

CITY OF PELHAM
PELHAM, ALABAMA
Financial Statements
September 30, 2015

**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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pelham, Alabama as of September 30, 2015, 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 2015, the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. 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, schedule of funding progress, schedule of changes in the net pension liability, the schedule of employer contributions, and budgetary comparison information on pages 7-13 and 66-71 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of

expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2016, on our consideration of the City of Pelham, Alabama's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Pelham, Alabama's internal control over financial reporting and compliance.

Barfield, Murphy, Shank & Smith, LLC

Birmingham, Alabama
March 31, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF PELHAM, ALABAMA

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

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

HIGHLIGHTS

Financial Highlights

- The City's net position for governmental activities increased by \$4,572,306.
- The total cost of all the City's programs was \$49,086,561.
- During the year, the City had expenses of \$32,217,539 for governmental activities and transfers of \$3,560,185 to business-type activities, which was \$4,572,306 less than the \$40,350,030 generated in general and program revenues.
- The City's combined assets exceeded its combined liabilities by \$43,030,367, 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 14 and 16) 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 17. 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 8. One of the most important questions asked about the City's finances is, "Is the City, as a whole, better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used in most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

- Governmental Activities - Most of the City's basic services are reported here, including general administration, police, fire, public works, parks and recreation, and library. Property taxes, sales taxes, program revenues, and grants finance most of these activities.
- Business-type Activities - The City's Water and Sewer System, Civic Complex and Ice Arena, Ballantrae Golf Club, Racquet Club, 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 17. 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 as of September 30, 2015 was \$43,030,367. The governmental activities net position was \$(194,027) and the business-type activities net position was \$43,224,394. As a result of implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, the beginning net position decreased by \$14,685,942 for the governmental activities and \$3,567,049 for the business-type activities.

GOVERNMENT-WIDE STATEMENTS

The following table reflects the condensed Statement of Net Position:

	Governmental Activities		Business-type Activities		Totals	
	For the year ended September 30,		For the year ended September 30,		For the year ended September 30,	
	2015	2014	2015	2014	2015	2014
Assets						
Current and other assets	\$ 36,888,181	\$ 36,756,714	\$ 8,510,722	\$ 8,036,307	\$ 45,398,903	\$ 44,793,021
Capital assets	32,637,929	29,365,697	66,123,825	67,732,865	98,761,754	97,098,562
Total assets	<u>69,526,110</u>	<u>66,122,411</u>	<u>74,634,547</u>	<u>75,769,172</u>	<u>144,160,657</u>	<u>141,891,583</u>
Deferred outflows of resources						
Contributions to pension plan	1,566,186	-	380,409	-	1,946,595	-
Deferred charge on refunding	550,563	628,319	660,203	868,916	1,210,766	1,497,235
Total deferred outflows of resources	<u>2,116,749</u>	<u>628,319</u>	<u>1,040,612</u>	<u>868,916</u>	<u>3,157,361</u>	<u>1,497,235</u>
Liabilities						
Long-term liabilities	63,726,860	49,729,191	30,597,167	30,924,065	94,324,027	80,653,256
Other liabilities	1,358,543	1,829,415	1,578,451	1,445,201	2,936,994	3,274,616
Total liabilities	<u>65,085,403</u>	<u>51,558,606</u>	<u>32,175,618</u>	<u>32,369,266</u>	<u>97,261,021</u>	<u>83,927,872</u>
Deferred inflows of resources						
Pension deferrals	1,132,810	-	275,147	-	1,407,957	-
Property taxes levied for subsequent year	5,618,673	5,375,310	-	-	5,618,673	5,375,310
Total deferred inflows of resources	<u>6,751,483</u>	<u>5,375,310</u>	<u>275,147</u>	<u>-</u>	<u>7,026,630</u>	<u>5,375,310</u>
Net Position						
Net investment in capital assets	21,800,817	18,187,915	40,205,264	38,081,681	62,006,081	56,269,596
Restricted	1,200,766	1,425,013	-	-	1,200,766	1,425,013
Unrestricted	(23,195,610)	(9,796,114)	3,019,130	6,187,141	(20,176,480)	(3,608,973)
Total net position (deficit)	<u>\$ (194,027)</u>	<u>\$ 9,816,814</u>	<u>\$ 43,224,394</u>	<u>\$ 44,268,822</u>	<u>\$ 43,030,367</u>	<u>\$ 54,085,636</u>

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

The City's unrestricted net position for governmental activities that can be used to finance day-to-day operations was \$(23,195,610).

Changes in Net Position

The City's Change in Net Position of the governmental activities was \$4,572,306 and the change in net position of business-type activities was \$2,522,621.

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

	Governmental		Business-type		Totals	
	Activities		Activities			
	For the year ended		For the year ended		For the year ended	
	September 30,		September 30,		September 30,	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues						
Fees, fines and charges						
for service	\$ 7,078,398	\$ 6,640,464	\$ 15,889,702	\$ 15,724,374	\$ 22,968,100	\$ 22,364,838
Operating grants and						
contributions	1,218,738	1,418,227	14,000	14,000	1,232,738	1,432,227
Capital grants and						
contributions	2,979,863	410,447	200,386	80,938	3,180,249	491,385
General revenues						
Sales taxes	22,928,098	23,318,267	-	-	22,928,098	23,318,267
Property taxes	5,615,475	5,565,321	-	-	5,615,475	5,565,321
Other taxes	295,029	255,334	-	-	295,029	255,334
Interest earnings	256,710	215,109	18,016	18,575	274,726	233,684
(Loss) gain on disposal						
of capital assets	(22,281)	13,343	(290,646)	6,208	(312,927)	19,551
Total revenues	<u>40,350,030</u>	<u>37,836,512</u>	<u>15,831,458</u>	<u>15,844,095</u>	<u>56,181,488</u>	<u>53,680,607</u>
Expenses						
General administration	8,242,900	43,970,950	-	-	8,242,900	43,970,950
Police	7,919,889	8,336,753	-	-	7,919,889	8,336,753
Fire	8,293,874	8,423,644	-	-	8,293,874	8,423,644
Public works	3,963,034	4,056,428	-	-	3,963,034	4,056,428
Parks and recreation	1,144,250	1,098,175	-	-	1,144,250	1,098,175
Library	1,226,470	1,221,177	-	-	1,226,470	1,221,177
Interest on long-term debt	1,427,122	625,796	-	-	1,427,122	625,796
Water and Sewer	-	-	9,073,860	9,051,166	9,073,860	9,051,166
Civic Complex and Ice Arena	-	-	3,111,481	2,885,699	3,111,481	2,885,699
Ballantrae Golf Club	-	-	2,503,708	2,530,628	2,503,708	2,530,628
Racquet Club	-	-	1,072,290	1,107,483	1,072,290	1,107,483
Rental Fund	-	-	197,648	240,664	197,648	240,664
Garbage Fund	-	-	910,035	893,050	910,035	893,050
Total expenses	<u>32,217,539</u>	<u>67,732,923</u>	<u>16,869,022</u>	<u>16,708,690</u>	<u>49,086,561</u>	<u>84,441,613</u>
Excess (deficiency) before						
transfers	8,132,491	(29,896,411)	(1,037,564)	(864,595)	7,094,927	(30,761,006)
Transfers	(3,560,185)	(2,298,269)	3,560,185	2,298,269	-	-
Change in net position	4,572,306	(32,194,680)	2,522,621	1,433,674	7,094,927	(30,761,006)
Beginning net position	9,816,814	41,635,667	44,268,822	42,917,386	54,085,636	84,553,053
Prior period adjustment	(14,583,147)	375,827	(3,567,049)	(82,238)	(18,150,196)	293,589
Total net position (deficit)	<u>\$ (194,027)</u>	<u>\$ 9,816,814</u>	<u>\$ 43,224,394</u>	<u>\$ 44,268,822</u>	<u>\$ 43,030,367</u>	<u>\$ 54,085,636</u>

For more detailed information, see the Statement of Activities on page 16.

The governmental activities total revenues increased by 6.64% to \$40,350,030 due primarily to an increase in capital contributions. Sales and property taxes account for 70.74% of all governmental activities revenues. The remaining revenues are comprised of charges for services and various other sources. The business-type activities total revenue decreased by .08%.

The total cost of all programs and services decreased by \$35,355,052 as a result of a decrease in contributions to the Pelham Board of Education. The cost of governmental activities decreased by \$35,515,384 and the cost of business-type activities increased by \$160,332.

Governmental Activities

The change in net position of governmental activities was \$4,572,306, resulting primarily from an increase in grant revenue and capital contributions of City infrastructure.

Business-type Activities

The change in net position of business-type activities was \$2,522,621, resulting primarily from transfers from the governmental activities.

THE CITY'S FUNDS

Governmental Funds

As of September 30, 2015, the Governmental Funds reported a combined fund balance of \$30,159,618, which is .90% more than the beginning of the year. The General Fund experienced a net increase of \$144,631 resulting primarily from an increase in grant revenue.

Business-type Funds

As of September 30, 2015, business-type funds reported a combined net position of \$43,224,394. As a result of implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, the beginning net position decreased \$3,567,049 for the business-type activities. The business-type funds Change in Net Position totaled \$2,522,621, resulting primarily from transfers from the governmental activities.

General Fund Budgetary Highlights

General Fund revenues exceeded budget by \$958,869, largely due to greater than anticipated business license revenue. The revenue budget is based on prior year budgeted revenues and does not factor in any growth. General fund revenues do not include proceeds from debt.

General Fund expenditures were less than budgeted amounts by \$2,555,425, largely due to a decrease in spending on operations to provide funding for capital outlay.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2015, the City had \$98,761,754 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 increase (including additions, disposals and depreciation) of \$1,663,192, or 1.71% more than last year. The increase can be attributed to capital asset additions offset by depreciation expense and the sale of surplus capital assets.

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

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Land	\$ 3,974,010	\$ 3,959,010	\$ 13,859,469	\$ 13,859,469	\$ 17,833,479	\$ 17,818,479
Construction in progress	1,316,796	227,409	1,390,288	2,119,764	2,707,084	2,347,173
Infrastructure, net	13,447,859	11,516,345	-	-	13,447,859	11,516,345
System and facilities, net	-	-	50,154,151	50,700,057	50,154,151	50,700,057
Buildings and improvements, net	9,327,122	9,711,510	318,614	659,838	9,645,736	10,371,348
Equipment, net	4,572,142	3,951,423	401,303	393,737	4,973,445	4,345,160
Total capital assets, net	<u>\$ 32,637,929</u>	<u>\$ 29,365,697</u>	<u>\$ 66,123,825</u>	<u>\$ 67,732,865</u>	<u>\$ 98,761,754</u>	<u>\$ 97,098,562</u>

Long-Term Debt

At September 30, 2015, the City had \$72,254,898 in warrants, notes payable, and capital leases payable outstanding versus \$77,202,192 at September 30, 2014, a decrease of 6.41%. This decrease resulted primarily from principal payments.

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

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
General Obligation						
Warrants	\$ 45,420,926	\$ 46,318,917	\$ 26,578,764	\$ 30,520,100	\$ 71,999,690	\$ 76,839,017
Notes payable	243,254	344,422	-	-	243,254	344,422
Capital lease payable	11,954	18,753	-	-	11,954	18,753
Totals	<u>\$ 45,676,134</u>	<u>\$ 46,682,092</u>	<u>\$ 26,578,764</u>	<u>\$ 30,520,100</u>	<u>\$ 72,254,898</u>	<u>\$ 77,202,192</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, 2016. The City Council took the Mayor's proposed budget under consideration and, after further review and evaluation, adopted the fiscal year 2016 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 2015, 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, 2016. Amounts available for expenditure in the General Fund budget are \$37,609,554 for the fiscal year 2016. The City took into consideration the current year increase in revenue and its effect on the City when budgeting expenditures for the fiscal year 2016.

If these estimates are realized, the City's budgetary fund balance is expected to increase moderately by the close of fiscal year 2016.

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, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 15,049,359	\$ 6,695,713	\$ 21,745,072
Deposit and investments	8,675,315	-	8,675,315
Accounts receivable	7,556,749	1,041,384	8,598,133
Inventory	-	296,669	296,669
Prepaid expenses	381,704	86,356	468,060
Restricted cash and cash equivalents	1,810,554	-	1,810,554
Restricted deposit	150,000	-	150,000
Total current assets	<u>33,623,681</u>	<u>8,120,122</u>	<u>41,743,803</u>
Noncurrent assets			
Restricted cash	-	352,100	352,100
Restricted deposit	-	28,000	28,000
Restricted - internal balances	(10,500)	10,500	-
Notes receivable	3,275,000	-	3,275,000
Nondepreciable capital assets	5,290,806	15,249,757	20,540,563
Depreciable capital assets, net	27,347,123	50,874,068	78,221,191
Total noncurrent assets	<u>35,902,429</u>	<u>66,514,425</u>	<u>102,416,854</u>
Total assets	<u>69,526,110</u>	<u>74,634,547</u>	<u>144,160,657</u>
Deferred outflows of resources			
Contributions to pension plans	1,566,186	380,409	1,946,595
Deferred charge on refunding	550,563	660,203	1,210,766
Total deferred outflows of resources	<u>2,116,749</u>	<u>1,040,612</u>	<u>3,157,361</u>
Liabilities			
Current liabilities			
Accounts payable	171,228	392,217	563,445
Unearned revenue	-	420,453	420,453
Accrued liabilities	768,906	135,497	904,403
Accrued interest payable	248,653	239,684	488,337
Payable from restricted assets - accounts payable	-	-	-
Payable from restricted assets - customer deposits	169,756	362,600	532,356
Payable from restricted assets - unearned revenue	-	28,000	28,000
Current maturities of long-term liabilities			
Warrants payable, net	908,121	4,072,655	4,980,776
Notes payable	78,119	-	78,119
Capital lease payable	7,076	-	7,076
Compensated absences	733,767	207,610	941,377
Total current liabilities	<u>3,085,626</u>	<u>5,858,716</u>	<u>8,944,342</u>

See notes to financial statements.

CITY OF PELHAM
Statement of Net Position
September 30, 2015
(Continued)

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Noncurrent liabilities			
Warrants payable, net	\$ 44,512,805	\$ 22,506,109	\$ 67,018,914
Notes payable	165,135	-	165,135
Capital lease payable	4,878	-	4,878
Compensated absences	733,767	207,612	941,379
Other post-employment benefits	1,748,488	-	1,748,488
Net pension liability	14,834,704	3,603,181	18,437,885
Total noncurrent liabilities	<u>61,999,777</u>	<u>26,316,902</u>	<u>88,316,679</u>
Total liabilities	<u>65,085,403</u>	<u>32,175,618</u>	<u>97,261,021</u>
Deferred inflows of resources			
Pension deferrals	1,132,810	275,147	1,407,957
Property taxes levied for subsequent year	5,618,673	-	5,618,673
Total deferred inflows of resources	<u>6,751,483</u>	<u>275,147</u>	<u>7,026,630</u>
Net position			
Net investment in capital assets	21,800,817	40,205,264	62,006,081
Restricted for			
Street improvements	124,411	-	124,411
Court	2,807	-	2,807
Police/municipal corrections	474,598	-	474,598
Library	100,395	-	100,395
Capital projects	498,555	-	498,555
Unrestricted	<u>(23,195,610)</u>	<u>3,019,130</u>	<u>(20,176,480)</u>
Total net position (deficit)	<u>\$ (194,027)</u>	<u>\$ 43,224,394</u>	<u>\$ 43,030,367</u>

See notes to financial statements.

CITY OF PELHAM
Statement of Activities
Year Ended September 30, 2015

Program Activities:	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Governmental activities							
General administration	\$ 8,242,900	\$ 6,861,945	\$ 198,008	\$ -	\$ (1,182,947)	\$ -	\$ (1,182,947)
Police	7,919,889	48,801	145,463	-	(7,725,625)	-	(7,725,625)
Fire	8,293,874	-	500	-	(8,293,374)	-	(8,293,374)
Public works	3,963,034	7,500	835,815	2,979,863	(139,856)	-	(139,856)
Parks and recreation	1,144,250	134,219	-	-	(1,010,031)	-	(1,010,031)
Library	1,226,470	25,933	38,952	-	(1,161,585)	-	(1,161,585)
Interest on long-term debt	1,427,122	-	-	-	(1,427,122)	-	(1,427,122)
Total governmental activities	32,217,539	7,078,398	1,218,738	2,979,863	(20,940,540)	-	(20,940,540)
Business-type activities							
Water and Sewer	9,073,860	9,987,681	-	200,386	-	1,114,207	1,114,207
Civic Complex and Ice Arena	3,111,481	2,144,800	-	-	-	(966,681)	(966,681)
Ballantrae Golf	2,503,708	1,823,424	14,000	-	-	(666,284)	(666,284)
Racquet Club	1,072,290	614,567	-	-	-	(457,723)	(457,723)
Rental Fund	197,648	311,532	-	-	-	113,884	113,884
Garbage Fund	910,035	1,007,698	-	-	-	97,663	97,663
Total business-type activities	16,869,022	15,889,702	14,000	200,386	-	(764,934)	(764,934)
Total primary government	\$ 49,086,561	\$ 22,968,100	\$ 1,232,738	\$ 3,180,249	\$ (20,940,540)	\$ (764,934)	\$ (21,705,474)
General revenues and other items:							
Taxes:							
Sales					\$ 22,928,098	\$ -	\$ 22,928,098
Property					5,615,475	-	5,615,475
Other					295,029	-	295,029
Interest earnings					256,710	18,016	274,726
Loss on disposal of capital assets					(22,281)	(290,646)	(312,927)
Transfers in (out)					(3,560,185)	3,560,185	-
Total general revenues and other items					25,512,846	3,287,555	28,800,401
Change in net position					4,572,306	2,522,621	7,094,927
Net position - beginning of year					9,816,814	44,268,822	54,085,636
Prior period adjustment, see Note 17					(14,583,147)	(3,567,049)	(18,150,196)
Net position (deficit) - beginning of year, as restated					(4,766,333)	40,701,773	35,935,440
Net position (deficit) - end of year					\$ (194,027)	\$ 43,224,394	\$ 43,030,367

See notes to financial statements.

CITY OF PELHAM
Balance Sheet
Governmental Funds
September 30, 2015

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Current assets			
Cash and cash equivalents	\$ 15,049,359	\$ -	\$ 15,049,359
Deposit and investments	8,675,315	-	8,675,315
Accounts receivable	7,556,749	-	7,556,749
Prepaid expenditures	381,704	-	381,704
Restricted cash and cash equivalents	695,534	1,115,020	1,810,554
Restricted deposit	-	150,000	150,000
	<u>32,358,661</u>	<u>1,265,020</u>	<u>33,623,681</u>
Non-current assets			
Note receivable	<u>3,275,000</u>	<u>-</u>	<u>3,275,000</u>
Total assets	<u>\$ 35,633,661</u>	<u>\$ 1,265,020</u>	<u>\$ 36,898,681</u>
Liabilities			
Current liabilities			
Accounts payable	\$ 171,228	\$ -	\$ 171,228
Accrued liabilities	768,906	-	768,906
Payable from restricted assets - accounts payable	-	-	-
Payable from restricted assets - due to (from) other funds	(8,274)	18,774	10,500
Payable from restricted assets - deposits	124,276	45,480	169,756
Total liabilities	<u>1,056,136</u>	<u>64,254</u>	<u>1,120,390</u>
Deferred inflow of resources			
Property taxes levied for subsequent year	5,618,673	-	5,618,673
Fund balance			
Nonspendable			
Notes receivable	3,275,000	-	3,275,000
Prepaid expenditures	381,704	-	381,704
Restricted for			
Street improvements	-	124,411	124,411
Court	-	2,807	2,807
Police/municipal corrections	-	474,598	474,598
Library	-	100,395	100,395
Capital projects	-	498,555	498,555
Unassigned	<u>25,302,148</u>	<u>-</u>	<u>25,302,148</u>
Total fund balances	<u>28,958,852</u>	<u>1,200,766</u>	<u>30,159,618</u>
Total liabilities, deferred inflows, and fund balance	<u>\$ 35,633,661</u>	<u>\$ 1,265,020</u>	<u>\$ 36,898,681</u>

See notes to financial statements.

CITY OF PELHAM
 Reconciliation of the Governmental Funds
 Balance Sheet to the Statement of Net Position
 September 30, 2015

Total fund balances - governmental funds	\$	30,159,618
<p>Amounts reported for governmental activities in the Statement of Net Position are different due to the following:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		
Governmental capital assets	55,737,260	
Less accumulated depreciation	<u>(23,099,331)</u>	32,637,929
<p>Interest payable is not recognized as an expenditure in governmental funds, but rather is recognized when an expenditure is paid.</p>		
		(248,653)
<p>Long-term liabilities, including warrants payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p>		
Warrants payable	(42,793,818)	
Warrant discounts and premiums	(2,627,108)	
Deferred outflow of resources for deferred charges	550,563	
Deferred outflows of resources for pension	1,566,186	
Notes payable	(243,254)	
Capital lease payable	(11,954)	
Other post-employment benefits payable	(1,748,488)	
Deferred inflows of resources for pension	(1,132,810)	
Net pension liability	(14,834,704)	
Compensated absences	<u>(1,467,534)</u>	<u>(62,742,921)</u>
Total net position- governmental activities	\$	<u><u>(194,027)</u></u>

See notes to financial statements.

CITY OF PELHAM
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
September 30, 2015

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Operating revenues			
Taxes			
Sales	\$ 22,928,098	\$ -	\$ 22,928,098
Property	5,615,475	-	5,615,475
Motor vehicle/gas	634,526	201,289	835,815
Other	295,029	-	295,029
Licenses and permits	4,431,063	-	4,431,063
Fines and forfeitures	1,711,182	562,661	2,273,843
Charges for services	222,057	-	222,057
Interest	255,732	978	256,710
Other	710,967	369,805	1,080,772
Total revenues	36,804,129	1,134,733	37,938,862
Expenditures, current			
General administration	7,587,622	382,760	7,970,382
Police	7,425,280	204,601	7,629,881
Fire	8,115,470	-	8,115,470
Public works	2,986,226	372,531	3,358,757
Parks and recreation	1,056,302	-	1,056,302
Library	1,106,634	41,371	1,148,005
	28,277,534	1,001,263	29,278,797
Capital outlay	2,559,668	9,000	2,568,668
Debt service			
Principal retirement	791,343	-	791,343
Interest	1,551,060	-	1,551,060
	2,342,403	-	2,342,403
Other financing sources (uses)			
Proceeds from sale of capital assets	80,292	-	80,292
Interfund transfers out	(3,560,185)	-	(3,560,185)
	(3,479,893)	-	(3,479,893)
Net changes in fund balance	144,631	124,470	269,101
Fund balance - beginning of year	28,814,221	973,501	29,787,722
Prior period adjustment, see Note 17	-	102,795	102,795
Fund balance - beginning of year, as restated	28,814,221	1,076,296	29,890,517
Fund balance - end of year	\$ 28,958,852	\$ 1,200,766	\$ 30,159,618

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, 2015

Net changes in fund balances - governmental funds \$ 269,101

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	2,568,668	
Less depreciation expense	(1,627,314)	941,354

The proceeds from the sale of capital assets (\$80,292) are reported as other financing sources in the governmental funds. However, the net book value of the capital assets (\$102,571) is removed from the capital assets account in the Statement of Net Position and offset against the sales proceeds resulting in a loss in the Statement of Activities of (\$22,281). (102,571)

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. 2,433,450

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	791,343	
Bond discounts, premiums, and deferred amounts on refunding amortization expense	136,859	928,202

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

Net decrease in accrued compensated absences	29,695	
Net decrease in pension expense	284,614	
Net increase in post-employment benefit payable	(198,618)	
Increase in accrued interest	(12,921)	102,770

Change in net position - governmental activities \$ 4,572,306

See notes to financial statements.

CITY OF PELHAM
Statement of Proprietary Fund Net Position
Year Ended September 30, 2015

	Water & Sewer	Civic Complex and Ice Arena	Ballantrae Golf	Other Proprietary Funds	Total Proprietary Funds
Assets					
Current assets					
Cash and cash equivalents	\$ 5,958,532	\$ 228,292	\$ 48,033	\$ 460,856	\$ 6,695,713
Accounts receivable	922,206	20,606	58,670	39,902	1,041,384
Inventory	126,174	77,862	71,904	20,729	296,669
Prepaid expenses	22,817	43,219	12,507	7,813	86,356
Total current assets	<u>7,029,729</u>	<u>369,979</u>	<u>191,114</u>	<u>529,300</u>	<u>8,120,122</u>
Non-current assets					
Restricted cash	352,100	-	-	-	352,100
Restricted deposit	-	-	28,000	-	28,000
Restricted due from General Fund	-	-	-	10,500	10,500
Non-depreciable assets	2,207,199	144,955	7,463,703	5,433,900	15,249,757
Depreciable capital assets, net	38,578,502	5,923,663	3,366,664	3,005,239	50,874,068
Total noncurrent assets	<u>41,137,801</u>	<u>6,068,618</u>	<u>10,858,367</u>	<u>8,449,639</u>	<u>66,514,425</u>
Total assets	<u>48,167,530</u>	<u>6,438,597</u>	<u>11,049,481</u>	<u>8,978,939</u>	<u>74,634,547</u>
Deferred outflows of resources					
Contributions to pension plans	181,471	67,576	83,885	47,477	380,409
Deferred charge on refunding	436,033	140,752	50,351	33,067	660,203
Total deferred outflows of resources	<u>617,504</u>	<u>208,328</u>	<u>134,236</u>	<u>80,544</u>	<u>1,040,612</u>
Liabilities					
Current liabilities					
Accounts payable	172,892	190,348	20,036	8,941	392,217
Unearned revenue	395,380	22,350	2,723	-	420,453
Accrued liabilities	70,120	13,790	44,370	7,217	135,497
Accrued interest payable	208,375	3,073	5,685	22,551	239,684
Payable from restricted assets - customer deposits	352,100	-	-	10,500	362,600
Payable from restricted assets - unearned revenue	-	-	28,000	-	28,000
Current maturities of long-term liabilities					
Warrants payable, net	2,796,592	564,794	572,195	139,074	4,072,655
Compensated absences	89,216	32,948	58,976	26,470	207,610
Total current liabilities	<u>4,084,675</u>	<u>827,303</u>	<u>731,985</u>	<u>214,753</u>	<u>5,858,716</u>
Noncurrent liabilities					
Net pension liability	1,718,873	640,073	794,542	449,693	3,603,181
Warrants payable, net	14,755,941	2,358,800	4,272,999	1,118,369	22,506,109
Compensated absences	89,217	32,948	58,976	26,471	207,612
Total noncurrent liabilities	<u>16,564,031</u>	<u>3,031,821</u>	<u>5,126,517</u>	<u>1,594,533</u>	<u>26,316,902</u>
Total liabilities	<u>20,648,706</u>	<u>3,859,124</u>	<u>5,858,502</u>	<u>1,809,286</u>	<u>32,175,618</u>
Deferred inflow of resources					
Pension deferrals	131,257	48,877	60,673	34,340	275,147
Net position					
Net investment in capital assets	23,669,201	3,285,776	6,035,524	7,214,763	40,205,264
Unrestricted	4,335,870	(546,852)	(770,982)	1,094	3,019,130
Total net position	<u>\$ 28,005,071</u>	<u>\$ 2,738,924</u>	<u>\$ 5,264,542</u>	<u>\$ 7,215,857</u>	<u>\$ 43,224,394</u>

See notes to financial statements.

CITY OF PELHAM
Statement of Revenues, Expenses, and Changes in
Proprietary Fund Net Position
Year Ended September 30, 2015

	Water and Sewer	Civic Complex and Ice Arena	Ballantrae Golf	Other Proprietary Funds	Total Proprietary Funds
Operating Revenues	\$ 9,987,681	\$ 2,144,800	\$ 1,837,424	\$ 1,933,797	\$ 15,903,702
Operating Expenses					
Salaries	1,673,697	1,062,903	1,086,908	524,120	4,347,628
Employee benefits	325,131	135,954	148,691	84,028	693,804
Payroll taxes	123,146	60,015	80,126	42,678	305,965
Depreciation	2,808,579	292,242	140,021	120,748	3,361,590
Water purchases	1,288,526	-	-	-	1,288,526
Contract services - garbage pickup	-	-	-	910,035	910,035
Programs and events	-	530,945	-	59,384	590,329
Utilities and telephone	662,963	334,989	89,830	196,513	1,284,295
Supplies	504,387	192,261	562,417	38,031	1,297,096
Maintenance and repairs	357,871	224,724	127,016	53,621	763,232
Insurance	72,273	54,830	47,486	21,008	195,597
Other	494,771	107,539	111,079	68,943	782,332
Total operating expenses	8,311,344	2,996,402	2,393,574	2,119,109	15,820,429
Operating income (loss)	1,676,337	(851,602)	(556,150)	(185,312)	83,273
Non-Operating Revenues (Expenses)					
Gain (loss) on disposal of capital assets	12,428	(114)	-	(302,960)	(290,646)
Interest income	17,500	50	240	226	18,016
Interest expense	(762,516)	(115,079)	(110,134)	(60,864)	(1,048,593)
Total non-operating revenues (expenses)	(732,588)	(115,143)	(109,894)	(363,598)	(1,321,223)
Income (loss) before capital contributions and interfund transfer in (out)	943,749	(966,745)	(666,044)	(548,910)	(1,237,950)
Capital contributions	200,386	-	-	-	200,386
Interfund transfers in (out)	234,888	1,850,036	1,026,437	448,824	3,560,185
Change in net position	1,379,023	883,291	360,393	(100,086)	2,522,621
Net position, beginning of year	28,327,685	2,489,287	5,690,724	7,761,126	44,268,822
Prior Period Adjustment, See Note 17	(1,701,637)	(633,654)	(786,575)	(445,183)	(3,567,049)
Net position, end of year	<u>\$ 28,005,071</u>	<u>\$ 2,738,924</u>	<u>\$ 5,264,542</u>	<u>\$ 7,215,857</u>	<u>\$ 43,224,394</u>

See notes to financial statements.

CITY OF PELHAM
Statement of Proprietary Fund Cash Flows
Year Ended September 30, 2015

	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	\$ 10,521,140	\$ 2,135,359	\$ 1,828,891	\$ 1,951,957	\$ 16,437,347
Cash paid to employees	(2,134,865)	(1,273,488)	(1,321,746)	(656,112)	(5,386,211)
Cash paid to suppliers for goods and services	(3,277,131)	(1,536,048)	(932,966)	(1,341,094)	(7,087,239)
Net cash provided (used) by operating activities	5,109,144	(674,177)	(425,821)	(45,249)	3,963,897
Cash Flows from Noncapital Financing Activities					
Transfers (to) from other funds	234,888	1,850,036	1,026,437	448,824	3,560,185
Due from General Fund	-	-	-	1,500	1,500
Net cash provided (used) by noncapital financing activities	234,888	1,850,036	1,026,437	450,324	3,561,685
Cash Flows from Capital and Related Financing Activities					
Purchase of property, plant, and equipment	(1,690,611)	(350,252)	(27,845)	(108,967)	(2,177,675)
Proceeds from sale of capital assets	13,050	-	-	8,280	21,330
Principal payments on debt	(2,665,420)	(555,169)	(561,322)	(133,616)	(3,915,527)
Interest payments on debt	(681,029)	(55,422)	(98,796)	(56,795)	(892,042)
Net cash used by capital and related financing activities	(5,024,010)	(960,843)	(687,963)	(291,098)	(6,963,914)
Cash Flows from Investing Activities					
Proceeds from maturity of certificate of deposit	-	-	42,000	-	42,000
Purchase of certificate of deposit	-	-	(28,000)	-	(28,000)
Interest on cash and investments	17,500	50	298	226	18,074
Net cash provided by investing activities	17,500	50	14,298	226	32,074
Net (increase) decrease in cash and cash equivalents	337,522	215,066	(73,049)	114,203	593,742
Cash and cash equivalents at beginning of year	5,973,110	13,226	121,082	346,653	6,454,071
Cash and cash equivalents at end of year	<u>\$ 6,310,632</u>	<u>\$ 228,292</u>	<u>\$ 48,033</u>	<u>\$ 460,856</u>	<u>\$ 7,047,813</u>

See notes to financial statements.

CITY OF PELHAM
Statement of Proprietary Fund Cash Flows
Year Ended September 30, 2015
(Continued)

	<u>Water and Sewer</u>	<u>Civic Complex and Ice Arena</u>	<u>Ballantreae 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)	\$ 1,676,337	\$ (851,602)	\$ (556,150)	\$ (185,312)	\$ 83,273
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	2,808,579	292,242	140,021	120,748	3,361,590
Bad debt expense	(23,624)	-	-	-	(23,624)
(Increase) decrease in:					
Accounts receivable	132,479	(5,703)	4,082	19,660	150,518
Deferred outflows of resources for pensions	(6,656)	(2,478)	(3,076)	(1,741)	(13,951)
Prepaid expenses	1,558	(26,594)	285	1,499	(23,252)
Inventory	(6,043)	(8,929)	14,163	936	127
Increase (decrease) in:					
Accounts payable	159,330	(54,312)	(8,665)	5,277	101,630
Accrued expenses	(22,762)	3,835	9,117	2,300	(7,510)
Customer deposits	5,600	-	-	(1,500)	4,100
Unearned revenue	395,380	(3,738)	(16,724)	-	374,918
Deferred inflows of resources for pension	131,257	48,877	60,673	34,340	275,147
Net pension liability	(157,579)	(58,679)	(72,842)	(41,226)	(330,326)
Compensated absences	15,288	(7,096)	3,295	(230)	11,257
Net Cash Provided (Used) by Operating Activities	<u>\$ 5,109,144</u>	<u>\$ (674,177)</u>	<u>\$ (425,821)</u>	<u>\$ (45,249)</u>	<u>\$ 3,963,897</u>

	<u>Water and Sewer</u>
Reconciliation of Cash and Cash Equivalents to Statement of Net Position:	
Cash and cash equivalents in current assets	\$ 5,958,532
Restricted cash	352,100
Total cash and cash equivalents	<u>\$ 6,310,632</u>

Noncash Investing, Capital, and Financing Activities

Pelham Water and Sewer had amortization of warrant discounts of \$10,446, amortization of warrant premiums of \$33,502, and amortization of deferred amounts on refunding of \$127,427 during the year ended September 30, 2015.

System lines contributed by developers to Pelham Water and Sewer were \$200,386.

Pelham Civic Complex and Ice Arena had amortization of deferred amounts on refunding of \$60,241 during the year ended September 30, 2015.

See notes to financial statements.

CITY OF PELHAM
Statement of Proprietary Fund Cash Flows
Year Ended September 30, 2015
(Continued)

Noncash Investing, Capital, and Financing Activities - Continued

Ballantrae Golf Club had amortization of deferred amounts on refunding of \$11,997 during the year ended September 30, 2015.

Pelham Racquet Club had amortization of warrant discounts of \$1,247, amortization of warrant premiums of \$4,000, and amortization of deferred amounts on refunding of \$9,048 during the year ended September 30, 2015.

See notes to financial statements.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015

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 March 31, 2016, 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, 2015
(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.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(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, 2015
(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, 2015
(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, 2015
(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 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, 2015
(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 to 40 years; machinery and equipment, 5 to 25 years; improvements, 20 years; and infrastructure, 25 to 50 years.

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

Deferred Outflows of Resources

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

Unearned Revenue

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

Long-term Obligations

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

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(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, 2015
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Pensions

The Employees' Retirement Systems of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the Plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the GASB. Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report. The last year for which actuarial information are available is for the fiscal year ending September 30, 2014 and therefore this actuarial information is reported in the 2015 financial statements.

Deferred Inflows of Resources

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

Net Position

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

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

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

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

Fund Equity

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

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Equity - Continued

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

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

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

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

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

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

Property Taxes

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Equity

The deficit fund equity of \$3,958 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, 2015, \$0 had been accumulated in the trustee accounts for this purpose. The trustee accounts are invested by banks' trust departments in U.S. Government Securities and are not subject to collateralization requirements.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(Continued)

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.

As of September 30, 2015, the City had non-negotiable certificates of deposit in the amount of \$5,150,000 in the governmental activities and \$28,000 in the business-type activities.

As of September 30, 2015, the City had the following investments, which were reported at fair value in governmental activities:

Type of Investment	Fair Value	<u>Investment Maturities (in Years)</u>		
		1-5	6-10	More than 10
Government National Mortgage Association	\$ 3,675,315	\$ -	\$ -	\$ 3,675,315
	<u>\$ 3,675,315</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,675,315</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, 2015 were insured.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(Continued)

NOTE 5 - RECEIVABLES AND PAYABLES

Receivables consisted of the following at September 30, 2015:

	Governmental Activities	Business-type Activities	Total
Taxes			
Sales	\$ 2,149,583	\$ -	\$ 2,149,583
Property	5,580,158	-	5,580,158
Customers	-	1,187,248	1,187,248
Intergovernmental	8,906	-	8,906
Gross Receivables	<u>7,738,647</u>	<u>1,187,248</u>	<u>8,925,895</u>
Less: Allowance for uncollectible accounts	<u>(181,898)</u>	<u>(145,864)</u>	<u>(327,762)</u>
Net Receivables	<u>\$ 7,556,749</u>	<u>\$ 1,041,384</u>	<u>\$ 8,598,133</u>

Payables consisted of the following at September 30, 2015:

	Governmental Activities	Business-type Activities	Total
Trade	\$ 171,228	\$ 257,142	\$ 428,370
Capital Assets	<u>-</u>	<u>135,075</u>	<u>135,075</u>
Net Payables	<u>\$ 171,228</u>	<u>\$ 392,217</u>	<u>\$ 563,445</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, 2015
(Continued)

NOTE 7 - LEASING ACTIVITIES

During the prior 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 \$538,083, with accumulated depreciation of \$238,702 and a carrying amount of \$299,381. 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. The Board of Education occupied the space until September 1, 2015, and the rent income associated with the lease agreement was \$13,200 for the year ended September 30, 2015.

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 second floor of the Pelham Water Administration Building. The cost of the leased property was \$333,812, with accumulated depreciation of \$164,225 and a carrying amount of \$169,587. The Pelham Board of Education agreed to pay rent in the amount of \$4,000 per month, commencing on August 1, 2015 for a four-year term with the option for mutual early termination and one year automatic extensions if not terminated by either party with at least a 180-day written notice to the other party. As of September 30, 2015, the Board of Education still occupied the space, future minimum rent amounts are \$48,000 in 2016, 2017, and 2018 and \$40,000 in 2019. Rent income associated with the lease agreement was \$8,000 for the year ended September 30, 2015.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(Continued)

NOTE 8 - CAPITAL ASSETS

Capital assets activity for governmental activities consisted of the following for the year ended September 30, 2015:

	Governmental Activities			
	October 1, 2014	Additions	Disposals	September 30, 2015
Depreciable assets				
Infrastructure	\$ 20,638,491	\$ 2,328,636	\$ 99,857	\$ 22,867,270
Buildings and improvements	16,297,158	85,743	49,030	16,333,871
Equipment	10,776,222	1,387,849	918,758	11,245,313
	<u>47,711,871</u>	<u>3,802,228</u>	<u>1,067,645</u>	<u>50,446,454</u>
Less accumulated depreciation				
Infrastructure	8,894,737	538,555	13,881	9,419,411
Buildings and improvements	6,585,648	459,809	38,708	7,006,749
Equipment	6,824,799	628,950	780,578	6,673,171
	<u>22,305,184</u>	<u>1,627,314</u>	<u>833,167</u>	<u>23,099,331</u>
	<u>25,406,687</u>	<u>2,174,914</u>	<u>234,478</u>	<u>27,347,123</u>
Non-depreciable assets				
Land	3,959,010	15,000	-	3,974,010
Construction in progress	-	1,316,796	-	1,316,796
	<u>3,959,010</u>	<u>1,331,796</u>	<u>-</u>	<u>5,290,806</u>
	<u>\$ 29,365,697</u>	<u>\$ 3,506,710</u>	<u>\$ 234,478</u>	<u>\$ 32,637,929</u>

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(Continued)

NOTE 8 - CAPITAL ASSETS - Continued

Capital assets activity for business-type activities consisted of the following for the year ended September 30, 2015

	Business-type Activities			
	October 1, 2014	Additions	Disposals	September 30, 2015
Depreciable assets				
System and facilities	\$ 100,180,282	\$ 2,649,469	\$ 37,560	\$ 102,792,191
Water & Sewer and Rental Fund				
Buildings and improvements	1,099,460		367,193	732,267
Equipment	2,756,666	144,534	354,970	2,546,230
	<u>104,036,408</u>	<u>2,794,003</u>	<u>759,723</u>	<u>106,070,688</u>
Less accumulated depreciation				
System and facilities	49,480,230	3,194,897	37,087	52,638,040
Water & Sewer and Rental Fund				
Buildings and improvements	439,621	29,835	55,803	413,653
Equipment	2,362,925	136,858	354,856	2,144,927
	<u>52,282,776</u>	<u>3,361,590</u>	<u>447,746</u>	<u>55,196,620</u>
	51,753,632	(567,587)	311,977	50,874,068
Non-depreciable assets				
Land	13,859,469	-	-	13,859,469
Construction in progress	2,119,764	1,151,512	1,880,988	1,390,288
	<u>15,979,233</u>	<u>1,151,512</u>	<u>1,880,988</u>	<u>15,249,757</u>
	<u>\$ 67,732,865</u>	<u>\$ 583,925</u>	<u>\$ 2,192,965</u>	<u>\$ 66,123,825</u>

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(Continued)

NOTE 8 - CAPITAL ASSETS - Continued

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

Governmental activities

General administration	\$ 80,910
Police	457,915
Fire	272,864
Public works	632,061
Parks and recreation	90,245
Library	93,319
	<u>\$ 1,627,314</u>

Business-type activities

Water and Sewer	\$ 2,808,579
Civic Complex	292,242
Ballantrae Golf Club	140,021
Rental Fund	3,552
Racquet Club	117,196
	<u>\$ 3,361,590</u>

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(Continued)

NOTE 9 - LONG-TERM DEBT

The general obligation warrants payable consisted of the following at September 30, 2015:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
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%	\$ 148,919	\$ 5,526,081
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%	236,066	6,143,934
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%	-	2,390,000
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%	-	3,405,000
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%	1,214,681	4,845,194
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%	7,646,804	-
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%	232,348	4,175,282

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(Continued)

NOTE 9 - LONG-TERM DEBT - Continued

The general obligation warrants payable consisted of the following at September 30, 2015 (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	42,793,818	26,485,491
Less deferred amounts for:		
Unamortized discounts (2006A)	(526)	(19,523)
Unamortized discounts (2006B)	(875)	(22,772)
Unamortized discounts (2014)	(107,713)	-
Unamortized premiums (2006A)	1,694	62,887
Unamortized premiums (2006B)	2,793	72,681
Unamortized premiums (2014)	2,731,735	-
Total warrants payable, net	\$ 45,420,926	\$ 26,578,764

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(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>
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	1,824,305	1,394,236	3,035,117	264,247
2021-2025	10,448,041	5,858,299	6,439,734	315,009
2026-2030	12,088,700	3,963,143	-	-
2031-2034	12,545,000	1,505,650	-	-
	<u>\$ 42,793,818</u>	<u>\$ 18,778,181</u>	<u>\$ 26,485,491</u>	<u>\$ 2,926,221</u>

Notes payable consisted of the following at September 30, 2015:

	<u>Governmental Activities</u>
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	\$ 94,814
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	148,440
Total Notes Payable	<u>\$ 243,254</u>

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(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
2016	\$ 78,119	\$ 9,151
2017	81,043	6,226
2018	84,092	3,178
	\$ 243,254	\$ 18,555

Changes in long-term liabilities for governmental activities consisted of the following at September 30, 2015:

Governmental Activities	October 1, 2014	Additions	Retirements	September 30, 2015	Due within one year
Warrants and notes payable:					
Notes payable	\$ 344,422	\$ -	\$ 101,168	\$ 243,254	\$ 78,119
Capital lease payable	18,753	-	6,799	11,954	7,076
General Obligation Warrants	43,477,194	-	683,376	42,793,818	693,594
	43,840,369	-	791,343	43,049,026	778,789
Plus: bond discounts and premiums	2,841,723	-	214,615	2,627,108	214,527
Total warrants and notes payable	46,682,092	-	1,005,958	45,676,134	993,316
Other liabilities:					
Other post-employment benefit payable	1,549,870	198,618	-	1,748,488	-
Compensated absences	1,497,229	1,376,277	1,405,972	1,467,534	733,767
	\$ 49,729,191	\$ 1,574,895	\$ 2,411,930	\$ 48,892,156	\$ 1,727,083

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(Continued)

NOTE 9 - LONG-TERM DEBT - Continued

Changes in long-term liabilities for business-type activities consisted of the following at September 30, 2015:

<u>Business-type Activities</u>	<u>October 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2015</u>	<u>Due within one year</u>
Warrants payable:					
General Obligation Warrants	\$ 30,401,018	\$ -	\$ 3,915,527	\$ 26,485,491	\$ 4,049,783
Plus: bond discounts and premiums	119,082	-	25,809	93,273	22,872
Total warrants payable	<u>30,520,100</u>	<u>-</u>	<u>3,941,336</u>	<u>26,578,764</u>	<u>4,072,655</u>
Other liabilities:					
Compensated absences	403,965	250,658	239,401	415,222	207,610
	<u>\$ 30,924,065</u>	<u>\$ 250,658</u>	<u>\$ 4,180,737</u>	<u>\$ 26,993,986</u>	<u>\$ 4,280,265</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, 2015 are as follows:

	<u>Defeased Warrants Outstanding</u>	<u>Escrow Account Balance</u>
General Obligation Warrants - Series 2005	\$ 7,440,000	\$ 7,592,777

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(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, 2015, the future minimum lease payments under the capital lease agreements are as follows:

2016	\$	7,425
2017		4,951
Future minimum lease payments		12,376
Less: amount representing interest		(422)
Present value of minimum lease payments		11,954
Less: current portion		(7,076)
Long-term capital lease obligation	\$	4,878

As of September 30, 2015, the lease had capitalized costs totaling \$20,960 and accumulated depreciation of \$5,589, and a net book value of \$15,371. Interest expense paid under the capital lease agreement totaled \$627 during the year ended September 30, 2015.

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, 2015 totaled \$52,704 for governmental activities and \$139,014 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
2016	\$ 51,201	\$ 141,562	\$ 192,763
2017	13,043	63,951	76,994
2018	5,517	24,691	30,208
2019	2,100	9,543	11,643
	\$ 71,861	\$ 239,747	\$ 311,608

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(Continued)

NOTE 13 - PENSION PLAN

General Information about the Pension Plan

Plan description. The Employees' Retirement System of Alabama (ERS), an agent multiple-employer plan (the Plan), was established October 1, 1945 under the provisions of Act 515 of the Legislature of 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 the general administration and operation of ERS is vested in its Board of Control. The ERS Board of Control consists of thirteen trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). Title 36-Chapter 27 of the Code of Alabama grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

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

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

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(Continued)

NOTE 13 - PENSION PLAN - Continued

General Information about the Pension Plan - Continued

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

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

Members are eligible for disability retirement if they have 10 years of creditable service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary on the member's age, service credit, employment status and eligibility for retirement.

The ERS serves approximately 846 local participating employers. These participating employers include 287 cities, 65 counties, and 494 other public entities. The ERS membership includes approximately 83,874 participants. As of September 30, 2014, membership consisted of:

Retirees and beneficiaries currently receiving benefits	21,691
Terminated employees entitled to but not yet receiving benefits	1,252
Terminated employees not entitled to a benefit	5,048
Active members	55,883
	83,874

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(Continued)

NOTE 13 - PENSION PLAN - Continued

General Information about the Pension Plan - Continued

The City's membership as of the measurement date of September 30, 2014 consisted of:

Inactive members or their beneficiaries currently receiving benefits	83
Inactive members entitled to but not yet receiving benefits	24
Active members	304
	<hr/>
	411

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

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

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2015, the City's active employee contribution rate was 5.61% of covered employee payroll, and the City's average contribution rate to fund the normal and accrued liability costs was 10.75% of covered employee payroll.

The City's contractually required contribution rate for the year ended September 30, 2015 was 12.01% of pensionable pay for Tier 1 employees, and 9.49% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2013, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the City were \$1,946,595 for the year ended September 30, 2015.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(Continued)

NOTE 13 - PENSION PLAN - Continued

Net Pension Liability

The City's net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2013 rolled forward to September 30, 2014 using standard roll-forward techniques as shown in the following table:

(a) Total Pension Liability as of September 30, 2013	\$ 63,919,367
(b) Entry Age Normal Cost for the period October 1, 2013 - September 30, 2014	1,470,956
(c) Actual Benefit Payments and Refunds for the period October 1, 2013 - September 30, 2014	(2,450,190)
(d) Total Pension Liability as of September 30, 2014 [(a) x 1.08] + (b) - [(c) x (1.04)]	<u>\$ 67,955,675</u>

Actuarial assumptions. The total pension liability in the September 30, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

1. An investment rate of return of 8.00% (net of pension plan investment expense), 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%.

Mortality rates for ERS were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward three years for males and two years for females. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disability Mortality Table.

The actuarial assumptions used in the September 30, 2013 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

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

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(Continued)

NOTE 13 - PENSION PLAN - Continued

Net Pension Liability - Continued

	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	25%	5%
U.S. Large Stocks	34%	9%
U.S. Mid Stocks	8%	12%
U.S. Small Stocks	3%	15%
International Developed Market Stocks	15%	11%
International Emerging Market Stocks	3%	16%
Real Estate	10%	8%
Cash	2%	2%
	100%	

*Includes assumed rate of inflation of 2.50%.

Discount rate. The discount rate used to measure the total pension liability was the long-term rate of return, 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(Continued)

NOTE 13 - PENSION PLAN - Continued

Net Pension Liability - Continued

Changes in the City's net pension liability consisted of the following at September 30, 2014:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at September 30, 2013	\$ 63,919,367	\$ 43,791,168	\$ 20,128,199
Changes for the year:			
Service cost	1,470,956	-	1,470,956
Interest	5,015,542	-	5,015,542
Contributions - employer	-	1,875,205	(1,875,205)
Contributions - employee	-	969,654	(969,654)
Net investment income	-	5,281,062	(5,281,062)
Benefits of payments, including refunds of employee contributions	(2,450,190)	(2,450,190)	-
Transfers among employers	-	50,891	(50,891)
Net changes:	4,036,308	5,726,622	(1,690,314)
Balances at September 30, 2014	<u>\$ 67,955,675</u>	<u>\$ 49,517,790</u>	<u>\$ 18,437,885</u>

Sensitivity of the net pension liability to changes in the discount rate. The following table presents the City's net pension liability calculated using the discount rate of 8.00%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower (7.00%) or one-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Plan's Net Pension Liability	\$ 26,957,032	\$ 18,437,885	\$ 11,281,243

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(Continued)

NOTE 13 - PENSION PLAN - Continued

Net Pension Liability - Continued

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2014. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2014. The auditor’s report dated June 3, 2015 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

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

For the year ended September 30, 2015, the City recognized pension expense of \$1,592,848. At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Outflows of Resources	Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 1,407,957
Employer contributions subsequent to the measurement date	1,946,595	-
	\$ 1,946,595	\$ 1,407,957

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

	Deferred Inflows of Resources
2016	\$ (351,989)
2017	(351,989)
2018	(351,989)
2019	(351,990)
	\$ (1,407,957)

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(Continued)

NOTE 14 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund payables and receivables consisted of the following at September 30, 2015:

	Interfund Receivables (Payables)
General Fund	\$ (8,274)
Special Revenue	18,774
Rental Fund	(10,500)
	<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, 2015
(Continued)

NOTE 14 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

Interfund transfers consisted of the following during the year ended September 30, 2015:

	<u>Transfers In (Out)</u>		Net Transfers Out (In)
	General Fund	Special Revenue	
<u>Transfers Out (In)</u>			
General Fund	\$ -	\$ -	\$ -
Special Revenue	-	-	-
Water & Sewer	(234,888)	-	(234,888)
Civic Complex and Ice Arena	(1,850,036)	-	(1,850,036)
Ballantrae Golf	(1,026,437)	-	(1,026,437)
Racquet Club	(624,500)	-	(624,500)
Garbage Fund	49,960	-	49,960
Rental Fund	125,716	-	125,716
Net Transfers In (Out)	<u>\$ (3,560,185)</u>	<u>\$ -</u>	<u>\$ (3,560,185)</u>

- 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, 2015
(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, 2015, 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 on or after April 1, 2011 and subsequently retired, 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, 2015
(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 and 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. For the year ended September 30, 2015, the City's portion of health care and dental funding costs for retired employees totaled \$448,522. These amounts were applied toward the net OPEB obligation.

Effective October 1, 2008, the City of Pelham implemented Government Accounting Standards Board Codification Section P50, *Accounting and Financial Reporting by Employers for Post employment Benefits Other than Pensions* (GASB Codification Section P50). This amount was applied toward the Net OPEB Benefit Obligation as shown in the following table.

Annual Required Contribution

The City of Pelham's Annual Required Contribution (ARC) is an amount actuarially determined in accordance with GASB Codification Section P50. 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 by GASB Codification Section P50) has been used for the post-employment benefits. The actuarially computed ARC is as follows:

Normal cost	\$ 215,769
30-year UAAL amortization amount	459,005
Annual required contribution (ARC)	<u>\$ 674,774</u>

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(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, 2015 consisted of the following:

Beginning Net OPEB Obligation - September 30, 2014	\$ 1,549,870
Annual required contribution	674,774
Interest on Net OPEB Obligation	61,995
ARC Adjustment	<u>(89,629)</u>
OPEB Cost	647,140
Contribution	-
Current year retiree premium	<u>(448,522)</u>
Change in Net OPEB Obligation	<u>198,618</u>
Ending Net OPEB Obligation - September 30, 2015	<u><u>\$ 1,748,488</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	2015	\$ 647,140	69.31%	\$ 1,748,488
Medical/Dental	2014	\$ 624,925	66.46%	\$ 1,549,870
Medical/Dental	2013	\$ 632,234	58.32%	\$ 1,340,243

Funded Status and Funding Progress

For the year ended September 30, 2015, 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, 2015 was \$8,254,619, 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 2015, the entire actuarial accrued liability of \$8,254,619 was unfunded. The covered payroll was \$18,548,250, and the ratio of the UAAL to the covered payroll was 44.50%.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(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

There are not any plan assets. It is anticipated that in future valuations, should funding take place, the City will apply a smoothed market value consistent with Actuarial Standards Board ASOP 6, as provided in paragraph number 125 of GASB Codification Section P50.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(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%
26 - 40	12%
41 - 54	8%
55+	6%

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 the earliest eligibility to retire (enter D.R.O.P.) as described under the heading "Plan Description", but not before attainment of age 60. The age 60 minimum has been used because historically the vast majority of employees have waited until age 60 in order to secure the 80% employer premium payment. 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.

Investment Return Assumption (Discount Rate)

GASB Codification Section P50 states that the investment return assumption should be the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits (that is, for a plan which is funded). 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 8.00% annually, down to an ultimate annual rate of 5.00% for ten years out and later.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(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% of the unloaded male mortality rates and 50% of the unloaded female mortality rates, is used. This is a recently published mortality table which has been used in determining the value of accrued benefits in defined benefit pension plans. Projected future mortality improvement has not been used since it is our opinion that this table contains a sufficiently conservative margin for the population involved in this valuation.

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 January 1, 2011 the employer will pay 50% of the retiree premium. The gross rates provided were “unblended” rates as required by GASB Codification Section P50 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, 2015
(Continued)

NOTE 17 - ACCOUNTING CHANGES AND ACCOUNTING STANDARDS

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. The requirements of this Statement will improve financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

The implementation of Statement No. 68 resulted in the reclassification of beginning net position of the governmental activities in the government-wide financial statements. The deferred outflows of resources were reclassified as an expense of prior periods and the beginning proportionate share of net pension liability had to be recorded, which resulted in the adjustment below as required by Statement No. 68.

	Governmental Activities	Business-type Activities
Net position - September 30, 2014	\$ 9,816,814	\$ 44,268,822
Changes in reporting for deferred outflows of resources and net pension liability	(14,685,942)	(3,567,049)
Changes for prior period adjustment (Note 18)	102,795	-
Net position (deficit) - September 30, 2014, as restated	\$ (4,766,333)	\$ 40,701,773

NOTE 18 - PRIOR PERIOD ADJUSTMENT

Beginning fund balance for governmental funds and beginning net position for governmental activities were increased by \$102,795 due to misstatement of retainage payable in the prior year.

NOTE 19 – SUBSEQUENT EVENTS

On November 9, 2015, the City entered into an agreement with the Pelham Board of Education where the Board promised to pay the City an amount equal to debt service of \$50,407,440, including principal and interest, on Series 2014 Warrants, and \$18,715,345, including principal and interest, on Series 2015 Warrants, to be paid out of amounts collected by the City through sales tax to be remitted to the Board.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2015
(Continued)

NOTE 19 – SUBSEQUENT EVENTS - Continued

On December 7, 2015, the City executed a real estate exchange contract and statutory warranty deed conveying property of the City of Pelham, Alabama, to the Pelham Board of Education, for and in consideration of the exchange of real property of the Pelham Board of Education to the City. Upon exchanging the property, the Rental Fund (a non-major proprietary fund) discontinued operations, as the land conveyed to the Pelham Board of Education was that of the Rental Fund.

On December 30, 2015, the City issued General Obligation Warrants Series 2015 in the amount of \$11,355,000 maturing February 1, 2040 with interest rates between 2.00% to 3.50%. A portion of the proceeds will be deposited in an account of the City to be used to pay the cost of issuance of the Warrants. The remaining proceeds from the issuance of the Warrants will be remitted the Pelham Board of Education Construction Fund to be used to pay the costs of Public School Improvements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PELHAM
Schedule of Funding Progress
Post-Employment Benefit Plan
Year ended September 30, 2015

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))
10/1/2012	\$ -	\$ 7,328,215	\$ 7,328,215	0%	\$ 16,495,420	44%
10/1/2013	\$ -	\$ 7,937,133	\$ 7,937,133	0%	\$ 16,423,424	48%
10/1/2014	\$ -	\$ 8,254,619	\$ 8,254,619	0%	\$ 18,548,250	45%

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

CITY OF PELHAM
Schedule of Changes in the Net Pension Liability
September 30, 2015

	2014
Total pension liability	
Service cost	\$ 1,470,956
Interest	5,015,542
Benefit payments, including refunds of employee contributions	(2,450,190)
Net change in total pension liability	4,036,308
Total pension liability - beginning	63,919,367
Total pension liability - ending (a)	\$ 67,955,675
Plan fiduciary net position	
Contributions - employer	\$ 1,875,205
Contributions - member	969,654
Net investment income	5,281,062
Benefit payments, including refunds of employee contributions	(2,450,190)
Transfers among employers	50,891
Net change in plan fiduciary net position	5,726,622
Plan net position - beginning	43,791,168
Plan net position - ending (b)	\$ 49,517,790
Net pension liability (a) - (b)	\$ 18,437,885
Plan fiduciary net position as a percentage of the total pension liability	72.87%
Covered-employee payroll	\$ 17,329,276
Net pension liability as a percentage of covered-employee payroll	106.40%

CITY OF PELHAM
Schedule of Employer Contributions
September 30, 2015

	<u>2015</u>
Actuarially determined contribution	\$ 1,885,223
Contributions in relation to the actuarially determined contributions	<u>1,885,223</u>
Contributions deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	<u>\$ 17,534,690</u>
Contributions as a percentage of covered-employee payroll	<u>10.75%</u>

CITY OF PELHAM
Note to Required Supplementary Information
Pension Plan Practices
September 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT PENSION PLAN PRACTICES

Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2015 were based on the September 30, 2013 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	22 years
Asset valuation method	Five year smoothed market
Inflation	3.00%
Salary increases	3.75 - 7.25% , including inflation
Investment rate of return	8.00% , net of pension plan investment expense, including inflation

CITY OF PELHAM
 Budgetary Comparison Schedule - General Fund
 Year ended September 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual GAAP Basis</u>	<u>Adjustments to Budgetary Basis</u>	<u>Actual - Budgetary Basis</u>
	<u>Original</u>	<u>Final</u>			
Operating revenues:					
Taxes:					
Sales	\$ 22,654,167	\$ 22,654,167	\$ 22,928,098	\$ (206,636)	\$ 22,721,462
Property	5,590,000	5,590,000	5,615,475	19,430	5,634,905
Motor vehicle/gas	600,000	600,000	634,526	(7,081)	627,445
Other	218,400	218,400	295,029	(10,356)	284,673
Licenses and permits	4,220,750	4,220,750	4,431,063	-	4,431,063
Fines and forfeitures	1,876,074	1,876,074	1,711,182	-	1,711,182
Charges for services	168,389	168,389	222,057	(31)	222,026
Interest	208,250	208,250	255,732	-	255,732
Other	95,650	95,650	710,967	(8,906)	702,061
Total revenues	35,631,680	35,631,680	36,804,129	(213,580)	36,590,549
Expenditures, current:					
General administration	8,104,926	8,104,926	7,587,622	42,938	7,630,560
Police	8,197,268	8,197,268	7,425,280	53,369	7,478,649
Fire	8,431,229	8,464,039	8,115,470	31,519	8,146,989
Public works	3,561,041	3,581,950	2,986,226	(262,680)	2,723,546
Parks and recreation	1,097,174	1,097,174	1,056,302	5,906	1,062,208
Library	1,264,210	1,264,210	1,106,634	5,556	1,112,190
	30,655,848	30,709,567	28,277,534	(123,392)	28,154,142
Capital outlay	551,957	551,957	2,559,668	-	2,559,668
Debt service					
Principal retirement	2,455,592	2,455,592	791,343	-	791,343
Interest	-	-	1,551,060	-	1,551,060
Issuance of debt costs	-	-	-	-	-
	2,455,592	2,455,592	2,342,403	-	2,342,403
Other financing sources (uses)					
Proceeds from sale of capital assets	20,000	52,810	80,292	-	80,292
Proceeds from issuance of debt	-	-	-	-	-
Transfers (out) in	(2,648,270)	(2,884,270)	(3,560,185)	-	(3,560,185)
	(2,628,270)	(2,831,460)	(3,479,893)	-	(3,479,893)
Net changes in fund balance	\$ (659,987)	\$ (916,896)	\$ 144,631	\$ (90,188)	\$ 54,443

CITY OF PELHAM
Notes to Required Supplementary Information
September 30, 2015

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.

FEDERAL AWARDS PROGRAMS

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John P. Shank, CPA, CGMA
Steven N. Smith, CPA
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Daniel J. Brock, CPA, CVA
Cynthia A. Hudson, CPA
D. Scott Stevens, CPA, CGMA
Patrick Bowman, CPA
Henry M. Denbo, CPA
Karen J. Poist, CPA
G. William Lorimer, II, CPA

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pelham, Alabama (the City), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated March 31, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses. [2015-001, 2015-002, 2015-003, 2015-004, 2015-005, and 2015-006.]

Compliance and Other Matters

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

We noted other control deficiencies that we reported to the City's management in a separate letter dated March 31, 2016.

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Barfield, Murphy, Shank & Smith, LLC

Birmingham, Alabama
March 31, 2016

Keith M. Barfield, CITP, CPA
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Pelham, Alabama's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2015. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Pelham, Alabama complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Barfield, Murphy, Shank & Smith, LLC

Birmingham, Alabama
March 31, 2016

CITY OF PELHAM
Schedule of Expenditures of Federal Awards
Year ended September 30, 2015

Federal Grantor/Pass-through Agency/ Program Title/Contract Number	Federal CFDA Number	Federal Expenditures
U.S. Department of Justice		
Bulletproof Vest Partnership Program - direct	16.607	\$ 1,463
U.S. Department of Transportation		
Pass-through from Alabama Department of Transportation		
Highway Planning and Construction - STPBH-7012(602)	20.205	7,405
Highway Planning and Construction - CMAQ-PE15, UT15, CN15	20.205	24,628
Pass-through from Alabama Department of Economic and Community Affairs		
State and Community Highway Safety - 15-sp-pt-008	20.600	3,957
Total U.S. Department of Transportation		35,990
Institute of Museum and Library Services		
Pass-through from Alabama Public Library Service		
Grants to States - Project #15-13-1	45.310	20,000
U.S. Department of Homeland Security		
Pass-through from Alabama Emergency Management Agency		
Hazard Mitigation Grant Program - HMGP DR (1797-0006)	97.039	528,544
Total expenditures of federal awards		\$ 585,997

CITY OF PELHAM
Note to Schedule of Expenditures of Federal Awards
Year ended September 30, 2015

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Pelham and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

CITY OF PELHAM
Schedule of Findings and Questioned Costs
Year ended September 30, 2015

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on whether the financial statements of the City of Pelham, Alabama were prepared in accordance with GAAP.
2. Six significant deficiencies disclosed during the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. All six of the deficiencies are reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of the City of Pelham, Alabama which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No deficiencies or material weaknesses in internal control over major federal award programs are reported in the Report on Compliance for Each Major Program and on Internal Control over Compliance Required by *OMB Circular A-133*.
5. The auditors' report on compliance for the major federal award programs for the City of Pelham, Alabama expresses an unmodified opinion on the major federal program.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of *OMB Circular A-133*.
7. The program tested as a major program included the Hazard Mitigation Grant Program (CFDA number 97.039).
8. The threshold for distinguishing between Type A and B programs was \$300,000.
9. The City of Pelham, Alabama did not qualify as a low-risk auditee.

FINANCIAL STATEMENT FINDINGS

2015-001 – Accrual Basis of Accounting

Criteria: Recording transactions on the accrual basis of accounting is in accordance with U.S. generally accepted accounting principles (GAAP). Accrual basis accounting is the method of accounting where revenues are recognized when earned, and expenses are recognized when incurred.

Condition: During our audit, we noted that accounts receivable, accounts payable, and inventory are not being recorded as of year-end. Although the year-end audited financial statements are prepared on an accrual basis, the City maintains its books on a cash basis.

CITY OF PELHAM
Schedule of Findings and Questioned Costs
Year ended September 30, 2015

FINANCIAL STATEMENT FINDINGS - Continued

2015-001 - Accrual Basis Accounting - Continued

Cause: Management has elected to use the cash basis method of accounting because it is easy to administer and understand. In addition, procedures to maintain the City's accounting records on an accrual basis throughout the year can be a time-consuming task.

Effect: Recording transactions on an accrual basis, in accordance with generally accepted accounting principles, provides more meaningful financial information. Proper cutoffs are critical for the accuracy of the financial statements on the accrual basis of accounting.

Recommendation: We believe the City would benefit more from its financial reporting if internal records were prepared in accordance with U.S. generally accepted accounting principles (GAAP).

Views of Responsible Officials and Corrective Action Plan: The City of Pelham, Alabama management agrees that recording transactions on an accrual basis, in accordance with U.S. generally accepted accounting principles, provides more meaningful financial information. While the City intends to continue to use the cash basis method of accounting for operations, management has implemented procedures for the preparation of all necessary year-end accrual basis closing entries required for financial statement preparation.

2015-002 – Financial Statement Preparation

Criteria: The City's financial statements and note disclosures are required to be prepared with the contents and format required by U.S. generally accepted accounting principles (GAAP) as applied to governmental entities.

Condition: During our audit, we noted inadequacies in the design of controls over the preparation of financial statements such that a material misstatement could not be prevented, detected, or corrected by the City's controls. This includes preparing certain necessary year end closing entries required for financial statement preparation.

Cause: There are no procedures in place for management's preparation of year-end closing entries required for financial statement and note disclosures preparation.

Effect: While management provides the information from the underlying accounting records, without outside assistance, the City could not prepare the financial statements and note disclosures with the contents and format required by U.S. generally accepted accounting principles as applied to governmental entities.

Recommendation: We recommend that management implement procedures pertaining to the preparation of all necessary year-end closing entries required for financial statement preparation.

CITY OF PELHAM
Schedule of Findings and Questioned Costs
Year ended September 30, 2015

FINANCIAL STATEMENT FINDINGS - Continued

2015-002 – Financial Statement Preparation - Continued

Views of Responsible Officials and Corrective Action Plan: The City of Pelham, Alabama management agrees with the finding and the recommended procedures have been implemented.

2015-003 – Journal Entries

Criteria: To ensure that interim financial information aligns with year-end audited financial statements, management should perform a monthly review and evaluation of transactions and proper month-end closing procedures.

Condition: During the audit, we proposed numerous journal entries in order to provide accurate financial statements to the Mayor and City Council.

Cause: Monthly general ledger transactions are not being reviewed and evaluated and proper month-end closing procedures are not being consistently performed.

Effect: Transactions that are coded incorrectly are not being timely detected and corrected, resulting in variance between interim financial information and year-end audited financial statements.

Recommendation: We suggest reviewing monthly general ledgers to ensure that transactions are being coded correctly so that interim financial statements will align more closely with year-end audited financial statements.

Views of Responsible Officials and Corrective Action Plan: The City of Pelham, Alabama management agrees with the finding and the recommended procedures have been implemented.

2015-004 – Water and Sewer Allowance for Doubtful Accounts

Criteria: The City is required to report an estimated loss from uncollectible accounts receivable in accordance with U.S. generally accepted accounting principles (GAAP) on the proprietary fund statement of net position.

Condition: During our audit, we noted that the Water and Sewer allowance for doubtful accounts is not being analyzed and no adjustment is made to account for estimated losses from uncollectible accounts receivable.

Cause: There are no procedures in place for management's analysis and adjustment of Water and Sewer allowance for doubtful accounts.

CITY OF PELHAM
Schedule of Findings and Questioned Costs
Year ended September 30, 2015

FINANCIAL STATEMENT FINDINGS - Continued

2015-004 – Water and Sewer Allowance for Doubtful Accounts - Continued

Effect: Without preparation and review of an analysis for uncollectible accounts, management cannot provide reasonable assurance that estimated loss from uncollectible accounts receivable is reflected in accordance with U.S. generally accepted accounting principles (GAAP) on the proprietary fund statement of net position.

Recommendation: We recommend that management prepare an analysis of uncollectible accounts at least quarterly. This analysis should consider prior charge-off experience and experience with the customer, as well as other information management may have about the account, such as indications of financial difficulty. Management should adjust the allowance for doubtful accounts after reviewing the analysis of uncollectible accounts and making appropriate collection efforts, in order to collect as much as possible and to ensure that the estimated loss from uncollectible accounts receivable is reflected on the proprietary fund statement of net position.

Views of Responsible Officials and Corrective Action Plan: The City of Pelham, Alabama management agrees with the finding and the recommended procedures have been implemented.

2015-005 – Payments between Proprietary Funds

Criteria: Procedures should be in place to provide reasonable assurance that payments made between funds are accounted for in the same period.

Condition: During our audit, we noted cash disbursements from the Water and Sewer fund to the Garbage fund are being recorded as a decrease in cash for Water and Sewer in one month, but as an increase in cash for Garbage in a subsequent month.

Cause: There are no procedures in place to reconcile payments from one fund to another occurring at year-end.

Effect: Without adjustment, cash in the proprietary funds is understated.

Recommendation: We recommend that during bank reconciliation procedures, the reviewer ensure that all matching payments and deposits between funds have the same date to confirm that payments from Water and Sewer be recorded as receipts in Garbage fund in the same month to avoid understating cash in the proprietary funds for financial statement purposes.

Views of Responsible Officials and Corrective Action Plan: The City of Pelham, Alabama management agrees with the finding and the recommended procedures have been implemented.

CITY OF PELHAM
Schedule of Findings and Questioned Costs
Year ended September 30, 2015

FINANCIAL STATEMENT FINDINGS - Continued

2015-006 – Held Check policy

Criteria: Management should have a policy regarding preparation of checks prepared and then held to be released at a later date.

Condition: During our audit, we noted checks that were prepared and then held to be released at a later date.

Cause: The City prepared checks to coincide with the budget period and not with the period in which the actual disbursement was ready to be made.

Effect: Without adjustment, cash is understated and expenditures/expenses are overstated in the financial statements.

Recommendation: We recommend that checks not be prepared until the disbursement is ready to be made to ensure that the City's financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accounting principles (GAAP). In addition, we recommend that expenditures/expenses that are not made in the budgeted year should be compiled and accounted for in the subsequent budget.

Views of Responsible Officials and Corrective Action Plan: The City of Pelham, Alabama management agrees with the finding and the recommended procedures have been implemented.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

There are no current findings or questioned costs that are considered material instances of noncompliance in accordance with the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

There were no prior year findings or questioned costs that are considered material instances of noncompliance in accordance with the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

STATISTICAL INFORMATION

(UNAUDITED)

CITY OF PELHAM
Assessed Value of Taxable Property
Year ended September 30, 2015 (UNAUDITED)

	Property Assessed Value (after exemptions)	Motor Vehicles	Total
2015	\$ 381,133,040	\$ 55,199,840	\$ 436,332,880
2014	365,149,760	54,011,360	419,161,120
2013	361,211,000	55,104,830	416,315,830
2012	343,448,440	52,680,940	396,129,380
2011	345,077,300	49,913,860	394,991,160
2010	354,051,740	46,498,820	400,550,560
2009	356,232,540	49,349,640	405,582,180
2008	348,982,660	53,187,560	402,170,220
2007	327,987,780	55,520,280	383,508,060
2006	289,867,400	53,368,880	343,236,280
2005	272,441,280	47,323,660	319,764,940
2004	258,499,640	41,601,440	300,101,080
2003	243,532,060	40,496,320	284,028,380
2002	204,910,420	39,599,820	244,510,240
2001	192,261,880	38,096,180	230,358,060
2000	177,212,220	30,767,420	207,979,640
1999	171,236,680	22,268,780	193,505,460
1998	136,092,480	19,689,360	155,781,840
1997	124,348,480	15,715,220	140,063,700
1996	115,788,440	13,701,820	129,490,260
1995	100,099,160	11,753,020	111,852,180
1994	89,684,400	9,499,780	99,184,180

CITY OF PELHAM
Top Ten Property Taxpayers
Year ended September 30, 2015 (UNAUDITED)

The City's top ten property taxpayers and amounts paid by each during the year ended September 30, 2015 consisted of the following:

Colonial Pipeline Company	\$	373,589
Alabama Power Company		153,467
Edwin B. Lumpkin Jr.		64,332
Vulcan Threaded Products, Inc.		46,346
Wal-Mart Real Estate Business Trust		40,598
Huntley Hall Apartments, Ltd.		33,387
Birmingham Realty Co.		29,204
Industrial Development Board of Pelham		23,991
Hanson Pipe & Precast LLC		22,587
Amerisource Bergen Drug Corporation		21,221

CITY OF PELHAM
 Water and Sewer System Customer Information
 Year ended September 30, 2015 (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>
2015	12,085	6,810
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
1998	7,202	4,186

CITY OF PELHAM
Water and Sewer System Customer Information
Year ended September 30, 2015 (UNAUDITED)
(Continued)

The ten largest customers, using the average amount paid monthly, of the Sewer System for the year ended September 30, 2015, are as follows:

Green Park South Mobile Home Park	\$ 23,196
Belle Vista Mobile Home Park (City of Pelham)	8,265
The Huntley Apartments	6,193
Little Mountain Apartments	5,330
Southgate Mobile Home Park	4,921
Colonial Pipeline	4,491
Golden Corral	4,432
Pelham High School	3,472
Marc I Car Wash	2,783
Cracker Barrel	2,777

CITY OF PELHAM
Water and Sewer System Rates
Year ended September 30, 2015 (UNAUDITED)

The water rates as of September 30, 2015 are as follows:

Residential	\$13.00 minimum on the first 3,000 gallons \$3.30 per 1,000 gallons thereafter
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Commercial	\$13.00 minimum on the first 3,000 gallons \$3.30 per 1,000 gallons thereafter
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The sewer rates as of September 30, 2015 are as follows:

Residential	\$24.30 minimum on the first 3,000 gallons \$6.00 per 1,000 gallons thereafter
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Social Security or Social Security Disability	\$22.00 minimum on the first 3,000 gallons \$4.00 per 1,000 gallons thereafter
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Access but not connected	Flat rate \$24.30 per thousand gallons
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Commercial	\$60.75 minimum on the first 7,500 gallons \$8.10 per 1,000 gallons thereafter
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Significant commercial	\$88.00 minimum on the first 7,500 gallons \$11.74 per 1,000 gallons thereafter
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Impact fees - residential	\$3,000 per household
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Impact fees - commercial	\$3,000 minimum for the first 15 fixtures \$200 per fixture above the maximum
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