

CITY OF PELHAM
FINANCIAL STATEMENTS AND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SEPTEMBER 30, 2011

CITY OF PELHAM, ALABAMA

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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, 2011, 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 and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2012, on our consideration of the City of Pelham, Alabama's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 3 through 9, page 42, and page 43 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Moses Phillips, Young, Brannon, and Henning LLP

Birmingham, Alabama
April 9, 2012

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 \$3,392,375.
- The total cost of all the City's programs was \$41,132,153.
- During the year, the City had expenses of \$26,241,586 for governmental activities and transfers of \$7,350,420 to business-type activities, which was \$3,392,375 more than the \$30,199,631 generated in general and program revenues.
- The City's combined assets exceeded its combined liabilities by \$78,164,254, 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 10 and 11) 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 12. 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 4. 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, Garbage Fund, and Rental 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 7. 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 \$4,199,411 from 2010 to 2011. The governmental activities net assets decreased approximately 8.2%. 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,	
	2010	2011	2010	2011	2010	2011
Current and other assets	\$ 29,957,196	\$ 24,633,189	\$ 13,125,386	\$ 12,291,251	\$ 43,082,582	\$ 36,924,440
Capital assets	<u>29,721,875</u>	<u>31,301,272</u>	<u>65,349,368</u>	<u>70,368,718</u>	<u>95,071,243</u>	<u>101,669,990</u>
Total assets	<u>59,679,071</u>	<u>55,934,461</u>	<u>78,474,754</u>	<u>82,659,969</u>	<u>138,153,825</u>	<u>138,594,430</u>
Long-term liabilities	12,102,969	12,019,179	44,373,191	40,936,104	56,476,160	52,955,283
Other liabilities	<u>6,458,439</u>	<u>6,189,994</u>	<u>1,254,383</u>	<u>1,284,899</u>	<u>7,712,822</u>	<u>7,474,893</u>
Total liabilities	<u>18,561,408</u>	<u>18,209,173</u>	<u>45,627,574</u>	<u>42,221,003</u>	<u>64,188,982</u>	<u>60,430,176</u>
Net assets:						
Invested in capital assets, net of related debt	19,731,426	21,607,613	21,307,638	29,847,927	41,039,064	51,455,540
Restricted	1,254,052	1,201,878	-	-	1,254,052	1,201,878
Unrestricted	<u>20,132,185</u>	<u>14,915,797</u>	<u>11,539,542</u>	<u>10,591,039</u>	<u>31,671,727</u>	<u>25,506,836</u>
Total net assets	<u>\$ 41,117,663</u>	<u>\$ 37,725,288</u>	<u>\$ 32,847,180</u>	<u>\$ 40,438,966</u>	<u>\$ 73,964,843</u>	<u>\$ 78,164,254</u>

For more detailed information see the Statement of Net Assets on page 10.

The City's combined net assets increased to \$78,164,254 from \$73,964,843, or 5.7% as a result of the decrease in net assets of the governmental activities of \$3,392,375 and the increase in net assets of business-type activities of \$7,591,786. 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 \$14,915,797.

Changes in Net Assets

The governmental activities total revenues increased by approximately 8.9% to \$30,199,631 due primarily to an increase in sales tax revenue and grant revenue. Sales taxes account for approximately 49.6% of all revenues. Property taxes account for approximately 17.8%. The majority of the remaining revenues come from charges for services.

The total cost of all programs and services decreased by \$139,984. Business-type activities decreased \$774,037, and the cost of governmental activities increased by \$634,053.

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			
	For the year ended September 30,		For the year ended September 30,		For the year ended September 30,	
	2010	2011	2010	2011	2010	2011
REVENUES						
Program revenues:						
Fees, fines, and charges						
for services	\$ 5,263,554	\$ 5,098,812	\$ 14,094,004	\$ 15,210,910	\$ 19,357,558	\$ 20,309,722
Operating grants and contributions	1,330,347	1,400,951	14,000	14,000	1,344,347	1,414,951
Capital grants and contributions	392,560	2,931,851	574,502	26,960	967,062	2,958,811
General revenues:						
Sales taxes	14,705,186	14,985,384	-	-	14,705,186	14,985,384
Property taxes	5,415,590	5,379,056	-	-	5,415,590	5,379,056
Other taxes	162,242	165,830	-	-	162,242	165,830
Interest earnings	447,731	326,890	141,017	118,120	588,748	445,010
Gain (loss) on disposal of capital assets	3,915	(89,143)	-	(238,057)	3,915	(327,200)
Total revenues	27,721,125	30,199,631	14,823,523	15,131,933	42,544,648	45,331,564
EXPENSES						
General administration	4,875,937	4,493,156	-	-	4,875,937	4,493,156
Police	7,955,513	8,219,633	-	-	7,955,513	8,219,633
Fire	7,556,672	7,964,470	-	-	7,556,672	7,964,470
Public works	2,445,049	2,839,819	-	-	2,445,049	2,839,819
Parks and recreation	1,169,226	1,142,402	-	-	1,169,226	1,142,402
Library	1,179,915	1,170,299	-	-	1,179,915	1,170,299
Interest on long-term debt	425,221	411,807	-	-	425,221	411,807
Water and Sewer	-	-	7,950,616	7,704,628	7,950,616	7,704,628
Civic Complex	-	-	2,819,449	2,773,300	2,819,449	2,773,300
Ballantrae Golf Club	-	-	2,415,242	2,283,482	2,415,242	2,283,482
Racquet Club	-	-	1,232,497	1,188,527	1,232,497	1,188,527
Rental Fund	-	-	-	38,687	-	38,687
Garbage Fund	-	-	1,246,800	901,943	1,246,800	901,943
Total expenses	25,607,533	26,241,586	15,664,604	14,890,567	41,272,137	41,132,153
Excess (deficiency) before transfers	2,113,592	3,958,045	(841,081)	241,366	1,272,511	4,199,411
Transfers	(2,528,833)	(7,350,420)	2,528,833	7,350,420	-	-
Change in net assets	(415,241)	(3,392,375)	1,687,752	7,591,786	1,272,511	4,199,411
Beginning net assets	41,532,904	41,117,663	31,159,428	32,847,180	72,692,332	73,964,843
Ending net assets	\$ 41,117,663	\$ 37,725,288	\$ 32,847,180	\$ 40,438,966	\$ 73,964,843	\$ 78,164,254

Governmental Activities

The change in net assets of governmental activities was \$(3,392,375), resulting primarily from transfers to governmental activities.

Business-type Activities

The change in net assets of business-type activities was \$7,591,786, resulting primarily from transfers from governmental activities.

THE CITY'S FUNDS

Governmental Funds

As of the year-end, the Governmental Funds reported a combined fund balance of \$18,571,296, which is approximately 21.4% less than the beginning of the year. The General Fund experienced a net decrease of \$5,003,013, resulting primarily from transfers to proprietary funds.

Business-type Funds

As of the year-end, Business-type Funds reported combined net assets of \$40,438,966, which is approximately 23.1% more than the beginning of the year. The Business-type Funds experienced a net income of \$7,591,786, resulting primarily from transfers from the General Fund.

General Fund Budgetary Highlights

General Fund revenues exceeded budget by \$963,219, largely due to greater than anticipated sales and property tax and grant revenue. The revenue budget is based on prior year actual revenues and does not factor in any growth. General fund revenues do not include proceeds from debt.

General Fund expenditures were more than budgeted amounts by \$439,696 largely due to expenditures related to grants that were excluded from the budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, the City has \$101,669,990 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 increase (including additions and deductions) of \$6,598,747, or approximately 6.9% over last year. The increase can be attributed to street dedications and purchase of property related to the Rental Fund.

	Governmental Activities		Business-type Activities		Totals	
	2010	2011	2010	2011	2010	2011
Land	\$ 3,066,604	\$ 3,278,554	\$ 8,810,569	\$ 13,859,469	\$ 11,877,173	\$ 17,138,023
Construction in progress	61,337	155,000	750,093	3,081,273	811,430	3,236,273
Infrastructure, net	10,593,749	12,838,147	-	-	10,593,749	12,838,147
System and facilities, net	-	-	55,016,366	54,425,459	55,016,366	52,425,459
Buildings and improvements, net	11,499,756	11,046,377	436,329	769,943	11,936,085	11,816,320
Equipment, net	4,500,429	3,983,194	336,011	232,574	4,836,440	4,215,768
Total capital assets, net	<u>\$ 29,721,875</u>	<u>\$ 31,301,272</u>	<u>\$ 65,349,368</u>	<u>\$ 70,368,718</u>	<u>\$ 95,071,243</u>	<u>\$ 101,669,990</u>

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, 2011, were reported as accrued liabilities on the fund financial statements.

The Water and Sewer System had contractual commitments at September 30, 2011, of approximately \$1,965,430 for improvements to the waste water treatment plant.

Debt

At September 30, 2011, the City had \$50,214,451 in bonds, notes, and capital leases outstanding versus \$53,934,669 at September 30, 2010, a decrease of 6.9%. 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	
	2010	2011	2010	2011	2010	2011
General Obligation Warrants	\$ 9,805,927	\$ 9,481,558	\$ 43,932,676	\$ 40,520,791	\$ 53,738,603	\$ 50,002,349
Notes payable	184,521	206,185	-	-	184,521	206,185
Capital lease	-	5,916	11,545	-	11,545	5,916
Totals	<u>\$ 9,990,448</u>	<u>\$ 9,693,659</u>	<u>\$ 43,944,221</u>	<u>\$ 40,520,791</u>	<u>\$ 53,934,669</u>	<u>\$ 50,214,450</u>

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, 2012. 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, 2012. Amounts available for expenditure in the General Fund budget are \$26,788,798. 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 2012.

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, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	\$ 16,166,246	\$ 10,272,250	\$ 26,438,496
Accounts receivable	6,352,876	1,281,462	7,634,338
Accrued interest	35,412	1,785	37,197
Prepaid items	353,910	58,147	412,057
Inventory	-	227,340	227,340
Restricted assets:			
Cash and investments	1,661,268	317,615	1,978,883
Accrued interest	82	-	82
Nondepreciable capital assets	3,433,554	16,940,742	20,374,296
Depreciable capital assets, net	27,867,718	53,427,976	81,295,694
Warrant issue costs, net	63,395	132,652	196,047
	<u>\$ 55,934,461</u>	<u>\$ 82,659,969</u>	<u>\$ 138,594,430</u>
Total Assets	<u>\$ 55,934,461</u>	<u>\$ 82,659,969</u>	<u>\$ 138,594,430</u>
Liabilities			
Accounts payable	\$ 236,013	\$ 340,611	\$ 576,624
Deferred revenue	5,073,208	44,985	5,118,193
Accrued liabilities	683,825	230,304	914,129
Accrued interest payable	13,924	435,649	449,573
Payable from restricted assets:			
Accounts payable	5,452	-	5,452
Customer deposits	-	233,350	233,350
Deferred revenue	-	14,000	14,000
Accrued interest payable	177,572	-	177,572
Noncurrent liabilities			
Due within one year	926,027	3,291,680	4,217,707
Due within one year - payable from restricted assets	281,742	-	281,742
Due in more than one year	10,811,410	37,560,424	48,371,834
Due in more than one year - payable from restricted assets	-	70,000	70,000
	<u>18,209,173</u>	<u>42,221,003</u>	<u>60,430,176</u>
Total Liabilities	<u>18,209,173</u>	<u>42,221,003</u>	<u>60,430,176</u>
Net Assets			
Invested in capital assets, net of related debt	21,607,613	29,847,927	51,455,540
Restricted for:			
Street improvements	163,813	-	163,813
Court	444,797	-	444,797
Police	162,989	-	162,989
Library	101,268	-	101,268
Capital projects	329,011	-	329,011
Unrestricted	14,915,797	10,591,039	25,506,836
	<u>37,725,288</u>	<u>40,438,966</u>	<u>78,164,254</u>
Total Net Assets	<u>37,725,288</u>	<u>40,438,966</u>	<u>78,164,254</u>
Total Liabilities and Net Assets	<u>\$ 55,934,461</u>	<u>\$ 82,659,969</u>	<u>\$ 138,594,430</u>

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

City of Pelham, Alabama
Statement of Activities
For the Year Ended September 30, 2011

Program Activities:	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Fees, Fines, & Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Governmental Activities:							
General Administration	\$ 4,493,156	\$ 4,700,335	\$ 33,531	\$ 211,950	\$ 452,660	\$ -	\$ 452,660
Police	8,219,633	211,877	19,164	99,470	(7,889,122)	-	(7,889,122)
Fire	7,964,470	-	355,900	34,735	(7,573,835)	-	(7,573,835)
Public Works	2,839,819	4,500	990,356	2,585,696	740,733	-	740,733
Parks and Recreation	1,142,402	130,267	-	-	(1,012,135)	-	(1,012,135)
Library	1,170,299	51,833	2,000	-	(1,116,466)	-	(1,116,466)
Interest on long-term debt	411,807	-	-	-	(411,807)	-	(411,807)
Total Governmental Activities	<u>26,241,586</u>	<u>5,098,812</u>	<u>1,400,951</u>	<u>2,931,851</u>	<u>(16,809,972)</u>	<u>-</u>	<u>(16,809,972)</u>
Business-type Activities:							
Water and Sewer	7,704,628	9,556,641	-	26,960	-	1,878,973	1,878,973
Civic Complex	2,773,300	1,793,028	-	-	-	(980,272)	(980,272)
Ballantrae Golf	2,283,482	2,101,742	14,000	-	-	(167,740)	(167,740)
Racquet Club	1,188,527	606,247	-	-	-	(582,280)	(582,280)
Rental Fund	38,687	119,226	-	-	-	80,539	80,539
Garbage Fund	901,943	1,034,026	-	-	-	132,083	132,083
Total Business-type Activities	<u>14,890,567</u>	<u>15,210,910</u>	<u>14,000</u>	<u>26,960</u>	<u>-</u>	<u>361,303</u>	<u>361,303</u>
Total Government	<u>\$ 41,132,153</u>	<u>\$ 20,309,722</u>	<u>\$ 1,414,951</u>	<u>\$ 2,958,811</u>	<u>(16,809,972)</u>	<u>361,303</u>	<u>(16,448,669)</u>
		General Revenues:					
		Taxes:					
		Sales			14,985,384	-	14,985,384
		Property			5,379,056	-	5,379,056
		Other			165,830	-	165,830
		Interest earnings			326,890	118,120	445,010
		Gain on disposal of capital assets			(89,143)	(238,057)	(327,200)
		Transfers			(7,350,420)	7,350,420	-
		Total general revenues and transfers			<u>13,417,597</u>	<u>7,230,483</u>	<u>20,648,080</u>
		Change in net assets			(3,392,375)	7,591,786	4,199,411
		Net assets - beginning			41,117,663	32,847,180	73,964,843
		Net assets - ending			<u>\$ 37,725,288</u>	<u>\$ 40,438,966</u>	<u>\$ 78,164,254</u>

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

City of Pelham, Alabama
Balance Sheet
Governmental Funds
September 30, 2011

	General Fund	Other Governmental Funds	Total
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash and investments	\$ 16,166,246	\$ -	\$ 16,166,246
Accounts receivable	6,352,876	-	6,352,876
Accrued interest	35,412	-	35,412
Prepaid items	353,910	-	353,910
Restricted assets:			
Cash	467,572	1,193,696	1,661,268
Accrued interest	<u>-</u>	<u>82</u>	<u>82</u>
Total Assets	<u><u>\$ 23,376,016</u></u>	<u><u>\$ 1,193,778</u></u>	<u><u>\$ 24,569,794</u></u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 236,013	\$ -	\$ 236,013
Deferred revenue	5,073,208	-	5,073,208
Accrued liabilities	683,825	-	683,825
Due to other governmental funds	13,552	(13,552)	-
Payable from restricted assets:			
Accounts payable	<u>-</u>	<u>5,452</u>	<u>5,452</u>
Total Liabilities	<u>6,006,598</u>	<u>(8,100)</u>	<u>5,998,498</u>
Fund Balances:			
Nonspendable	164,900	-	164,900
Restricted for:			
Debt Service	467,572	-	467,572
Street improvements	-	163,813	163,813
Court	-	444,797	444,797
Police	-	162,989	162,989
Library	-	101,268	101,268
Capital projects	-	329,011	329,011
Assigned	612,143	-	612,143
Unassigned	<u>16,124,803</u>	<u>-</u>	<u>16,124,803</u>
Total Fund Balances	<u>17,369,418</u>	<u>1,201,878</u>	<u>18,571,296</u>
Total Liabilities and Fund Balances	<u><u>\$ 23,376,016</u></u>	<u><u>\$ 1,193,778</u></u>	<u><u>\$ 24,569,794</u></u>

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, 2011

Fund Balances - Total Governmental Funds		\$ 18,571,296
<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	49,578,274	
Less: accumulated depreciation	<u>(18,277,002)</u>	31,301,272
<p>Warrant issue costs in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		
		63,395
<p>Interest payable used in the governmental activities are not payable from current resources and, therefore, are not reported in the governmental funds.</p>		
		(191,496)
<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	(206,185)	
General Obligation Warrants	(9,481,558)	
Capital lease payable	(5,916)	
Other post employment benefits payable	(806,183)	
Compensated absences	<u>(1,519,337)</u>	<u>(12,019,179)</u>
Net Assets of Governmental Activities		<u>\$ 37,725,288</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, 2011

	General	Other Governmental Funds	Total Governmental Funds
Operating Revenues:			
Taxes:			
Sales	\$ 14,985,384	\$ -	\$ 14,985,384
Property	5,379,056	-	5,379,056
Motor Vehicle / Gas	582,282	182,485	764,767
Other	165,830	-	165,830
Licenses and Permits	3,698,250	-	3,698,250
Fines and Forfeitures	457,728	389,844	847,572
Interest	317,010	9,880	326,890
Other	888,328	300,846	1,189,174
Total Revenues	<u>26,473,868</u>	<u>883,055</u>	<u>27,356,923</u>
Expenditures:			
Current:			
General Administration	3,645,450	326,235	3,971,685
Police	7,460,031	208,201	7,668,232
Fire	7,805,400	-	7,805,400
Public Works	2,216,485	114,194	2,330,679
Parks and Recreation	1,034,403	-	1,034,403
Library	1,029,845	55,698	1,085,543
Debt Service:			
Principal	475,808	-	475,808
Interest	403,355	-	403,355
Capital Outlay	335,530	137,080	472,610
Total Expenditures	<u>24,406,307</u>	<u>841,408</u>	<u>25,247,715</u>
Excess of Revenues over Expenditures	<u>2,067,561</u>	<u>41,647</u>	<u>2,109,208</u>
Other Financing Sources (Uses):			
Proceeds from Sale of Capital Assets	29,900	-	29,900
Proceeds from Notes Payable	159,397	-	159,397
Transfers in	3,148,362	-	3,148,362
Transfers out	(10,408,233)	(93,821)	(10,502,054)
Total Other Financing Sources (Uses)	<u>(7,070,574)</u>	<u>(93,821)</u>	<u>(7,164,395)</u>
Net Change in Fund Balances	(5,003,013)	(52,174)	(5,055,187)
Fund Balances, Beginning	<u>22,372,431</u>	<u>1,254,052</u>	<u>23,626,483</u>
Fund Balances, Ending	<u>\$ 17,369,418</u>	<u>\$ 1,201,878</u>	<u>\$ 18,571,296</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, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (5,055,187)

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	472,610	
Less current year depreciation	<u>(1,720,838)</u>	(1,248,228)

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. 2,931,851

The proceeds from the sale of capital assets (\$29,900) are reported as other financing sources in the governmental funds. However, the net book value of the capital assets (\$119,043) 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 \$89,143. (119,043)

Transfers of capital assets from proprietary funds do not provide current financial resources and are not recorded in governmental funds. However, transfers of capital assets increase net assets. 3,272

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. (159,397)

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. 475,808

Bond discounts, premiums, and issue costs are recorded as expenditures in the fund statements but are amortized in the statement of activities. (14,555)

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		111,356
Net increase in post employment benefit payable		(324,355)
Change in accrued interest expense		<u>6,103</u>

Change in Net Assets of Governmental Funds \$ (3,392,375)

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

City of Pelham, Alabama
Statement of Proprietary Fund Net Assets
September 30, 2011

	<u>Water & Sewer</u>	<u>Civic Complex</u>	<u>Ballantrae Golf</u>	<u>Other Proprietary Funds</u>	<u>Total Proprietary Funds</u>
Assets					
Current:					
Cash	\$ 6,387,779	\$ 2,656	\$ 73,877	\$ 523,735	\$ 6,988,047
Certificate of deposit	3,284,203	-	-	-	3,284,203
Accounts receivable	1,154,147	69,318	57,997	-	1,281,462
Accrued interest	1,687	-	98	-	1,785
Prepaid items	16,425	18,625	13,525	9,572	58,147
Inventory	126,020	26,540	46,273	28,507	227,340
Unamortized warrant issue cost	14,569	2,496	5,168	1,193	23,426
Total Current Assets	<u>10,984,830</u>	<u>119,635</u>	<u>196,938</u>	<u>563,007</u>	<u>11,864,410</u>
Noncurrent:					
Restricted cash	233,350	-	-	-	233,350
Restricted certificate of deposit	-	-	84,265	-	84,265
Non-Depreciable assets	4,033,259	9,880	7,463,703	5,433,900	16,940,742
Depreciable capital assets, net	39,400,708	6,495,686	3,836,997	3,694,585	53,427,976
Unamortized warrant issue cost, net of current portion	61,481	12,197	29,181	6,367	109,226
Total Noncurrent Assets	<u>43,728,798</u>	<u>6,517,763</u>	<u>11,414,146</u>	<u>9,134,852</u>	<u>70,795,559</u>
Total Assets	<u>\$ 54,713,628</u>	<u>\$ 6,637,398</u>	<u>\$ 11,611,084</u>	<u>\$ 9,697,859</u>	<u>\$ 82,659,969</u>
Liabilities					
Current:					
Accounts payable	\$ 194,570	\$ 41,823	\$ 22,717	81,501	\$ 340,611
Payable from restricted assets:					
Customer deposits	233,350	-	-	-	233,350
Deferred revenue	-	-	14,000	-	14,000
Deferred revenue	-	44,985	-	-	44,985
Accrued liabilities	151,049	14,124	34,688	30,442	230,303
Accrued interest payable	327,498	54,298	23,223	30,630	435,649
Current portion of compensated absences	63,388	39,868	35,743	26,658	165,657
Current portion of long-term debt	2,472,650	130,171	444,237	78,966	3,126,024
Total Current Liabilities	<u>3,442,505</u>	<u>325,269</u>	<u>574,608</u>	<u>248,197</u>	<u>4,590,579</u>
Noncurrent:					
Payable from restricted assets:					
Deferred revenue	-	-	70,000	-	70,000
Long-term debt, net of current portion	25,520,704	4,017,111	6,269,228	1,587,725	37,394,768
Compensated absences	63,387	39,868	35,743	26,658	165,656
Total Noncurrent Liabilities	<u>25,584,091</u>	<u>4,056,979</u>	<u>6,374,971</u>	<u>1,614,383</u>	<u>37,630,424</u>
Total Liabilities	<u>29,026,596</u>	<u>4,382,248</u>	<u>6,949,579</u>	<u>1,862,580</u>	<u>42,221,003</u>
Net Assets					
Invested in capital, net of related debt	15,440,613	2,358,284	4,587,235	7,461,795	29,847,927
Unrestricted (deficit)	10,246,419	(103,134)	74,270	373,484	10,591,039
Total Net Assets	<u>25,687,032</u>	<u>2,255,150</u>	<u>4,661,505</u>	<u>7,835,279</u>	<u>40,438,966</u>
Total Liabilities and Net Assets	<u>\$ 54,713,628</u>	<u>\$ 6,637,398</u>	<u>\$ 11,611,084</u>	<u>\$ 9,697,859</u>	<u>\$ 82,659,969</u>

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, 2011

	<u>Water & Sewer</u>	<u>Civic Complex</u>	<u>Ballantrae Golf</u>	<u>Other Proprietary Funds</u>	<u>Total Proprietary Funds</u>
Operating Revenues	\$ 9,556,641	\$ 1,793,028	\$ 2,115,742	\$ 1,759,499	\$ 15,224,910
Operating Expenses					
Salaries	1,411,183	1,046,394	840,931	509,496	3,808,004
Employee benefits	328,576	167,976	141,938	91,405	729,895
Payroll taxes	102,104	65,507	65,780	32,611	266,002
Depreciation	2,455,259	285,401	169,832	122,463	3,032,955
Program and event expenses	-	226,473	-	74,127	300,600
Utilities and telephone	515,580	333,624	75,904	42,806	967,914
Supplies expense	1,059,925	101,225	396,623	47,898	1,605,671
Maintenance and repairs	131,035	143,556	134,111	137,206	545,908
Insurance	77,697	60,256	58,386	29,497	225,836
Other	345,918	113,421	106,029	955,517	1,520,885
Total Operating Expenses	6,427,277	2,543,833	1,989,534	2,043,026	13,003,670
Operating Income	3,129,364	(750,805)	126,208	(283,527)	2,221,240
Non Operating Revenues (Expenses)					
Gain (loss) on disposal of capital assets	(239,087)	1,030	-	-	(238,057)
Interest income	113,732	329	1,751	2,308	118,120
Interest expense	(1,269,921)	(228,422)	(291,848)	(84,653)	(1,874,844)
Trustee fees	(7,430)	(1,045)	(2,100)	(1,478)	(12,053)
Total Non Operating Revenues (Expenses)	(1,402,706)	(228,108)	(292,197)	(83,823)	(2,006,834)
Income (Loss) Before Capital Contributions and Interfund Operating Transfers	1,726,658	(978,913)	(165,989)	(367,350)	214,406
Capital Contributions	26,960	-	-	-	26,960
Interfund Transfers In	26,287	887,416	455,000	5,982,164	7,350,867
Transfers (Out)	-	(447)	-	-	(447)
Change in Net Assets	1,779,905	(91,944)	289,011	5,614,814	7,591,786
Net Assets, Beginning of Year	23,907,127	2,347,094	4,372,494	2,220,465	32,847,180
Net Assets, End of Year	\$ 25,687,032	\$ 2,255,150	\$ 4,661,505	\$ 7,835,279	\$ 40,438,966

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, 2011

	Water and Sewer	Civic Complex	Ballantrae Golf	Other Proprietary Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 9,687,515	\$ 1,796,909	\$ 2,113,753	\$ 1,759,499	\$ 15,357,676
Cash paid to employees	(1,890,222)	(1,286,179)	(1,068,316)	(660,535)	(4,905,252)
Cash paid to suppliers for goods and services	(2,118,409)	(972,769)	(758,554)	(1,303,258)	(5,152,990)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>5,678,884</u>	<u>(462,039)</u>	<u>286,883</u>	<u>(204,294)</u>	<u>5,299,434</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers (to) from other funds	5,487	886,969	455,000	5,982,164	7,329,620
Due from City of Pelham	37,903	30,703	28,480	22,371	119,457
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>43,390</u>	<u>917,672</u>	<u>483,480</u>	<u>6,004,535</u>	<u>7,449,077</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchase of property, plant, and equipment	(2,723,814)	(15,752)	-	(5,399,751)	(8,139,317)
Proceeds from sale of capital assets	-	1,030	-	-	1,030
Principal payments on debt	(2,701,032)	(281,904)	(440,000)	(229,619)	(3,652,555)
Interest payments on debt	(1,115,681)	(166,700)	(275,236)	(78,724)	(1,636,341)
Trustee fees	(7,430)	(1,045)	(2,100)	(1,478)	(12,053)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(6,547,957)</u>	<u>(464,371)</u>	<u>(717,336)</u>	<u>(5,709,572)</u>	<u>(13,439,236)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on cash and investments	114,960	329	1,896	2,308	119,493
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>114,960</u>	<u>329</u>	<u>1,896</u>	<u>2,308</u>	<u>119,493</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(710,723)</u>	<u>(8,409)</u>	<u>54,923</u>	<u>92,977</u>	<u>(571,232)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>7,570,939</u>	<u>11,065</u>	<u>18,954</u>	<u>430,758</u>	<u>8,031,716</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 6,860,216</u>	<u>\$ 2,656</u>	<u>\$ 73,877</u>	<u>\$ 523,735</u>	<u>\$ 7,460,484</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ 3,129,364	\$ (750,805)	\$ 126,208	\$ (283,527)	\$ 2,221,240
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	2,455,259	285,401	169,832	122,463	3,032,955
Loss on disposal of capital assets	239,087	-	-	-	239,087
(Increase) decrease in:					
Accounts receivable	(141,438)	(9,776)	(2,159)	-	(153,373)
Prepaid expenses	18,600	4,141	7,927	2,723	33,391
Inventory	(19,112)	3,252	9,323	(7,210)	(13,747)
Increase (decrease) in:					
Accounts payable	26,204	8,091	6,240	(28,000)	12,535
Accrued expenses	(55,500)	(28,568)	(27,737)	5,925	(105,880)
Customer deposits	33,225	-	-	-	33,225
Deferred revenue	-	13,658	-	-	13,658
Compensated absences	(6,805)	12,567	(2,751)	(16,668)	(13,657)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 5,678,884</u>	<u>\$ (462,039)</u>	<u>\$ 286,883</u>	<u>\$ (204,294)</u>	<u>\$ 5,299,434</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, 2011

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Pelham Water and Sewer had amortization of bond discounts of \$19,906, amortization of bond premiums of \$46,087, amortization of bond issue costs of \$16,529, and amortization of deferred bond refunding costs of \$172,727.

System lines contributed by developers to Pelham Water and Sewer were \$26,960.

Pelham Civic Complex had amortization of warrant discounts of \$8,253, amortization of warrant issue costs of \$2,613, and amortization of deferred warrant refunding costs of \$53,394.

Ballantrae Golf Club had amortization of bond discounts of \$11,504 and amortization of bond issue costs of \$5,524.

Pelham Racquet Club had amortization of warrant discounts of \$1,714, amortization of warrant premiums of \$5,498, amortization of warrant issue costs of \$1,322, and amortization of deferred warrant refunding costs of \$12,409.

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

NOTES TO FINANCIAL STATEMENTS

City of Pelham, Alabama

September 30, 2011

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.

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 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2011

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.

Rental Fund

The Rental Fund is used to account for rental services provided to certain local businesses and residents of the Belle Vista Mobile Home Park. Activities of the fund include administration and billing and collections of fees related to rent, vending, and other services provided.

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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2011

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

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.

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, 2011

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

Routine transfers of resources between City funds that are not intended to be repaid are classified separately from revenues and expenditures. Such interfund operating transfers are identified as "Interfund 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 hour 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, 2011

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

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 premiums or discounts, and deferred amounts on refunding.

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

Beginning with fiscal year 2011, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This statement redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

- Nonspendable - amounts that are not in spendable form or are required to be maintained intact.
- Restricted - amounts constrained to specific purposes by their providers (as such grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed - amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned - amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official body to which the Council delegates the authority.
- Unassigned - amounts that are available for any purpose.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2011

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

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.

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, 2011, the City reported \$13,609,942 in governmental activities and \$10,589,865 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 \$467,572 are invested by banks' trust departments in U.S. Government Securities and are not subject to collateralization requirements.

Investments

As of September 30, 2011, the City had the following investments, which were reported at fair value in governmental activities:

Type of Investment	Fair Value	Investment Maturity	
		7/1/12 to 12/31/2012	1/1/2013 to 6/30/2013
Certificates of Deposit	\$ 3,750,000	\$ 2,750,000	\$ 1,000,000

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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2011

NOTE B – DEPOSITS AND INVESTMENTS - CONTINUED

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, 2011, were insured.

NOTE C – RECEIVABLES AND PAYABLES

Receivables at September 30, 2011, consist of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Taxes:			
Sales	\$ 1,251,226	\$ -	\$ 1,251,226
Property	5,078,418	-	5,078,418
Customers	-	1,292,383	1,292,383
Intergovernmental	<u>217,452</u>	<u>-</u>	<u>217,452</u>
Gross Receivables	6,547,096	1,292,383	7,839,479
Less: Allowance for Uncollectibles	<u>(194,220)</u>	<u>(10,921)</u>	<u>(205,141)</u>
Net Receivables	<u>\$ 6,352,876</u>	<u>\$ 1,281,462</u>	<u>\$ 7,634,338</u>

Payables at September 30, 2011, consist of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Trade	<u>\$ 241,465</u>	<u>\$ 340,611</u>	<u>\$ 582,076</u>
Net Payables	<u>\$ 241,465</u>	<u>\$ 340,611</u>	<u>\$ 582,076</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2011

NOTE D - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2011, was as follows:

	<u>Balance October 1</u>	<u>Additions/ Completions</u>	<u>Retirements/ Adjustments</u>	<u>Balance September 30</u>
Governmental Activities:				
Capital assets not being depreciated				
Land	\$ 3,066,604	\$ 211,950	\$ -	\$ 3,278,554
Construction in progress	<u>61,337</u>	<u>93,663</u>	<u>-</u>	<u>155,000</u>
Total capital assets not being depreciated	<u>3,127,941</u>	<u>305,613</u>	<u>-</u>	<u>3,433,554</u>
Capital assets being depreciated				
Infrastructure	17,558,238	2,657,088	-	20,215,326
Buildings and improvements	16,144,050	42,380	-	16,186,430
Equipment	<u>9,951,509</u>	<u>414,197</u>	<u>(622,742)</u>	<u>9,742,964</u>
Total capital assets being depreciated	<u>43,653,797</u>	<u>3,113,665</u>	<u>(622,742)</u>	<u>46,144,720</u>
Less accumulated depreciation for:				
Infrastructure	6,964,489	412,690	-	7,377,179
Buildings and improvements	4,644,294	495,759	-	5,140,053
Equipment	<u>5,451,080</u>	<u>812,389</u>	<u>(503,699)</u>	<u>5,759,770</u>
Total accumulated depreciation	<u>17,059,863</u>	<u>1,720,838</u>	<u>(503,699)</u>	<u>18,277,002</u>
Total capital assets being depreciated, net	<u>26,593,934</u>	<u>1,392,827</u>	<u>(119,043)</u>	<u>27,867,718</u>
Governmental activities capital assets, net	<u>\$ 29,721,875</u>	<u>\$ 1,698,440</u>	<u>\$ (119,043)</u>	<u>\$ 31,301,272</u>
	<u>Balance October 1</u>	<u>Additions/ Completions</u>	<u>Retirements/ Adjustments</u>	<u>Balance September 30</u>
Business-type Activities:				
Capital assets not being depreciated				
Land	\$ 8,810,569	\$ 5,048,900	\$ -	\$ 13,859,469
Construction in progress	<u>750,093</u>	<u>2,823,894</u>	<u>(492,714)</u>	<u>3,081,273</u>
Total capital assets not being depreciated	<u>9,560,662</u>	<u>7,872,794</u>	<u>(492,714)</u>	<u>16,940,742</u>
Capital assets being depreciated				
System and facilities	92,737,083	306,090	-	93,043,173
Buildings and improvements	737,560	361,900	-	1,099,460
Equipment	<u>2,837,129</u>	<u>19,053</u>	<u>(288,602)</u>	<u>2,567,580</u>
Total capital assets being depreciated	<u>96,311,772</u>	<u>687,043</u>	<u>(288,602)</u>	<u>96,710,213</u>
Less accumulated depreciation for:				
System and facilities	37,720,717	2,896,997	-	40,617,714
Buildings and improvements	301,231	28,286	-	329,517
Equipment	<u>2,501,118</u>	<u>107,672</u>	<u>(273,784)</u>	<u>2,335,006</u>
Total accumulated depreciation	<u>40,523,066</u>	<u>3,032,955</u>	<u>(273,784)</u>	<u>43,282,237</u>
Total capital assets being depreciated, net	<u>55,788,706</u>	<u>(2,345,912)</u>	<u>(14,818)</u>	<u>53,427,976</u>
Business-type activities capital assets, net	<u>\$ 65,349,368</u>	<u>\$ 5,526,882</u>	<u>\$ (507,532)</u>	<u>\$ 70,368,718</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2011

NOTE D - CAPITAL ASSETS - CONTINUED

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

Governmental Activities:	
General Administration	\$ 202,352
Police	569,784
Fire	259,509
Public Works	488,070
Parks and Recreation	114,186
Library	<u>86,937</u>
Total Depreciation Expense-Governmental Activities	<u>\$ 1,720,838</u>
Business-type Activities:	
Water and Sewer	\$ 2,455,259
Civic Complex	285,401
Ballantrae Golf Club	169,832
Rental Fund	724
Racquet Club	<u>121,739</u>
Total Depreciation Expense-Business-type Activities	<u>\$ 3,032,955</u>

NOTE E - LONG-TERM DEBT

Notes payable at September 30, 2011, are comprised of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
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.	\$ 15,079	\$ -
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.	61,942	-
Vehicle note payable to Central State Bank for seven (7) 2011 Ford Crown Victorias, dated March 9, 2011. Monthly Payment of \$4,548 for 36 months, including interest at 1.75% using the simple interest method.	<u>129,164</u>	<u>-</u>
 Total Notes Payable	 <u>\$ 206,185</u>	 <u>\$ -</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2011

NOTE E - LONG-TERM DEBT - CONTINUED

Warrants payable at September 30, 2011 are comprised of the following issues:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
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%.	\$ -	1,703,809
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%.	-	6,713,465
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%	353,456	5,998,642
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%.	8,592,801	-
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%.	214,044	7,017,764
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%.	321,257	8,323,098
2010-A General Obligation Warrants, dated August 13, 2010, due in semi-annual installments through August 15, 2019, bearing interest of 2.57%.	-	4,435,083
2010-B General Obligation Warrants, dated August 13, 2010, due in semi-annual installments through August 15, 2019, bearing interest of 2.57%.	<u>-</u>	<u>6,328,931</u>
Total Warrants Payable	<u>\$ 9,481,558</u>	<u>\$ 40,520,792</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2011

NOTE E - LONG-TERM DEBT - CONTINUED

	Balance October 1, <u>2010</u>	Issues or <u>Additions</u>	Payments or <u>Expenditures</u>	Balance September 30, <u>2011</u>	Due within <u>one year</u>
<u>Governmental Activities:</u>					
Notes Payable	\$ 184,521	\$ 159,397	\$ 137,733	\$ 206,185	\$ 114,057
General Obligation Warrants	9,805,927	-	324,369	9,481,558	328,128
Capital Lease Payable	-	11,545	5,629	5,916	5,916
Other Post Employment Benefit Payable	481,828	324,355	-	806,183	-
Compensated Absences	<u>1,630,693</u>	<u>1,400,088</u>	<u>1,511,444</u>	<u>1,519,337</u>	<u>759,668</u>
Total Governmental Activities	<u>\$ 12,102,969</u>	<u>\$ 1,895,385</u>	<u>\$ 1,979,175</u>	<u>\$ 12,019,179</u>	<u>\$ 1,207,769</u>
<u>Business-type Activities:</u>					
General Obligation Warrants	\$ 43,932,676	\$ -	\$ 3,411,884	\$ 40,520,792	\$ 3,126,024
Capital Leases	11,545	-	11,545	-	-
Compensated Absences	344,970	231,470	245,127	331,313	165,657
Deferred Revenue	<u>98,000</u>	<u>-</u>	<u>14,000</u>	<u>84,000</u>	<u>14,000</u>
Total Business-type Activities	<u>\$ 44,387,191</u>	<u>\$ 231,470</u>	<u>\$ 3,682,556</u>	<u>\$ 40,936,105</u>	<u>\$ 3,305,681</u>

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

Annual requirements to retire debt obligations-----

The annual aggregate maturities of governmental activities for the years subsequent to September 30, 2011, are as follows:

Year Ending September 30,	Governmental Activities			
	Notes Payable		General Obligation Warrants	
	Principal	Interest	Principal	Interest
2012	\$ 114,057	\$ 2,915	\$ 328,129	\$ 384,157
2013	69,512	997	361,505	370,425
2014	22,616	99	367,252	355,952
2015	-	-	399,743	340,778
2016	-	-	432,782	324,706
2017-2021	-	-	2,391,592	1,354,762
2022-2026	-	-	2,429,481	866,030
2027-2031	-	-	2,855,000	319,695
2032-2036	-	-	-	-
	<u>\$ 206,185</u>	<u>\$ 4,011</u>	<u>\$ 9,565,484</u>	<u>\$ 4,316,505</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2011

NOTE E - LONG-TERM DEBT - CONTINUED

The annual aggregate maturities of business activities for the years subsequent to September 30, 2011, are as follows:

Year Ending September 30,	Business-type Activities	
	General Obligation Warrants	
	Principal	Interest
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	4,162,218	990,255
2017-2021	18,943,408	2,642,398
2022-2026	4,325,519	168,844
	\$ 41,829,516	\$ 9,086,044

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, 2011, \$13,999,322 of defeased warrants are still outstanding.

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, 2011, \$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, 2011, \$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, 2011, deferred revenues yet to be recognized were \$84,000 of which \$14,000 were to be recognized within one year and \$70,000 were to be recognized in more than one year.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2011

NOTE G - CAPITAL LEASES

The government has entered into a lease agreement for financing the acquisition of equipment for use by the public works. The lease agreement qualify as capital leases 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>Governmental Activities</u>
Asset:	
Machinery and equipment	\$ 14,817
Less: accumulated depreciation	<u>(1,482)</u>
Total	<u><u>13,335</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2011, were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>
2012	
Total minimum lease payments	<u>\$ 6,214</u>
Less: Amount representing interest	6,214
Present value of minimum lease payments	<u>(298)</u>
	<u><u>\$ 5,916</u></u>

NOTE H – OPERATING LEASES

In the year ended September 30, 2011, 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>	
2012	\$ <u>31,059</u>
	<u><u>\$ 31,059</u></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.

NOTE I - PENSION PLAN - CONTINUED

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.

Annual Pension Cost

For September 30, 2011, the City's annual pension cost of \$1,930,558 was equal to the City's required and actual contributions. The required contribution was determined as part of the September 30, 2010, 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2011

NOTE I - PENSION PLAN - CONTINUED

The remaining amortization period at September 30, 2010, was 30 years.

Three Year Trend Information			
Fiscal Year	Annual	Percentage	Net Pension
Ending	Pension Costs	Pension Cost	Obligation (NPO)
September 30		Contributed	
2010	\$ 1,989,026	100.0%	\$0
2009	\$ 1,980,028	100.0%	\$0
2008	\$ 1,789,383	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	Liability	AAL	Ratio	Payroll	Percentage
Date	(a)	Entry Age	(UAAL)	(a/b)	(c)	of
		(b)	(b-a)			Covered
						Payroll
						(b-a/ c)
9/30/2010	33,888,488	55,695,437	21,806,949	60.8%	17,057,626	127.8%

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.

NOTE J - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund transfers during the year ended September 30, 2011, were as follows:

	Transfers In				Ballantrae Golf	Total
	Water & Sewer	Civic Complex	Racquet Club	Rental Fund		
<u>Transfers Out</u>						
General Fund	\$ 25,840	\$ 887,416	\$ 695,608	\$ 5,286,556	\$ 455,000	\$ 7,350,420
Civic Complex	<u>447</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>447</u>
	<u>\$ 26,287</u>	<u>\$ 887,416</u>	<u>\$ 695,608</u>	<u>\$ 5,286,556</u>	<u>\$ 455,000</u>	<u>\$ 7,350,867</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2011

NOTE J - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS - CONTINUED

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

Interfund payables and receivables at September 30, 2011, were as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ -	\$ 13,552
Special Revenue	<u>13,552</u>	<u>-</u>
Totals	<u>\$ 13,552</u>	<u>\$ 13,552</u>

Interfund payables and receivables resulted from reimbursements made by the General Fund to the Special Revenue 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, 2011, were reported as accrued liabilities on the fund financial statements.

Pelham Water and Sewer System had contractual commitments at September 30, 2011 of \$1,965,430 for improvements to the waste water treatment plant.

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 elects 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. The employee will pay the balance, until the eligible retired employee takes other employment that offers health insurance or has a family income of \$21,000 or more a year from gainful employment, whichever occurs first. If a City employee retires before he/she is eligible for a retirement check, but the employee has ten (10) years City Retirement eligibility, the employee will have the option of COBRA, or the City coverage for eighteen (18) months. 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. The earliest 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.

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). The funding policy is not to fund the ARC except to the extent of the current year's retiree funding costs.

For the year ended September 30, 2011, the City's portion of health care and dental funding cost for retired employees totaled \$248,664. These amounts were applied toward the net OPEB Benefit Obligation are shown on the next page.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2011

NOTE N - OTHER POST-EMPLOYMENT BENEFITS- CONTINUED

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, 2010 is \$581,610, as set forth below:

		Medical
Normal Cost	\$	211,236
30-year UAL amortization amount		<u>370,374</u>
 Annual required contribution (ARC)	 \$	 <u><u>581,610</u></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, 2011:

		Medical
Beginning Net OPEB Obligation 10/1/2010	\$	481,828
Annual required contribution		581,610
Interest on Net OPEB Obligation		19,273
ARC Adjustment		<u>(27,864)</u>
OPEB Cost		573,019
Contribution		-
Current year retiree premium		<u>(248,664)</u>
Change in Net OPEB Obligation		324,355
 Ending Net OPEB Obligation 9/30/2011	 \$	 <u><u>806,183</u></u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

City of Pelham, Alabama

September 30, 2011

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:

Three 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	2011	\$ 573,019	42.09%	\$806,183
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, 2011, 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, 2010, the most recent actuarial valuation, the Actuarial Accrued Liability (AAL) was \$6,404,399, 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 2011, the entire actuarial accrued liability of \$6,404,399 was unfunded.

	Medical
Actuarial Accrued Liability (AAL)	\$ 6,404,399
Actuarial Value of Plan Assets	-
Unfunded Act. Accrued Liability (UAAL)	<u>6,404,399</u>
Funded Ratio (Act. Val. Assets/AAL)	0%
Covered Payroll (active plan members)	17,057,626
UAAL as a percentage of covered payroll	37.5%

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.

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:

Age	Percent Turnover
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, 2011

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 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, 2011, the aggregate principal amount payable is \$19,185,750.

City of Pelham, Alabama
 Required Supplementary Information
 Schedule of Funding Progress
 For the Year Ended September 30, 2011

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) ¹	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
9/30/2005	20,806,671	33,028,786	12,222,115	63.0%	13,650,049	89.5%
9/30/2006 ²	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	52,875,659	20,459,272	61.3%	16,955,344	120.7%
9/30/2010 ³	33,888,488 [*]	55,695,437	21,806,949	60.8%	17,057,626	127.8%

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

² Reflects changes in actuarial assumptions.

³ Reflects the impact of Act 2011-27, which closes the DROP program to new applicants after March 24, 20

* Market Value of Assets as of September 30, 2010: \$28,795,347

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)
10/1/2008	-	3,029,087	3,029,087	0.0%	16,023,367	18.9%
10/1/2009	-	6,158,076	6,158,076	0.0%	16,955,344	36.3%
10/1/2010	-	6,404,399	6,404,399	0.0%	17,057,626	37.5%

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

City of Pelham, Alabama
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended September 30, 2011

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Amounts on Budgetary Basis
	Original	Final			
Operating Revenues:					
Taxes:					
Sales	\$ 14,726,000	\$ 14,726,000	\$ 14,985,384	\$ 44,237	\$ 15,029,621
Property	5,225,000	5,225,000	5,379,056	22,558	5,401,614
Motor Vehicle / Gas	630,000	630,000	582,282	2,736	585,018
Other	145,100	145,100	165,830	860	166,690
Licenses and Permits	3,715,100	3,715,100	3,698,250	-	3,698,250
Fines and Forfeitures	473,500	473,500	457,728	-	457,728
Interest	350,000	350,000	317,010	10,144	327,154
Other	282,731	286,656	888,328	(39,828)	848,500
Total Revenues	25,547,431	25,551,356	26,473,868	40,707	26,514,575
Expenditures:					
Current:					
General Administration	3,853,775	3,871,775	3,645,450	59,820	3,705,270
Police	7,756,508	7,756,508	7,460,031	171,776	7,631,807
Fire	7,515,885	7,523,327	7,805,400	171,251	7,976,651
Public Works	2,176,880	2,176,880	2,216,485	(40,058)	2,176,427
Parks and Recreation	1,072,458	1,072,458	1,034,403	14,944	1,049,347
Library	1,063,300	1,063,300	1,029,845	17,008	1,046,853
Debt Service:					
Principal	886,277	886,277	475,808	-	475,808
Interest	-	-	403,355	-	403,355
Capital Outlay	53,212	63,795	335,530	52,968	388,498
Total Expenditures	24,378,295	24,414,320	24,406,307	447,709	24,854,016
Excess (Deficiency) of Revenues over Expenditures	1,169,136	1,137,036	2,067,561	(407,002)	1,660,559
Other Financing Sources (Uses):					
Proceeds from sale of capital assets	-	-	29,900	-	29,900
Proceeds from notes payable	-	-	159,397	-	159,397
Transfers in	-	-	3,148,362	-	3,148,362
Transfers out	(2,581,375)	(2,581,375)	(10,408,233)	-	(10,408,233)
Total Other Financing Sources (Uses)	(2,581,375)	(2,581,375)	(7,070,574)	-	(7,070,574)
Net Change in Fund Balance	\$ (1,412,239)	\$ (1,444,339)	\$ (5,003,013)	\$ (407,002)	\$ (5,410,015)

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.

B. Excess of Actual Expenses over Budgeted Amounts

The City's expenditures exceeded budgeted amounts as a result of grant expenditures not included in the budget.

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BRI MADISON, C.P.A.

CHARLES H. MOSES, C.P.A. (1890-1970)
CHARLES H. MOSES, JR., C.P.A.

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pelham, Alabama, as of and for the year ended September 30, 2011, which collectively comprise the City of Pelham, Alabama's basic financial statements and have issued our report thereon dated April 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by The Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questions costs to be a material weakness. (2012-A).

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies. (2012-B, 2012-C)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pelham, Alabama's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Pelham, Alabama's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Pelham, Alabama's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Mayor and City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moses, Phillips, Young, Brannon, and Henning LLP

Birmingham, Alabama
April 9, 2012

MOSES, PHILLIPS, YOUNG, BRANNON AND HENNINGER, L.L.P.

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CHARLES H. MOSES, C.P.A. (1890-1970)
CHARLES H. MOSES, JR., C.P.A.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

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

Compliance

We have audited the City of Pelham, Alabama's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Pelham, Alabama's major federal programs for the year ended September 30, 2011. The City of Pelham, Alabama's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Pelham, Alabama's management. Our responsibility is to express an opinion on the City of Pelham, Alabama's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Pelham, Alabama's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Pelham, Alabama's compliance with those requirements.

In our opinion, the City of Pelham, Alabama complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

Internal Control Over Compliance

Management of the City of Pelham, Alabama is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Pelham, Alabama's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Pelham, Alabama's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Mayor and City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moses Phillips, Young, Brannon, and Henning LLP

Birmingham, Alabama
April 9, 2012

City of Pelham, Alabama
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2011

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
U.S. Department of Defense			
Pass-through programs from:			
Defense Reutilization and Marketing Service			
Donations of Obsolete DOD Property (Note 4)	12.700	N/A	<u>\$ 104,205</u>
Total U.S. Department of Defense			<u>104,205</u>
U.S. Department of Justice			
Bullet Proof Vest Partnership Program	16.607	N/A	2,340
Equitable Sharing Program	16.922	N/A	42,231
Pass-through programs from:			
Drug Enforcement Administration			
DEA Task Force Cooperative Agreement	N/A	N/A	34,595
U.S. Marshals Service			
Joint Law Enforcement Operations (Note 4)	N/A	JLEO-11-0174	38,000
Joint Law Enforcement Operations	N/A	FATF-11-0174	<u>12,587</u>
Total U.S. Department of Justice			<u>129,753</u>
U.S. Department of Transportation			
Pass-through programs from:			
Alabama Department of Transportation			
ARRA - Federal-Aid Highway Program	20.205	STMAA-TE09 (974)	93,663
ARRA - Federal-Aid Highway Program	20.205	STPBH-7012 (602)	107,979
Alabama Department of Economic and Community Affairs			
Recreational Trails Grant Program	20.219	09-RT-54-12	15,087
Jefferson State Community College			
Safety Belt Performance Grants	20.609	11-HS-K4-005	<u>2,122</u>
Total U.S. Department of Transportation			<u>218,851</u>
U.S. Department of Homeland Security			
Pass-through programs from:			
Immigration and Customs Enforcement			
ICE Cooperative Agreement	N/A	N/A	3,486
Federal Emergency Management Agency			
Assistance to Firefighters Grant (Note 3)	97.044	EMW-2009-FO-00357	272,510
Assistance to Firefighters Grant	97.044	EMW-2009-FO-09408	<u>10,738</u>
Total U.S. Department of Homeland Security			<u>286,734</u>
Total Expenditures of Federal Awards			<u><u>\$ 739,543</u></u>

See accompanying notes to schedule of expenditures of federal awards.

City of Pelham, Alabama
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2011

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Pelham, Alabama under programs of the federal government for the year ended September 30, 2011. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Pelham, Alabama, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Pelham, Alabama.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1 - Expenditures reported in the Schedule are reported on the accrual basis of accounting. This method is consistent with the method used in the presentation of the City's financial statements.

2 - Pass-through entity identifying numbers are presented where available.

NOTE 3 - SUBRECIPIENTS

Of the federal expenditures presented in the Schedule, the City of Pelham, Alabama provided federal awards to subrecipients as follows:

CFDA No.	Program Name	Amount Provided to Subrecipients
97.044	Assistance to Firefighters Grant	\$ 169,332

NOTE 4 - NONCASH AWARDS

Noncash awards are reported in the Schedule at the fair market value of the awards on the date received by the City of Pelham, Alabama. For the year ended September 30, 2011, the City of Pelham, Alabama received \$104,205 in surplus property from the Department of Defense. In addition, the City received a vehicle with a fair market value of \$30,000 on the date received from the U.S. Marshals Service to be used in joint law enforcement activities.

City of Pelham, Alabama
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2011

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Pelham, Alabama.
2. Three significant deficiencies disclosed during the audit of financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on the Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. One of the deficiencies is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the City of Pelham, Alabama, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the City of Pelham, Alabama expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included: ARRA – Federal-Aid Highway Program – CFDA No. 20.205, Recreational Trails Grant Program – CFDA 20.219, and Assistance to Firefighters Grant – CFDA 97.044.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The City of Pelham, Alabama did not qualify as a low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

2012-A- We noted inadequacies in the design of controls over the preparation of financial statements such that a material misstatement would not be prevented, detected, or corrected by the City's controls. This includes preparing the necessary year end closing entries required for financial statement preparation. Without outside assistance, the City could not prepare financial statements and note disclosures in accordance with generally accepted accounting principles.

Management's response – *Management has directed the external auditors to prepare the financial statements and note disclosures in accordance with generally accepted accounting principles*

City of Pelham, Alabama
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2011

FINDINGS - FINANCIAL STATEMENT AUDIT – continued

2012-B- We noted that amounts recorded on the general ledger related to payroll withholdings were not reconciled with the underlying accounting records. As a result, there is a risk that management would be unable to detect misstatements. The City should consider implementing policies for the reconciliation of the payroll withholdings recorded in the general ledger to the underlying accounting records on a monthly basis as well as management's review of the work of accounting personnel.

Management's response - *Management intends to implement procedures for the preparation and review of reconciliations prepared by accounting personnel as well as the trial balance on a timely basis.*

2012-C- We noted possible instances of noncompliance with the State bid law. We recommend that all department heads and employees involved in purchasing of goods and service be made aware of State bid law requirements and that management implement procedures for monitoring compliance with these requirements.

Management's response - *Management intends to communicate the requirements of the State bid law to employees involved in purchasing of goods and service and intends to implement procedures for the monitoring compliance with the State bid law.*

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

STATISTICAL INFORMATION
(UNAUDITED)

ASSESSED VALUE OF TAXABLE PROPERTY
(UNAUDITED)

City of Pelham, Alabama

September 30, 2011

	<u>Property</u> <u>Assessed Value</u> <u>(after exemptions)</u>		<u>Motor</u> <u>Vehicles</u>		<u>Total</u>
2011	\$ 345,077,300		\$ 49,913,860		\$ 394,991,160
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

TOP TEN PROPERTY TAXPAYERS
(UNAUDITED)

City of Pelham, Alabama

September 30, 2011

Taxes assessed 10/01/09 through 9/30/10 and paid 10/01/10 through 09/30/11.

Alabama Power Company	\$ 132,179
Colonial Pipeline Company	98,838
Edwin B. Lumpkin Jr.	54,733
Vulcan Threaded Products, Inc.	53,028
Wal-Mart Real Estate Business Trust	43,442
Amerisource Bergen Corp	40,663
Huntley Hall Apartments, Ltd.	36,084
Industrial Development Board of Pelham	26,998
HHH Acquisition Company, LLC	24,954
Sharp Pelham, LLC	22,466

WATER AND SEWER SYSTEM CUSTOMER INFORMATION
(UNAUDITED)

City of Pelham, Alabama

September 30, 2011

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

	<u>Water</u>	<u>Sewer</u>
2011	11,615	6,788
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 year ended September 30, 2011 are as follows:

<u>Customer</u>	<u>Average Amount Paid</u> <u>Monthly for the year ended 09/30/11</u>	
Green Park South MHP	\$ 27,549	
Belle Vista MHP		9,548
Golden Corral	5,583	
The Huntley Apartments	5,400	
Southgate MHP	4,663	
Little Mountain Apartments	4,273	
Cracker Barrel	3,226	
Cole Companies-Meadowwood Apts.	3,005	
Pelham High School	2,956	
Marc I Car Wash	2,414	

WATER AND SEWER SYSTEM RATES
(UNAUDITED)

City of Pelham, Alabama

September 30, 2011

The water rates as of September 30, 2011 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 sewer rates as of September 30, 2011 are as follows:

Residential	\$13.00 minimum on the first 3,000 gallons \$3.13 per 1,000 gallons thereafter
Social Security or Social Security Disability	\$22.00 minimum on the first 3,000 gallons \$4.00 per 1,000 gallons thereafter
Access but not connected	Flat rate \$24.30 per thousand gallons
Commercial	\$44.00 minimum on the first 7,500 gallons \$ 5.87 per 1,000 gallons thereafter
Significant commercial	\$88.00 minimum on the first 7,500 gallons \$11.74 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

