles as applied to governmental units. The more significant of the City's accounting policies are described below.

2. Financial Reporting Entity

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

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

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

3. Basis of Presentation

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

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

Fund Financial Statements

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

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2010

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### NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

#### Governmental Fund Types:

Governmental funds are those through which general governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in Proprietary Funds) are accounted for through governmental funds. The following are the City's governmental fund types.

The City reports the following major governmental funds:

#### General Fund

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

Additionally, the City reports the following governmental funds:

#### Non-major Special Revenue Funds

The Special Revenue Funds are used to account for the proceeds of specific revenue resources that are legally restricted or designated to expenditures for specified purposes.

#### Proprietary Fund Types:

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 assets, financial position, and cash flows. All assets and liabilities are included on the Statement of Net Assets. The following are the City's proprietary funds:

The City reports the following major proprietary funds:

#### Water and Sewer System

The Water and Sewer System is used to account for the provision of water and sewer services 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 debt principal and interest for water and sewer debt.

#### Pelham Civic Complex

The Civic Complex is used to account for providing goods and services to the general public. The Civic Complex operates as an ice arena and multi-purpose main arena which 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, 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 debt.

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Ballantrae Golf Club

Ballantrae Golf Club is used to account for providing goods and services to the general public. Ballantrae 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 proprietary funds:

Pelham Racquet Club

The Racquet Club is used 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

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

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.

The proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board pronouncements, in which case, Governmental Accounting Standards Board prevails.

4. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2010

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NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available.

“Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period, or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes and sales taxes as available if they are collected within 60 days after year end. The revenues susceptible to accrual are property taxes, sales taxes, and charges for services. All other Governmental Fund type revenues are recognized when received. Expenditures are recorded when the related fund liability is incurred. Exceptions to this general rule include principal and interest on long-term liabilities, which are recorded as fund liabilities when due, and compensated absences, which are recorded when payable from current available financial resources.

5. Cash

For purposes of the cash flow statement, the City’s cash and cash equivalents are considered to be cash on hand, demand deposits, and certificates of deposit with original maturities of three months or less.

6. 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.

7. Prepaid Items

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures.

8. Allowance for Uncollectible Accounts

An allowance for uncollectible accounts is provided based on historical evidence (see Note C).

9. Inventory

Inventory consists of pro shop merchandise and food and beverage supplies for the Pelham Civic Complex and Ballantrae Golf Club, pro shop merchandise for the Pelham Racquet Club, and supplies for the Water and Sewer System and is recorded at the lower of cost or market, determined by the first in, first out method. The cost is recorded as an expenditure at the time individual inventory items are consumed rather than when purchased.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2010

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

10. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure, which consists of the City's streets and roads, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets, including infrastructure, are valued at historical costs or estimated historical costs, if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Interest expense during the construction periods is capitalized as part of the costs of the assets.

Assets capitalized have an original cost of \$5,000 or more and five years or more of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20-40 Years
Water and Sewer System	30-40 Years
Machinery and Equipment	5-25 Years
Improvements	20 Years
Infrastructure	25-50 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.

11. Amortization of Warrant Expense

The costs of issuance of warrants are being amortized based on the maturity dates of the warrants.

12. Interfund Operating Transfers, Receivables, and Payables

During the normal course of operations, the City has transactions between funds related to operating expenses. 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 operating transfers in/(out)" in the accompanying financial statements.

13. Compensated Absences

The City's employees earn vacation leave in accordance with their longevity 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 hours of overtime worked. Employees may accrue up to 80 hours of compensatory time. All compensatory time earned is immediately 100% vested.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2010

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NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

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 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.

14. Noncurrent Liabilities

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Warrant premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the warrants using the warrants outstanding method. Warrants payable are recorded net of the applicable warrant premium or discount. Warrant issuance costs are reported as deferred charges and amortized over the life of the related debt.

15. Deferred Revenue

Governmental funds and statement of net assets report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received but not yet recognizable.

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

16. Fund Balance

The fund balance reserves for prepaid items are discussed in Note A 7.

The fund balance reserves for debt service have been recognized to signify that they do not represent spendable available financial resources.

17. Use of Estimates

In preparing these financial statements, management is required to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2010

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

18. Property Tax Calendar

The City of Pelham's ad valorem property taxes are collected and remitted to the City by Shelby County. Taxes are levied annually on October 1, based on a lien date of the prior October 1. The taxes are due on December 31, following the levy.

NOTE B – DEPOSITS AND INVESTMENTS

Deposits

As of September 30, 2010, the City reported \$18,817,611 in governmental activities and \$11,414,290 in business-type activities in demand deposits, time deposits, and non-negotiable certificates of deposit. All of the City's demand deposits, time deposits, and non-negotiable certificates of deposit are insured and collateralized in accordance with the Security for Alabama Funds Enhancement, or SAFE Program, which is encompassed in Title 41, Chapter 14A, Code of Alabama 1975, as amended, which is a multiple financial institutions collateral pool. The statute provides for assessments against the members of the pool on a pro rata basis in the event that the collateral pool is insufficient to cover the losses of a member financial institution that fails. As such, all deposits covered by this collateral pool are considered to be fully insured.

Debt service trust funds in the amount of \$463,172 are invested by banks' trust departments in U.S. Government Securities and are not subject to collateralization requirements.

Investments

Type of Investment	Fair Value	Investment Maturity	
		7/1/12 to 12/31/2012	1/1/2013 to 6/30/2013
Certificates of Deposit	\$ 4,000,000	\$ 2,750,000	\$ 1,250,000

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.

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, 2010, were insured.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2010

**NOTE C – RECEIVABLES AND PAYABLES**

Receivables at September 30, 2010, consist of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Taxes:			
Sales	\$ 1,290,853	\$ -	\$ 1,290,853
Property	5,189,418	-	5,189,418
Customers	-	1,142,899	1,142,899
Intergovernmental	<u>122,283</u>	<u>-</u>	<u>122,283</u>
Gross Receivables	6,602,554	1,142,899	7,745,453
Less: Allowance for Uncollectibles	<u>(187,850)</u>	<u>(14,810)</u>	<u>(202,660)</u>
 Net Receivables	 <u>\$ 6,414,704</u>	 <u>\$ 1,128,089</u>	 <u>\$ 7,542,793</u>

Payables at September 30, 2010, consist of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Trade	\$ 104,244	\$ 208,944	\$ 313,188
Capital assets	<u>52,968</u>	<u>-</u>	<u>52,968</u>
 Net Payables	 <u>\$ 157,212</u>	 <u>\$ 208,944</u>	 <u>\$ 366,156</u>

**NOTE D - CAPITAL ASSETS**

Capital assets activity for the year ended September 30, 2010, was as follows:

	<u>Balance October 1</u>	<u>Additions/ Completions</u>	<u>Retirements/ Adjustments</u>	<u>Balance September 30</u>
<b>Governmental Activities:</b>				
Capital assets not being depreciated				
Land	\$ 2,730,044	\$ 336,560	\$ -	\$ 3,066,604
Construction in progress	<u>134,692</u>	<u>61,337</u>	<u>(134,692)</u>	<u>61,337</u>
Total capital assets not being depreciated	<u>2,864,736</u>	<u>397,897</u>	<u>(134,692)</u>	<u>3,127,941</u>
Capital assets being depreciated				
Infrastructure	17,358,174	200,064	-	17,558,238
Buildings and improvements	16,144,050	-	-	16,144,050
Equipment	<u>9,390,722</u>	<u>615,553</u>	<u>(54,766)</u>	<u>9,951,509</u>
Total capital assets being depreciated	<u>42,892,946</u>	<u>815,617</u>	<u>(54,766)</u>	<u>43,653,797</u>
Less accumulated depreciation for:				
Infrastructure	6,536,779	427,710	-	6,964,489
Buildings and improvements	4,146,969	497,325	-	4,644,294
Equipment	<u>4,646,152</u>	<u>831,869</u>	<u>(26,941)</u>	<u>5,451,080</u>
Total accumulated depreciation	<u>15,329,900</u>	<u>1,756,904</u>	<u>(26,941)</u>	<u>17,059,863</u>
Total capital assets being depreciated, net	<u>27,563,046</u>	<u>(941,287)</u>	<u>(27,825)</u>	<u>26,593,934</u>
Governmental activities capital assets, net	<u>\$ 30,427,782</u>	<u>\$ (543,390)</u>	<u>\$ (162,517)</u>	<u>\$ 29,721,875</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2010

NOTE D - CAPITAL ASSETS - CONTINUED

	<u>Balance</u> <u>October 1</u>	<u>Additions/</u> <u>Completions</u>	<u>Retirements/</u> <u>Adjustments</u>	<u>Balance</u> <u>September 30</u>
Business-type Activities:				
Capital assets not being depreciated				
Land	\$ 8,778,973	\$ 31,596	\$ -	\$ 8,810,569
Construction in progress	<u>813,225</u>	<u>174,758</u>	<u>(237,890)</u>	<u>750,093</u>
Total capital assets not being depreciated	<u>9,592,198</u>	<u>206,354</u>	<u>(237,890)</u>	<u>9,560,662</u>
Capital assets being depreciated				
System and facilities	91,692,976	1,087,417	(43,310)	92,737,083
Buildings and improvements	737,560	-	-	737,560
Equipment	<u>2,799,651</u>	<u>55,178</u>	<u>(17,700)</u>	<u>2,837,129</u>
Total capital assets being depreciated	<u>95,230,187</u>	<u>1,142,595</u>	<u>(61,010)</u>	<u>96,311,772</u>
Less accumulated depreciation for:				
System and facilities	34,869,678	2,894,349	(43,310)	37,720,717
Buildings and improvements	274,627	26,604	-	301,231
Equipment	<u>2,395,587</u>	<u>123,231</u>	<u>(17,700)</u>	<u>2,501,118</u>
Total accumulated depreciation	<u>37,539,892</u>	<u>3,044,184</u>	<u>(61,010)</u>	<u>40,523,066</u>
Total capital assets being depreciated, net	<u>57,690,295</u>	<u>(1,901,589)</u>	<u>-</u>	<u>55,788,706</u>
Business-type activities capital assets, net	<u>\$ 67,282,493</u>	<u>\$ (1,695,235)</u>	<u>\$ (237,890)</u>	<u>\$ 65,349,368</u>

Depreciation expense was charged as direct expense to programs of the primary government as follows:

Governmental Activities:	
General Administration	\$ 218,314
Police	557,475
Fire	276,090
Public Works	500,866
Parks and Recreation	116,257
Library	<u>87,902</u>
Total Depreciation Expense-Governmental Activities	<u>\$ 1,756,904</u>
Business-type Activities:	
Water and Sewer	\$ 2,460,558
Civic Complex	281,036
Ballantrae Golf Club	178,082
Racquet Club	<u>124,508</u>
Total Depreciation Expense-Business-type Activities	<u>\$ 3,044,184</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2010

**NOTE E - LONG-TERM DEBT**

Notes payable at September 30, 2010, are comprised of the following:

		<u>Governmental Activities</u>
Vehicle note payable to Regions Bank for six (6) 2008 Ford Crown Victorias, dated February 8, 2008. Monthly payment of \$3,783 for 36 months, including interest at 2.34% using the simple interest method.	\$	18,859
Vehicle note payable to Merchant & Farmer Bank for six (6) 2009 Ford Crown Victorias, dated January 2, 2009. Monthly payment of \$3,778 for 36 months, including interest at 2.90% using the simple interest method.		59,255
Vehicle note payable to Central State Bank for six (6) 2010 Ford Crown Victorias, dated January 22, 2010. Monthly payment of \$3,932 for 36 months, including interest at 2.75% using the simple interest method.		<u>106,407</u>
Total Notes Payable	\$	<u>184,521</u>

Warrants payable at September 30, 2010 are comprised of the following issues:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2000 General Obligation Warrants, dated December 1, 2000, due in semi-annual installments through December 1, 2020, bearing interest rates of 4.5% to 5.4%.	\$ -	\$ 279,743
2001 General Obligation Warrants, dated May 1, 2001, due in semi-annual installments through August 1, 2014, bearing interest rates of 3.3% to 4.7%.	-	2,276,988
2003 General Obligation Warrants, dated March 1, 2003, due in semi-annual installments through March 1, 2023, bearing interest rates of 1.2% to 4.25%.	-	7,141,960
2004 General Obligation Warrants, dated March 1, 2004, due in semi-annual installments through December 1, 2020, bearing interest rates of 2.0% to 4.0%	375,203	6,320,939

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2010

NOTE E - LONG-TERM DEBT - CONTINUED

2005 General Obligation Warrants, dated October 1, 2005, due in semi-annual installments through October 1, 2030, bearing interest rates of 3.25% to 4.375%.	8,864,232	-
2006-A General Obligation Warrants, dated December 1, 2006, due in semi-annual installments through November 1, 2021, bearing interest rates of 3.5% to 4.0%.	215,730	6,926,566
2006-B General Obligation Warrants, dated December 1, 2006, due in semi-annual installments through November 1, 2022, bearing interest rates of 3.75% to 4.0%.	350,762	9,084,682
2010-A General Obligation Warrants, dated August 13, 2010, due in semi-annual installments through August 15, 2019, bearing interest of 2.57%.	-	4,901,519
2010-B General Obligation Warrants, dated August 13, 2010, due in semi-annual installments through August 15, 2019, bearing interest of 2.57%.	-	<u>7,000,279</u>
<b>Total Warrants Payable</b>	<b><u>\$ 9,805,927</u></b>	<b><u>\$ 43,932,676</u></b>

	Balance October 1, 2009	Issues or Additions	Payments or Expenditures	Balance September 30, 2010	Due within one year
<u>Governmental Activities:</u>					
Notes Payable	\$ 213,726	\$ 135,636	\$ 164,841	\$ 184,521	\$ 100,366
General Obligation Warrants	10,110,851	-	304,924	9,805,927	324,369
Other Post Employment Benefit Payable	174,361	307,467	-	481,828	-
Compensated Absences	<u>1,677,816</u>	<u>1,326,784</u>	<u>1,373,907</u>	<u>1,630,693</u>	<u>815,346</u>
<b>Total Governmental Activities</b>	<b><u>\$ 12,176,754</u></b>	<b><u>\$ 1,769,887</u></b>	<b><u>\$ 1,843,672</u></b>	<b><u>\$ 12,102,969</u></b>	<b><u>\$ 1,240,081</u></b>
<u>Business-type Activities:</u>					
General Obligation Warrants	\$ 47,137,611	\$ 11,901,798	\$ 15,106,733	\$ 43,932,676	\$ 3,411,873
Capital Leases	10,203	17,686	16,344	11,545	5,629
Compensated Absences	319,418	207,072	181,520	344,970	172,486
Deferred Revenue	<u>112,000</u>	<u>-</u>	<u>14,000</u>	<u>98,000</u>	<u>14,000</u>
<b>Total Business-type Activities</b>	<b><u>\$ 47,579,232</u></b>	<b><u>\$ 12,126,556</u></b>	<b><u>\$ 15,318,597</u></b>	<b><u>\$ 44,387,191</u></b>	<b><u>\$ 3,603,988</u></b>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2010

NOTE E - LONG-TERM DEBT - CONTINUED

Annual requirements to retire debt obligations-----

The annual aggregate maturities of governmental activities for the years subsequent to September 30, 2010, are as follows:

Year Ending September 30,	Governmental Activities			
	Notes Payable		General Obligation Warrants	
	Principal	Interest	Principal	Interest
2011	\$ 100,366	\$ 3,414	\$ 332,445	\$ 397,178
2012	64,740	1,358	328,129	384,157
2013	19,415	133	361,505	370,425
2014	-	-	367,252	355,952
2015	-	-	399,743	340,778
2016-2020	-	-	2,302,819	1,447,046
2021-2025	-	-	2,446,036	965,117
2026-2030	-	-	2,740,000	439,468
2031-2035	-	-	620,000	13,562
	<u>\$ 184,521</u>	<u>\$ 4,905</u>	<u>\$ 9,897,929</u>	<u>\$ 4,713,683</u>

The annual aggregate maturities of business activities for the years subsequent to September 30, 2010, are as follows:

Year Ending September 30,	Business-type Activities	
	General Obligation Warrants	
	Principal	Interest
2011	\$ 3,652,555	\$ 1,637,192
2012	3,351,871	1,516,024
2013	3,778,495	1,391,022
2014	3,732,748	1,255,934
2015	3,535,257	1,121,567
2016-2020	19,957,181	3,392,929
2021-2025	7,473,964	408,568
	<u>\$ 45,482,071</u>	<u>\$ 10,723,236</u>

In a prior year, Pelham Water and Sewer defeased \$14,255,000 of Series 1998 Warrants and \$1,814,322 of Series 2000 Warrants by placing new warrant proceeds in an irrevocable trust to provide for future debt service payments on the defeased warrants. Accordingly, the trust account assets and liability for the defeased warrants are not included in the government's financial statements. At September 30, 2010, \$14,729,322 of defeased warrants are still outstanding.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2010

NOTE E - LONG-TERM DEBT - CONTINUED

In a prior year, Pelham Civic Complex defeased \$5,725,000 of Series 1996 Warrants by placing new warrant proceeds in an irrevocable trust to provide for future debt service payments on the defeased warrants. Accordingly, the trust account assets and liability for the defeased warrants are not included in the government's financial statements. At September 30, 2010, \$5,200,000 of defeased warrants are still outstanding.

In a prior year, Pelham Racquet Club defeased \$1,885,678 of Series 2000 Warrants by placing new warrant proceeds in an irrevocable trust to provide for future debt service payments of the defeased warrants. Accordingly, the trust account assets and liability for the defeased warrants are not included in the government's financial statements. At September 30, 2010, \$1,885,678 of defeased warrants are still outstanding.

NOTE F - DEFERRED REVENUE

In a prior year, Ballantrae Golf Club received a \$140,000 donation from a corporation to be used over ten years for purchase of supplies. Ballantrae Golf Club reports deferred revenue for resources that have been received but are not yet recognizable. At September 30, 2010, deferred revenues yet to be recognized were \$98,000 of which \$14,000 were to be recognized within one year and \$84,000 were to be recognized in more than one year.

NOTE G - CAPITAL LEASES

The government has entered into a lease agreement for financing the acquisition of equipment for the Racquet Club. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments at the inception date.

The assets acquired through the capital lease are as follows:

	<u>Business-type Activities</u>
Asset:	
Machinery and equipment	\$ 17,686
Less: accumulated depreciation	<u>(2,859)</u>
Total	<u>14,827</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2010, were as follows:

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>
2011	\$ 6,214
2012	<u>6,214</u>
Total minimum lease payments	12,428
Less: Amount representing interest	<u>(883)</u>
Present value of minimum lease payments	<u>\$ 11,545</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2010

**NOTE H – OPERATING LEASES**

In the year ended September 30, 2010, the City had an operating lease for park equipment. The total spent on operating leases amounted to \$31,059.

Future minimum lease payments:

<u>Year Ended September 30,</u>	
2011	\$ 31,059
2012	<u>31,059</u>
	<u>\$ 62,118</u>

**NOTE I - PENSION PLAN**

Plan Description

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

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

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

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

Funding Policy

Pelham Employees' Pension Plan members are required to contribute 5% of their annual covered salary, except for certified full-time police and firefighters, who, as of January 1, 2001, are required to contribute 6% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 12.40% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by The Retirement Systems of Alabama.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2010

NOTE I - PENSION PLAN - CONTINUED

Annual Pension Cost

For September 30, 2010, the City's annual pension cost of \$1,989,026 was equal to the City's required and actual contributions. The required contribution was determined as part of the September 30, 2009, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8.00% investment rate of return (b) projected salary increases ranging from 4.61% to 7.75% per year and (c) no cost-of-living adjustments. Both (a) and (b) included an inflation component of 4.5%. The actuarial value of assets was determined using the 5-year smoothed market method. Pelham Employees' Pension Plan unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis.

The remaining amortization period at September 30, 2009, was 25 years.

Three Year Trend Information			
Fiscal Year	Annual	Percentage	Net Pension
Ending	Pension Costs	of Annual	Obligation (NPO)
September 30		Pension Cost	
		Contributed	
2009	\$ 1,980,028	100.0%	\$0
2008	\$ 1,789,383	100.0%	\$0
2007	\$ 1,710,897	100.0%	\$0

As of the most recent actuarial valuation date, funding progress on the plan is as follows:

Actuarial	Actuarial	Actuarial	Unfunded	Funded	Covered	UAAL as a
Valuation	Value of	Accrued	AAL	Ratio	Payroll	Percentage
Date	Assets	Liability	(UAAL)	(a/b)	(c)	of
	(a)	Entry Age	(b-a)			Covered
		(b)				Payroll
						(b-a/ c)
9/30/2009	32,416,387	52,875,659	20,549,272	61.3%	16,955,344	120.7%

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2010

NOTE J - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund transfers during the year ended September 30, 2010, were as follows:

	<u>Water &amp; Sewer</u>	<u>Civic Complex</u>	<u>Transfers In</u> <u>Racquet Club</u>	<u>Ballantrae</u> <u>Golf</u>	<u>Total</u>
<u>Transfers Out</u>					
General Fund	\$ 5,038	\$ 1,022,334	\$ 748,254	\$ 753,207	\$ 2,528,833
Civic Complex	<u>447</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>447</u>
	<u>\$ 5,485</u>	<u>\$ 1,022,334</u>	<u>\$ 748,254</u>	<u>\$ 753,207</u>	<u>\$ 2,529,280</u>

- 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.

Interfund payables and receivables at September 30, 2010, were as follows:

	<u>Interfund</u> <u>Receivables</u>	<u>Interfund</u> <u>Payables</u>
General Fund	\$ -	\$ 116,184
Water and Sewer	37,903	-
Civic Complex	30,703	-
Ballantrae Golf	28,480	-
Racquet Club	<u>19,098</u>	<u>-</u>
Totals	<u>\$ 116,184</u>	<u>\$ 116,184</u>

Interfund payables and receivables resulted from advances made by proprietary funds to the General Fund for various operating expenses.

NOTE K - COMMITMENTS

The City entered into certain agreements to aid in attracting businesses to the City of Pelham. These agreements maintain that the City will refund an agreed upon amount of sales tax collected from these entities for a specified period of time. Liabilities resulting from the collection of sales tax not yet refunded to the entities as of September 30, 2010, were reported as accrued liabilities on the fund financial statements.

Pelham Water and Sewer System had contractual commitments at September 30, 2010 of \$2,198,285 for improvements to the waste water treatment plant.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2010

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**NOTE L - CONTINGENCIES**

The City is a defendant in a number of lawsuits that have arisen in the normal course of business. While substantial damages are alleged in some of these actions, their outcomes cannot be predicted with certainty. In the opinion of the City's General Counsel, these actions when finally adjudicated will not have a material adverse effect on the financial position of the City.

**NOTE M - RISK MANAGEMENT**

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 disaster for which the City carries commercial insurance.

**NOTE N - OTHER POST-EMPLOYMENT BENEFITS**

By ordinance, on December 20, 1993, and as amended on November 20, 1995, and November 5, 2001, the City elected to pay 80% of the health insurance premiums of retired employees and/or their surviving spouse. The employee has the option of single or family coverage City Health Insurance. For eligible retired employees receiving a retirement check from the City or State, the City will pay 80% of the normal group rate premium of the applicable standard policy of the City per month, not to exceed amounts determined by state retirement, and the employee will pay the balance, until such time the eligible retired employee takes other employment that offers health insurance, or is receiving a family income of \$21,000 or more a year from gainful employment, whichever shall occur first. If a City employee retires before he/she is eligible for a retirement check, but such employee has ten (10) years City Retirement eligibility, the employee will have the option of COBRA, or the City coverage for eighteen (18) months, and after that period, insurance coverage is at the employee's own cost and risk. At such time the employee is eligible to receive a retirement check, he/she may go back under Standard Retiree City Coverage.

A description of the post employment medical benefit plan is as follows:

Plan Description

The City of Pelham's medical benefits are provided to employees upon actual retirement.

Retirement eligibility provisions are as follows: 10 years of service and attainment of age 60; or 25 years of service at any age.

Dental insurance coverage is provided to retirees. The employer pays a flat \$25 monthly for the cost of dental insurance for the retirees. All of the assumptions used for the valuation of the medical benefits have been used for dental including zero trend.

The plan provisions are contained in the official plan documents. The plan does not issue a publicly available financial report.

Contribution Rates

Employees do not contribute to their post employment benefits costs until they become retirees and begin receiving benefits. The plan provisions and contribution rates are contained in the official plan documents.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2010

NOTE N - OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Fund Policy

Prior to fiscal year 2008, the City of Pelham recognized the cost of providing post-employment medical benefits as an expense when the benefit premiums were due, and thus, financed the cost of the post-employment benefits on a pay-as-you-go basis. Effective with the Fiscal Year beginning October 1, 2008, the City of Pelham implemented Government Accounting Standards Board Statement Number 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other than Pensions* (GASB 45).

For the year ended September 30, 2010, the City's portion of health care and dental funding cost for retired employees totaled \$248,664.

Annual Required Contribution

The City of Pelham's Annual Required Contribution (ARC) is an amount actuarially determined in accordance with GASB 45. The Annual Required Contribution (ARC) is the sum of the Normal Cost plus the contribution to amortize the Actuarial Accrued Liability (AAL). A level dollar, closed amortization period of 30 years, the maximum amortization period allowed by GASB 43/45, has been used for the post-employment benefits. The total ARC for the fiscal year beginning October 1, 2009 is \$559,240, as set forth below:

	<u>Medical</u>	
Normal Cost	\$	203,111
30-year UAL amortization amount		<u>356,129</u>
Annual required contribution (ARC)	\$	<u>559,240</u>

Net Post-employment Benefit Obligation

The table below shows the City of Pelham's Net Other Post-employment Benefit (OPEB) Obligation for fiscal year ending September 30, 2010:

	<u>Medical</u>	
Beginning Net OPEB Obligation 10/1/2009	\$	174,361
Annual required contribution		559,240
Interest on Net OPEB Obligation		6,974
ARC Adjustment		<u>10,083</u>
OPEB Cost		556,131
Contribution		-
Current year retiree premium		<u>(248,664)</u>
Change in Net OPEB Obligation		307,467
Ending Net OPEB Obligation 9/30/2010	\$	481,828

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2010

**NOTE N - OTHER POST-EMPLOYMENT BENEFITS- CONTINUED**

The following table shows the City of Pelham's annual post employment benefits (PEB) cost, percentage of the cost contributed, and the net unfunded post employment benefits (PEB) liability:

Two Year Trend Information				
Post Employment Benefit	Fiscal Year Ending September 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (NPO)
Medical/Dental	2010	\$ 556,131	44.71%	\$481,828
Medical/Dental	2009	\$ 314,289	44.52%	\$174,361

Funded Status and Funding Progress

In the fiscal year ending September 30, 2010, the City of Pelham made no contributions to its post employment benefits plan. The plan was not funded at all, has no assets, and hence has a funded ratio of zero. As of October 1, 2009, the most recent actuarial valuation, the Actuarial Accrued Liability (AAL) was \$6,158,076, which is defined as that portion, as determined by the unit credit cost method, of the actuarial present value of post employment plan benefits and expenses which is not provided by normal cost. Since the plan was not funded in fiscal year 2010, the entire actuarial accrued liability of \$6,158,076 was unfunded.

	Medical
Actuarial Accrued Liability (AAL)	\$ 6,158,076
Actuarial Value of Plan Assets	-
Unfunded Act. Accrued Liability (UAAL)	<u>6,158,076</u>
Funded Ratio (Act. Val. Assets/AAL)	0%
Covered Payroll (active plan members)	16,955,344
UAAL as a percentage of covered payroll	36.3%

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The actuarial valuation for post employment benefits includes estimates and assumptions regarding (1) turnover rate; (2) retirement rate; (3) health care cost trend rate; (4) mortality rate; (5) discount rate (investment return assumption); and (6) the period to which the costs apply (past, current, or future years of service by employees). Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2010

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**NOTE N - OTHER POST-EMPLOYMENT BENEFITS - CONTINUED**

The actuarial calculations are based on the types of benefits provided under the terms of the substantive plan (the plan as understood by the City of Pelham and its employee plan members) at the time of the valuation and on the pattern of sharing costs between the City of Pelham and its plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the City of Pelham and plan members in the future. Consistent with the long-term perspective of actuarial calculations, the actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial liabilities and the actuarial value of assets.

Actuarial Cost Method

The ARC is determined using the Unit Credit Cost Method. The employer portion of the cost for retiree medical care in each future year is determined by projecting the current cost levels using the healthcare cost trend rate and discounting this projected amount to the valuation date using the other described pertinent actuarial assumptions, including the investment return assumption (discount rate), mortality, and turnover.

Actuarial Value of Plan Assets

Since the plan has not been funded, there are not any assets. It is anticipated that in future valuations, a smoothed market value consistent with Actuarial Standards Board ASOP 6, as provided in paragraph number 125 of GASB Statement 45, will be used.

Turnover Rate

An age-related turnover scale based on actual experience as described by administrative staff has been used. The rates, when applied to the active employee census, produce an annual turnover of approximately 10%. The rates for each age are below:

<u>Age</u>	<u>Percent Turnover</u>
18 - 25	20.0%
26 - 40	12.0%
41 - 54	8.0%
55+	6.0%

Post employment Benefit Plan Eligibility Requirements

Based on past experience, it has been assumed that entitlement to benefits for future retirees will commence five years after earliest eligibility to retire, as described under the heading "Plan Description", but not before attainment of age 60. The age 60 minimum has been used because historically, the vast majority of employees have waited until age 60 in order to secure the 80% employer premium payment. Medical benefits are provided to employees upon actual retirement. The retirement eligibility provisions are as follows: 25 years of service at any age; or, age 60 and 10 years of service. Entitlement to benefits continue through Medicare to death.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2010

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NOTE N - OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Investment Return Assumption (Discount Rate)

GASB Statement 45 states that the investment return assumption should be the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits. Since the ARC is not currently being funded and is not expected to be in the near future, a 4% annual investment return has been used in this valuation. This is a conservative estimate of the expected long term return of a balanced and conservative investment portfolio under professional management.

Health Care Cost Trend Rate

Medical cost trend rates have been assumed to be zero in the future because of the limitations placed on the level of employer premium payments by City ordinance.

Mortality Rate

The 1994 Group Annuity Reserving (94GAR) table, projected to 2002, based on a fixed blend of 50% of the unloaded male mortality rate and 50% of the unloaded female mortality rates, was used. This is the mortality table which the Internal Revenue Service requires to be used in determining the value of accrued benefits in defined benefit pension plans

Method of Determining Value of Benefits

The "value of benefits" has been assumed to be the portion of the premium after retirement date expected to be paid by the employer for each retiree and has been used as the basis for calculating the actuarial present value of OPEB benefits to be paid. The employer pays for 80% of the gross premium for those retiring on or before November 1, 2003. For those retiring after November 1, 2003, the employer pays 80% for those retiring on and after age 60, and 50% for those retiring before age 60.

NOTE O - CONDUIT DEBT

From time to time, the City's Industrial Development Board and the Public Park and Recreation Board have issued bonds to provide assistance to private sector entities and to the Shelby County Y.M.C.A. for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of September 30, 2010, the aggregate principal amount payable is \$20,194,928.

City of Pelham, Alabama  
 Budgetary Comparison Schedule  
 General Fund  
 For the Year Ended September 30, 2010

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Amounts on Budgetary Basis
	Original	Final			
<b>Operating Revenues:</b>					
Taxes:					
Sales	\$ 14,734,250	\$ 14,734,250	\$ 14,705,186	\$ (41,553)	\$ 14,663,633
Property	5,225,000	5,225,000	5,415,590	(15,703)	5,399,887
Motor Vehicle / Gas	600,000	600,000	634,176	5,936	640,112
Other	122,500	122,500	162,242	(1,151)	161,091
Licenses and Permits	3,685,500	3,685,500	3,734,986	-	3,734,986
Fines and Forfeitures	581,250	581,250	469,348	-	469,348
Charges for Services	500	500	215	-	215
Interest	451,800	451,800	424,655	(19,705)	404,950
Other	250,847	250,847	757,519	(116,371)	641,148
<b>Total Revenues</b>	<b>25,651,647</b>	<b>25,651,647</b>	<b>26,303,917</b>	<b>(188,547)</b>	<b>26,115,370</b>
<b>Expenditures:</b>					
Current:					
General Administration	4,059,529	4,059,529	3,780,106	(15,156)	3,764,950
Police	7,574,745	7,574,745	7,210,572	27,847	7,238,419
Fire	7,358,288	7,358,288	7,280,582	31,355	7,311,937
Public Works	2,020,211	2,020,211	1,809,020	9,479	1,818,499
Parks and Recreation	1,104,675	1,104,675	1,045,962	8,620	1,054,582
Library	1,040,199	1,040,199	1,034,193	4,855	1,039,048
Debt Service:					
Principal	894,978	894,978	478,118	-	478,118
Interest	-	-	414,909	-	414,909
Capital Outlay	102,420	102,420	686,262	(30,380)	655,882
<b>Total Expenditures</b>	<b>24,155,045</b>	<b>24,155,045</b>	<b>23,739,724</b>	<b>36,620</b>	<b>23,776,344</b>
Excess (Deficiency) of Revenues over Expenditures	1,496,602	1,496,602	2,564,193	(225,167)	2,339,026
<b>Other Financing Sources (Uses):</b>					
Proceeds from sale of capital assets	-	-	31,740	-	31,740
Proceeds from notes payable	-	-	135,636	-	135,636
Transfers in	-	-	3,156,604	-	3,156,604
Transfers out	(2,601,433)	(2,601,433)	(5,682,937)	-	(5,682,937)
<b>Total Other Financing Sources (Uses)</b>	<b>(2,601,433)</b>	<b>(2,601,433)</b>	<b>(2,358,957)</b>	<b>-</b>	<b>(2,358,957)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (1,104,831)</b>	<b>\$ (1,104,831)</b>	<b>\$ 205,236</b>	<b>\$ (225,167)</b>	<b>\$ (19,931)</b>

Notes to Required Supplementary Information - Budget Comparisons

A. Budgetary Basis

The City of Pelham prepares its annual budget on the cash basis of accounting, which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the City's budget basis in the Budgetary Comparison Schedule. Adjustments to reconcile budget information to GAAP information can also be found in the Budgetary Comparison Schedule.

City of Pelham, Alabama  
 Required Supplementary Information  
 Schedule of Funding Progress  
 For the Year Ended September 30, 2010

City of Pelham Employee Pension Plan (Retirement Systems of Alabama)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b) <sup>1</sup>	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
9/30/2004 <sup>2</sup>	17,574,700	27,510,474	9,935,774	63.9%	12,326,572	80.6%
9/30/2005 <sup>3</sup>	20,806,671	33,028,786	12,222,115	63.0%	13,650,049	89.5%
9/30/2006	23,996,932	38,002,399	14,005,467	63.1%	14,552,630	96.2%
9/30/2007	27,702,040	42,625,185	14,923,145	65.0%	15,413,735	96.8%
9/30/2008	30,451,191	47,248,376	16,797,185	64.4%	16,023,367	104.8%
9/30/2009	32,416,387 <sup>*</sup>	52,875,659	20,459,272	61.3%	16,955,344	120.7%

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

<sup>2</sup> Reflects effect of DROP if unit elected to enroll prior to August 4, 2005.

<sup>3</sup> Reflects changes in actuarial assumptions.

\* Market Value of Assets as of September 30, 2009: \$25,154,538

*For information regarding assumptions and amortization methods, see Note I.*

City of Pelham Post Employment Benefit Health Insurance Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
9/30/2008	-	3,029,087	3,029,087	0.0%	16,023,367	18.9%
9/30/2009	-	6,158,076	6,158,076	0.0%	16,955,344	36.3%

*For information regarding assumptions and amortization methods, see Note N.*

**STATISTICAL SECTION**  
**(UNAUDITED)**

ASSESSED VALUE OF TAXABLE PROPERTY  
(UNAUDITED)

City of Pelham, Alabama

September 30, 2010

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	<u>Property</u> <u>Assessed Value</u> <u>(after exemptions)</u>		<u>Motor</u> <u>Vehicles</u>		<u>Total</u>
2010	\$ 354,051,740		\$ 46,498,820		\$ 400,550,560
2009	356,232,540		49,349,640		405,582,180
2008	348,982,660		53,187,560		402,170,220
2007	327,987,780		55,520,280		383,508,060
2006	289,867,400		53,368,880		343,236,280
2005	272,441,280		47,323,660		319,764,940
2004	258,499,640		41,601,440		300,101,080
2003	243,532,060		40,496,320		284,028,380
2002	204,910,420		39,599,820		244,510,240
2001	192,261,880		38,096,180		230,358,060
2000	177,212,220		30,767,420		207,979,640
1999	171,236,680		22,268,780		193,505,460
1998	136,092,480		19,689,360		155,781,840
1997	124,348,480		15,715,220		140,063,700
1996	115,788,440		13,701,820		129,490,260
1995	100,099,160		11,753,020		111,852,180
1994	89,684,400		9,499,780		99,184,180

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Source: Shelby County Tax Assessor

TOP TEN PROPERTY TAXPAYERS  
(UNAUDITED)

City of Pelham, Alabama

September 30, 2010

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Taxes assessed 10/01/08 through 9/30/09 and paid 10/01/09 through 09/30/10.

Alabama Power Company	\$ 127,417
Colonial Pipeline Company	100,827
Edwin B. Lumpkin Jr.	64,433
Vulcan Threaded Products, Inc.	59,821
Wal-Mart Real Estate Business Trust	43,976
Moore Handley, Inc.	29,997
Birmingham Realty Co	22,619
Sharp Pelham, L.L.C.	22,497
Amerisource Bergen Corporation	21,782
Amerisourcebergen Drug Corporation	21,421

WATER AND SEWER SYSTEM CUSTOMER INFORMATION  
(UNAUDITED)

City of Pelham, Alabama

September 30, 2010

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The number of customers of the System as of September 30 of the indicated year is as follows:

	<u>Water</u>	<u>Sewer</u>
2010	11,547	6,767
2009	11,473	6,735
2008	11,275	6,636
2007	11,069	6,531
2006	10,713	6,429
2005	10,295	6,279
2004	9,526	5,851
2003	9,198	5,665
2002	8,893	5,420
2001	8,488	5,104
2000	8,087	4,836
1999	7,633	4,536
1998	7,202	4,186

The ten largest customers of the Sewer System for the month ended September 30, 2010:

<u>Customer</u>	<u>Amount</u>
Green Park South MHP	\$ 16,389
Duncan & Gilliam (Belle Vista MHP)	6,613
Golden Corral	4,634
The Huntley Apartments	4,410
Southgate MHP	4,059
Cracker Barrel	3,267
Little Mountain Apartments	3,110
Reliable Bethea	2,369
Cole Companies-Meadowwood Apts.	2,113
Marc I Car Wash	1,843

WATER AND SEWER SYSTEM RATES  
(UNAUDITED)

City of Pelham, Alabama

September 30, 2010

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The current water rates are as follows:

Residential	\$13.00 minimum on the first 3,000 gallons \$3.13 per 1,000 gallons thereafter
Commercial	\$13.00 minimum on the first 3,000 gallons \$3.13 per 1,000 gallons thereafter

The current sewer rates are as follows:

Residential	\$22.00 per month
Low-strength commercial	\$44.00 minimum on the first 7,500 gallons \$ 5.87 per 1,000 gallons thereafter
High-strength commercial	\$88.00 minimum on the first 7,500 gallons \$11.73 per 1,000 gallons thereafter
Commercial-fast food	\$88.00 minimum on the first 7,500 gallons \$ 4.69 per 1,000 gallons thereafter
Impact fees-residential	\$3,000 per household
Impact fees-commercial	\$3,000 minimum for the first 15 fixtures \$ 200 per fixture above the minimum

