

CITY OF PELHAM

PELHAM, ALABAMA

Financial Statements

September 30, 2014

**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

Ellis, Head, Owens & Justice

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pelham, Alabama (the City), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2014, 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.

Change in Accounting Principle

As discussed in Note 17 to the financial statements, in 2014, the City adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

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 57, and pages 58 through 59 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 27, 2015

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 decreased by \$32,194,680.
- The total cost of all the City's programs was \$84,441,613.
- During the year, the City had expenses of \$67,732,923 for governmental activities and transfers of \$2,298,269 to business-type activities, which was \$32,194,680 more than the \$37,836,512 generated in general and program revenues.
- The City's combined assets exceeded its combined liabilities by \$54,085,636, 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 decreased by \$30,761,006 from 2013 to 2014. The governmental activities net position decreased 76.63%. This decrease in governmental activities resulted primarily from contributions to the Pelham Board of Education in the amount of \$39,234,568, offset by sales tax revenue increase. 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,	
	2014	2013	2014	2013	2014	2013
Assets						
Current and other assets	\$ 36,756,714	\$ 33,763,750	\$ 8,036,307	\$ 9,100,595	\$ 44,793,021	\$ 42,864,345
Capital assets	29,365,697	28,924,638	67,732,865	69,158,773	97,098,562	98,083,411
Total assets	<u>66,122,411</u>	<u>62,688,388</u>	<u>75,769,172</u>	<u>78,259,368</u>	<u>141,891,583</u>	<u>140,947,756</u>
Deferred outflows of resources						
Deferred charge on refunding	<u>628,319</u>	<u>710,651</u>	<u>868,916</u>	<u>1,114,060</u>	<u>1,497,235</u>	<u>1,824,711</u>
Liabilities						
Long-term liabilities	49,729,191	15,220,852	30,924,065	35,543,516	80,653,256	50,764,368
Other liabilities	<u>1,829,415</u>	<u>1,214,258</u>	<u>1,445,201</u>	<u>912,526</u>	<u>3,274,616</u>	<u>2,126,784</u>
Total liabilities	<u>51,558,606</u>	<u>16,435,110</u>	<u>32,369,266</u>	<u>36,456,042</u>	<u>83,927,872</u>	<u>52,891,152</u>
Deferred inflows of resources						
Property taxes levied for subsequent year	<u>5,375,310</u>	<u>5,328,262</u>	<u>-</u>	<u>-</u>	<u>5,375,310</u>	<u>5,328,262</u>
Net Position						
Net investment						
in capital assets	18,187,915	18,830,748	38,081,681	35,189,593	56,269,596	54,020,341
Restricted	1,425,013	3,149,257	-	-	1,425,013	3,149,257
Unrestricted	<u>(9,796,114)</u>	<u>19,655,662</u>	<u>6,187,141</u>	<u>7,727,793</u>	<u>(3,608,973)</u>	<u>27,383,455</u>
Total net position	<u>\$ 9,816,814</u>	<u>\$ 41,635,667</u>	<u>\$ 44,268,822</u>	<u>\$ 42,917,386</u>	<u>\$ 54,085,636</u>	<u>\$ 84,553,053</u>

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

The City's combined net position decreased to \$54,085,636 from \$84,553,053, or 36.03%. The City's unrestricted net position for governmental activities that can be used to finance day-to-day operations was \$(9,796,114).

Changes in Net Position

The City's combined net position decreased as a result of the decrease in net position of the governmental activities of \$32,194,680 and the increase in net position of business-type activities of \$1,433,674.

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

	Governmental Activities		Business-type Activities		Totals	
	For the year ended September 30,		For the year ended September 30,		For the year ended September 30,	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues						
Fees, fines and charges for service	\$ 6,640,464	\$ 5,914,501	\$ 15,724,374	\$ 15,476,904	\$ 22,364,838	\$ 21,391,405
Operating grants and contributions	1,418,227	1,607,306	14,000	14,000	1,432,227	1,621,306
Capital grants and contributions	410,447	13,306	80,938	-	491,385	13,306
General revenues						
Sales taxes	23,318,267	17,862,055	-	-	23,318,267	17,862,055
Property taxes	5,565,321	5,309,928	-	-	5,565,321	5,309,928
Other taxes	255,334	210,555	-	-	255,334	210,555
Interest earnings	215,109	95,435	18,575	26,298	233,684	121,733
(Loss) gain on disposal of capital assets	13,343	-	6,208	17,477	19,551	17,477
Total revenues	<u>37,836,512</u>	<u>31,013,086</u>	<u>15,844,095</u>	<u>15,534,679</u>	<u>53,680,607</u>	<u>46,547,765</u>
Expenses						
General administration	43,970,950	6,202,154	-	-	43,970,950	6,202,154
Police	8,336,753	7,909,223	-	-	8,336,753	7,909,223
Fire	8,423,644	7,527,585	-	-	8,423,644	7,527,585
Public works	4,056,428	2,795,549	-	-	4,056,428	2,795,549
Parks and recreation	1,098,175	1,068,198	-	-	1,098,175	1,068,198
Library	1,221,177	1,156,910	-	-	1,221,177	1,156,910
Interest on long-term debt	625,796	405,567	-	-	625,796	405,567
Water and Sewer	-	-	9,051,166	8,755,723	9,051,166	8,755,723
Civic Complex and Ice Arena	-	-	2,885,699	2,763,816	2,885,699	2,763,816
Ballantrae Golf Club	-	-	2,530,628	2,518,126	2,530,628	2,518,126
Racquet Club	-	-	1,107,483	1,146,887	1,107,483	1,146,887
Rental Fund	-	-	240,664	220,407	240,664	220,407
Garbage Fund	-	-	893,050	978,060	893,050	978,060
Total expenses	<u>67,732,923</u>	<u>27,065,186</u>	<u>16,708,690</u>	<u>16,383,019</u>	<u>84,441,613</u>	<u>43,448,205</u>
Excess (deficiency) before transfers	(29,896,411)	3,947,900	(864,595)	(848,340)	(30,761,006)	3,099,560
Transfers	(2,298,269)	(1,752,494)	2,298,269	1,752,494	-	-
Change in net position	(32,194,680)	2,195,406	1,433,674	904,154	(30,761,006)	3,099,560
Beginning net position	41,635,667	39,440,261	42,917,386	42,013,232	84,553,053	81,453,493
Prior period adjustment	375,827	-	(82,238)	-	293,589	-
Total net position	<u>\$ 9,816,814</u>	<u>\$ 41,635,667</u>	<u>\$ 44,268,822</u>	<u>\$ 42,917,386</u>	<u>\$ 54,085,636</u>	<u>\$ 84,553,053</u>

For more detailed information, see the Statement of Activities on page 14.

The governmental activities total revenues increased by 22.00% to \$37,836,512 due primarily to an increase in sales tax revenue. Sales and property taxes account for 76.34% of all governmental activities revenues. The remaining revenues are comprised of charges for services and various other sources. The business-type activities total revenue increased by 1.99%.

The total cost of all programs and services increased by \$40,993,408. The cost of governmental activities and business-type activities increased by \$40,667,737 and \$325,671, respectively.

Governmental Activities

The change in net position of governmental activities was \$(32,194,680), resulting primarily from contributions to the Pelham Board of Education.

Business-type Activities

The change in net position of business-type activities was \$1,433,674, resulting primarily from transfers from governmental activities.

THE CITY'S FUNDS

Governmental Funds

As of September 30, 2014, the Governmental Funds reported a combined fund balance of \$29,787,721, which is 9.42% more than the beginning of the year. The General Fund experienced a net increase of \$3,183,337 resulting primarily from proceeds from issuance of debt and increase in sales tax revenue.

Business-type Funds

As of September 30, 2014, business-type funds reported a combined net position of \$44,268,822, which is 3.35% more than the beginning of the year. The business-type funds experienced a net increase of \$1,433,674, resulting primarily from transfers from the General Fund.

General Fund Budgetary Highlights

General Fund revenues exceeded budget by \$2,131,162, 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 more than budgeted amounts by \$33,039,928, largely due to contributions of debt proceeds to the Pelham Board of Education.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the City had \$97,098,562 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 \$984,849, or .99% 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		Business-type		Totals	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Land	\$ 3,959,010	\$ 3,196,534	\$ 13,859,469	\$ 13,859,469	\$ 17,818,479	\$ 17,056,003
Construction in progress	227,409	227,409	2,119,764	2,021,742	2,347,173	2,249,151
Infrastructure, net	11,516,345	11,976,339	-	-	11,516,345	11,976,339
System and facilities, net	-	-	50,700,057	52,111,594	50,700,057	52,111,594
Buildings and improvements, net	9,711,510	10,125,150	659,838	695,827	10,371,348	10,820,977
Equipment, net	3,951,423	3,399,206	393,737	470,141	4,345,160	3,869,347
Total capital assets, net	<u>\$ 29,365,697</u>	<u>\$ 28,924,638</u>	<u>\$ 67,732,865</u>	<u>\$ 69,158,773</u>	<u>\$ 97,098,562</u>	<u>\$ 98,083,411</u>

Commitments

Pelham Water and Sewer System had contractual commitments as of September 30, 2014 of \$397,659 for improvements to the water waste treatment plant.

Pelham Civic Complex and Ice Arena had contractual commitments as of September 30, 2014 of \$165,000 for expansions to the practice ice arena.

Long-Term Debt

At September 30, 2014, the City had \$77,202,192 in warrants, notes payable, and capital leases payable outstanding versus \$47,444,545 at September 30, 2013, an increase of 62.72%. This increase resulted primarily from the issuance of debt.

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

	Governmental		Business-type		Totals	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
General Obligation						
Warrants	\$ 46,318,917	\$ 12,259,376	\$ 30,520,100	\$ 35,083,240	\$ 76,839,017	\$ 47,342,616
Notes payable	344,422	101,929	-	-	344,422	101,929
Capital lease payable	18,753	-	-	-	18,753	-
Totals	<u>\$ 46,682,092</u>	<u>\$ 12,361,305</u>	<u>\$ 30,520,100</u>	<u>\$ 35,083,240</u>	<u>\$ 77,202,192</u>	<u>\$ 47,444,545</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, 2015. The City Council took the Mayor's proposed budget under consideration, and after further review and evaluation, adopted the fiscal year 2015 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 2014, 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, 2015. Amounts available for expenditure in the General Fund budget are \$37,596,930 for the fiscal year 2015. The City took into consideration the current year increase in revenue and its effect on the City when budgeting expenditures for the fiscal year 2015.

If these estimates are realized, the City's budgetary fund balance is expected to increase moderately by the close of fiscal year 2015.

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, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 14,441,909	\$ 6,107,571	\$ 20,549,480
Deposit and investments	8,647,090	-	8,647,090
Accounts receivable	7,099,806	1,168,278	8,268,084
Inventory	-	296,796	296,796
Prepaid expenses	1,180,957	63,104	1,244,061
Restricted cash and cash equivalents	2,131,644	-	2,131,644
Restricted deposit	200,000	-	200,000
Total current assets	<u>33,701,406</u>	<u>7,635,749</u>	<u>41,337,155</u>
Noncurrent assets			
Restricted cash	-	346,500	346,500
Restricted deposit	-	42,058	42,058
Restricted - internal balances	(12,000)	12,000	-
Notes receivable	3,067,308	-	3,067,308
Nondepreciable capital assets	4,186,419	15,979,233	20,165,652
Depreciable capital assets, net	25,179,278	51,753,632	76,932,910
Total noncurrent assets	<u>32,421,005</u>	<u>68,133,423</u>	<u>100,554,428</u>
Total assets	<u>66,122,411</u>	<u>75,769,172</u>	<u>141,891,583</u>
Deferred outflows of resources			
Deferred charge on refunding	628,319	868,916	1,497,235
Liabilities			
Current liabilities			
Accounts payable	353,689	604,122	957,811
Unearned revenue	-	31,535	31,535
Accrued liabilities	822,322	143,006	965,328
Accrued interest payable	235,732	266,038	501,770
Payable from restricted assets - accounts payable	232,363	-	232,363
Payable from restricted assets - customer deposits	185,309	358,500	543,809
Payable from restricted assets - unearned revenue	-	42,000	42,000
Current maturities of long-term liabilities			
Warrants payable, net	897,991	3,941,336	4,839,327
Notes payable	101,168	-	101,168
Capital lease payable	6,799	-	6,799
Compensated absences	748,615	201,983	950,598
Total current liabilities	<u>3,583,988</u>	<u>5,588,520</u>	<u>9,172,508</u>
Noncurrent liabilities			
Warrants payable, net	45,420,926	26,578,764	71,999,690
Notes payable	243,254	-	243,254
Capital lease payable	11,954	-	11,954
Compensated absences	748,614	201,982	950,596
Other post-employment benefits	1,549,870	-	1,549,870
Total noncurrent liabilities	<u>47,974,618</u>	<u>26,780,746</u>	<u>74,755,364</u>
Total liabilities	<u>51,558,606</u>	<u>32,369,266</u>	<u>83,927,872</u>
Deferred inflows of resources			
Property taxes levied for subsequent year	5,375,310	-	5,375,310
Net position			
Net investment in capital assets	18,187,915	38,081,681	56,269,596
Restricted for			
Street improvements	147,700	-	147,700
Court	2,806	-	2,806
Police/municipal corrections	363,738	-	363,738
Library	98,826	-	98,826
Capital projects	811,943	-	811,943
Unrestricted	(9,796,114)	6,187,141	(3,608,973)
Total net position	<u>\$ 9,816,814</u>	<u>\$ 44,268,822</u>	<u>\$ 54,085,636</u>

See notes to financial statements.

CITY OF PELHAM
Statement of Activities
Year Ended September 30, 2014

Program Activities:	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Governmental activities							
General administration	\$ 43,970,950	\$ 6,474,457	\$ 348,093	\$ 353,880	\$ (36,794,520)	\$ -	\$ (36,794,520)
Police	8,336,753	20,479	145,394	12,068	(8,158,812)	-	(8,158,812)
Fire	8,423,644	-	5,351	5,638	(8,412,655)	-	(8,412,655)
Public works	4,056,428	1,500	878,471	-	(3,176,457)	-	(3,176,457)
Parks and recreation	1,098,175	114,813	-	-	(983,362)	-	(983,362)
Library	1,221,177	29,215	40,918	38,861	(1,112,183)	-	(1,112,183)
Interest on long-term debt	625,796	-	-	-	(625,796)	-	(625,796)
Total governmental activities	67,732,923	6,640,464	1,418,227	410,447	(59,263,785)	-	(59,263,785)
Business-type activities							
Water and Sewer	9,051,166	9,659,340	-	80,938	-	689,112	689,112
Civic Complex and Ice Arena	2,885,699	1,862,161	-	-	-	(1,023,538)	(1,023,538)
Ballantrae Golf	2,530,628	1,887,159	14,000	-	-	(629,469)	(629,469)
Racquet Club	1,107,483	635,082	-	-	-	(472,401)	(472,401)
Rental Fund	240,664	665,207	-	-	-	424,543	424,543
Garbage Fund	893,050	1,015,425	-	-	-	122,375	122,375
Total business-type activities	16,708,690	15,724,374	14,000	80,938	-	(889,378)	(889,378)
Total primary government	\$ 84,441,613	\$ 22,364,838	\$ 1,432,227	\$ 491,385	\$ (59,263,785)	\$ (889,378)	\$ (60,153,163)
General revenues and other items:							
Taxes:							
Sales							
					\$ 23,318,267	\$ -	\$ 23,318,267
Property							
					5,565,321	-	5,565,321
Other							
					255,334	-	255,334
Interest earnings							
					215,109	18,575	233,684
Gain on disposal of capital assets							
					13,343	6,208	19,551
Transfers in (out)							
					(2,298,269)	2,298,269	-
Total general revenues and other items							
					27,069,105	2,323,052	29,392,157
Change in net position							
					(32,194,680)	1,433,674	(30,761,006)
Net position - beginning of year							
					41,635,667	42,917,386	84,553,053
Prior period adjustment, see Note 17							
					375,827	(82,238)	293,589
Net position (deficit) - beginning of year, as restated							
					42,011,494	42,835,148	84,846,642
Net position - end of year							
					\$ 9,816,814	\$ 44,268,822	\$ 54,085,636

See notes to financial statements.

CITY OF PELHAM
Balance Sheet
Governmental Funds
September 30, 2014

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Current assets			
Cash and cash equivalents	\$ 14,441,909	\$ -	\$ 14,441,909
Deposit and investments	8,647,090	-	8,647,090
Accounts receivable	7,099,806	-	7,099,806
Prepaid expenditures	1,180,957	-	1,180,957
Restricted cash and cash equivalents	1,067,743	1,063,901	2,131,644
Restricted deposit	-	200,000	200,000
	<u>32,437,505</u>	<u>1,263,901</u>	<u>33,701,406</u>
Non-current assets			
Note receivable	<u>3,067,308</u>	<u>-</u>	<u>3,067,308</u>
Total assets	<u>\$ 35,504,813</u>	<u>\$ 1,263,901</u>	<u>\$ 36,768,714</u>
Liabilities			
Current liabilities			
Accounts payable	\$ 353,689	\$ -	\$ 353,689
Accrued liabilities	822,322	-	822,322
Payable from restricted assets - accounts payable	-	232,363	232,363
Payable from restricted assets - due to (from) other funds	(6,774)	18,774	12,000
Payable from restricted assets - deposits	<u>146,046</u>	<u>39,263</u>	<u>185,309</u>
Total liabilities	<u>1,315,283</u>	<u>290,400</u>	<u>1,605,683</u>
Deferred inflow of resources			
Property taxes levied for subsequent year	<u>5,375,310</u>	<u>-</u>	<u>5,375,310</u>
Fund balance			
Nonspendable			
Notes receivable	3,067,308	-	3,067,308
Prepaid expenditures	1,180,957	-	1,180,957
Restricted for			
Street improvements	-	147,700	147,700
Court	-	2,806	2,806
Police/municipal corrections	-	363,738	363,738
Library	-	98,826	98,826
Capital projects	451,512	360,431	811,943
Unassigned	<u>24,114,443</u>	<u>-</u>	<u>24,114,443</u>
Total fund balances	<u>28,814,220</u>	<u>973,501</u>	<u>29,787,721</u>
Total liabilities, deferred inflows, and fund balance	<u>\$ 35,504,813</u>	<u>\$ 1,263,901</u>	<u>\$ 36,768,714</u>

See notes to financial statements.

CITY OF PELHAM
 Reconciliation of the Governmental Funds
 Balance Sheet to the Statement of Net Position
 September 30, 2014

Total fund balances - governmental funds \$ 29,787,721

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	51,670,881	
Less accumulated depreciation	(22,305,184)	29,365,697

Interest payable is not recognized as an expenditure in governmental funds, but rather is recognized when an expenditure is paid.	(235,732)
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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	(43,477,194)	
Warrant discounts and premiums	(2,841,723)	
Deferred outflow of resources	628,319	
Notes payable	(344,422)	
Capital lease payable	(18,753)	
Other post-employment benefits payable	(1,549,870)	
Compensated absences	(1,497,229)	(49,100,872)

Total net position- governmental activities \$ 9,816,814

See notes to financial statements.

CITY OF PELHAM
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
September 30, 2014

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Operating revenues			
Taxes			
Sales	\$ 23,318,267	\$ -	\$ 23,318,267
Property	5,565,321	-	5,565,321
Motor vehicle/gas	615,049	195,731	810,780
Other	255,334	-	255,334
Licenses and permits	4,161,805	-	4,161,805
Fines and forfeitures	1,788,315	433,573	2,221,888
Charges for services	192,641	-	192,641
Interest	213,892	1,217	215,109
Other	296,637	374,939	671,576
Total revenues	<u>36,407,261</u>	<u>1,005,460</u>	<u>37,412,721</u>
Expenditures, current			
General administration	43,320,165	381,611	43,701,776
Police	7,537,422	342,118	7,879,540
Fire	8,107,345	54,392	8,161,737
Public works	3,082,862	400,681	3,483,543
Parks and recreation	1,000,319	-	1,000,319
Library	1,089,184	38,163	1,127,347
	<u>64,137,297</u>	<u>1,216,965</u>	<u>65,354,262</u>
Capital outlay	961,209	308,042	1,269,251
Debt service			
Principal retirement	1,108,094	-	1,108,094
Interest	301,019	-	301,019
Issuance of debt costs	69,216	-	69,216
	<u>1,478,329</u>	<u>-</u>	<u>1,478,329</u>
Other financing sources (uses)			
Proceeds from sale of capital assets	95,265	-	95,265
Issuance of capital leases	20,960	-	20,960
Issuance of notes payable	355,990	-	355,990
Issuance of warrants	32,215,000	-	32,215,000
Premium on issuance of warrants	2,864,520	-	2,864,520
Interfund transfers out	(2,198,824)	(99,445)	(2,298,269)
	<u>33,352,911</u>	<u>(99,445)</u>	<u>33,253,466</u>
Net changes in fund balance	3,183,337	(618,992)	2,564,345
Fund balance - beginning of year	<u>25,630,883</u>	<u>1,592,493</u>	<u>27,223,376</u>
Fund balance - end of year	<u>\$ 28,814,220</u>	<u>\$ 973,501</u>	<u>\$ 29,787,721</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, 2014

Net changes in fund balances - governmental funds \$ 2,564,345

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	1,269,251	
Less depreciation expense	<u>(1,565,313)</u>	(296,062)

The proceeds from the sale of capital assets (\$95,265) are reported
 as other financing sources in the governmental funds. However,
 the net book value of the capital assets (\$81,922) is removed
 from the capital assets account in the Statement of Net Position
 and offset against the sales proceeds resulting in a gain in the
 Statement of Activities of (\$13,343).

(81,922)

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

410,447

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

Principal retirement	1,108,094	
Issuance of warrants	(32,215,000)	
Premium on issuance of warrants	(2,864,520)	
Issuance of notes payable	(355,990)	
Issuance of capital leases payable	(20,960)	
Bond discounts, premiums, and deferred amounts on refunding amortization expense	<u>(54,742)</u>	(34,403,118)

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	22,075	
Net increase in post-employment benefit payable	(209,627)	
Increase in accrued interest	<u>(200,818)</u>	<u>(388,370)</u>

Change in net position - governmental activities \$ (32,194,680)

See notes to financial statements.

CITY OF PELHAM
Statement of Proprietary Fund Net Position
Year Ended September 30, 2014

	Water & Sewer	Civic Complex and Ice Arena	Ballantrae Golf	Other Proprietary Funds	Total Proprietary Funds
Assets					
Current assets					
Cash and cash equivalents	\$ 5,626,610	\$ 13,226	\$ 121,082	\$ 346,653	\$ 6,107,571
Accounts receivable	1,031,061	14,903	62,752	59,562	1,168,278
Inventory	120,131	68,933	86,067	21,665	296,796
Prepaid expenses	24,375	16,625	12,792	9,312	63,104
Total current assets	<u>6,802,177</u>	<u>113,687</u>	<u>282,693</u>	<u>437,192</u>	<u>7,635,749</u>
Non-current assets					
Restricted cash	346,500	-	-	-	346,500
Restricted deposit	-	-	42,058	-	42,058
Restricted due from General Fund	-	-	-	12,000	12,000
Non-depreciable assets	2,992,499	89,131	7,463,703	5,433,900	15,979,233
Depreciable capital assets, net	39,160,016	5,786,516	3,478,840	3,328,260	51,753,632
Total noncurrent assets	<u>42,499,015</u>	<u>5,875,647</u>	<u>10,984,601</u>	<u>8,774,160</u>	<u>68,133,423</u>
Total assets	<u>49,301,192</u>	<u>5,989,334</u>	<u>11,267,294</u>	<u>9,211,352</u>	<u>75,769,172</u>
Deferred outflows of resources					
Deferred charge on refunding	<u>563,460</u>	<u>200,993</u>	<u>62,348</u>	<u>42,115</u>	<u>868,916</u>
Liabilities					
Current liabilities					
Accounts payable	462,172	109,585	28,701	3,664	604,122
Unearned revenue	-	26,088	5,447	-	31,535
Accrued liabilities	92,882	9,955	35,253	4,916	143,006
Accrued interest payable	231,259	3,657	6,344	24,778	266,038
Payable from restricted assets - customer deposits	346,500	-	-	12,000	358,500
Payable from restricted assets - unearned revenue	-	-	42,000	-	42,000
Current maturities of long-term liabilities					
Warrants payable, net	2,688,476	555,169	561,322	136,369	3,941,336
Compensated absences	81,573	36,496	57,328	26,586	201,983
Total current liabilities	<u>3,902,862</u>	<u>740,950</u>	<u>736,395</u>	<u>208,313</u>	<u>5,588,520</u>
Noncurrent liabilities					
Warrants payable, net	17,552,533	2,923,594	4,845,194	1,257,443	26,578,764
Compensated absences	81,572	36,496	57,329	26,585	201,982
Total noncurrent liabilities	<u>17,634,105</u>	<u>2,960,090</u>	<u>4,902,523</u>	<u>1,284,028</u>	<u>26,780,746</u>
Total liabilities	<u>21,536,967</u>	<u>3,701,040</u>	<u>5,638,918</u>	<u>1,492,341</u>	<u>32,369,266</u>
Net position					
Net investment in capital assets					
Unrestricted	22,474,966	2,597,877	5,598,375	7,410,463	38,081,681
	5,852,719	(108,590)	92,349	350,663	6,187,141
Total net position	<u>\$ 28,327,685</u>	<u>\$ 2,489,287</u>	<u>\$ 5,690,724</u>	<u>\$ 7,761,126</u>	<u>\$ 44,268,822</u>

See notes to financial statements.

CITY OF PELHAM
Statement of Revenues, Expenses, and Changes in
Proprietary Fund Net Position
Year Ended September 30, 2014

	<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>
Operating Revenues	\$ 9,659,340	\$ 1,862,161	\$ 1,901,159	\$ 2,315,714	\$ 15,738,374
Operating Expenses					
Salaries	1,619,599	970,372	1,096,994	535,019	4,221,984
Employee benefits	345,072	139,862	170,983	94,780	750,697
Payroll taxes	119,642	58,168	82,513	38,559	298,882
Depreciation	2,766,965	291,631	139,505	123,793	3,321,894
Water purchases	1,440,963	-	-	-	1,440,963
Contract services - garbage pickup	-	-	-	893,050	893,050
Programs and events	-	456,456	-	55,217	511,673
Utilities and telephone	574,728	340,697	83,533	233,812	1,232,770
Supplies	439,331	148,245	524,876	43,974	1,156,426
Maintenance and repairs	334,226	182,828	154,990	63,594	735,638
Insurance	74,725	52,732	47,085	20,963	195,505
Other	472,874	102,604	108,288	71,593	755,359
Total operating expenses	<u>8,188,125</u>	<u>2,743,595</u>	<u>2,408,767</u>	<u>2,174,354</u>	<u>15,514,841</u>
Operating income	<u>1,471,215</u>	<u>(881,434)</u>	<u>(507,608)</u>	<u>141,360</u>	<u>223,533</u>
Non-Operating Revenues (Expenses)					
Gain on disposal of capital assets	-	-	6,208	-	6,208
Interest income	17,889	69	337	280	18,575
Interest expense	<u>(863,041)</u>	<u>(142,104)</u>	<u>(121,861)</u>	<u>(66,843)</u>	<u>(1,193,849)</u>
Total non-operating revenues (expenses)	<u>(845,152)</u>	<u>(142,035)</u>	<u>(115,316)</u>	<u>(66,563)</u>	<u>(1,169,066)</u>
Income (loss) before capital contributions and interfund transfer in (out)	626,063	(1,023,469)	(622,924)	74,797	(945,533)
Capital contributions	80,938	-	-	-	80,938
Interfund transfers in (out)	<u>839</u>	<u>1,397,951</u>	<u>1,103,881</u>	<u>(204,402)</u>	<u>2,298,269</u>
Change in net position	707,840	374,482	480,957	(129,605)	1,433,674
Net position, beginning of year	27,669,566	2,125,028	5,226,800	7,895,992	42,917,386
Prior Period Adjustment, See Note 17	<u>(49,721)</u>	<u>(10,223)</u>	<u>(17,033)</u>	<u>(5,261)</u>	<u>(82,238)</u>
Net position, end of year	<u>\$ 28,327,685</u>	<u>\$ 2,489,287</u>	<u>\$ 5,690,724</u>	<u>\$ 7,761,126</u>	<u>\$ 44,268,822</u>

See notes to financial statements.

CITY OF PELHAM
Statement of Proprietary Fund Cash Flows
Year Ended September 30, 2014

	Water and Sewer	Civic Complex and Ice Arena	Ballantrae Golf	Other Proprietary Funds	Total Proprietary Funds
Cash Flows from Operating Activities					
Cash received from customers	\$ 9,651,789	\$ 1,920,025	\$ 1,867,235	\$ 2,318,346	\$ 15,757,395
Cash paid to employees	(2,061,516)	(1,171,273)	(1,340,485)	(669,422)	(5,242,696)
Cash paid to suppliers for goods and services	(3,347,498)	(1,239,465)	(913,423)	(1,465,883)	(6,966,269)
Net cash provided (used) by operating activities	4,242,775	(490,713)	(386,673)	183,041	3,548,430
Cash Flows from Noncapital Financing Activities					
Transfers (to) from other funds	839	1,397,951	1,103,881	(204,402)	2,298,269
Due from General Fund	-	-	-	(3,600)	(3,600)
Net cash provided (used) by noncapital financing activities	839	1,397,951	1,103,881	(208,002)	2,294,669
Cash Flows from Capital and Related Financing Activities					
Purchase of property, plant, and equipment	(1,176,495)	(105,257)	(54,227)	-	(1,335,979)
Proceeds from sale of capital assets	-	-	9,605	-	9,605
Principal payments on debt	(3,111,690)	(747,064)	(550,656)	(126,431)	(4,535,841)
Interest payments on debt	(764,859)	(69,194)	(109,415)	(61,903)	(1,005,371)
Net cash used by capital and related financing activities	(5,053,044)	(921,515)	(704,693)	(188,334)	(6,867,586)
Cash Flows from Investing Activities					
Proceeds from maturity of certificate of deposit	-	-	56,000	-	56,000
Purchase of certificate of deposit	-	-	(42,000)	-	(42,000)
Interest on cash and investments	17,889	69	357	280	18,595
Net cash provided by investing activities	17,889	69	14,357	280	32,595
Net (increase) decrease in cash and cash equivalents	(791,541)	(14,208)	26,872	(213,015)	(991,892)
Cash and cash equivalents at beginning of year	6,764,651	27,434	94,210	559,668	7,445,963
Cash and cash equivalents at end of year	\$ 5,973,110	\$ 13,226	\$ 121,082	\$ 346,653	\$ 6,454,071

See notes to financial statements.

CITY OF PELHAM
Statement of Proprietary Fund Cash Flows
Year Ended September 30, 2014
(Continued)

	<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>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating income (loss)	\$ 1,471,215	\$ (881,434)	\$ (507,608)	\$ 141,360	\$ 223,533
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	2,766,965	291,631	139,505	123,793	3,321,894
Bad debt expense	19,189	-	-	-	19,189
(Increase) decrease in:					
Accounts receivable	(37,551)	46,952	(10,291)	(968)	(1,858)
Prepaid expenses	6,643	699	503	(584)	7,261
Inventory	(7,278)	(28,753)	(5,111)	(3,713)	(44,855)
Increase (decrease) in:					
Accounts payable	(34,521)	70,977	10,088	(79,891)	(33,347)
Accrued expenses	16,786	6,090	(3,136)	2,475	22,215
Customer deposits	30,000	-	-	3,600	33,600
Unearned revenue	-	9,662	(16,724)	-	(7,062)
Compensated absences	11,327	(6,537)	6,101	(3,031)	7,860
Net Cash Provided (Used) by Operating Activities	<u>\$ 4,242,775</u>	<u>\$ (490,713)</u>	<u>\$ (386,673)</u>	<u>\$ 183,041</u>	<u>\$ 3,548,430</u>

	Water and Sewer
Reconciliation of Cash and Cash Equivalents to Statement of Net Position:	
Cash and cash equivalents in current assets	\$ 5,626,610
Restricted cash	<u>346,500</u>
Total cash and cash equivalents	<u>\$ 5,973,110</u>

Noncash Investing, Capital, and Financing Activities

Pelham Water and Sewer had amortization of warrant discounts of \$11,852, amortization of warrant premiums of \$36,911, and amortization of deferred amounts on refunding of \$146,395 during the year ended September 30, 2014.

System lines contributed by developers to Pelham Water and Sewer were \$80,938.

Pelham Civic Complex and Ice Arena had amortization of warrant discounts of \$795 and amortization of deferred amounts on refunding of \$75,652 during the year ended September 30, 2014.

See notes to financial statements.

CITY OF PELHAM
Statement of Proprietary Fund Cash Flows
Year Ended September 30, 2014
(Continued)

Noncash Investing, Capital, and Financing Activities - Continued

Ballantrae Golf Club had amortization of deferred amounts on refunding of \$13,092 during the year ended September 30, 2014.

Pelham Racquet Club had amortization of warrant discounts of \$1,376, amortization of warrant premiums of \$4,411, and amortization of deferred amounts on refunding of \$10,005 during the year ended September 30, 2014.

See notes to financial statements.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014

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 27, 2015, 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, 2014
(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, 2014
(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 they have matured.

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

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

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014
(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, 2014
(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, 2014
(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.

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 transfers in/(out)" in the accompanying financial statements.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014
(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.

Deferred Outflows of Resources

The City's statements of net position report a separate section for deferred outflows of resources. This separate financial statement element reflects a decrease in net position that applies to future periods. Deferred outflows of resources reported in the financial statements are deferred amounts arising from the refunding of warrants payable. The deferred refunding amounts are being amortized over the remaining life of the refunding warrants as part of interest expense. No deferred outflows of resources affect the governmental funds financial statements in the current year.

Unearned Revenue

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 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.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Long-term Obligations - Continued

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

Compensated Absences

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

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

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

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

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

Other Post-employment Benefit Obligations (OPEB)

The City is required to report the City's actuarially determined 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, 2014
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Deferred Inflows of Resources

The City's statement of net position and its governmental fund balance sheet report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position or fund balance that applies to a future period. Deferred inflows of resources reported in the financial statements are for property taxes levied for subsequent years. No deferred inflows of resources affect the proprietary fund financial statements in the current year.

Net Position

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

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

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

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

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.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Equity - Continued

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

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

Property Taxes

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Equity

The deficit fund equity of \$3,959 in the state forfeiture fund, a non-major governmental fund, is the result of revenues being inadequate to cover expenditures. This deficit is offset through interfund borrowings from the general fund.

NOTE 3 - 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, 2014, \$0 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 4 - DEPOSITS AND INVESTMENTS

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

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014
(Continued)

NOTE 4 – DEPOSITS AND INVESTMENTS - Continued

As of September 30, 2014, the City had non-negotiable certificates of deposit in the amount of \$5,200,000 in the governmental activities and \$42,058 in the business-type activities.

As of September 30, 2014, the City had the following investments, which were reported at fair value in governmental activities:

Type of Investment	Fair Value	<u>Investment Maturities (in Years)</u>		
		1-5	6-10	More than 10
Certificates of Deposit	\$ 1,500,000	\$ 1,500,000	\$ -	\$ -
Government National Mortgage Association	2,147,090	-	-	2,147,090
	<u>\$ 3,647,090</u>	<u>\$ 1,500,000</u>	<u>\$ -</u>	<u>\$ 2,147,090</u>

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

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

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

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

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investments. All of the City's investments at September 30, 2014 were insured.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014
(Continued)

NOTE 5 - RECEIVABLES AND PAYABLES

Receivables consisted of the following at September 30, 2014:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Taxes			
Sales	\$ 1,925,479	\$ -	\$ 1,925,479
Property	5,357,162	-	5,357,162
Customers	-	1,337,766	1,337,766
Gross Receivables	7,282,641	1,337,766	8,620,407
Less: Allowance for doubtful accounts	(182,835)	(169,488)	(352,323)
Net Receivables	<u>\$ 7,099,806</u>	<u>\$ 1,168,278</u>	<u>\$ 8,268,084</u>

Payables consisted of the following at September 30, 2014:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Trade	\$ 586,052	\$ 121,658	\$ 707,710
Capital Assets	-	482,464	482,464
Net Payables	<u>\$ 586,052</u>	<u>\$ 604,122</u>	<u>\$ 1,190,174</u>

NOTE 6 - 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, 2014
(Continued)

NOTE 7- LEASING ACTIVITIES

During the current year, the City entered into a lease agreement allowing the Pelham Board of Education to lease office space from the City on the ground floor of Pelham City Hall. The cost of the leased property was \$533,762, with accumulated depreciation of \$235,217 and a carrying amount of 298,545. The Pelham Board of Education agreed to pay rent in the amount of \$1,200 per month, commencing on February 1, 2014 and ending on July 31, 2014. The lease agreement specified that continued possession of the office space beyond July 31, 2014 constituted a month-to-month extension of the lease at the rate of \$1,200 per month. As of September 30, 2014, the Board of Education still occupied the space, but due to the nature of the month-to month agreement at that date, there are no future minimum rent amounts. Rent income associated with the lease agreement was \$9,600 for the year ended September 30, 2014.

NOTE 8 - CAPITAL ASSETS

Capital assets activity for governmental activities consisted of the following for the year ended September 30, 2014:

	Governmental Activities			
	October 1, 2013	Additions	Disposals	September 30, 2014
Depreciable assets				
Infrastructure	\$ 20,366,610	\$ 44,472	\$ -	\$ 20,411,082
Buildings and improvements	16,231,897	100,861	35,600	16,297,158
Equipment	10,007,208	1,180,484	411,470	10,776,222
	<u>46,605,715</u>	<u>1,325,817</u>	<u>447,070</u>	<u>47,484,462</u>
Less accumulated depreciation				
Infrastructure	8,390,271	504,466	-	8,894,737
Buildings and improvements	6,106,745	478,903	-	6,585,648
Equipment	6,608,003	581,944	365,148	6,824,799
	<u>21,105,019</u>	<u>1,565,313</u>	<u>365,148</u>	<u>22,305,184</u>
	<u>25,500,696</u>	<u>(239,496)</u>	<u>81,922</u>	<u>25,179,278</u>
Non-depreciable assets				
Land	3,605,130	353,880	-	3,959,010
Construction in progress	227,409	-	-	227,409
	<u>3,832,539</u>	<u>353,880</u>	<u>-</u>	<u>4,186,419</u>
	<u>\$ 29,333,235</u>	<u>\$ 114,384</u>	<u>\$ 81,922</u>	<u>\$ 29,365,697</u>

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014
(Continued)

NOTE 8 - CAPITAL ASSETS - Continued

Capital assets activity for business-type activities consisted of the following for the year ended September 30, 2014

	Business-type Activities			
	October 1, 2013	Additions	Disposals	September 30, 2014
Depreciable assets				
System and facilities	\$ 98,640,625	\$ 1,722,903	\$ 183,246	\$ 100,180,282
Water & Sewer and Rental Fund				
Buildings and improvements	1,099,460	-	-	1,099,460
Equipment	2,711,742	78,458	33,534	2,756,666
	<u>102,451,827</u>	<u>1,801,361</u>	<u>216,780</u>	<u>104,036,408</u>
Less accumulated depreciation				
System and facilities	46,529,031	3,131,043	179,849	49,480,225
Water & Sewer and Rental Fund				
Buildings and improvements	403,633	35,989	-	439,622
Equipment	2,241,601	154,862	33,534	2,362,929
	<u>49,174,265</u>	<u>3,321,894</u>	<u>213,383</u>	<u>52,282,776</u>
	<u>53,277,562</u>	<u>(1,520,533)</u>	<u>3,397</u>	<u>51,753,632</u>
Non-depreciable assets				
Land	13,859,469	-	-	13,859,469
Construction in progress	2,021,742	1,539,495	1,441,473	2,119,764
	<u>15,881,211</u>	<u>1,539,495</u>	<u>1,441,473</u>	<u>15,979,233</u>
	<u>\$ 69,158,773</u>	<u>\$ 18,962</u>	<u>\$ 1,444,870</u>	<u>\$ 67,732,865</u>

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

Governmental activities	
General administration	\$ 94,942
Police	454,214
Fire	247,611
Public works	577,752
Parks and recreation	94,884
Library	95,910
	<u>\$ 1,565,313</u>
Business-type activities	
Water and Sewer	\$ 2,766,965
Civic Complex	291,631
Ballantrae Golf Club	139,505
Rental Fund	8,528
Racquet Club	115,265
	<u>\$ 3,321,894</u>

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014
(Continued)

NOTE 9 - LONG-TERM DEBT

The general obligation warrants payable consisted of the following at September 30, 2014:

	Governmental Activities	Business-type Activities
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%	\$ 157,972	\$ 5,862,027
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%	270,662	7,044,338
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%	-	2,935,000
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%	-	4,185,000
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%	1,355,403	5,406,516
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%	8,101,688	-
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%	276,469	4,968,137

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014
(Continued)

NOTE 9 - LONG-TERM DEBT - Continued

The general obligation warrants payable consisted of the following at September 30, 2014 (continued):

	Governmental Activities	Business-type Activities
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	-
Series 2014 General Obligation Warrants, dated August 13, 2014, due in semi-annual payments through February 1, 2035, bearing interest rates of 3.00% to 5.00%	32,215,000	-
Total warrants payable	43,477,194	30,401,018
Less deferred amounts for:		
Unamortized discounts (2006A)	(687)	(25,498)
Unamortized discounts (2006B)	(1,095)	(28,490)
Unamortized discounts (2014)	(116,488)	-
Unamortized premiums (2006A)	2,213	82,138
Unamortized premiums (2006B)	3,494	90,932
Unamortized premiums (2014)	2,954,286	-
Total warrants payable, net	\$ 46,318,917	\$ 30,520,100

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014
(Continued)

NOTE 9 - 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>
2015	\$ 683,376	\$ 1,540,888	\$ 3,915,527	\$ 892,200
2016	693,594	1,567,976	4,049,783	780,533
2017	1,682,183	1,537,963	4,166,466	655,234
2018	1,728,256	1,499,704	4,326,478	520,479
2019	1,783,739	1,451,210	4,467,913	390,719
2020-2024	10,400,161	6,215,351	9,474,851	579,256
2025-2029	11,780,885	4,367,927	-	-
2030-2034	11,970,000	2,082,950	-	-
2035	2,755,000	55,100	-	-
	<u>\$ 43,477,194</u>	<u>\$ 20,319,069</u>	<u>\$ 30,401,018</u>	<u>\$ 3,818,421</u>

Notes payable consisted of the following at September 30, 2014:

	<u>Governmental Activities</u>
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	\$ 23,539
5.31% note payable - bank, due in five annual payments of \$35,107 including interest, final unpaid balance due October 2017, secured by fire department equipment	125,373
2.67% note payable - finance, due in four annual payments of \$52,163 including interest, final unpaid balance due February 2018, secured by fire department equipment	195,510
Total Notes Payable	<u>\$ 344,422</u>

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014
(Continued)

NOTE 9 - LONG-TERM DEBT - Continued

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

	Principal	Interest
2015	\$ 101,168	\$ 9,745
2016	78,119	9,151
2017	81,043	6,226
2018	84,092	3,178
	\$ 344,422	\$ 28,300

Changes in long-term liabilities for governmental activities consisted of the following at September 30, 2014:

Governmental Activities	October 1, 2013	Additions	Retirements	September 30, 2014	Due within one year
Warrants and notes payable:					
Notes Payable	\$ 101,929	\$ 355,990	\$ 113,497	\$ 344,422	\$ 101,168
Capital Lease Payable	-	20,960	2,207	18,753	6,799
General Obligation Warrants	12,254,584	32,215,000	992,390	43,477,194	683,376
	12,356,513	32,591,950	1,108,094	43,840,369	791,343
Less: bond discounts and premiums	4,792	2,864,520	27,589	2,841,723	214,615
Total warrants and notes payable	12,361,305	35,456,470	1,135,683	46,682,092	1,005,958
Other liabilities:					
Other Post-Employment Benefit Payable	1,340,243	209,627	-	1,549,870	-
Compensated Absences	1,519,304	1,492,635	1,514,710	1,497,229	748,615
	\$ 15,220,852	\$ 37,158,732	\$ 2,650,393	\$ 49,729,191	\$ 1,754,573

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014
(Continued)

NOTE 9 - LONG-TERM DEBT - Continued

Changes in long-term liabilities for business-type activities consisted of the following at September 30, 2014:

<u>Business-type Activities</u>	<u>October 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2014</u>	<u>Due within one year</u>
Warrants payable:					
General Obligation Warrants	\$ 34,936,859	\$ -	\$ 4,535,841	\$ 30,401,018	\$ 3,915,527
Less: bond discounts and premiums	<u>146,381</u>	<u>-</u>	<u>27,299</u>	<u>119,082</u>	<u>25,809</u>
Total warrants payable	35,083,240	-	4,563,140	30,520,100	3,941,336
Other liabilities:					
Compensated Absences	<u>396,105</u>	<u>261,561</u>	<u>253,701</u>	<u>403,965</u>	<u>201,983</u>
	<u>\$ 35,479,345</u>	<u>\$ 261,561</u>	<u>\$ 4,816,841</u>	<u>\$ 30,924,065</u>	<u>\$ 4,143,319</u>

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

NOTE 10 - 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, 2014 are as follows:

	<u>Defeased Warrants Outstanding</u>	<u>Escrow Account Balance</u>
General Obligation Warrants - Series 2005	\$ 7,770,000	\$ 8,223,423

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014
(Continued)

NOTE 11 - CAPITAL LEASE OBLIGATIONS

The City has entered into a capital lease agreement to finance the purchase of facilities maintenance equipment. As of September 30, 2014, the future minimum lease payments under the capital lease agreements are as follows:

2015	\$	7,425
2016		7,425
2017		4,951
Future minimum lease payments		19,801
Less: amount representing interest		(1,048)
Present value of minimum lease payments		18,753
Less: current portion		(6,799)
Long-term capital lease obligation	\$	11,954

As of September 30, 2014, the lease had capitalized costs totaling \$20,960 and accumulated depreciation of \$1,397, and a net book value of \$19,563. Interest expense paid under the capital lease agreement totaled \$268 during the year ended September 30, 2014.

NOTE 12 - 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, 2014 totaled \$53,918 for governmental activities and \$125,239 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
2015	\$ 47,640	\$ 125,805	\$ 173,445
2016	42,866	118,497	161,363
2017	3,462	40,649	44,111
2018	-	2,203	2,203
	\$ 93,968	\$ 287,154	\$ 381,122

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014
(Continued)

NOTE 12 - COMMITMENTS - Continued

Pelham Water and Sewer System had contractual commitments as of September 30, 2014 of \$397,659 for improvements to the water waste treatment plant.

Pelham Civic Complex and Ice Arena had contractual commitments as of September 30, 2014 of \$165,000 for expansions to the practice ice arena.

NOTE 13 - 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, 2013 (the last year for which actuarial statements are available) was \$16,674,790. 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.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014
(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN - Continued

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.

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 \$19,562,444 at September 30, 2013, 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 closed method.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014
(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN - Continued

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.

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, 2014 was made in accordance with an actuarial valuation performed as of September 30, 2013. 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 3.01% of covered payroll; (c) administrative and other costs of 8.68% of covered payroll. In aggregate, the City contributed 11.69% 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 9.10% of covered payroll. The City contributed \$1,941,472 to the plan during the year ended September 30, 2014.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014
(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN - Continued

Trend information for the retirement plan consisted of the following:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)
9/30/2013	\$ 1,857,062	100%	\$ -
9/30/2012	\$ 1,874,710	100%	\$ -
9/30/2011	\$ 2,167,574	100%	\$ -

As of September 30, 2013, the most recent actuarial valuation date, the plan was 68.01% funded. The actuarial accrued liability for benefits was \$61,274,220, and the actuarial value of assets was \$41,711,776, resulting in an unfunded actuarial accrued liability (UAAL) of \$19,562,444. The covered payroll was \$16,674,790, and the ratio of the UAAL to the covered payroll was 117.30%.

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 14 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund payables and receivables consisted of the following at September 30, 2014:

	Interfund Receivables (Payables)
General Fund	\$ (6,774)
Special Revenue	18,774
Rental Fund	(12,000)
	<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, 2014
(Continued)

NOTE 14 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

Interfund transfers consisted of the following during the year ended September 30, 2014:

	Transfers In (Out)		Net Transfers Out (In)
	General Fund	Special Revenue	
Transfers Out (In)			
General Fund	\$ -	\$ (35,107)	\$ (35,107)
Special Revenue	35,107	-	35,107
Water & Sewer	(839)	-	(839)
Civic Complex and Ice Arena	(1,334,501)	(63,450)	(1,397,951)
Ballantrae Golf	(1,103,881)	-	(1,103,881)
Racquet Club	(465,552)	(888)	(466,440)
Garbage Fund	237,771	-	237,771
Rental Fund	433,071	-	433,071
Net Transfers In (Out)	\$ (2,198,824)	\$ (99,445)	\$ (2,298,269)

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

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014
(Continued)

NOTE 15 - 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, 2014, the City has accrued a contingent liability of \$368,400 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 disasters for which the City carries commercial insurance.

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

NOTE 16 - OTHER POST-EMPLOYMENT BENEFITS

By ordinance, on December 20, 1993 and as amended on November 20, 1995, November 5, 2001, and March 7, 2011, the City elects to pay 80% of the health insurance premiums of retired employees and or their surviving spouse retired prior to November 1, 2003. For employees hired prior to April 1, 2011 and retired November 1, 2003 and thereafter, the City will pay 80% of health insurance premiums for those ages 60 and older at the time of retirement and 50% of health insurance premiums for those ages 59 and younger at the time of retirement. For employees hired April 1, 2011 and subsequently retire, the City will pay 50% of health insurance premiums. 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 the applicable percentage of 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 in accordance with City policy.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014
(Continued)

NOTE 16 - OTHER POST-EMPLOYMENT BENEFITS – Continued

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: 25 years of service at any age; or, age 60 and 10 years of service (called "Tier I members). Employees hired on and after January 1, 2013 (called "Tier II" members) are eligible to retire only after attainment of age 62, or later completion of 10 years of service. Dental insurance coverage is provided to retirees through the medical plan. 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.

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. 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, 2014, the City’s portion of health care and dental funding cost for retired employees totaled \$415,298. 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 is as follows:

Normal cost	\$ 207,470
30-year UAAL amortization amount	441,351
Annual required contribution (ARC)	<u><u>\$ 648,821</u></u>

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014
(Continued)

NOTE 16 - OTHER POST-EMPLOYMENT BENEFITS - Continued

Net Post-Employment Benefit Obligation

The City's Net Other Post-employment Benefit Obligation for fiscal year ending September 30, 2014 consisted of the following:

Beginning Net OPEB Obligation - September 30, 2013	\$ 1,340,243
Annual required contribution	648,821
Interest on Net OPEB Obligation	53,610
ARC Adjustment	<u>(77,506)</u>
OPEB Cost	624,925
Contribution	-
Current year retiree premium	<u>(415,298)</u>
Change in Net OPEB Obligation	<u>209,627</u>
Ending Net OPEB Obligation - September 30, 2014	<u><u>\$ 1,549,870</u></u>

The City's annual OPEB cost, percentage of the cost contributed and the net unfunded OPEB liability trend information consisted of the following:

Other Post- Employment Benefit	Year Ending September 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (NPO)
Medical/Dental	2014	\$ 624,925	66.46%	\$ 1,549,870
Medical/Dental	2013	\$ 632,234	58.32%	\$ 1,340,243
Medical/Dental	2012	\$ 612,004	55.79%	\$ 1,076,755

Funded Status and Funding Progress

For the year ended September 30, 2014, 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, 2013 actuarial valuation (the most recent actuarial valuation), the projected actuarial accrued liability (AAL) at September 30, 2014 was \$7,937,133, 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 2014, the entire actuarial accrued liability of \$7,937,133 was unfunded. The covered payroll was \$16,423,424, and the ratio of the UAAL to the covered payroll was 48.33%.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014
(Continued)

NOTE 16 - OTHER POST-EMPLOYMENT BENEFITS - Continued

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.

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.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014
(Continued)

NOTE 16 - OTHER POST-EMPLOYMENT BENEFITS - Continued

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. In addition, "Tier II" retirement plan members (those hired on and after January 1, 2013) would not be eligible to retire before age 62. Medical benefits are provided to employees upon actual retirement. 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.

Health Care Cost Trend Rate

The expected rate of increase in medical cost is based on a graded schedule beginning with 8% annually, down to an ultimate annual rate of 5.0% for ten years out and later.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014
(Continued)

NOTE 16 - OTHER POST-EMPLOYMENT BENEFITS - Continued

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 80% of the gross premium for those retiring on or before November 1, 2003. For those retiring after November 1, 2003, the employer pays 80% for those retiring on and after age 60 and 50% for those retiring before age 60. For employees hired on or after April 1, 2011 the employer will pay 50% of the retiree premium. The gross rates provided were "unblended" rates as 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.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2014
(Continued)

NOTE 17 - ACCOUNTING CHANGES AND ACCOUNTING STANDARDS

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 63 provides guidance for deferred outflows of resources and deferred inflows of resources. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The objective of Statement No. 65 is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or to recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues) of which there were none at September 30, 2014.

The implementation of Statement No. 65 resulted in the reclassification of beginning net position of the governmental activities and business-type activities in the government-wide financial statements. The deferred charges for issuance costs were reclassified as an expense of prior periods and resulted in the adjustment below as required by Statement No. 65.

	Governmental Activities	Business-type Activities
Net position - September 30, 2013	\$ 41,635,667	\$ 42,917,386
Changes in reporting for deferred charges for debt issuance costs	(32,770)	(82,238)
Changes for prior period adjustment (Note 18)	408,597	-
Net position - September 30, 2013, as restated	\$ 42,011,494	\$ 42,835,148

NOTE 18 - PRIOR PERIOD ADJUSTMENT

Beginning net position for governmental activities was increased by \$408,597 due to misstatement of capital assets acquired in the prior year.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PELHAM
Schedules of Funding Progress
For the Year Ended September 30, 2014

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))
9/30/2011	\$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%
9/30/2013	\$41,711,776	\$61,274,220	\$19,562,444	68.1%	\$16,674,790	117.3%

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

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))
10/1/2011	\$ -	\$ 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%
10/1/2013	\$ -	\$ 7,937,133	\$ 7,937,133	0.0%	\$16,423,424	48.3%

For information regarding assumptions and amortization methods, see Note 16.

CITY OF PELHAM
 Budgetary Comparison Schedule - General Fund
 Year ended September 30, 2014

	Budgeted Amounts		Actual GAAP Basis	Adjustments to Budgetary Basis	Actual - Budgetary Basis
	Original	Final			
Operating revenues:					
Taxes:					
Sales	\$ 22,242,500	\$ 22,242,500	\$ 23,318,267	\$ 434	\$ 23,318,701
Property	5,300,000	5,300,000	5,565,321	(8,938)	5,556,383
Motor Vehicle/Gas	590,000	590,000	615,049	(3,067)	611,982
Other	176,500	176,500	255,334	-	255,334
Licenses and Permits	3,895,600	3,895,600	4,161,805	-	4,161,805
Fines and Forfeitures	1,382,269	1,382,269	1,788,315	-	1,788,315
Charges for services	162,710	162,710	192,641	31	192,672
Interest	125,500	125,500	213,892	-	213,892
Other	390,000	390,000	296,637	520	297,157
Total Revenues	34,265,079	34,265,079	36,407,261	(11,020)	36,396,241
Expenditures, current:					
General Administration	9,134,163	9,134,163	43,320,165	222,529	43,542,694
Police	7,956,926	8,002,677	7,537,422	(26,990)	7,510,432
Fire	8,433,117	8,433,117	8,107,345	(38,137)	8,069,208
Public Works	2,914,093	3,280,799	3,082,862	(327,854)	2,755,008
Parks and Recreation	1,030,972	1,030,972	1,000,319	(3,541)	996,778
Library	1,037,974	1,037,974	1,089,184	(3,674)	1,085,510
	30,507,245	30,919,702	64,137,297	(177,667)	63,959,630
Capital outlay	179,066	179,066	961,209	-	961,209
Debt service					
Principal retirement	376,895	376,895	846,494	-	846,494
Interest	-	-	562,619	-	562,619
Issuance of debt costs	-	-	69,216	-	69,216
	376,895	376,895	1,478,329	-	1,478,329
Other financing sources (uses)					
Proceeds from sale of capital assets	30,000	30,000	95,265	-	95,265
Proceeds from issuance of debt	-	-	35,456,470	-	35,456,470
Transfers (out) in	(2,360,952)	(2,360,952)	(2,198,824)	-	(2,198,824)
	(2,330,952)	(2,330,952)	33,352,911	-	33,352,911
Net changes in fund balance	\$ 870,921	\$ 458,464	\$ 3,183,337	\$ 166,647	\$ 3,349,984

CITY OF PELHAM
Notes to Required Supplementary Information
September 30, 2014

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.

The City's expenditures exceeded budgeted amounts as a result of expenditures made from proceeds of issuance of Warrant Series 2014 not included in the budget.

STATISTICAL INFORMATION

(UNAUDITED)

CITY OF PELHAM
 Assessed Value of Taxable Property
 Year ended September 30, 2014 (UNAUDITED)

	Property Assessed Value (after exemptions)	Motor Vehicles	Total
2014	\$ 365,149,760	\$ 54,011,360	\$ 419,161,120
2013	361,211,000	55,104,830	416,315,830
2012	343,448,440	52,680,940	396,129,380
2011	345,077,300	49,913,860	394,991,160
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

CITY OF PELHAM
Top Ten Property Taxpayers
Year ended September 30, 2014 (UNAUDITED)

The City's top ten property taxpayers and amounts paid by each during the year ended September 30, 2014 consisted of the following:

Colonial Pipeline Company	\$	306,452
Alabama Power Company		150,651
Vulcan Threaded Products, Inc.		84,019
Edwin B. Lumpkin Jr.		59,263
Wal-Mart Real Estate Business Trust		39,899
Huntley Hall Apartments, Ltd.		32,837
Industrial Development Board of Pelham		24,430
Amerisource Bergen Drug Corporation		20,847
Birmingham Realty Co.		20,840
Peltown Realty LLP		19,625

CITY OF PELHAM
Water and Sewer System Customer Information
Year ended September 30, 2014 (UNAUDITED)

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

	<u>Water</u>	<u>Sewer</u>
2014	11,979	6,831
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

The ten largest customers, using average amount paid monthly, of the Sewer System for the year ended September 30, 2014, are as follows:

Green Park South Mobile Home Park	\$ 26,358
Belle Vista Mobile Home Park (City of Pelham)	10,315
The Huntley Apartments	6,809
Little Mountain Apartments	6,459
Southgate Mobile Home Park	5,101
Colonial Pipeline	3,568
Pelham High School	3,535
Cracker Barrel	3,439
Golden Corral	3,352

CITY OF PELHAM
Water and Sewer System Rates
Year ended September 30, 2014 (UNAUDITED)

The water rates as of September 30, 2014 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, 2014 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