

**CITY OF PELHAM**

**PELHAM, ALABAMA**

Financial Statements

September 30, 2013

**CITY OF PELHAM  
PELHAM, ALABAMA**

**MAYOR**

Gary Waters

**CITY COUNCIL**

Rick Hayes  
Ron Scott  
Beth McMillan  
Maurice Mercer  
Karyl Rice

**CITY CLERK**

Marsha Yates

**CITY FINANCE DIRECTOR**

Tom Seale

**CITY ATTORNEYS**

Wallace, Ellis, Fowler, Head & Justice

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## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pelham, Alabama (the City), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pelham, Alabama, as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of funding progress and budgetary comparison information on pages 6 through 12, page 55, and pages 56 through 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pelham, Alabama's basic financial statements. The statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Barfield, Murphy, Shank & Smith, LLC*

Birmingham, Alabama  
May 22, 2014

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## CITY OF PELHAM, ALABAMA

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

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

### HIGHLIGHTS

#### Financial Highlights

- The City's net position for governmental activities increased by \$2,195,406.
- The total cost of all the City's programs was \$43,448,205.
- During the year, the City had expenses of \$27,065,186 for governmental activities and transfers of \$1,752,494 to business-type activities, which was \$2,195,406 less than the \$31,013,086 generated in general and program revenues.
- The City's combined assets exceeded its combined liabilities by \$84,553,053, which will allow the City to continue to meet ongoing obligations to citizens and creditors.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 13 and 14) 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 15. For governmental activities, these statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail by providing information about the City's most significant funds.

#### Reporting the City as a Whole

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

These two statements report the City's *net position* and changes in them. You can think of the City's net position – the difference between assets and liabilities – as one way to measure the City's financial health or *financial position*. Over time, *increases* or *decreases* in the City's net position, 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 Position and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental Activities - Most of the City's basic services are reported here, including general administration, police, fire, public works, parks and recreation, and library. Property taxes, sales taxes, program revenues, and grants finance most of these activities.
- Business-type Activities - The City's Water and Sewer System, Civic Complex and Ice Arena, Ballantrae Golf Club, Racquet Club, 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 15. The fund financial statements provide detailed information about the most significant funds and not the City as a whole. Some funds are required to be established by State law and bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two kinds of funds, governmental and proprietary, use different accounting approaches.

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

## **THE CITY AS A WHOLE**

### **Financial Analysis of the City as a Whole**

#### **Net Position**

The City's combined net position increased by \$3,099,560 from 2012 to 2013. The governmental activities net position increased 3.81%. This increase in governmental activities resulted primarily from increases in sales tax revenues. The increase in business-type activities net position resulted from transfers from the governmental activities.

## GOVERNMENT-WIDE STATEMENTS

The following table reflects the condensed Statement of Net Position:

	Governmental		Business-type		Totals	
	Activities		Activities			
	For the year ended		For the year ended		For the year ended	
	September 30,		September 30,		September 30,	
	2013	2012	2013	2012	2013	2012
<b>Assets</b>						
Current and other assets	\$ 33,763,750	\$ 27,208,773	\$ 9,100,595	\$ 10,423,751	\$ 42,864,345	\$ 37,632,524
Capital assets	28,924,638	30,348,799	69,158,773	70,644,385	98,083,411	100,993,184
Total assets	<u>62,688,388</u>	<u>57,557,572</u>	<u>78,259,368</u>	<u>81,068,136</u>	<u>140,947,756</u>	<u>138,625,708</u>
<b>Liabilities</b>						
Long-term liabilities	14,510,201	12,013,204	34,429,456	37,841,703	48,939,657	49,854,907
Other liabilities	6,542,520	6,104,107	912,526	1,213,201	7,455,046	7,317,308
Total liabilities	<u>21,052,721</u>	<u>18,117,311</u>	<u>35,341,982</u>	<u>39,054,904</u>	<u>56,394,703</u>	<u>57,172,215</u>
<b>Net Position</b>						
Net investment						
in capital assets	18,830,748	20,961,600	35,189,593	33,249,616	54,020,341	54,211,216
Restricted	3,149,257	1,303,479	-	-	3,149,257	1,303,479
Unrestricted	19,655,662	17,175,182	7,727,793	8,763,616	27,383,455	25,938,798
Total net position	<u>\$ 41,635,667</u>	<u>\$ 39,440,261</u>	<u>\$ 42,917,386</u>	<u>\$ 42,013,232</u>	<u>\$ 84,553,053</u>	<u>\$ 81,453,493</u>

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

The City's combined net position increased to \$84,553,053 from \$81,453,493, or 3.81% as a result of the increase in net position of the governmental activities of \$2,195,406 and the increase in net position of business-type activities of \$904,154. The City's unrestricted net position for governmental activities that can be used to finance day-to-day operations was \$19,655,662.

### Changes in Net Position

The governmental activities total revenues increased by 8.69% to \$31,013,086 due primarily to an increase in sales tax revenue. Sales and property taxes account for 74.72% of all governmental activities revenues. The remaining revenues are comprised of charges for services and various other sources. The business-type activities total revenue decreased by 3.46% due primarily to a City ordinance passed in fiscal year 2013 to provide for a sewer rate adjustment for residential customers.

The total cost of all programs and services increased by \$2,114,157. The cost of governmental activities and business-type activities increased by \$1,482,432 and \$631,725, respectively.

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

	Governmental		Business-type		Totals	
	Activities		Activities			
	For the year ended		For the year ended		For the year ended	
	September 30,		September 30,		September 30,	
	2013	2012	2013	2012	2013	2012
<b>Revenues</b>						
<b>Program revenues</b>						
Fees, fines and charges for service	\$ 5,914,501	\$ 5,290,855	\$ 15,476,904	\$ 15,954,705	\$ 21,391,405	\$ 21,245,560
Operating grants and contributions	1,607,306	1,195,524	14,000	14,000	1,621,306	1,209,524
Capital grants and contributions	13,306	349,361	-	37,070	13,306	386,431
<b>General revenues</b>						
Sales taxes	17,862,055	16,117,454	-	-	17,862,055	16,117,454
Property taxes	5,309,928	5,320,435	-	-	5,309,928	5,320,435
Other taxes	210,555	186,530	-	-	210,555	186,530
Interest earnings	95,435	144,205	26,298	76,673	121,733	220,878
(Loss) gain on disposal of capital assets	-	(72,020)	17,477	8,495	17,477	(63,525)
Total revenues	<u>31,013,086</u>	<u>28,532,344</u>	<u>15,534,679</u>	<u>16,090,943</u>	<u>46,547,765</u>	<u>44,623,287</u>
<b>Expenses</b>						
General administration	6,202,154	4,472,908	-	-	6,202,154	4,472,908
Police	7,909,223	7,873,718	-	-	7,909,223	7,873,718
Fire	7,527,585	7,769,222	-	-	7,527,585	7,769,222
Public works	2,795,549	2,814,220	-	-	2,795,549	2,814,220
Parks and recreation	1,068,198	1,076,457	-	-	1,068,198	1,076,457
Library	1,156,910	1,180,125	-	-	1,156,910	1,180,125
Interest on long-term debt	405,567	396,104	-	-	405,567	396,104
Water and Sewer	-	-	8,755,723	8,237,653	8,755,723	8,237,653
Civic Complex and Ice Arena	-	-	2,763,816	2,786,552	2,763,816	2,786,552
Ballantrae Golf Club	-	-	2,518,126	2,370,195	2,518,126	2,370,195
Racquet Club	-	-	1,146,887	1,150,689	1,146,887	1,150,689
Rental Fund	-	-	220,407	276,024	220,407	276,024
Garbage Fund	-	-	978,060	930,181	978,060	930,181
Total expenses	<u>27,065,186</u>	<u>25,582,754</u>	<u>16,383,019</u>	<u>15,751,294</u>	<u>43,448,205</u>	<u>41,334,048</u>
Excess (deficiency) before transfers	3,947,900	2,949,590	(848,340)	339,649	3,099,560	3,289,239
Transfers	(1,752,494)	(1,234,617)	1,752,494	1,234,617	-	-
Change in net position	2,195,406	1,714,973	904,154	1,574,266	3,099,560	3,289,239
Beginning net position	39,440,261	37,725,288	42,013,232	40,438,966	81,453,493	78,164,254
Total net position	<u>\$ 41,635,667</u>	<u>\$ 39,440,261</u>	<u>\$ 42,917,386</u>	<u>\$ 42,013,232</u>	<u>\$ 84,553,053</u>	<u>\$ 81,453,493</u>

## **Governmental Activities**

The change in net position of governmental activities was \$2,195,406, resulting primarily from an increase in sales tax revenue.

## **Business-type Activities**

The change in net position of business-type activities was \$904,154, resulting primarily from transfers from governmental activities.

## **THE CITY'S FUNDS**

### **Governmental Funds**

As of September 30 2013, the Governmental Funds reported a combined fund balance of \$27,223,375, which is 28.22% more than the beginning of the year. The General Fund experienced a net increase of \$5,701,920 resulting primarily from proceeds from issuance of debt and increase in sales tax revenue.

### **Business-type Funds**

As of September 30, 2013, business-type funds reported combined net position of \$42,917,386, which is 2.15% more than the beginning of the year. The business-type funds experienced a net increase of \$904,154, resulting primarily from transfers from the General Fund.

### **General Fund Budgetary Highlights**

General Fund revenues exceeded budget by \$3,507,447, largely due to greater than anticipated sales tax and business license revenue. The revenue budget is based on prior year budgeted revenues and does not factor in any growth. General fund revenues do not include proceeds from debt.

General Fund expenditures were less than budgeted amounts by \$60,933, largely due to employee turnover.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2013, the City had \$98,083,411 invested in a broad range of capital assets, including the Water and Sewer System, Civic Complex and Ice Arena, Racquet Club, Ballantrae Golf Club, fire and police equipment, vehicles, buildings, a library, a senior citizen center, park facilities, streets, and roads. This amount represents a net decrease (including additions, disposals and depreciation) of \$2,909,773, or 2.88% less than last year. The decrease can be attributed to capital asset additions offset by depreciation expense and the sale of surplus capital assets.

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

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Land	\$ 3,196,534	\$ 3,196,534	\$ 13,859,469	\$ 13,859,469	\$ 17,056,003	\$ 17,056,003
Construction in progress	227,409	201,536	2,021,742	728,167	2,249,151	929,703
Infrastructure, net	11,976,339	12,489,256	-	-	11,976,339	12,489,256
System and facilities, net	-	-	52,111,594	54,689,092	52,111,594	54,689,092
Buildings and improvements, net	10,125,150	10,583,100	695,827	732,731	10,820,977	11,315,831
Equipment, net	3,399,206	3,878,373	470,141	634,926	3,869,347	4,513,299
Total capital assets, net	<u>\$ 28,924,638</u>	<u>\$ 30,348,799</u>	<u>\$ 69,158,773</u>	<u>\$ 70,644,385</u>	<u>\$ 98,083,411</u>	<u>\$ 100,993,184</u>

### Long-Term Debt

At September 30, 2013, the City had \$45,619,834 in warrants and notes payable outstanding versus \$46,781,967 at September 30, 2012, a decrease of 2.70%. This decrease resulted primarily from payment of debt.

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

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
General Obligation						
Warrants	\$ 11,548,725	\$ 9,161,219	\$ 33,969,180	\$ 37,394,769	\$ 45,517,905	\$ 46,555,988
Notes payable	101,929	225,979	-	-	101,929	225,979
Totals	<u>\$ 11,650,654</u>	<u>\$ 9,387,198</u>	<u>\$ 33,969,180</u>	<u>\$ 37,394,769</u>	<u>\$ 45,619,834</u>	<u>\$ 46,781,967</u>

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

The City's Mayor, after consulting with the Finance Director, department heads and supervisors, considered many factors when submitting the proposed budget for the fiscal year ending September 30, 2014. The City Council took the Mayor's proposed budget under consideration and after further review and evaluation adopted the fiscal year 2014 budget. Tax rates, anticipated sales tax collections, anticipated expenditures/expenses, prior year actual revenues/expenditures and the overall economy were some of these factors.

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

The City continued to see an increase in commercial development in the area in 2013, and the population continues to grow. The City of Pelham's population increased from 14,369 in the 2000 census to 21,352 in the 2010 census.

These indicators were taken into account when adopting the General Fund budget for the fiscal year ended September 30, 2014. Amounts available for expenditure in the General Fund budget are \$34,049,489 for the fiscal year 2014. The City took into consideration the current year increase in revenue and its effect on the City when budgeting expenditures for the fiscal year 2014.

If these estimates are realized, the City's budgetary fund balance is expected to increase moderately by the close of fiscal year 2014.

## **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's Finance Director at The City of Pelham, P.O. Box 1419, Pelham, Alabama 35124.

**CITY OF PELHAM**  
Statement of Net Position  
September 30, 2013

	<b>Primary Government</b>		
	<b>Governmental</b>	<b>Business-type</b>	<b>Total</b>
	<b>Activities</b>	<b>Activities</b>	
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 15,796,183	\$ 7,129,463	\$ 22,925,646
Investments	3,750,000	-	3,750,000
Accounts receivable	7,090,493	1,185,609	8,276,102
Inventory	-	251,941	251,941
Prepaid expenses	382,447	70,365	452,812
Restricted cash and cash equivalents	4,052,949	-	4,052,949
Warrant issuance costs, current portion	4,316	18,097	22,413
Total current assets	<u>31,076,388</u>	<u>8,655,475</u>	<u>39,731,863</u>
Noncurrent assets			
Restricted cash	-	316,500	316,500
Restricted certificate of deposit	-	56,078	56,078
Restricted due from General Fund	(8,400)	8,400	-
Notes receivable	2,667,308	-	2,667,308
Warrant issuance costs, net of current portion	28,454	64,142	92,596
Nondepreciable capital assets	3,423,943	15,881,211	19,305,154
Depreciable capital assets, net	25,500,695	53,277,562	78,778,257
Total noncurrent assets	<u>31,612,000</u>	<u>69,603,893</u>	<u>101,215,893</u>
Total assets	<u>62,688,388</u>	<u>78,259,368</u>	<u>140,947,756</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	93,864	155,002	248,866
Unearned revenue	5,328,262	16,426	5,344,688
Accrued liabilities	913,993	120,794	1,034,787
Accrued interest payable	28,615	295,404	324,019
Payable from restricted assets - customer deposits	171,486	324,900	496,386
Payable from restricted assets - accrued interest payable	6,300	-	6,300
Current maturities of long-term liabilities			
Warrants payable, net	595,925	4,317,995	4,913,920
Payable from restricted assets, warrants payable, net	315,000	-	315,000
Notes payable	78,417	-	78,417
Compensated absences	759,652	198,052	957,704
Unearned revenue	-	2,724	2,724
Payable from restricted assets - unearned revenue	-	14,000	14,000
Total current liabilities	<u>8,291,514</u>	<u>5,445,298</u>	<u>13,736,812</u>
Noncurrent liabilities			
Warrants payable, net	10,637,800	29,651,185	40,288,985
Notes payable	23,512	-	23,512
Compensated absences	759,652	198,052	957,704
Unearned revenue	-	5,447	5,447
Payable from restricted assets - unearned revenue	-	42,000	42,000
Other post-employment benefits	1,340,243	-	1,340,243
Total noncurrent liabilities	<u>12,761,207</u>	<u>29,896,684</u>	<u>42,657,891</u>
Total liabilities	<u>21,052,721</u>	<u>35,341,982</u>	<u>56,394,703</u>
<b>Net position</b>			
Net investment in capital assets	18,830,748	35,189,593	54,020,341
Restricted for			
Street improvements	174,821	-	174,821
Court	2,840	-	2,840
Police/municipal corrections	582,369	-	582,369
Library	95,168	-	95,168
Capital projects	2,294,059	-	2,294,059
Unrestricted	19,655,662	7,727,793	27,383,455
Total net position	<u>\$ 41,635,667</u>	<u>\$ 42,917,386</u>	<u>\$ 84,553,053</u>

See notes to financial statements.

**CITY OF PELHAM**  
Statement of Activities  
Year Ended September 30, 2013

Program Activities:	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Governmental Activities</b>							
General administration	\$ 6,202,154	\$ 5,697,546	\$ 611,411	\$ -	\$ 106,803	\$ -	\$ 106,803
Police	7,909,223	68,088	145,462	-	(7,695,673)	-	(7,695,673)
Fire	7,527,585	-	6,586	-	(7,520,999)	-	(7,520,999)
Public works	2,795,549	4,500	806,531	13,306	(1,971,212)	-	(1,971,212)
Parks and recreation	1,068,198	112,952	-	-	(955,246)	-	(955,246)
Library	1,156,910	31,415	37,316	-	(1,088,179)	-	(1,088,179)
Interest on long-term debt	405,567	-	-	-	(405,567)	-	(405,567)
<b>Total Governmental Activities</b>	<b>27,065,186</b>	<b>5,914,501</b>	<b>1,607,306</b>	<b>13,306</b>	<b>(19,530,073)</b>	<b>-</b>	<b>(19,530,073)</b>
<b>Business-type Activities</b>							
Water and Sewer	8,755,723	9,271,468	-	-	-	515,745	515,745
Civic Complex and Ice Arena	2,763,816	1,734,420	-	-	-	(1,029,396)	(1,029,396)
Ballantrae Golf	2,518,126	1,970,488	14,000	-	-	(533,638)	(533,638)
Racquet Club	1,146,887	652,543	-	-	-	(494,344)	(494,344)
Rental Fund	220,407	726,511	-	-	-	506,104	506,104
Garbage Fund	978,060	1,121,474	-	-	-	143,414	143,414
<b>Total Business-type Activities</b>	<b>16,383,019</b>	<b>15,476,904</b>	<b>14,000</b>	<b>-</b>	<b>-</b>	<b>(892,115)</b>	<b>(892,115)</b>
<b>Total Primary Government</b>	<b>\$ 43,448,205</b>	<b>\$ 21,391,405</b>	<b>\$ 1,621,306</b>	<b>\$ 13,306</b>	<b>\$ (19,530,073)</b>	<b>\$ (892,115)</b>	<b>\$ (20,422,188)</b>
<b>General revenues and other items:</b>							
Taxes:							
Sales							
					\$ 17,862,055	\$ -	\$ 17,862,055
					5,309,928	-	5,309,928
					210,555	-	210,555
Interest earnings							
					95,435	26,298	121,733
Gain on disposal of capital assets							
					-	17,477	17,477
Transfers in (out)							
					(1,752,494)	1,752,494	-
<b>Total general revenues and other items</b>							
					<b>21,725,479</b>	<b>1,796,269</b>	<b>23,521,748</b>
<b>Change in net position</b>							
					2,195,406	904,154	3,099,560
<b>Net position - beginning of year</b>							
					39,440,261	42,013,232	81,453,493
<b>Net position - end of year</b>							
					<b>\$ 41,635,667</b>	<b>\$ 42,917,386</b>	<b>\$ 84,553,053</b>

See notes to financial statements.

**CITY OF PELHAM**  
 Balance Sheet  
 Governmental Funds  
 September 30, 2013

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 15,796,183	\$ -	\$ 15,796,183
Investments	3,750,000	-	3,750,000
Accounts receivable	7,090,493	-	7,090,493
Prepaid expenditures	382,447	-	382,447
Restricted cash and cash equivalents	2,402,419	1,650,530	4,052,949
	<u>29,421,542</u>	<u>1,650,530</u>	<u>31,072,072</u>
Non-current assets			
Note receivable	2,667,308	-	2,667,308
	<u>2,667,308</u>	<u>-</u>	<u>2,667,308</u>
Total assets	<u>\$ 32,088,850</u>	<u>\$ 1,650,530</u>	<u>\$ 33,739,380</u>
<b>Liabilities and Fund Balance</b>			
Current liabilities			
Accounts payable	\$ 93,864	\$ -	\$ 93,864
Deferred revenue	5,328,262	-	5,328,262
Accrued liabilities	913,993	-	913,993
Payable from restricted assets - due to (from) other governmental funds	(10,374)	18,774	8,400
Payable from restricted assets - deposits	132,223	39,263	171,486
	<u>6,457,968</u>	<u>58,037</u>	<u>6,516,005</u>
Fund balance			
Nonspendable			
Notes receivable	2,667,308	-	2,667,308
Prepaid expenditures	382,447	-	382,447
Restricted for			
Debt service	321,300	-	321,300
Street improvements	-	174,821	174,821
Court	-	2,840	2,840
Police/municipal corrections	-	582,369	582,369
Library	-	95,168	95,168
Capital projects	1,556,764	737,295	2,294,059
Assigned	739,755	-	739,755
Unassigned	19,963,308	-	19,963,308
	<u>25,630,882</u>	<u>1,592,493</u>	<u>27,223,375</u>
Total liabilities and fund balance	<u>\$ 32,088,850</u>	<u>\$ 1,650,530</u>	<u>\$ 33,739,380</u>

See notes to financial statements.

**CITY OF PELHAM**  
 Reconciliation of the Governmental Funds  
 Balance Sheet to the Statement of Net Position  
 September 30, 2013

**Total fund balances - governmental funds** \$ 27,223,375

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

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

Governmental capital assets	50,029,657	
Less accumulated depreciation	(21,105,019)	28,924,638

Loan costs are not capitalized in governmental funds, but rather are recognized as an expenditure when paid.

Loan costs capitalized	39,766	
Less accumulated amortization	(6,996)	32,770

Interest payable is not recognized as an expenditure in governmental funds, but rather is recognized when an expenditure is paid.

(34,915)

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

Warrants payable	(11,548,725)	
Notes payable	(101,929)	
Other post employment benefits payable	(1,340,243)	
Compensated absences	(1,519,304)	(14,510,201)

**Total net position- governmental activities** \$ 41,635,667

See notes to financial statements.

**CITY OF PELHAM**  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Governmental Funds  
Year Ended September 30, 2013

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Operating Revenues</b>			
Taxes			
Sales	\$ 17,862,055	\$ -	\$ 17,862,055
Property	5,309,928	-	5,309,928
Motor vehicle/gas	592,983	163,900	756,883
Other	210,555	-	210,555
Licenses and permits	3,967,741	-	3,967,741
Fines and forfeitures	1,315,074	364,944	1,680,018
Charges for services	202,307	-	202,307
Interest	93,180	2,255	95,435
Other	251,698	676,466	928,164
Total revenues	<u>29,805,521</u>	<u>1,207,565</u>	<u>31,013,086</u>
<b>Expenditures</b>			
<b>Current</b>			
General administration	5,006,004	347,889	5,353,893
Police	7,176,365	240,690	7,417,055
Fire	7,328,572	-	7,328,572
Public works	2,014,357	198,691	2,213,048
Parks and recreation	969,285	-	969,285
Library	1,019,027	39,316	1,058,343
	<u>23,513,610</u>	<u>826,586</u>	<u>24,340,196</u>
<b>Capital outlay</b>	3,209,353	-	3,209,353
<b>Debt service</b>			
Principal retirement	846,494	-	846,494
Interest	532,204	-	532,204
Issuance of debt costs	31,468	-	31,468
	<u>1,410,166</u>	<u>-</u>	<u>1,410,166</u>
<b>Other financing sources (uses)</b>			
Proceeds from sale of capital assets	2,547,633	-	2,547,633
Issuance of debt	2,604,837	-	2,604,837
Issuance of refunding warrants	8,901,737	-	8,901,737
Payment to refunded warrant escrow agent	(8,364,150)	-	(8,364,150)
Transfers out	(1,660,529)	(91,965)	(1,752,494)
	<u>4,029,528</u>	<u>(91,965)</u>	<u>3,937,563</u>
Net changes in fund balance	5,701,920	289,014	5,990,934
Fund balance - beginning of year	<u>19,928,962</u>	<u>1,303,479</u>	<u>21,232,441</u>
Fund balance - end of year	<u>\$ 25,630,882</u>	<u>\$ 1,592,493</u>	<u>\$ 27,223,375</u>

See notes to financial statements.

**CITY OF PELHAM**  
 Reconciliation of the Governmental Funds Statement of Revenues,  
 Expenditures, and Changes in Fund Balances to the Statement of Activities  
 Year Ended September 30, 2013

**Net changes in fund balances - governmental funds** \$ 5,990,934

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

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of those assets  
 is allocated over their estimated useful lives and reported as  
 depreciation expense. This is the amount by which capital outlays  
 exceeded depreciation in the current period.

Capital outlay	3,209,353	
Less depreciation expense	<u>(1,646,215)</u>	1,563,138

The proceeds from the sale of capital assets (\$2,547,633) are reported  
 as other financing sources in the governmental funds. However,  
 the net book value of the capital assets (\$2,987,299) is removed  
 from the capital assets account in the Statement of Net Position  
 and offset against the sales proceeds resulting in a loss in the  
 Statement of Activities of (\$439,666).

(2,987,299)

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

Principal retirement	846,494	
Issuance of long-term debt	(2,604,837)	
Issuance of refunding warrants	(8,901,737)	
Payment to refunded warrant escrow agent	8,364,150	
Bond issuance costs	31,468	
Bond issuance costs amortization expense	<u>(23,379)</u>	(2,287,841)

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

Net decrease in accrued compensated absences	29,946	
Net decrease in post employment benefit payable	(263,488)	
Decrease in accrued interest	<u>150,016</u>	<u>(83,526)</u>

**Change in net position - governmental activities** \$ 2,195,406

See notes to financial statements.

**CITY OF PELHAM**  
**Statement of Proprietary Fund Net Position**  
**Year Ended September 30, 2013**

	<b>Water &amp; Sewer</b>	<b>Civic Complex and Ice Arena</b>	<b>Ballantrae Golf</b>	<b>Other Proprietary Funds</b>	<b>Total Proprietary Funds</b>
<b>Assets</b>					
Current assets					
Cash and cash equivalents	\$ 6,448,151	\$ 27,434	\$ 94,210	\$ 559,668	\$ 7,129,463
Accounts receivable	1,012,699	61,855	52,461	58,594	1,185,609
Inventory	112,853	40,180	80,956	17,952	251,941
Prepaid expenses	31,017	17,324	13,296	8,728	70,365
Warrant issue cost, current portion	11,081	2,841	3,163	1,012	18,097
Total current assets	<u>7,615,801</u>	<u>149,634</u>	<u>244,086</u>	<u>645,954</u>	<u>8,655,475</u>
Non-current assets					
Restricted cash	316,500	-	-	-	316,500
Restricted certificate of deposit	-	-	56,078	-	56,078
Restricted due from General Fund	-	-	-	8,400	8,400
Warrant issue costs, net	38,641	7,382	13,870	4,249	64,142
Non-depreciable assets	2,973,728	9,880	7,463,703	5,433,900	15,881,211
Depreciable capital assets, net	40,239,707	6,018,287	3,567,515	3,452,053	53,277,562
Total noncurrent assets	<u>43,568,576</u>	<u>6,035,549</u>	<u>11,101,166</u>	<u>8,898,602</u>	<u>69,603,893</u>
Total assets	<u>51,184,377</u>	<u>6,185,183</u>	<u>11,345,252</u>	<u>9,544,556</u>	<u>78,259,368</u>
<b>Liabilities</b>					
Current liabilities					
Accounts payable	48,083	4,753	18,611	83,555	155,002
Unearned revenue	-	16,426	-	-	16,426
Accrued liabilities	76,094	3,868	38,392	2,440	120,794
Accrued interest payable	254,413	7,193	6,990	26,808	295,404
Payable from restricted assets - customer deposits	316,500	-	-	8,400	324,900
Current maturities of long-term liabilities					
Warrants payable, net	2,990,353	670,616	537,564	119,462	4,317,995
Compensated absences	75,909	39,765	54,278	28,101	198,052
Unearned revenue	-	-	2,724	-	2,724
Payable from restricted assets - unearned revenue	-	-	14,000	-	14,000
Total current liabilities	<u>3,761,352</u>	<u>742,621</u>	<u>672,559</u>	<u>268,766</u>	<u>5,445,298</u>
Noncurrent liabilities					
Warrants payable, net	19,677,550	3,277,770	5,344,168	1,351,697	29,651,185
Compensated absences	75,909	39,764	54,278	28,101	198,052
Unearned revenue	-	-	5,447	-	5,447
Payable from restricted assets - unearned revenue	-	-	42,000	-	42,000
Total noncurrent liabilities	<u>19,753,459</u>	<u>3,317,534</u>	<u>5,445,893</u>	<u>1,379,798</u>	<u>29,896,684</u>
Total liabilities	<u>23,514,811</u>	<u>4,060,155</u>	<u>6,118,452</u>	<u>1,648,564</u>	<u>35,341,982</u>
<b>Net position</b>					
Net investment in capital assets	20,545,532	2,079,781	5,149,486	7,414,794	35,189,593
Unrestricted	7,124,034	45,247	77,314	481,198	7,727,793
Total net position	<u>\$ 27,669,566</u>	<u>\$ 2,125,028</u>	<u>\$ 5,226,800</u>	<u>\$ 7,895,992</u>	<u>\$ 42,917,386</u>

See notes to financial statements.

**CITY OF PELHAM**  
Statement of Revenues, Expenses, and Changes in  
Proprietary Fund Net Position  
Year Ended September 30, 2013

	<u>Water and Sewer</u>	<u>Civic Complex and Ice Arena</u>	<u>Ballantrae Golf</u>	<u>Other Proprietary Funds</u>	<u>Total Proprietary Funds</u>
<b>Operating Revenues</b>	\$ 9,271,468	\$ 1,734,420	\$ 1,984,488	\$ 2,500,528	\$ 15,490,904
<b>Operating Expenses</b>					
Salaries	1,534,202	984,781	1,039,122	555,760	4,113,865
Employee benefits	328,547	129,056	155,817	91,199	704,619
Payroll taxes	112,723	60,323	79,111	35,849	288,006
Depreciation	2,668,051	284,149	145,249	123,793	3,221,242
Water purchases	998,850	-	-	-	998,850
Contract services - garbage pickup	-	-	-	978,056	978,056
Programs and events	-	337,993	-	65,100	403,093
Utilities and telephone	561,078	304,026	69,229	203,159	1,137,492
Supplies	422,290	124,222	478,327	53,431	1,078,270
Maintenance and repairs	395,444	108,827	133,605	72,976	710,852
Insurance	73,306	50,339	54,717	22,056	200,418
Other	603,783	136,491	100,238	70,245	910,757
Total operating expenses	<u>7,698,274</u>	<u>2,520,207</u>	<u>2,255,415</u>	<u>2,271,624</u>	<u>14,745,520</u>
Operating income	<u>1,573,194</u>	<u>(785,787)</u>	<u>(270,927)</u>	<u>228,904</u>	<u>745,384</u>
<b>Non-Operating Revenues (Expenses)</b>					
Gain on disposal of capital assets	9,672	1,305	6,500	-	17,477
Interest income	25,479	56	335	428	26,298
Interest expense	(1,055,410)	(243,609)	(262,711)	(73,730)	(1,635,460)
Trustee fees	(2,039)	-	-	-	(2,039)
Total non-operating revenues (expenses)	<u>(1,022,298)</u>	<u>(242,248)</u>	<u>(255,876)</u>	<u>(73,302)</u>	<u>(1,593,724)</u>
Income (loss) before transfers	550,896	(1,028,035)	(526,803)	155,602	(848,340)
Interfund transfers in (out)	<u>(714)</u>	<u>1,054,746</u>	<u>767,814</u>	<u>(69,352)</u>	<u>1,752,494</u>
Change in net position	550,182	26,711	241,011	86,250	904,154
Net position, beginning of year	<u>27,119,384</u>	<u>2,098,317</u>	<u>4,985,789</u>	<u>7,809,742</u>	<u>42,013,232</u>
Net position, end of year	<u>\$ 27,669,566</u>	<u>\$ 2,125,028</u>	<u>\$ 5,226,800</u>	<u>\$ 7,895,992</u>	<u>\$ 42,917,386</u>

See notes to financial statements.

**CITY OF PELHAM**  
Statement of Proprietary Fund Cash Flows  
Year Ended September 30, 2013

	<b>Water and Sewer</b>	<b>Civic Complex and Ice Arena</b>	<b>Ballantrae Golf</b>	<b>Other Proprietary Funds</b>	<b>Total Proprietary Funds</b>
<b>Cash Flows from Operating Activities</b>					
Cash received from customers	\$ 9,277,593	\$ 1,699,986	\$ 1,988,870	\$ 2,447,034	\$ 15,413,483
Cash paid to employees	(1,961,003)	(1,243,160)	(1,252,734)	(680,555)	(5,137,452)
Cash paid to suppliers for goods and services	(2,978,923)	(1,098,737)	(875,284)	(1,473,224)	(6,426,168)
Net cash provided (used) by operating activities	4,337,667	(641,911)	(139,148)	293,255	3,849,863
<b>Cash Flows from Noncapital Financing Activities</b>					
Transfers (to) from other funds	-	1,056,414	767,814	(69,352)	1,754,876
Due from General Fund	-	-	-	(5,100)	(5,100)
Net cash provided (used) by noncapital financing activities	-	1,056,414	767,814	(74,452)	1,749,776
<b>Cash Flows from Capital and Related Financing Activities</b>					
Purchase of property, plant, and equipment	(1,691,365)	(61,499)	(11,759)	-	(1,764,623)
Proceeds from sale of capital assets	23,203	1,305	6,500	-	31,008
Principal payments on debt	(3,021,774)	(202,307)	(515,412)	(124,157)	(3,863,650)
Interest payments on debt	(925,447)	(154,661)	(135,891)	(66,986)	(1,282,985)
Trustee fees	(2,039)	-	-	-	(2,039)
Net cash used by capital and related financing activities	(5,617,422)	(417,162)	(656,562)	(191,143)	(6,882,289)
<b>Cash Flows from Investing Activities</b>					
Proceeds from maturity of certificate of deposit	-	-	70,000	-	70,000
Purchase of certificate of deposit	-	-	(56,000)	-	(56,000)
Interest on cash and investments	25,479	56	422	428	26,385
Net cash provided by investing activities	25,479	56	14,422	428	40,385
Net (increase) decrease in cash and cash equivalents	(1,254,276)	(2,603)	(13,474)	28,088	(1,242,265)
Cash and cash equivalents at beginning of year	8,018,927	30,037	107,684	531,580	8,688,228
Cash and cash equivalents at end of year	<u>\$ 6,764,651</u>	<u>\$ 27,434</u>	<u>\$ 94,210</u>	<u>\$ 559,668</u>	<u>\$ 7,445,963</u>

See notes to financial statements.

**CITY OF PELHAM**  
Statement of Proprietary Fund Cash Flows  
Year Ended September 30, 2013  
(Continued)

	Water and Sewer	Civic Complex and Ice Arena	Ballantrae Golf	Other Proprietary Funds	Total Proprietary Funds
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>					
Operating income (loss)	\$ 1,573,194	\$ (785,787)	\$ (270,927)	\$ 228,904	\$ 745,384
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	2,668,051	284,149	145,249	123,793	3,221,242
Bad debt expense	150,299	-	-	-	150,299
(Increase) decrease in:					
Accounts receivable	(27,550)	(5,220)	22,378	(58,594)	(68,986)
Prepaid expenses	(13,496)	(980)	(756)	716	(14,516)
Inventory	982	(2,590)	(25,946)	5,674	(21,880)
Increase (decrease) in:					
Accounts payable	(17,100)	(33,130)	(13,223)	(14,591)	(78,044)
Accrued expenses	(38,345)	(58,066)	(6,367)	(3,637)	(106,415)
Customer deposits	33,675	-	-	5,100	38,775
Unearned revenue	-	(29,339)	(16,724)	-	(46,063)
Compensated absences	7,957	(10,948)	27,168	5,890	30,067
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 4,337,667</u>	<u>\$ (641,911)</u>	<u>\$ (139,148)</u>	<u>\$ 293,255</u>	<u>\$ 3,849,863</u>

	Water and Sewer
<b>Reconciliation of Cash and Cash Equivalents to Statement of Net Position:</b>	
Cash and cash equivalents in current assets	\$ 6,448,151
Restricted cash	<u>316,500</u>
Total cash and cash equivalents	<u>\$ 6,764,651</u>

**Noncash Investing, Capital, and Financing Activities**

Pelham Water and Sewer had amortization of warrant discounts of \$16,345, amortization of warrant premiums of \$40,435, amortization of deferred amounts on refunding of \$158,159, and amortization of warrant issue costs of \$12,400 during the year ended September 30, 2013.

Pelham Water and Sewer issued Series 2013-A warrants in the amount of \$479,196 during the year ended September 30, 2013. The net proceeds were used to refund the Water and Sewer's Series 2001 warrants in the amount of \$475,000. Warrant issue costs in the amount of \$1,653 were incurred.

Pelham Water and Sewer issued Series 2013-D warrants in the amount of \$1,722,602 during the year ended September 30, 2013. The net proceeds were used to partially refund the Water and Sewer's Series 2004 warrants in the amount of \$1,669,816. Warrant issue costs in the amount of \$4,368 were incurred.

See notes to financial statements.

**CITY OF PELHAM**  
Statement of Proprietary Fund Cash Flows  
Year Ended September 30, 2013  
(Continued)

**Noncash Investing, Capital, and Financing Activities - Continued**

Pelham Civic Complex and Ice Arena had amortization of warrant discounts of \$7,060, amortization of deferred amounts on refunding of \$51,938, and amortization of warrant issue costs of \$2,466 during the year ended September 30, 2013.

Pelham Civic Complex and Ice Arena issued Series 2013-D warrants in the amount of \$4,023,518 during the year ended September 30, 2013. The net proceeds were used to partially refund the Civic Complex and Ice Arena's 2004 warrants in the amount of \$3,900,222. Warrant issue costs in the amount of \$10,201 were incurred.

Ballantrae Golf Club had amortization of warrant discounts of \$8,331, amortization of deferred amounts on refunding of \$2,182, and amortization of warrant issue costs of \$4,277 during the year ended September 30, 2013.

Ballantrae Golf Club issued Series 2013-B warrants in the amount of \$6,002,585 during the year ended September 30, 2013. The net proceeds were used to refund the Ballantrae Golf Club's Series 2003 warrants in the amount of \$5,860,000. Warrant issue costs in the amount of \$17,310 were incurred.

Pelham Racquet Club had amortization of warrant discounts of \$1,505, amortization of warrant premiums of \$4,827, amortization of deferred amounts on refunding of \$10,912, and amortization of warrant issue costs of \$1,107 during the year ended September 30, 2013.

See notes to financial statements.

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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 are prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The City's reporting entity applies all relevant GASB pronouncements. In preparing the financial statements, management evaluated subsequent events through May 22, 2014, the date the financial statements were available to be issued. The more significant of these accounting policies are described below.

**Financial Reporting Entity**

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity include whether:

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

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

**Government-Wide and Fund Financial Statements**

The basic financial statements are presented at both the government-wide (based on the City as a whole) and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Government-Wide and Fund Financial Statements - Continued**

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

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

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

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

**Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded. The government-wide financial statements are presented on a full accrual basis of accounting with an economic resource measurement focus. An economic resource focus concentrates on an entity or fund's net position. All transactions and events that affect the total economic resources (net position) during the period are reported. Economic resources measurement focus is connected with the full accrual basis of accounting.

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Measurement Focus and Basis of Accounting - Continued**

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

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

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

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of operating income and changes in net financial position and cash flows. All assets and liabilities are included on the Statement of Net Position. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Basis of Presentation - Fund Level Financial Statements**

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

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

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

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

The City reports the following major proprietary funds:

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

**Pelham Civic Complex and Ice Arena** - To account for providing goods and services to the general public. The Civic Complex and Ice Arena can be used for skating, ice events, trade shows, banquets, and other events. Activities of the fund include administration, operation and maintenance of the complex and ice arena, billing, and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for Civic Complex and Ice Arena debt.

**Ballantrae Golf Club** - To account for providing goods and services to the general public. Ballantrae Golf Club is a full service golf course. Activities of the fund include administration, operation and maintenance of the golf course and facilities, billing, and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for Golf Club debt.

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Basis of Presentation - Fund Level Financial Statements - Continued**

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

**Rental Fund** - To account for rental services provided to certain local businesses and residents of a mobile home park. Activities of the fund include administration and billing and collections of fees related to rent, vending and other services provided.

**Pelham Racquet Club** - To account for providing goods and services to the general public. The Racquet Club is a full service tennis facility. Activities of the fund include administration, operation and maintenance of the facilities, billing, and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for Racquet Club debt.

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

**Use of Estimates**

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

**Cash and Cash Equivalents**

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

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

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Allowance for Uncollectible Accounts**

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

**Inventory**

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

**Prepaid Expenses**

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

**Amortization of Warrant Issuance Costs**

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

**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.

**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.

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Capital Assets**

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

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

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

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

**Unearned Revenue**

Governmental funds and statement of net position report unearned 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 are not yet recognizable.

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

**Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column of the statement of net position. Warrant premiums and discounts, deferred amounts on refunding, and issuance costs are deferred and amortized over the life of the warrants using the warrant outstanding method. Warrants payable are reported net of the applicable warrant premium or discount and deferred amounts on refunding.

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

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Compensated Absences**

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

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

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

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

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

**Other Post-employment Benefit Obligations**

The City is required to report the City's actuarially determined net OPEB obligation as a long-term liability in the government-wide financial statements (See Note 16).

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Net Position**

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

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

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

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

**Fund Equity**

The City is required to present fund balance in five categories. The fund balance categories are:

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

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

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

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

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

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

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Property Taxes**

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

**NOTE 2 - TRUSTEED FUND ASSETS**

In accordance with the provisions of the General Obligation Warrant issues, the City is required to make payments to trustee accounts for semi-annual interest and principal maturities. As of September 30, 2013, \$321,300 had been accumulated in the trustee accounts for this purpose and is included in restricted cash and cash equivalents on the statement of net position. The trustee accounts are invested by banks' trust departments in U.S. Government Securities and are not subject to collateralization requirements.

**NOTE 3 - INVESTMENTS**

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

As of September 30, 2013, the City had the following investments, which were reported at fair value in governmental activities:

Type of Investment	Fair Value	Investment Maturity		
		10/1/2013 to 3/31/14	4/1/2016 9/30/16	4/1/2018 9/30/18
Certificate of Deposit	\$ 3,750,000	\$ 3,250,000	\$ 250,000	\$ 250,000

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.

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 3 - 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, 2013, were insured.

**NOTE 4 - RECEIVABLES**

Receivables consisted of the following at September 30, 2013:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Taxes			
Sales	\$ 1,972,152	\$ -	\$ 1,972,152
Property	5,300,713	-	5,300,713
Customers	-	1,335,908	1,335,908
Gross Receivables	7,272,865	1,335,908	8,608,773
Less: Allowance for doubtful accounts	(182,372)	(150,299)	(332,671)
Net Receivables	<u>\$ 7,090,493</u>	<u>\$ 1,185,609</u>	<u>\$ 8,276,102</u>

**NOTE 5 - NOTE RECEIVABLE**

On July 30, 2013, the City entered into a note receivable agreement with Summer Classic Properties, LLC (the Company) to provide the Company with funding for the purchase and development of property within the City. The City agreed to advance the Company up to \$3,275,000, with principal due at maturity (August 2021) and interest due monthly on the unpaid balance as follows: a) for the period commencing July 2013 through, and including, July 2017, at a rate of three percent (3.00%) per year; and (b) for the period commencing August 2017, through and including, August 2021, at a rate of four percent (4.00%) per year. The note is secured by the property.



**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 6 - CAPITAL ASSETS - Continued**

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

**Governmental activities**

General administration	\$ 146,220
Police	506,064
Fire	237,178
Public works	567,273
Parks and recreation	97,732
Library	91,748
	<u>\$ 1,646,215</u>

**Business-type activities**

Water and Sewer	\$ 2,668,051
Civic Complex	284,149
Ballantrae Golf Club	145,249
Rental Fund	8,528
Racquet Club	115,265
	<u>\$ 3,221,242</u>

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 7 - LONG-TERM DEBT**

The general obligation warrants payable consisted of the following at September 30, 2013:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>
Series 2004 General Obligation Warrants, dated March 1, 2004, due in semi-annual payments through December 1, 2020, bearing interest rates of 2.00% to 4.00%	\$ 16,078	\$ 288,922
Series 2005 General Obligation Warrants, dated October 1, 2005, due in semi-annual payments through October 1, 2030, bearing interest rates of 3.25% to 4.38%	315,000	-
Series 2006-A General Obligation Warrants, dated December 1, 2006, due in semi-annual payments through November 1, 2021, bearing interest rates of 3.50% to 4.00%	181,196	6,723,804
Series 2006-B General Obligation Warrants, dated December 1, 2006, due in semi-annual payments through November 1, 2022, bearing interest rates of 3.75% to 4.00%	283,612	7,381,388
Series 2010-A General Obligation Warrants, dated August 13, 2010, due in semi-annual payments through August 15, 2019, bearing an interest rate of 2.57%	-	3,460,000
Series 2010-B General Obligation Warrants, dated August 13, 2010, due in semi-annual payments through August 15, 2019, bearing an interest rate of 2.57%	-	4,940,000
Series 2013-A General Obligation Warrants, dated August 8, 2013, due in semi-annual payments through August 8, 2014, bearing an interest rate of 1.04%	-	439,453
Series 2013-B General Obligation Warrants, dated August 8, 2013, due in semi-annual payments through August 8, 2023, bearing an interest rate of 1.92%	1,493,451	5,957,172

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 7 - LONG-TERM DEBT - Continued**

The general obligation warrants payable consisted of the following at September 30, 2013 (continued):

	<b>Governmental Activities</b>	<b>Business-type Activities</b>
Series 2013-C General Obligation Warrants, dated August 8, 2013, due in semi-annual payments through August 8, 2029, bearing an interest rate of 2.47%	\$ 8,545,485	\$ -
Series 2013-D General Obligation Warrants, dated September 3, 2013, due in semi-annual payments through September 8, 2020, bearing an interest rate of 1.72%	319,762	5,746,120
Series 2013-A Taxable General Obligation Warrants, dated July 30, 2013, due in monthly payments through August 1, 2021, bearing interest rates of 3.00% to 4.00%	1,000,000	-
Series 2013-B Taxable General Obligation Warrants, dated July 30, 2013, due in monthly payments through August 1, 2021, bearing interest rates of 3.00% to 4.00%	100,000	-
<b>Total warrants payable</b>	<b>12,254,584</b>	<b>34,936,859</b>
Less deferred amounts for:		
Unmortized discounts (2004)	(63)	(1,136)
Unmortized discounts (2006A)	(859)	(31,882)
Unmortized discounts (2006B)	(1,344)	(34,993)
Unmortized premiums (2006A)	2,767	102,704
Unmortized premiums (2006B)	4,291	111,688
Unmortized deferred amount on refunding (2004)	-	(5,778)
Unmortized deferred amount on refunding (2006A)	-	(670,519)
Unmortized deferred amount on refunding (2010A)	-	(8,836)
Unmortized deferred amount on refunding (2010B)	-	(21,335)
Unmortized deferred amount on refunding (2013A)	-	(3,591)
Unmortized deferred amount on refunding (2013B)	-	(75,440)
Unmortized deferred amount on refunding (2013C)	(704,485)	-
Unmortized deferred amount on refunding (2013D)	(6,166)	(328,561)
<b>Total warrants payable, net</b>	<b>\$ 11,548,725</b>	<b>\$ 33,969,180</b>

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 7 - LONG-TERM DEBT - Continued**

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 992,390	\$ 297,468	\$ 4,535,841	\$ 1,005,624
2015	683,376	274,748	3,915,527	892,200
2016	693,594	258,176	4,049,783	780,533
2017	717,183	242,638	4,166,466	655,234
2018	728,256	233,854	4,326,478	520,479
2019-2023	4,865,905	756,038	13,942,764	969,975
2024-2028	2,985,459	263,883	-	-
2029-2033	588,421	7,292	-	-
	<u>\$ 12,254,584</u>	<u>\$ 2,334,097</u>	<u>\$ 34,936,859</u>	<u>\$ 4,824,045</u>

Notes payable consisted of the following at September 30, 2013:

	<u>Governmental Activities</u>
1.75% note payable - bank, due in thirty-six monthly payments of \$4,548 including interest, final unpaid balance due March 2014, secured by vehicles	\$ 22,669
1.75% note payable - bank, due in thirty-six monthly payments of \$4,548 including interest, final unpaid balance due February 2015, secured by vehicles	79,260
Total Notes Payable	<u>\$ 101,929</u>

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 7 - LONG-TERM DEBT - Continued**

Principal and interest requirements of notes payable for governmental activities consisted of the following for the year ending September 30:

	<b>Principal</b>	<b>Interest</b>
2014	\$ 78,417	\$ 1,040
2015	23,512	103
	\$ 101,929	\$ 1,143

Changes in long-term liabilities for governmental activities consisted of the following at September 30, 2013:

<b>Governmental Activities</b>	<b>October 1, 2012</b>	<b>Additions</b>	<b>Retirements</b>	<b>September 30, 2013</b>	<b>Due within one year</b>
Warrants and notes payable:					
Notes Payable	\$ 225,979	\$ -	\$ 124,050	\$ 101,929	\$ 78,417
General Obligation Warrants	9,237,354	11,506,574	8,489,344	12,254,584	992,390
	9,463,333	11,506,574	8,613,394	12,356,513	1,070,807
Less: bond discounts, premiums, and deferred amounts on refundings					
	(76,135)	(717,713)	(87,989)	(705,859)	(81,465)
Total warrants and notes payable	9,387,198	10,788,861	8,525,405	11,650,654	989,342
Other liabilities:					
Other Post Employment Benefit Payable	1,076,755	263,488	-	1,340,243	-
Compensated Absences	1,549,250	1,193,215	1,223,161	1,519,304	759,652
	\$ 12,013,203	\$ 12,245,564	\$ 9,748,566	\$ 14,510,201	\$ 1,748,994

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 7 - LONG-TERM DEBT - Continued**

Changes in long-term liabilities for business-type activities consisted of the following at September 30, 2013:

<u>Business-type Activities</u>	<u>October 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2013</u>	<u>Due within one year</u>
Warrants payable:					
General Obligation Warrants	\$ 38,477,646	\$ 12,227,901	\$ 15,768,688	\$ 34,936,859	\$ 4,535,841
Less: bond discounts, premiums, and deferred amounts on refundings	(1,082,877)	(418,005)	(533,203)	(967,679)	(217,846)
Total warrants and notes payable	<u>37,394,769</u>	<u>11,809,896</u>	<u>15,235,485</u>	<u>33,969,180</u>	<u>4,317,995</u>
Other liabilities:					
Compensated Absences	366,039	273,383	243,317	396,105	198,053
Unearned Revenue	80,895	-	16,724	64,171	16,724
	<u>\$ 37,841,703</u>	<u>\$ 12,083,279</u>	<u>\$ 15,495,526</u>	<u>\$ 34,429,456</u>	<u>\$ 4,532,772</u>

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

**NOTE 8 - DEFEASANCE OF DEBT**

On August 8, 2013, the City's Series 2005 general obligation warrants were defeased by placing the proceeds of new warrants in an irrevocable trust escrow account held and managed by bank trustees, and invested in U.S. Treasury obligations, the principal and interest on which would provide amounts sufficient to pay the principal and interest on the defeased warrants. Accordingly, the trust escrow account and the defeased warrants are not included in the City's financial statements. The defeased warrants outstanding considered extinguished and related escrow account balance at September 30, 2013 are as follows:

	<u>Defeased Warrants Outstanding</u>	<u>Escrow Account Balance</u>
General Obligation Warrants - Series 2005	\$ 7,770,000	\$ 8,503,270

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 8 - DEFEASANCE OF DEBT - Continued**

The advance refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$711,405. This difference, reported in the accompanying financial statements as a deduction from warrants payable, is being charged to the operations through the year ended September 30, 2029, using the weighted average method. The City completed the advance refunding to reduce interest rates. The refunding decreased the City's total debt service payments by \$769,261. The transaction resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$166,528.

**NOTE 9 - COMMITMENTS**

The City leases certain office and park equipment and golf carts and golf course maintenance equipment under noncancelable operating lease agreements. Rent expense paid under the lease agreements during the year ended September 30, 2013 totaled \$57,041 for governmental activities and \$79,759 for business type activities, respectively. Future minimum lease payments due under operating lease agreements consisted of the following for the year ending September 30:

	Governmental Activities	Business-type Activities	Total
2014	\$ 51,568	\$ 85,050	\$ 136,618
2015	37,243	44,896	82,139
2016	32,039	23,414	55,453
2017	-	270	270
	<u>\$ 120,850</u>	<u>\$ 153,630</u>	<u>\$ 274,480</u>

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 10 - DEFINED BENEFIT PENSION PLAN**

The City of Pelham is a participant in The Employees' Retirement System of Alabama (the System). All full-time employees of the City, who elected when the City initially joined, participate in the System that is an agent multiple-employer public employee retirement system. The System acts as a common investment and administrative agent for the various state agencies and departments.

Contributions into the retirement program for the employee and the City are based upon the employees' compensation, which is determined by the City Council. The payroll for all employees covered by the System for the fiscal year ended September 30, 2012 (the last year for which actuarial statements are available) was \$16,495,420. While all new full-time employees (except those who are 60 years of age or over at the time of initial employment) are automatically enrolled as active members of the System, temporary and part-time employees are also eligible to participate.

The City assumes pension or retirement liability only for those employees required by state statute to participate in the System. Regular covered employees are required to contribute five percent of their salary to the plan, while the contribution rate for certified full-time firefighters and law enforcement officers is six percent of employee compensation. The City is required to contribute the remaining amounts necessary to pay benefits when due, as determined by actuarial computations.

Substantially, all employees are members of the System. Membership is mandatory for covered or eligible employees of the City. Vested employees may retire at or after age 60 or at any age if they have completed 25 years of credited service and receive full benefits. Employees have the option of retiring before age 60 and receiving retirement benefits at reduced rates. 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 benefit in the amount of the annual salary for the fiscal year preceding death is provided to plan members.

The System acts only in an administrative capacity. It does not undertake to fund the retirement plan; neither is the System liable for contributions to the plan. The System is not obligated to pay benefits for which reserves have not been previously contributed by the City and its employees. Contribution provisions to the System are irrevocable to the City and its employees unless the City elects to withdraw from the System by mutual agreement with its employees. The City is also obligated to appropriate funds to the System sufficient to provide reserves to existing retirees and beneficiaries from the City if withdrawal from the System occurs. Investments are not specifically assigned to individual employer organizations; however, each employer is treated individually in determining assets available to pay benefits and pension benefit obligations.

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 10 - DEFINED BENEFIT PENSION PLAN - Continued**

The 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 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 of the System the authority to accept or reject various Cost-Of-Living-Adjustments (COLAs) granted to retirees.

Effective June 1, 2002, the City elected to participate in the System's Deferred Retirement Option Plan (DROP), which allowed employees eligible for service retirement to defer the receipt of their monthly retirement benefits for a three to five-year period. During that period, eligible employees could continue in active service while their deferred monthly retirement benefits and current retirement deferrals were deposited into a DROP account to earn additional benefits. At the end of the DROP period, the employees could elect to receive the balance in their DROP account lump-sum or have it added to their regular retirement benefits. The DROP program was closed to new applicants after March 24, 2011.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36104-0001.

The actuarially accrued liability exceeded the actuarial value of assets by \$17,904,795 at September 30, 2012, the date of the most recent actuarial valuation. The significant assumptions used in the valuation are as follows:

1. The valuation was prepared using the entry age normal actuarial cost method.
2. The actuarial value of assets was determined using the five-year smoothed market method.
3. An 8.00% interest rate, including inflation at 3.00%, was used for determining a return of the investment of present and future assets of the System.
4. Since the previous valuation, there have been no changes in the actuarial-cost method and there have been no amendments to the System affecting the valuation.
5. Actuarial gains and losses are reflected in the unfunded actuarial accrued liability, which is being amortized within a twenty-two year period using the level percent open method.

The System's funding policy provides for actuarially determined contribution requirements based on the projected benefit basis. The significant actuarial assumptions used for this purpose are not the same as those used to compute the pension benefit obligations. The employer contribution required to support the benefit is determined by using a level-funding approach, and consists of a normal contribution and an accrued-liability contribution.

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 10 - DEFINED BENEFIT PENSION PLAN - Continued**

The entry-age-normal method is used to compute the normal contribution (or cost). The method provides for a uniform or constant percentage rate to be applied to compensation of members which, when averaged over anticipated covered service and included with the members' contributions, will meet the cost of all benefits payable.

The unfunded accrued liability contribution (or cost) is determined by subtracting the present value of prospective employer normal contributions and member contributions together with the current assets held from the present value of expected benefits to be paid from the System. The unfunded accrued liability is being amortized over a rolling thirty-year period. The significant assumptions used by the System to support the funding policy are as follows:

1. A rate of return of 8.00%, including inflation at 3.00%, per annum compounded annually on the investment of present and future assets.
2. Projected salary increases, based on age, ranging from 3.75% to 7.25%, including inflation at 3.00%.
3. Probabilities of a member's death, disability, withdrawal, and service retirements based on age and gender.

The contribution based on the System's funding policy for the year ended September 30, 2013 was made in accordance with an actuarial valuation performed as of September 30, 2012. Based on the System's confirmation, required contribution rates consisted of two tiers. Contribution rates for tier one employees (applicable to all members hired before January 1, 2013) consisted of (a) employees' contributions of five percent (six percent for certified full-time firefighters and law enforcement officers) of covered payroll; (b) normal cost of 2.84% of covered payroll; (c) administrative and other costs of 8.43% of covered payroll. In aggregate, the City contributed 11.27% of covered payroll for tier one employees. Contribution rates for tier two employees (applicable to all members hired on or after January 1, 2013) consisted of (a) employees' contributions of six percent (seven percent for certified full-time firefighters and law enforcement officers) of covered payroll; (b) employer contributions of 8.97% of covered payroll. The City contributed \$1,857,062 to the plan during the year ended September 30, 2013.

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 10 - DEFINED BENEFIT PENSION PLAN - Continued**

Trend information for the retirement plan was as follows:

<b>Fiscal Year Ending</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation (NPO)</b>
9/30/2012	\$ 1,874,710	100%	\$ -
9/30/2011	\$ 2,167,574	100%	\$ -
9/30/2010	\$ 1,989,026	100%	\$ -

As of September 30, 2012, the most recent actuarial valuation date, the plan was 67.70% funded. The actuarial accrued liability for benefits was \$55,453,858, and the actuarial value of assets was \$37,549,063, resulting in an unfunded actuarial accrued liability (UAAL) of \$17,904,795. The covered payroll was \$16,495,420, and the ratio of the UAAL to the covered payroll was 108.50%.

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

**NOTE 11 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund payables and receivables consisted of the following at September 30, 2013:

	<b>Interfund Receivables (Payables)</b>
General Fund	\$ (10,374)
Special Revenue	18,774
Rental Fund	(8,400)
	<u>\$ -</u>

Interfund payables and receivables resulted from reimbursements made by the General Fund to the Special Revenue for various operating expenses. Interfund payables from the General Fund to the Rental Fund were for refundable customer deposits, held by the General Fund for the Rental Fund.

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 11 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued**

Interfund transfers consisted of the following during the year ended September 30, 2013:

	<b>Transfers In</b>				<b>Net Transfers Out</b>
	<b>General Fund</b>	<b>Civic Complex</b>	<b>Racquet Club</b>	<b>Ballantrae Golf</b>	
<b>Transfers Out</b>					
General Fund	\$ -	\$ 991,656	\$ 485,233	\$ 767,814	\$ 2,244,703
Special Revenue	28,875	63,090	-	-	91,965
Water & Sewer	714	-	-	-	714
Garbage Fund	48,560	-	-	-	48,560
Rental Fund	506,025	-	-	-	506,025
<b>Net Transfers In</b>	<b>\$ 584,174</b>	<b>\$ 1,054,746</b>	<b>\$ 485,233</b>	<b>\$ 767,814</b>	<b>\$ 2,891,967</b>

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

**NOTE 12 - CONTINGENCIES**

The City is involved in various claims and lawsuits, both for and against the City, arising in the normal course of business. Litigation is subject to inherent uncertainties and were an unfavorable ruling to occur, there exists the possibility of material adverse impact on the operations for the period in which the ruling occurs. As of September 30, 2013, the City has accrued a contingent liability of \$549,227 related to existing litigation.

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.

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 12 - CONTINGENCIES - Continued**

The City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed or not incurred in a timely manner under the terms of the grant. City management believes such disallowances, if any, would be immaterial.

**NOTE 13 - 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 health insurance coverage. 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 years of service and retirement eligibility, the employee will have the option of COBRA insurance or health insurance coverage through the City for eighteen months. After that period, the employee is responsible for his/her own insurance coverage cost and risk. Upon an employee's eligibility to receive a retirement check, he/she may opt for standard retiree City health insurance coverage.

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

**Plan Description**

The City of Pelham's medical benefits are provided through a comprehensive medical plan and are made available to employees upon actual retirement. The earliest retirement eligibility provisions are as follows: 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 trends. 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 benefit costs until they become retirees and begin receiving benefits. The plan provisions and contribution rates are contained in the official plan documents.

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 13 - OTHER POST-EMPLOYMENT BENEFITS - Continued**

**Fund Policy**

Until 2008, the City of Pelham recognized the cost of providing post-employment medical benefits (the City of Pelham's portion of the retiree medical benefit premium) 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. For the year ended September 30, 2013, the City's portion of health care and dental funding cost for retired employees totaled \$368,747. Effective October 1, 2008, 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, 2013, the City's portion of health care and dental funding cost for retired employees totaled \$368,747. These amounts were applied toward the net OPEB obligation.

**Annual Required Contribution**

The City of Pelham's annual required contribution (ARC) is an amount actuarially determined. The ARC is the sum of the normal cost plus the contribution to amortize the unfunded actuarial accrued liability (UAAL). A level dollar, open amortization period of 30 years, the maximum amortization period allowed, has been used for the post-employment benefits. The actuarially computed ARC for the fiscal year beginning October 1, 2012 is as follows:

Normal cost	\$ 227,630
30-year UAAL amortization amount	423,803
Annual required contribution (ARC)	<u>\$ 651,433</u>

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 13 - OTHER POST-EMPLOYMENT BENEFITS - Continued**

**Net Post-Employment Benefit Obligation**

The City's Net Other Post-employment Benefit (OPEB) Obligation for fiscal year ending September 30, 2013 was as follows:

Beginning Net OPEB Obligation - September 30, 2012	\$ 1,076,755
Annual required contribution	651,433
Interest on Net OPEB Obligation	43,070
ARC Adjustment	(62,269)
OPEB Cost	<u>632,234</u>
Contribution	-
Current year retiree premium	<u>(368,746)</u>
Change in Net OPEB Obligation	<u>263,488</u>
Ending Net OPEB Obligation - September 30, 2013	<u><u>\$ 1,340,243</u></u>

The City's annual other post-employment benefits (OPEB) cost, percentage of the cost contributed and the net unfunded OPEB liability trend information was as follows:

<b>Other Post- Employment Benefit</b>	<b>Year Ending September 30,</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation (NPO)</b>
Medical/Dental	2013	\$ 632,234	58.32%	\$ 1,340,243
Medical/Dental	2012	\$ 612,004	55.79%	\$ 1,076,755
Medical/Dental	2011	\$ 573,019	42.09%	\$ 806,183

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 13 - OTHER POST-EMPLOYMENT BENEFITS - Continued**

**Funded Status and Funding Progress**

For the year ended September 30, 2013, the City of Pelham made no contributions to its post-employment benefits plan. The plan was not funded, had no assets, and had a funded ratio of zero. Based on the October 1, 2011 actuarial valuation (the most recent actuarial valuation), the projected actuarial accrued liability (AAL) at September 30, 2013 was \$7,328,215, which is defined as that portion, as determined by the projected 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 2013, the entire actuarial accrued liability of \$7,328,215 was unfunded. The covered payroll was \$16,495,420, and the ratio of the UAAL to the covered payroll was 44.43%.

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.

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 projected 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.

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 13 - OTHER POST-EMPLOYMENT BENEFITS - Continued**

**Actuarial Value of Plan Assets**

Since the plan has not been funded, there are no assets. It is anticipated that in future valuations, should funding take place, a smoothed market value 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 group are below.

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

**Post-employment Benefit Plan Eligibility Requirements**

Based on past experience, it has been assumed that entitlement to benefits for future retirees will commence five years after earliest eligibility to retire, as described under the heading "Plan Description," but not before attainment of age 60. The minimum age 60 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 continues through Medicare to death.

**Investment Return Assumption (Discount Rate)**

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. Based on the assumption that the ARC will not be funded, a 4% annual investment return has been used in this valuation.

**CITY OF PELHAM**  
Notes to Financial Statements  
September 30, 2013  
(Continued)

**NOTE 13 - OTHER POST-EMPLOYMENT BENEFITS - Continued**

**Health Care Cost Trend Rate**

The expected rate of increase in medical cost is based on projections performed by the Office of the Actuary at the Centers for Medicare & Medicaid Services as published in National Health Care Expenditures Projections: 2003 to 2013, Table 3: National Health Expenditures, Aggregate and per Capita Amounts, Percent Distribution and Average Annual Percent Change by Source of Funds: Selected Calendar Years 1990-2013, released in January 2004 by the Health Care Financing Administration ([www.cms.hhs.gov](http://www.cms.hhs.gov)). “State and Local” rates for 2008 through 2013 from this report were used, with rates beyond 2013 graduated down to an ultimate annual rate of 5.00% for 2016 and later.

**Mortality Rate**

The 1994 Group Annuity Reserving (94GAR) table, projected to 2002, based on a fixed blend of 50.00% of the unloaded male mortality rate and 50.00% of the unloaded female mortality rates was used. The 94GAR table is a published mortality table which was designed 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 or after age 60, and 50% for those retiring before age 60. The gross rates provided were “unblended” rates required by GASB 45 for valuation purposes.

**Inflation Rate**

Both the investment return assumption and the health care cost trend rates include an implicit inflation assumption of 2.50% annually.

**Projected Salary Increases**

The plan assumption does not include a projected salary increase, since neither the benefit structure nor the valuation methodology involves salary.

**Post-retirement Benefit Increases**

The plan benefit provisions in effect for retirees as of the valuation date have been used and it has been assumed, for valuation purposes, that there will not be any changes in the future.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF PELHAM**  
Schedules of Funding Progress  
For the Year Ended September 30, 2013

**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)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of covered payroll ((b-a)/(c))
9/30/2010	\$33,888,488	\$55,695,437	\$21,806,949	60.8%	\$17,057,626	127.8%
9/30/2011	35,468,958	57,771,595	22,302,637	61.4%	17,478,629	127.6%
9/30/2012	37,549,063	55,453,858	17,904,795	67.7%	16,495,420	108.5%

*For information regarding assumptions and amortization methods, see Note 10.*

**City of Pelham Employee 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))
10/1/2010	\$ -	\$ 6,404,399	\$ 6,404,399	0.0%	\$17,057,626	37.5%
10/1/2011	-	7,046,361	7,046,361	0.0%	17,478,629	40.3%
10/1/2012	-	7,328,215	7,328,215	0.0%	16,495,420	44.4%

*For information regarding assumptions and amortization methods, see Note 13.*

**CITY OF PELHAM**  
 Budgetary Comparison Schedule - General Fund  
 Year ended September 30, 2013

	<b>Budgeted - Original and Final</b>	<b>Actual GAAP Basis</b>	<b>Adjustments to Budgetary Basis</b>	<b>Actual - Budgetary Basis</b>
<b>Operating Revenues:</b>				
Taxes:				
Sales	\$ 14,582,500	\$ 17,862,055	\$ (602,364)	\$ 17,259,691
Property	5,150,000	5,309,928	8,550	5,318,478
Motor Vehicle/Gas	580,000	592,983	(523)	592,460
Other	141,750	210,555	(411)	210,144
Licenses and Permits	3,690,100	3,967,741	-	3,967,741
Fines and Forfeitures	472,500	1,315,074	-	1,315,074
Charges for services	182,185	202,307	(30)	202,277
Interest	150,000	93,180	-	93,180
Other	818,665	251,698	64,404	316,102
Total Revenues	<u>25,767,700</u>	<u>29,805,521</u>	<u>(530,374)</u>	<u>29,275,147</u>
<b>Expenditures:</b>				
<b>Current</b>				
General Administration	3,869,145	5,006,004	(538,300)	4,467,704
Police	7,675,112	7,176,365	44,086	7,220,451
Fire	7,477,545	7,328,572	41,688	7,370,260
Public Works	2,120,148	2,014,357	18,004	2,032,361
Parks and Recreation	981,905	969,285	7,184	976,469
Library	1,029,658	1,019,027	6,308	1,025,335
	<u>23,153,513</u>	<u>23,513,610</u>	<u>(421,030)</u>	<u>23,092,580</u>
<b>Capital outlay</b>	33,000	3,209,353	-	3,209,353
<b>Debt service</b>				
Principal retirement	876,953	846,494	-	846,494
Interest	-	532,206	-	532,206
Issuance of debt costs	-	31,468	-	31,468
	<u>876,953</u>	<u>1,410,168</u>	<u>-</u>	<u>1,410,168</u>
<b>Other financing sources (uses)</b>				
Proceeds from sale of capital assets	-	2,547,633	-	2,547,633
Proceeds from issuance of debt	-	2,604,837	-	2,604,837
Proceeds of refunding warrants	-	8,901,738	-	8,901,738
Payment to refunded warrant escrow agent	-	(8,364,149)	-	(8,364,149)
Transfers (out) in	(1,943,435)	(1,660,529)	-	(1,660,529)
	<u>(1,943,435)</u>	<u>4,029,530</u>	<u>-</u>	<u>4,029,530</u>
Net changes in fund balance	<u>\$ (239,201)</u>	<u>\$ 5,701,920</u>	<u>\$ (109,344)</u>	<u>\$ 5,592,576</u>

**CITY OF PELHAM**  
Notes to Required Supplementary Information  
Year ended September 30, 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT BUDGETARY PRACTICES**

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

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

**STATISTICAL INFORMATION**

**(UNAUDITED)**

**CITY OF PELHAM**  
Assessed Value of Taxable Property  
Year ended September 30, 2013 (UNAUDITED)

	Property Assessed Value (after exemptions)	Motor Vehicles	Total
2013	\$ 361,211,000	\$ 55,104,830	\$ 416,315,830
2012	343,448,440	52,680,940	396,129,380
2011	345,077,300	49,913,860	394,991,160
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

**CITY OF PELHAM**  
Top Ten Property Taxpayers  
Year ended September 30, 2013 (UNAUDITED)

The City's top ten property taxpayers and amounts paid by each during the year ended September 30, 2013 consisted of the following:

Colonial Pipeline Company	\$	306,181
Alabama Power Company		146,866
Edwin B. Lumpkin Jr.		58,559
Vulcan Threaded Products, Inc.		46,943
Wal-Mart Real Estate Business Trust		41,965
BellSouth Telecommunications LLC D/B/A AT&T Alabama		36,018
Huntley Hall Apartments, Ltd.		32,240
Industrial Development Board of Pelham		27,723
Amerisource Bergen Drug Corporation		20,847
Birmingham Realty Co.		20,467

**CITY OF PELHAM**  
Water and Sewer System Customer Information  
Year ended September 30, 2013 (UNAUDITED)

The numbers of Water and Sewer System customers consisted of the following for the year ended September 30:

	<u>Water</u>	<u>Sewer</u>
2013	11,874	6,821
2012	11,717	6,805
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, using average amount paid monthly, of the Sewer System for the year ended September 30, 2013 are as follows:

Green Park South Mobile Home Park	\$ 27,568
Belle Vista Mobile Home Park (City of Pelham)	9,434
The Huntley Apartments	7,042
Little Mountain Apartments	4,490
Southgate Mobile Home Park	4,482
Cracker Barrel	3,771
Golden Corral	3,193
TEG Meadowview - Meadowwood Apartments	2,880
Marc I Car Wash	2,833
Blue Rain Express Carwash	2,276

**CITY OF PELHAM**  
Water and Sewer System Rates  
Year ended September 30, 2013 (UNAUDITED)

The water rates as of September 30, 2013 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, 2013 are as follows:

Residential	\$24.30 minimum on the first 3,000 gallons \$7.30 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	\$60.75 minimum on the first 7,500 gallons \$8.10 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 maximum