

CITY OF PELHAM
PELHAM, ALABAMA
Financial Statements
September 30, 2016

**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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NATIONAL KNOWLEDGE.
GLOBAL REACH.

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, 2016, 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. 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress, schedule of changes in the net pension liability, the schedule of employer contributions, and budgetary comparison information on pages 6-12 and 65-70 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, economical, 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, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Barfield, Murphy, Shank & Smith, LLC

Birmingham, Alabama
June 6, 2017

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 \$40,931,681.
- The total cost of all the City's programs was \$51,050,259.
- During the year, the City had expenses of \$34,104,057 for governmental activities and transfers of \$2,372,002 from business-type activities, which was \$40,931,681 less than the \$72,663,736 generated in general and program revenues.
- The City's combined assets exceeded its combined liabilities by \$81,308,485, which will allow the City to continue to meet ongoing obligations to citizens and creditors.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 13 and 15) 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 16. For governmental activities, these statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail by providing information about the City's most significant funds.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 7. One of the most important questions asked about the City's finances is, "Is the City, as a whole, better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting 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, and Garbage Fund are reported here. The City charges a fee to customers to help cover costs of these services.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 16. 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, 2016 was \$81,308,485. The governmental activities net position was \$40,737,654 and the business-type activities net position was \$40,570,831.

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, | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Assets | | | | | | |
| Current and other assets | \$79,769,723 | \$36,888,181 | \$ 8,682,440 | \$ 8,510,722 | \$88,452,163 | \$45,398,903 |
| Capital assets | 37,664,774 | 32,637,929 | 59,274,888 | 66,123,825 | 96,939,662 | 98,761,754 |
| Total assets | <u>117,434,497</u> | <u>69,526,110</u> | <u>67,957,328</u> | <u>74,634,547</u> | <u>185,391,825</u> | <u>144,160,657</u> |
| Deferred outflows of resources | | | | | | |
| Deferred outflows related | | | | | | |
| to pensions | 4,001,212 | 1,566,186 | 967,338 | 380,409 | 4,968,550 | 1,946,595 |
| Deferred charge on refunding | 478,047 | 550,563 | 484,321 | 660,203 | 962,368 | 1,210,766 |
| Total deferred outflows of resources | <u>4,479,259</u> | <u>2,116,749</u> | <u>1,451,659</u> | <u>1,040,612</u> | <u>5,930,918</u> | <u>3,157,361</u> |
| Liabilities | | | | | | |
| Long-term liabilities | 79,412,384 | 63,726,860 | 27,332,035 | 30,597,167 | 106,744,419 | 94,324,027 |
| Other liabilities | 1,462,701 | 1,358,543 | 1,506,121 | 1,578,451 | 2,968,822 | 2,936,994 |
| Total liabilities | <u>80,875,085</u> | <u>65,085,403</u> | <u>28,838,156</u> | <u>32,175,618</u> | <u>109,713,241</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 | 301,017 | 5,618,673 | - | - | 301,017 | 5,618,673 |
| Total deferred inflows of resources | <u>301,017</u> | <u>6,751,483</u> | <u>-</u> | <u>275,147</u> | <u>301,017</u> | <u>7,026,630</u> |
| Net Position | | | | | | |
| Net investment | | | | | | |
| in capital assets | 26,964,427 | 21,800,817 | 37,320,337 | 40,205,264 | 64,284,764 | 62,006,081 |
| Restricted | 2,224,396 | 1,200,766 | - | - | 2,224,396 | 1,200,766 |
| Unrestricted | 11,548,831 | (23,195,610) | 3,250,494 | 3,019,130 | 14,799,325 | (20,176,480) |
| Total net position (deficit) | <u>\$40,737,654</u> | <u>\$ (194,027)</u> | <u>\$40,570,831</u> | <u>\$43,224,394</u> | <u>\$81,308,485</u> | <u>\$43,030,367</u> |

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

The City's unrestricted net position for governmental activities that can be used to finance day-to-day operations was \$11,548,831.

Changes in Net Position

The City's Change in Net Position of the governmental activities was \$40,931,681 and the change in net position of business-type activities was \$(2,653,563).

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

| | Governmental Activities | | Business-type Activities | | Totals | |
|--|---|---------------------|---|---------------------|---|---------------------|
| | For the year ended September 30, | | For the year ended September 30, | | For the year ended September 30, | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Revenues | | | | | | |
| Program revenues | | | | | | |
| Fees, fines and charges for service | \$ 6,988,762 | \$ 7,078,398 | \$16,290,862 | \$15,889,702 | \$23,279,624 | \$22,968,100 |
| Operating grants and contributions | 1,309,379 | 1,218,738 | 14,000 | 14,000 | 1,323,379 | 1,232,738 |
| Capital grants and contributions | 506,994 | 2,979,863 | 395,380 | 200,386 | 902,374 | 3,180,249 |
| General revenues | | | | | | |
| Sales taxes | 24,732,819 | 22,928,098 | - | - | 24,732,819 | 22,928,098 |
| Property taxes | 5,871,694 | 5,615,475 | - | - | 5,871,694 | 5,615,475 |
| Other taxes | 286,717 | 295,029 | - | - | 286,717 | 295,029 |
| Interest earnings | 261,727 | 256,710 | 18,393 | 18,016 | 280,120 | 274,726 |
| (Loss) gain on disposal of capital assets | 490,644 | (22,281) | (53,994) | (290,646) | 436,650 | (312,927) |
| Payments from other govts | 32,215,000 | - | - | - | 32,215,000 | - |
| Total revenues | <u>72,663,736</u> | <u>40,350,030</u> | <u>16,664,641</u> | <u>15,831,458</u> | <u>89,328,377</u> | <u>56,181,488</u> |
| Expenses | | | | | | |
| General administration | 8,931,254 | 8,242,900 | - | - | 8,931,254 | 8,242,900 |
| Police | 8,334,700 | 7,919,889 | - | - | 8,334,700 | 7,919,889 |
| Fire | 9,026,264 | 8,293,874 | - | - | 9,026,264 | 8,293,874 |
| Public works | 3,512,245 | 3,963,034 | - | - | 3,512,245 | 3,963,034 |
| Parks and recreation | 1,186,290 | 1,144,250 | - | - | 1,186,290 | 1,144,250 |
| Library | 1,263,802 | 1,226,470 | - | - | 1,263,802 | 1,226,470 |
| Interest on long-term debt | 1,849,502 | 1,427,122 | - | - | 1,849,502 | 1,427,122 |
| Water and Sewer | - | - | 9,102,508 | 9,073,860 | 9,102,508 | 9,073,860 |
| Civic Complex and Ice Arena | - | - | 3,264,512 | 3,111,481 | 3,264,512 | 3,111,481 |
| Ballantrae Golf Club | - | - | 2,485,354 | 2,503,708 | 2,485,354 | 2,503,708 |
| Racquet Club | - | - | 1,141,969 | 1,072,290 | 1,141,969 | 1,072,290 |
| Rental Fund | - | - | 34,026 | 197,648 | 34,026 | 197,648 |
| Garbage Fund | - | - | 917,833 | 910,035 | 917,833 | 910,035 |
| Total expenses | <u>34,104,057</u> | <u>32,217,539</u> | <u>16,946,202</u> | <u>16,869,022</u> | <u>51,050,259</u> | <u>49,086,561</u> |
| Excess (deficiency) before transfers | 38,559,679 | 8,132,491 | (281,561) | (1,037,564) | 38,278,118 | 7,094,927 |
| Transfers | 2,372,002 | (3,560,185) | (2,372,002) | 3,560,185 | - | - |
| Change in net position | 40,931,681 | 4,572,306 | (2,653,563) | 2,522,621 | 38,278,118 | 7,094,927 |
| Beginning net position | (194,027) | 9,816,814 | 43,224,394 | 44,268,822 | 43,030,367 | 54,085,636 |
| Prior period adjustment | - | (14,583,147) | - | (3,567,049) | - | (18,150,196) |
| Total net position (deficit) | <u>\$40,737,654</u> | <u>\$ (194,027)</u> | <u>\$40,570,831</u> | <u>\$43,224,394</u> | <u>\$81,308,485</u> | <u>\$43,030,367</u> |

For more detailed information, see the Statement of Activities on page 15.

The governmental activities total revenues increased by 80.08% to \$72,663,736 due primarily to an increase in capital contributions. Sales and property taxes account for 42.12% of all governmental activities revenues. The remaining revenues are comprised of charges for services and various other sources. The business-type activities total revenue increased by 5.26%.

The total cost of all programs and services increased by \$1,963,698. The cost of governmental activities increased by \$1,886,518 and the cost of business-type activities increased by \$77,180.

Governmental Activities

The change in net position of governmental activities was \$40,931,681, resulting primarily from contributions from the Pelham Board of Education.

Business-type Activities

The change in net position of business-type activities was \$(2,653,563), resulting primarily from transfers to the governmental activities.

THE CITY'S FUNDS

Governmental Funds

As of September 30, 2016, the Governmental Funds reported a combined fund balance of \$78,392,707, which is 159.93% more than the beginning of the year. The General Fund experienced a net increase of \$47,954,702 resulting primarily from contributions from the Pelham Board of Education.

Business-type Funds

As of September 30, 2016, business-type funds reported a combined net position of \$40,570,831. The business-type funds Change in Net Position totaled \$(2,653,563), resulting primarily from transfers to the governmental activities.

General Fund Budgetary Highlights

General Fund revenues exceeded budget by \$3,078,024, largely due to greater than anticipated sales tax 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 \$2,881,946, 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 2016, the City had \$96,939,662 invested in a broad range of capital assets, including the Water and Sewer System, Civic Complex and Ice Arena, Racquet Club, Ballantrae Golf Club, fire and police equipment, vehicles, buildings, a library, a senior citizen center, park facilities, streets, and roads. This amount represents a net decrease (including additions, disposals and depreciation) of \$1,822,092 or 1.84% less than last year. The decrease can be attributed to capital asset additions offset by depreciation expense and the sale of surplus capital assets.

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

| | Governmental Activities | | Business-type Activities | | Totals | |
|------------------------------------|----------------------------|---------------------|-----------------------------|---------------------|---------------------|---------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Land | \$ 8,977,864 | \$ 3,974,010 | \$ 8,801,321 | \$13,859,469 | \$17,779,185 | \$17,833,479 |
| Construction in progress | 2,126,223 | 1,316,796 | 1,770,524 | 1,390,288 | 3,896,747 | 2,707,084 |
| Infrastructure, net | 12,999,355 | 13,447,859 | - | - | 12,999,355 | 13,447,859 |
| System and facilities, net | - | - | 47,662,783 | 50,154,151 | 47,662,783 | 50,154,151 |
| Buildings and improvements, net | 9,089,614 | 9,327,122 | 594,992 | 318,614 | 9,684,606 | 9,645,736 |
| Equipment, net | 4,471,718 | 4,572,142 | 445,268 | 401,303 | 4,916,986 | 4,973,445 |
| Total capital assets, net | <u>\$37,664,774</u> | <u>\$32,637,929</u> | <u>\$59,274,888</u> | <u>\$66,123,825</u> | <u>\$96,939,662</u> | <u>\$98,761,754</u> |

Long-Term Debt

At September 30, 2016, the City had \$79,813,717 in warrants, notes payable, and capital leases payable outstanding versus \$72,254,898 at September 30, 2015, an increase of 10.46%. This increase resulted primarily from issuance of new debt.

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

| | Governmental Activities | | Business-type Activities | | Totals | |
|-----------------------|----------------------------|---------------------|-----------------------------|---------------------|---------------------|---------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| General Obligation | | | | | | |
| Warrants | \$57,192,587 | \$45,420,926 | \$22,438,872 | \$26,578,764 | \$79,631,459 | \$71,999,690 |
| Notes payable | 165,135 | 243,254 | - | - | 165,135 | 243,254 |
| Capital lease payable | 4,878 | 11,954 | 12,245 | - | 17,123 | 11,954 |
| Totals | <u>\$57,362,600</u> | <u>\$45,676,134</u> | <u>\$22,451,117</u> | <u>\$26,578,764</u> | <u>\$79,813,717</u> | <u>\$72,254,898</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, 2017. The City Council took the Mayor's proposed budget under consideration and, after further review and evaluation, adopted the fiscal year 2017 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 2016, 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, 2017. Amounts available for expenditure in the General Fund budget are \$43,403,647 for the fiscal year 2017. The City took into consideration the current year increase in revenue and its effect on the City when budgeting expenditures for the fiscal year 2017.

If these estimates are realized, the City's budgetary fund balance is expected to increase moderately by the close of fiscal year 2017.

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, 2016

| | Primary Government | | |
|--|----------------------------|-----------------------------|--------------------|
| | Governmental Activities | Business-type Activities | Total |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 17,476,552 | \$ 6,450,009 | \$ 23,926,561 |
| Deposit and investments | 8,670,477 | - | 8,670,477 |
| Accounts receivable | 2,327,285 | 1,474,023 | 3,801,308 |
| Inventory | - | 305,921 | 305,921 |
| Prepaid expenses | 1,529,005 | 71,425 | 1,600,430 |
| Restricted cash and cash equivalents | 2,150,195 | - | 2,150,195 |
| Restricted deposit | 150,000 | - | 150,000 |
| Total current assets | <u>32,303,514</u> | <u>8,301,378</u> | <u>40,604,892</u> |
| Noncurrent assets | | | |
| Restricted cash | - | 367,062 | 367,062 |
| Restricted deposit | - | 14,000 | 14,000 |
| Notes receivable | 47,466,209 | - | 47,466,209 |
| Nondepreciable capital assets | 11,104,087 | 10,571,845 | 21,675,932 |
| Depreciable capital assets, net | 26,560,687 | 48,703,043 | 75,263,730 |
| Total noncurrent assets | <u>85,130,983</u> | <u>59,655,950</u> | <u>144,786,933</u> |
| Total assets | <u>117,434,497</u> | <u>67,957,328</u> | <u>185,391,825</u> |
| Deferred outflows of resources | | | |
| Deferred outflows related to pensions | 4,001,212 | 967,338 | 4,968,550 |
| Deferred charge on refunding | 478,047 | 484,321 | 962,368 |
| Total deferred outflows of resources | <u>4,479,259</u> | <u>1,451,659</u> | <u>5,930,918</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable | 208,929 | 581,198 | 790,127 |
| Unearned revenue | - | 109,680 | 109,680 |
| Accrued liabilities | 689,988 | 168,137 | 858,125 |
| Accrued interest payable | 386,702 | 266,044 | 652,746 |
| Payable from restricted assets - customer deposits | 177,082 | 367,062 | 544,144 |
| Payable from restricted assets - unearned revenue | - | 14,000 | 14,000 |
| Current maturities of long-term liabilities | | | |
| Warrants payable, net | 2,115,852 | 4,166,465 | 6,282,317 |
| Notes payable | 81,043 | - | 81,043 |
| Capital lease payable | 4,878 | 2,669 | 7,547 |
| Compensated absences | 773,514 | 183,119 | 956,633 |
| Total current liabilities | <u>4,437,988</u> | <u>5,858,374</u> | <u>10,296,362</u> |

See notes to financial statements.

CITY OF PELHAM
Statement of Net Position
September 30, 2016
(Continued)

| | Primary Government | | |
|---|------------------------------------|-------------------------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total |
| Noncurrent liabilities | | | |
| Warrants payable, net | \$ 55,076,735 | \$ 18,272,407 | \$ 73,349,142 |
| Notes payable | 84,092 | - | 84,092 |
| Capital lease payable | - | 9,576 | 9,576 |
| Compensated absences | 773,514 | 183,117 | 956,631 |
| Other post-employment benefits | 1,915,299 | - | 1,915,299 |
| Net pension liability | 18,587,457 | 4,514,682 | 23,102,139 |
| Total noncurrent liabilities | <u>76,437,097</u> | <u>22,979,782</u> | <u>99,416,879</u> |
| Total liabilities | <u>80,875,085</u> | <u>28,838,156</u> | <u>109,713,241</u> |
| Deferred inflows of resources | | | |
| Property taxes levied for subsequent year | 301,017 | - | 301,017 |
| Total deferred inflows of resources | <u>301,017</u> | <u>-</u> | <u>301,017</u> |
| Net position | | | |
| Net investment in capital assets | 26,964,427 | 37,320,337 | 64,284,764 |
| Restricted for | | | |
| Street improvements | 177,633 | - | 177,633 |
| Court | 748,052 | - | 748,052 |
| Police/municipal corrections | 512,226 | - | 512,226 |
| Library | 99,448 | - | 99,448 |
| Capital projects | 687,037 | - | 687,037 |
| Unrestricted | 11,548,831 | 3,250,494 | 14,799,325 |
| Total net position | <u>\$ 40,737,654</u> | <u>\$ 40,570,831</u> | <u>\$ 81,308,485</u> |

See notes to financial statements.

CITY OF PELHAM
Statement of Activities
Year Ended September 30, 2016

| Program Activities: | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|---|----------------------|---|--|--|---|-----------------------------|------------------------|
| | | Fees, Fines, and Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Total |
| | | | | | Governmental Activities | Business-type Activities | |
| Governmental activities | | | | | | | |
| General administration | \$ 8,931,254 | \$ 6,752,202 | \$ 207,675 | \$ - | \$ (1,971,377) | \$ - | \$ (1,971,377) |
| Police | 8,334,700 | 50,088 | 158,542 | - | (8,126,070) | - | (8,126,070) |
| Fire | 9,026,264 | - | - | 66,900 | (8,959,364) | - | (8,959,364) |
| Public works | 3,512,245 | 4,500 | 919,934 | 440,094 | (2,147,717) | - | (2,147,717) |
| Parks and recreation | 1,186,290 | 156,289 | - | - | (1,030,001) | - | (1,030,001) |
| Library | 1,263,802 | 25,683 | 23,228 | - | (1,214,891) | - | (1,214,891) |
| Interest on long-term debt | 1,849,502 | - | - | - | (1,849,502) | - | (1,849,502) |
| Total governmental activities | 34,104,057 | 6,988,762 | 1,309,379 | 506,994 | (25,298,922) | - | (25,298,922) |
| Business-type activities | | | | | | | |
| Water and Sewer | 9,102,508 | 10,208,927 | - | 395,380 | - | 1,501,799 | 1,501,799 |
| Civic Complex and Ice Arena | 3,264,512 | 2,426,661 | - | - | - | (837,851) | (837,851) |
| Ballantrae Golf | 2,485,354 | 1,987,394 | 14,000 | - | - | (483,960) | (483,960) |
| Racquet Club | 1,141,969 | 631,130 | - | - | - | (510,839) | (510,839) |
| Rental Fund | 34,026 | 11,750 | - | - | - | (22,276) | (22,276) |
| Garbage Fund | 917,833 | 1,025,000 | - | - | - | 107,167 | 107,167 |
| Total business-type activities | 16,946,202 | 16,290,862 | 14,000 | 395,380 | - | (245,960) | (245,960) |
| Total primary government | \$ 51,050,259 | \$ 23,279,624 | \$ 1,323,379 | \$ 902,374 | \$ (25,298,922) | \$ (245,960) | \$ (25,544,882) |
| General revenues and other items: | | | | | | | |
| Taxes: | | | | | | | |
| Sales | | | | | \$ 24,732,819 | \$ - | \$ 24,732,819 |
| Property | | | | | 5,871,694 | - | 5,871,694 |
| Other | | | | | 286,717 | - | 286,717 |
| Interest earnings | | | | | 261,727 | 18,393 | 280,120 |
| Gain (loss) on disposal of capital assets | | | | | 490,644 | (53,994) | 436,650 |
| Payments from other governments | | | | | 32,215,000 | - | 32,215,000 |
| Transfers in (out) | | | | | 2,372,002 | (2,372,002) | - |
| Total general revenues and other items | | | | | 66,230,603 | (2,407,603) | 63,823,000 |
| Change in net position | | | | | 40,931,681 | (2,653,563) | 38,278,118 |
| Net position - beginning of year | | | | | (194,027) | 43,224,394 | 43,030,367 |
| Net position (deficit) - end of year | | | | | \$ 40,737,654 | \$ 40,570,831 | \$ 81,308,485 |

See notes to financial statements.

CITY OF PELHAM
Balance Sheet
Governmental Funds
September 30, 2016

| | <u>General</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|----------------------|--|---|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 17,476,552 | \$ - | \$ 17,476,552 |
| Deposit and investments | 8,670,477 | - | 8,670,477 |
| Accounts receivable | 2,327,285 | - | 2,327,285 |
| Prepaid expenditures | 1,529,005 | - | 1,529,005 |
| Restricted cash and cash equivalents | 745,243 | 1,404,952 | 2,150,195 |
| Restricted deposit | - | 150,000 | 150,000 |
| | <u>30,748,562</u> | <u>1,554,952</u> | <u>32,303,514</u> |
| Non-current assets | | | |
| Note receivable | 47,466,209 | - | 47,466,209 |
| | <u>47,466,209</u> | <u>-</u> | <u>47,466,209</u> |
| Total assets | <u>\$ 78,214,771</u> | <u>\$ 1,554,952</u> | <u>\$ 79,769,723</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable | \$ 208,929 | \$ - | \$ 208,929 |
| Accrued liabilities | 689,988 | - | 689,988 |
| Payable from restricted assets - due to (from) other funds | (18,774) | 18,774 | - |
| Payable from restricted assets - deposits | 120,057 | 57,025 | 177,082 |
| Total liabilities | <u>1,000,200</u> | <u>75,799</u> | <u>1,075,999</u> |
| Deferred inflow of resources | | | |
| Property taxes levied for subsequent year | 301,017 | - | 301,017 |
| Fund balance | | | |
| Nonspendable | | | |
| Notes receivable | 47,466,209 | - | 47,466,209 |
| Prepaid expenditures | 1,529,005 | - | 1,529,005 |
| Restricted for | | | |
| Street improvements | - | 177,633 | 177,633 |
| Court | 745,243 | 2,809 | 748,052 |
| Police/municipal corrections | - | 512,226 | 512,226 |
| Library | - | 99,448 | 99,448 |
| Capital projects | - | 687,037 | 687,037 |
| Unassigned | 27,173,097 | - | 27,173,097 |
| Total fund balances | <u>76,913,554</u> | <u>1,479,153</u> | <u>78,392,707</u> |
| Total liabilities, deferred inflows, and fund balance | <u>\$ 78,214,771</u> | <u>\$ 1,554,952</u> | <u>\$ 79,769,723</u> |

See notes to financial statements.

CITY OF PELHAM
 Reconciliation of the Governmental Funds
 Balance Sheet to the Statement of Net Position
 September 30, 2016

| | | | |
|--|--|-----------|-------------------|
| Total fund balances - governmental funds | | \$ | 78,392,707 |
| Amounts reported for governmental activities in the Statement of Net Position are different due to the following: | | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. | | | |
| Governmental capital assets | | | 62,331,421 |
| Less accumulated depreciation | | | (24,666,647) |
| | | | 37,664,774 |
| Interest payable is not recognized as an expenditure in governmental funds, but rather is recognized when an expenditure is paid. | | | |
| | | | (386,702) |
| Long-term liabilities, including warrants payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds. | | | |
| Warrants payable | | | (54,100,224) |
| Warrant discounts and premiums | | | (3,092,363) |
| Deferred outflow of resources for deferred charges | | | 478,047 |
| Deferred outflows of resources for pension | | | 4,001,212 |
| Notes payable | | | (165,135) |
| Capital lease payable | | | (4,878) |
| Other post-employment benefits payable | | | (1,915,299) |
| Net pension liability | | | (18,587,457) |
| Compensated absences | | | (1,547,028) |
| | | | (74,933,125) |
| Total net position- governmental activities | | \$ | 40,737,654 |

See notes to financial statements.

CITY OF PELHAM
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2016

| | <u>General</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---------------------------------------|----------------|--|---|
| Operating revenues | | | |
| Taxes | | | |
| Sales | \$ 24,732,819 | \$ - | \$ 24,732,819 |
| Property | 5,871,694 | - | 5,871,694 |
| Motor vehicle/gas | 666,154 | 207,501 | 873,655 |
| Other | 286,717 | - | 286,717 |
| Licenses and permits | 4,528,076 | - | 4,528,076 |
| Fines and forfeitures | 1,635,456 | 510,215 | 2,145,671 |
| Charges for services | 245,519 | - | 245,519 |
| Interest | 260,875 | 852 | 261,727 |
| Other | 580,597 | 364,715 | 945,312 |
| Payments from other governments | 32,215,000 | - | 32,215,000 |
| Total revenues | 71,022,907 | 1,083,283 | 72,106,190 |
| Expenditures, current | | | |
| General administration | 8,278,218 | 364,889 | 8,643,107 |
| Police | 7,625,345 | 209,388 | 7,834,733 |
| Fire | 8,551,691 | - | 8,551,691 |
| Public works | 2,720,491 | 154,381 | 2,874,872 |
| Parks and recreation | 1,081,486 | - | 1,081,486 |
| Library | 1,123,925 | 41,675 | 1,165,600 |
| | 29,381,156 | 770,333 | 30,151,489 |
| Capital outlay | 1,602,069 | 34,563 | 1,636,632 |
| Debt service | | | |
| Principal retirement | 1,077,365 | - | 1,077,365 |
| Interest | 1,822,662 | - | 1,822,662 |
| Issuance of debt costs | 66,417 | - | 66,417 |
| | 2,966,444 | - | 2,966,444 |
| Other financing sources (uses) | | | |
| Proceeds from sale of capital assets | 544,388 | - | 544,388 |
| Issuance of warrants | 11,355,000 | - | 11,355,000 |
| Issuance of refunding warrants | 943,576 | - | 943,576 |
| Premium on issuance of warrants | 715,398 | - | 715,398 |
| Interfund transfers out | (2,676,898) | - | (2,676,898) |
| | 10,881,464 | - | 10,881,464 |
| Net changes in fund balance | 47,954,702 | 278,387 | 48,233,089 |
| Fund balance - beginning of year | 28,958,852 | 1,200,766 | 30,159,618 |
| Fund balance - end of year | \$ 76,913,554 | \$ 1,479,153 | \$ 78,392,707 |

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, 2016

Net changes in fund balances - governmental funds \$ 48,233,089

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

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

| | | |
|---------------------------|-------------|----------|
| Capital outlay | 1,636,632 | |
| Less depreciation expense | (1,671,844) | (35,212) |
| | | |

The proceeds from the sale of capital assets (\$544,388) are reported as other financing sources in the governmental funds. However, the net book value of the capital assets (\$1,670,744) is removed from the capital assets account in the Statement of Net Position and offset against the sales proceeds and land donated for trade (\$1,617,000) resulting in a gain in the Statement of Activities of \$490,644. (1,670,744)

Transfers of capital assets from proprietary funds do not provide current financial resources and are not recorded in governmental funds. However, transfers of capital assets increase net position. 5,048,900

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. 1,683,900

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

| | | |
|--|--------------|--------------|
| Principal retirement | 1,077,365 | |
| Issuance of warrants | (11,355,000) | |
| Issuance of refunding warrants | (943,576) | |
| Premium on issuance of warrants | (715,398) | |
| Bond discounts, premiums, and deferred amounts on refunding amortization expense | 174,929 | (11,761,680) |
| | | |

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, 2016
 (Continued)

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 | (79,494) | |
| Net increase in pension expense | (184,915) | |
| Net increase in post-employment benefit payable | (166,811) | |
| Increase in accrued interest | (135,352) | (566,572) |
| | | |
| Change in net position - governmental activities | | \$ 40,931,681 |

See notes to financial statements.

CITY OF PELHAM
Statement of Proprietary Fund Net Position
Year Ended September 30, 2016

| | Water and Sewer | Civic Complex and Ice Arena | Ballantreae Golf | Other Proprietary Funds | Total Proprietary Funds |
|---|----------------------------|--|-----------------------------|--|--|
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ 5,869,127 | \$ 40,544 | \$ 60,767 | \$ 479,571 | \$ 6,450,009 |
| Accounts receivable | 1,356,112 | 20,130 | 63,854 | 33,927 | 1,474,023 |
| Inventory | 128,480 | 86,157 | 70,760 | 20,524 | 305,921 |
| Prepaid expenses | 28,102 | 20,725 | 13,664 | 8,934 | 71,425 |
| Total current assets | <u>7,381,821</u> | <u>167,556</u> | <u>209,045</u> | <u>542,956</u> | <u>8,301,378</u> |
| Non-current assets | | | | | |
| Restricted cash | 367,062 | - | - | - | 367,062 |
| Restricted deposit | - | - | 14,000 | - | 14,000 |
| Non-depreciable assets | 2,688,039 | 35,103 | 7,463,703 | 385,000 | 10,571,845 |
| Depreciable capital assets, net | <u>36,378,265</u> | <u>6,185,434</u> | <u>3,254,962</u> | <u>2,884,382</u> | <u>48,703,043</u> |
| Total noncurrent assets | <u>39,433,366</u> | <u>6,220,537</u> | <u>10,732,665</u> | <u>3,269,382</u> | <u>59,655,950</u> |
| Total assets | <u>46,815,187</u> | <u>6,388,093</u> | <u>10,941,710</u> | <u>3,812,338</u> | <u>67,957,328</u> |
| Deferred outflows of resources | | | | | |
| Contributions to pension plans | 455,442 | 178,749 | 208,367 | 124,780 | 967,338 |
| Deferred charge on refunding | <u>328,018</u> | <u>90,963</u> | <u>39,482</u> | <u>25,858</u> | <u>484,321</u> |
| Total deferred outflows of resources | <u>783,460</u> | <u>269,712</u> | <u>247,849</u> | <u>150,638</u> | <u>1,451,659</u> |
| Liabilities | | | | | |
| Current liabilities | | | | | |
| Accounts payable | 466,692 | 95,721 | 10,412 | 8,373 | 581,198 |
| Unearned revenue | 85,568 | 24,112 | - | - | 109,680 |
| Accrued liabilities | 76,036 | 24,320 | 54,055 | 13,726 | 168,137 |
| Accrued interest payable | 232,508 | 2,479 | 5,014 | 26,043 | 266,044 |
| Payable from restricted assets - customer deposits | 367,062 | - | - | - | 367,062 |
| Payable from restricted assets - unearned revenue | - | - | 14,000 | - | 14,000 |
| Current maturities of long-term liabilities | | | | | |
| Warrants payable, net | 2,863,504 | 574,585 | 583,278 | 145,098 | 4,166,465 |
| Capital lease payable | - | - | 2,669 | - | 2,669 |
| Compensated absences | <u>71,761</u> | <u>37,109</u> | <u>46,410</u> | <u>27,839</u> | <u>183,119</u> |
| Total current liabilities | <u>4,163,131</u> | <u>758,326</u> | <u>715,838</u> | <u>221,079</u> | <u>5,858,374</u> |
| Noncurrent liabilities | | | | | |
| Warrants payable, net | 11,832,390 | 1,784,215 | 3,689,721 | 966,081 | 18,272,407 |
| Capital lease payable | - | - | 9,576 | - | 9,576 |
| Compensated absences | 71,760 | 37,109 | 46,409 | 27,839 | 183,117 |
| Net pension liability | <u>2,153,698</u> | <u>801,993</u> | <u>995,539</u> | <u>563,452</u> | <u>4,514,682</u> |
| Total noncurrent liabilities | <u>14,057,848</u> | <u>2,623,317</u> | <u>4,741,245</u> | <u>1,557,372</u> | <u>22,979,782</u> |
| Total liabilities | <u>18,220,979</u> | <u>3,381,643</u> | <u>5,457,083</u> | <u>1,778,451</u> | <u>28,838,156</u> |
| Net position | | | | | |
| Net investment in capital assets | 24,698,428 | 3,952,700 | 6,485,148 | 2,184,061 | 37,320,337 |
| Unrestricted | <u>4,679,240</u> | <u>(676,538)</u> | <u>(752,672)</u> | <u>464</u> | <u>3,250,494</u> |
| Total net position | <u>\$ 29,377,668</u> | <u>\$ 3,276,162</u> | <u>\$ 5,732,476</u> | <u>\$ 2,184,525</u> | <u>\$ 40,570,831</u> |

See notes to financial statements.

CITY OF PELHAM
Statement of Revenues, Expenses, and Changes in
Proprietary Fund Net Position
Year Ended September 30, 2016

| | Water and Sewer | Civic Complex and Ice Arena | Ballantreae Golf | Other Proprietary Funds | Total Proprietary Funds |
|---|----------------------------|--|-----------------------------|--|--|
| Operating Revenues | \$ 10,208,927 | \$ 2,426,661 | \$ 2,001,394 | \$ 1,667,880 | \$ 16,304,862 |
| Operating Expenses | | | | | |
| Salaries | 1,633,269 | 1,139,179 | 1,101,387 | 572,741 | 4,446,576 |
| Employee benefits | 406,574 | 165,444 | 179,644 | 106,425 | 858,087 |
| Payroll taxes | 119,888 | 65,781 | 80,732 | 39,900 | 306,301 |
| Depreciation | 2,767,999 | 312,910 | 145,659 | 120,857 | 3,347,425 |
| Water purchases | 1,513,629 | - | - | - | 1,513,629 |
| Contract services - garbage pickup | - | - | - | 917,833 | 917,833 |
| Programs and events | - | 582,530 | - | 65,402 | 647,932 |
| Utilities and telephone | 588,713 | 333,085 | 73,639 | 55,281 | 1,050,718 |
| Supplies | 493,456 | 227,200 | 532,075 | 36,643 | 1,289,374 |
| Maintenance and repairs | 287,369 | 142,144 | 118,851 | 67,578 | 615,942 |
| Insurance | 91,212 | 54,415 | 46,654 | 20,703 | 212,984 |
| Other | 553,246 | 146,897 | 108,217 | 38,251 | 846,611 |
| Total operating expenses | 8,455,355 | 3,169,585 | 2,386,858 | 2,041,614 | 16,053,412 |
| Operating income (loss) | 1,753,572 | (742,924) | (385,464) | (373,734) | 251,450 |
| Non-Operating Revenues (Expenses) | | | | | |
| Gain (loss) on disposal of capital assets | (54,345) | - | 351 | - | (53,994) |
| Interest income | 17,941 | 89 | 123 | 240 | 18,393 |
| Interest expense | (647,153) | (94,927) | (98,496) | (52,214) | (892,790) |
| Total non-operating revenues (expenses) | (683,557) | (94,838) | (98,022) | (51,974) | (928,391) |
| Income (loss) before capital contributions and interfund transfer in (out) | 1,070,015 | (837,762) | (483,486) | (425,708) | (676,941) |
| Capital contributions | 395,380 | - | - | - | 395,380 |
| Interfund transfers in (out) | (92,798) | 1,375,000 | 951,420 | (4,605,624) | (2,372,002) |
| Change in net position | 1,372,597 | 537,238 | 467,934 | (5,031,332) | (2,653,563) |
| Net position, beginning of year | 28,005,071 | 2,738,924 | 5,264,542 | 7,215,857 | 43,224,394 |
| Net position, end of year | \$ 29,377,668 | \$ 3,276,162 | \$ 5,732,476 | \$ 2,184,525 | \$ 40,570,831 |

See notes to financial statements.

CITY OF PELHAM
Statement of Proprietary Fund Cash Flows
Year Ended September 30, 2016

| | Water and Sewer | Civic Complex and Ice Arena | Ballantreae Golf | Other Proprietary Funds | Total Proprietary Funds |
|---|----------------------------|--|-----------------------------|--|--|
| Cash Flows from Operating Activities | | | | | |
| Cash received from customers | \$ 9,473,100 | \$ 2,428,899 | \$ 1,981,457 | \$ 1,663,355 | \$15,546,811 |
| Cash paid to employees | (2,157,389) | (1,354,108) | (1,364,496) | (708,800) | (5,584,793) |
| Cash paid to suppliers for goods and services | (3,430,972) | (1,587,496) | (887,916) | (1,202,079) | (7,108,463) |
| Net cash provided (used) by operating activities | <u>3,884,739</u> | <u>(512,705)</u> | <u>(270,955)</u> | <u>(247,524)</u> | <u>2,853,555</u> |
| Cash Flows from Noncapital Financing Activities | | | | | |
| Transfers (to) from other funds | (92,798) | 1,375,000 | 951,420 | 443,276 | 2,676,898 |
| Due from General Fund | - | - | - | 10,500 | 10,500 |
| Net cash (used) provided by noncapital financing activities | <u>(92,798)</u> | <u>1,375,000</u> | <u>951,420</u> | <u>453,776</u> | <u>2,687,398</u> |
| Cash Flows from Capital and Related Financing Activities | | | | | |
| Purchase of property, plant, and equipment | (542,681) | (439,606) | (33,957) | - | (1,016,244) |
| Proceeds from sale of capital assets | 30,000 | - | 351 | - | 30,351 |
| Principal payments on debt | (2,776,163) | (564,794) | (574,117) | (136,631) | (4,051,705) |
| Interest payments on debt | (595,481) | (45,732) | (74,131) | (51,146) | (766,490) |
| Net cash used by capital and related financing activities | <u>(3,884,325)</u> | <u>(1,050,132)</u> | <u>(681,854)</u> | <u>(187,777)</u> | <u>(5,804,088)</u> |
| Cash Flows from Investing Activities | | | | | |
| Proceeds from maturity of certificate of deposit | - | - | 28,000 | - | 28,000 |
| Purchase of certificate of deposit | - | - | (14,000) | - | (14,000) |
| Interest on cash and investments | 17,941 | 89 | 123 | 240 | 18,393 |
| Net cash provided by investing activities | <u>17,941</u> | <u>89</u> | <u>14,123</u> | <u>240</u> | <u>32,393</u> |
| Net (decrease) increase in cash and cash equivalents | <u>(74,443)</u> | <u>(187,748)</u> | <u>12,734</u> | <u>18,715</u> | <u>(230,742)</u> |
| Cash and cash equivalents at beginning of year | <u>6,310,632</u> | <u>228,292</u> | <u>48,033</u> | <u>460,856</u> | <u>7,047,813</u> |
| Cash and cash equivalents at end of year | <u>\$ 6,236,189</u> | <u>\$ 40,544</u> | <u>\$ 60,767</u> | <u>\$ 479,571</u> | <u>\$ 6,817,071</u> |

See notes to financial statements.

CITY OF PELHAM
Statement of Proprietary Fund Cash Flows
Year Ended September 30, 2016
(Continued)

| | Water and Sewer | Civic Complex and Ice Arena | Ballantreae Golf | Other Proprietary Funds | Total Proprietary Funds |
|--|----------------------------|--|-----------------------------|--|--|
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | | | | | |
| Operating income (loss) | \$ 1,753,572 | \$ (742,924) | \$ (385,464) | \$ (373,734) | \$ 251,450 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | | |
| Depreciation | 2,767,999 | 312,910 | 145,659 | 120,857 | 3,347,425 |
| Bad debt expense | 7,071 | - | - | - | 7,071 |
| (Increase) decrease in: | | | | | |
| Accounts receivable | (440,977) | 476 | (5,184) | 5,975 | (439,710) |
| Deferred outflows of resources for pensions | (273,971) | (111,173) | (124,482) | (77,303) | (586,929) |
| Prepaid expenses | (5,285) | 22,494 | (1,157) | (1,121) | 14,931 |
| Inventory | (2,306) | (8,295) | 1,144 | 205 | (9,252) |
| Increase (decrease) in: | | | | | |
| Accounts payable | 98,914 | (119,850) | (9,624) | (568) | (31,128) |
| Accrued expenses | 5,916 | 10,530 | 9,685 | 6,509 | 32,640 |
| Customer deposits | 14,962 | - | - | (10,500) | 4,462 |
| Unearned revenue | (309,812) | 1,762 | (16,723) | - | (324,773) |
| Deferred inflows of resources for pension | (131,257) | (48,877) | (60,673) | (34,340) | (275,147) |
| Net pension liability | 434,825 | 161,920 | 200,997 | 113,759 | 911,501 |
| Compensated absences | (34,912) | 8,322 | (25,133) | 2,737 | (48,986) |
| Net Cash Provided (Used) by Operating Activities | \$ 3,884,739 | \$ (512,705) | \$ (270,955) | \$ (247,524) | \$ 2,853,555 |

| | Water and Sewer |
|--|----------------------------|
| Reconciliation of Cash and Cash Equivalents to Statement of Net Position: | |
| Cash and cash equivalents in current assets | \$ 5,869,127 |
| Restricted cash | 367,062 |
| Total cash and cash equivalents | <u>\$ 6,236,189</u> |

Noncash Investing, Capital, and Financing Activities

Pelham Water and Sewer had amortization of warrant discounts of \$10,284, amortization of warrant premiums of \$32,952, and amortization of deferred amounts on refunding of \$123,070 during the year ended September 30, 2016.

Pelham Water and Sewer issued Series 2016 warrants in the amount of \$8,065,686 during the year ended September 30, 2016. The net proceeds were used to partially refund the Water and Sewer's Series 2006 A and 2006 B warrants in the amount of \$8,065,686.

Construction in progress contributed by developers to Pelham Water and Sewer totaled \$395,380.

See notes to financial statements.

CITY OF PELHAM
Statement of Proprietary Fund Cash Flows
Year Ended September 30, 2016
(Continued)

Noncash Investing, Capital, and Financing Activities - Continued

Pelham Civic Complex and Ice Arena had amortization of deferred amounts on refunding of \$49,789 during the year ended September 30, 2016.

Ballantrae Golf Club had amortization of deferred amounts on refunding of \$10,869 during the year ended September 30, 2016.

Pelham Racquet Club had amortization of warrant discounts of \$1,235, amortization of warrant premiums of \$3,954, and amortization of deferred amounts on refunding of \$9,019 during the year ended September 30, 2016.

Pelham Racquet Club issued Series 2016 warrants in the amount of \$965,738 during the year ended September 30, 2016. The net proceeds were used to partially refund the Racquet Club's Series 2006 A and 2006 B warrants in the amount of \$965,738.

See notes to financial statements.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016

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 June 6, 2017, 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, 2016
(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, 2016
(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, 2016
(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, 2016
(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:

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.

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.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets - Continued

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.

Fair Value

The established framework for measuring fair value provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is the price the City would expect to receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs which are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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 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.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Compensated Absences - Continued

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

The accrued amounts of vacation and compensatory time are recorded as noncurrent liabilities in proprietary funds, net of 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 14).

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 Governmental Accounting Standards Board (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 is available is for the fiscal year ending September 30, 2015 and, therefore, this actuarial information is reported in the 2016 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.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Position

The City reports information regarding its financial position and activities according to three classes of net position in the government-wide financial statements: investment in capital assets, 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 balances in five categories. The fund balance categories are:

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

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

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

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

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

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

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property Taxes

Property taxes are collected and remitted to the City by the Shelby County government. Taxes are levied annually on October 1 and are due October 1 of the following year. In accordance with the non-exchange transactions provision of GASB Statement No. 33, a receivable for taxes is recorded when an enforceable legal claim has arisen or when resources are received, whichever is first. That date for the City is October 1, 2015. 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. The deficit fund equity of \$10,530 in the police vault room fund, a non-major governmental fund, is the result of revenues being inadequate to cover expenditures. These deficits are offset through interfund borrowings from the general fund.

NOTE 3 - 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, 2016, the City had non-negotiable certificates of deposit in the amount of \$5,150,000 in the governmental activities and \$14,000 in the business-type activities.

As of September 30, 2016, the City had the following investments, which were reported at fair value in governmental activities:

| Type of Investment | Fair Value | Investment Maturities (in Years) | | |
|--|---------------------|----------------------------------|-------------|---------------------|
| | | 1-5 | 6-10 | More than 10 |
| Government National Mortgage Association | \$ 3,670,477 | \$ - | \$ - | \$ 3,670,477 |
| | <u>\$ 3,670,477</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,670,477</u> |

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS - Continued

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, 2016 were insured.

NOTE 4 - RECEIVABLES AND PAYABLES

Receivables consisted of the following at September 30, 2016:

| | Governmental Activities | Business-type Activities | Total |
|--|------------------------------------|-------------------------------------|---------------------|
| Taxes | | | |
| Sales | \$ 2,225,203 | \$ - | \$ 2,225,203 |
| Property | 272,241 | - | 272,241 |
| Customers | - | 1,288,360 | 1,288,360 |
| Intergovernmental | 35,379 | 338,599 | 373,978 |
| Gross Receivables | 2,532,823 | 1,626,959 | 4,159,782 |
| Less: Allowance for uncollectible accounts | (205,538) | (152,936) | (358,474) |
| Net Receivables | <u>\$ 2,327,285</u> | <u>\$ 1,474,023</u> | <u>\$ 3,801,308</u> |

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 4 - RECEIVABLES AND PAYABLES - Continued

Payables consisted of the following at September 30, 2016:

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|----------------|------------------------------------|-------------------------------------|-------------------|
| Trade | \$ 115,833 | \$ 168,384 | \$ 284,217 |
| Capital Assets | 93,096 | 412,814 | 505,910 |
| Net Payables | <u>\$ 208,929</u> | <u>\$ 581,198</u> | <u>\$ 790,127</u> |

NOTE 5 - NOTE RECEIVABLE

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

On July 19, 2016, the City entered into a note receivable agreement with the City of Pelham Commercial Development Authority (the Authority) to provide the Authority with funding for the purchase and development of property within the City. The City agreed to advance the Authority up to \$1,000,000, with principal due at maturity (July 2017) and interest due monthly on the unpaid balance at a rate of two percent (2.00%) per year. The note is secured by revenues and receipts derived from the leasing and sale of any projects.

On September 2, 2016, the City entered into a note receivable agreement with the City of Pelham Board of Education (the Board) to provide the Board with funding for the purchase and development of property within the City for new schools. The City agreed to advance the Board \$43,570,000, with principal and interest due monthly on the unpaid balance at a variable rate of two to five percent (2.00% to 5.00%) per year. The note is secured by 1% sales tax revenues earned by the City.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 5 - NOTE RECEIVABLE - Continued

Future principal payments related to notes receivable consisted of the following for the year ending September 30:

| | |
|-----------|----------------------|
| 2017 | \$ 2,356,209 |
| 2018 | 1,175,000 |
| 2019 | 1,180,000 |
| 2020 | 1,212,500 |
| 2021 | 4,707,500 |
| 2022-2040 | <u>36,835,000</u> |
| | <u>\$ 47,466,209</u> |

NOTE 6 - LEASING ACTIVITIES

During the current year, the City entered into a lease agreement allowing the Pelham Board of Education to lease office space from the City on the second floor of the Pelham Water Administration Building. The cost of the leased property was \$333,812, with accumulated depreciation of \$173,562 and a carrying amount of \$160,250. 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, 2016, the Board of Education still occupied the space. Future minimum rent amounts are \$48,000 in 2017 and 2018, and \$40,000 in 2019. Rent income associated with the lease agreement was \$48,000 for the year ended September 30, 2016.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 7 - CAPITAL ASSETS

Capital assets activity for governmental activities consisted of the following for the year ended September 30, 2016:

| | Governmental Activities | | | September 30, 2016 |
|-------------------------------|--------------------------------|---------------------|---------------------|-------------------------------|
| | October 1, 2015 | Additions | Disposals | |
| Depreciable assets | | | | |
| Infrastructure | \$ 22,867,270 | \$ 114,068 | \$ - | \$ 22,981,338 |
| Buildings and improvements | 16,333,871 | 219,244 | - | 16,553,115 |
| Equipment | 11,245,313 | 560,794 | 113,226 | 11,692,881 |
| | <u>50,446,454</u> | <u>894,106</u> | <u>113,226</u> | <u>51,227,334</u> |
| Less accumulated depreciation | | | | |
| Infrastructure | 9,419,411 | 562,572 | - | 9,981,983 |
| Buildings and improvements | 7,006,749 | 456,752 | - | 7,463,501 |
| Equipment | 6,673,171 | 652,520 | 104,528 | 7,221,163 |
| | <u>23,099,331</u> | <u>1,671,844</u> | <u>104,528</u> | <u>24,666,647</u> |
| | 27,347,123 | (777,738) | 8,698 | 26,560,687 |
| Non-depreciable assets | | | | |
| Land | 3,974,010 | 6,665,900 | 1,662,046 | 8,977,864 |
| Construction in progress | 1,316,796 | 1,100,596 | 291,169 | 2,126,223 |
| | <u>5,290,806</u> | <u>7,766,496</u> | <u>1,953,215</u> | <u>11,104,087</u> |
| | <u>\$ 32,637,929</u> | <u>\$ 6,988,758</u> | <u>\$ 1,961,913</u> | <u>\$ 37,664,774</u> |

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 7 - CAPITAL ASSETS - Continued

Capital assets activity for business-type activities consisted of the following for the year ended September 30, 2016:

| | Business-type Activities | | | September 30, 2016 |
|-------------------------------|---------------------------------|---------------------|---------------------|-------------------------------|
| | October 1, 2015 | Additions | Disposals | |
| Depreciable assets | | | | |
| System and facilities | \$ 102,792,191 | \$ 738,875 | \$ - | \$ 103,531,066 |
| Water & Sewer and Rental Fund | | | | |
| Buildings and improvements | 732,267 | 315,272 | - | 1,047,539 |
| Equipment | 2,546,230 | 122,253 | - | 2,668,483 |
| | 106,070,688 | 1,176,400 | - | 107,247,088 |
| Less accumulated depreciation | | | | |
| System and facilities | 52,638,040 | 3,230,243 | - | 55,868,283 |
| Water & Sewer and Rental Fund | | | | |
| Buildings and improvements | 413,653 | 38,894 | - | 452,547 |
| Equipment | 2,144,927 | 78,288 | - | 2,223,215 |
| | 55,196,620 | 3,347,425 | - | 58,544,045 |
| | 50,874,068 | (2,171,025) | - | 48,703,043 |
| Non-depreciable assets | | | | |
| Land | 13,859,469 | - | 5,058,148 | 8,801,321 |
| Construction in progress | 1,390,288 | 1,194,880 | 814,644 | 1,770,524 |
| | 15,249,757 | 1,194,880 | 5,872,792 | 10,571,845 |
| | <u>\$ 66,123,825</u> | <u>\$ (976,145)</u> | <u>\$ 5,872,792</u> | <u>\$ 59,274,888</u> |

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 7 - CAPITAL ASSETS - Continued

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

Governmental activities

| | |
|------------------------|---------------------|
| General administration | \$ 113,458 |
| Police | 456,741 |
| Fire | 277,385 |
| Public works | 639,108 |
| Parks and recreation | 89,919 |
| Library | 95,233 |
| | <u>\$ 1,671,844</u> |

Business-type activities

| | |
|----------------------|---------------------|
| Water and Sewer | \$ 2,767,999 |
| Civic Complex | 312,910 |
| Ballantrae Golf Club | 145,659 |
| Racquet Club | 120,858 |
| | <u>\$ 3,347,426</u> |

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 8 - LONG-TERM DEBT

The general obligation warrants payable consisted of the following at September 30, 2016:

| | <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, 2022, bearing interest rates of 3.50% to 4.00% | \$ 9,840 | \$ 365,160 |
| 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% | 37,556 | 977,444 |
| 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% | - | 1,825,000 |
| 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% | - | 2,595,000 |
| 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% | 1,071,233 | 4,272,999 |
| 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% | 7,180,557 | - |
| 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% | 187,462 | 3,368,681 |
| 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 | - |

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 8 - LONG-TERM DEBT - Continued

The general obligation warrants payable consisted of the following at September 30, 2016 (continued):

| | Governmental Activities | Business-type Activities |
|--|------------------------------------|-------------------------------------|
| 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 | - |
| Series 2015 General Obligation Warrants, dated December 30, 2015, due in annual payments through February 1, 2040, bearing interest rates of 2.00% to 5.00% | 11,355,000 | - |
| Series 2016 General Obligation Warrants, dated August 19, 2016, due in semi-annual payments through November 1, 2022, bearing interest rates of 3.00% to 5.00% | 943,576 | 9,031,424 |
| Total warrants payable | 54,100,224 | 22,435,708 |
| Less deferred amounts for: | | |
| Unamortized discounts (2006A) | (11) | (407) |
| Unamortized discounts (2006B) | (40) | (1,031) |
| Unamortized discounts (2014) | (98,937) | - |
| Unamortized discounts (2015) | (53,043) | - |
| Unamortized premiums (2006A) | 35 | 1,311 |
| Unamortized premiums (2006B) | 126 | 3,291 |
| Unamortized premiums (2014) | 2,509,185 | - |
| Unamortized premiums (2015) | 735,048 | - |
| Total warrants payable, net | \$ 57,192,587 | \$ 22,438,872 |

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 8 - 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> |
| 2017 | \$ 1,862,182 | \$ 1,958,245 | \$ 4,166,465 | \$ 563,657 |
| 2018 | 2,025,181 | 1,914,334 | 4,434,522 | 306,043 |
| 2019 | 2,033,001 | 1,862,303 | 4,528,619 | 218,675 |
| 2020 | 2,071,200 | 1,802,133 | 3,048,190 | 129,272 |
| 2021 | 3,186,339 | 1,706,150 | 2,218,789 | 85,179 |
| 2022-2026 | 13,580,165 | 7,344,483 | 4,039,122 | 63,528 |
| 2027-2031 | 12,501,972 | 4,981,783 | - | - |
| 2032-2036 | 11,560,000 | 2,347,566 | - | - |
| 2037-2040 | 5,280,000 | 417,625 | - | - |
| | <u>\$ 54,100,040</u> | <u>\$ 24,334,622</u> | <u>\$ 22,435,707</u> | <u>\$ 1,366,354</u> |

Notes payable consisted of the following at September 30, 2016:

| | <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 | \$ 64,869 |
| 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 | 100,266 |
| Total notes payable | <u>\$ 165,135</u> |

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 8 - LONG-TERM DEBT - Continued

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

| | Principal | Interest |
|------|------------------|-----------------|
| 2017 | \$ 81,043 | \$ 6,226 |
| 2018 | 84,092 | 3,178 |
| | \$ 165,135 | \$ 9,404 |

Changes in long-term liabilities for governmental activities consisted of the following at September 30, 2016:

| Governmental Activities | October 1, 2015 | Additions | Retirements | September 30, 2016 | Due within one year |
|--|----------------------------|------------------|--------------------|-------------------------------|--------------------------------|
| Warrants and notes payable: | | | | | |
| Notes payable | \$ 243,254 | \$ - | \$ 78,119 | \$ 165,135 | \$ 81,043 |
| Capital lease payable | 11,954 | - | 7,076 | 4,878 | 4,878 |
| General Obligation Warrants | 42,793,818 | 12,298,576 | 992,170 | 54,100,224 | 1,862,182 |
| | 43,049,026 | 12,298,576 | 1,077,365 | 54,270,237 | 1,948,103 |
| Plus: bond discounts and premiums | 2,627,108 | 715,399 | 250,144 | 3,092,363 | 253,670 |
| Total warrants and notes payable | 45,676,134 | 13,013,975 | 1,327,509 | 57,362,600 | 2,201,773 |
| Other liabilities: | | | | | |
| Other post-employment benefit payable | 1,748,488 | 166,811 | - | 1,915,299 | - |
| Compensated absences | 1,467,534 | 1,169,482 | 1,089,988 | 1,547,028 | 773,514 |
| | \$ 48,892,156 | \$ 14,350,268 | \$ 2,417,497 | \$ 60,824,927 | \$ 2,975,287 |

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 8 - LONG-TERM DEBT - Continued

Changes in long-term liabilities for business-type activities consisted of the following at September 30, 2016:

| Business-type Activities | October 1, 2015 | Additions | Retirements | September 30, 2016 | Due within one year |
|-----------------------------------|----------------------------|---------------------|----------------------|-------------------------------|--------------------------------|
| Warrants payable: | | | | | |
| General Obligation Warrants | \$ 26,485,491 | \$ 9,031,424 | \$ 13,081,207 | \$ 22,435,708 | \$ 4,166,465 |
| Capital lease payable | - | 14,167 | 1,922 | 12,245 | 2,669 |
| | <u>26,485,491</u> | <u>9,045,591</u> | <u>13,083,129</u> | <u>22,447,953</u> | <u>4,169,134</u> |
| Plus: bond discounts and premiums | 93,273 | - | 90,109 | 3,164 | 3,164 |
| Total warrants payable | <u>26,578,764</u> | <u>9,045,591</u> | <u>13,173,238</u> | <u>22,451,117</u> | <u>4,172,298</u> |
| Other liabilities: | | | | | |
| Compensated absences | 415,222 | 141,011 | 189,997 | 366,236 | 183,119 |
| | <u>\$ 26,993,986</u> | <u>\$ 9,186,602</u> | <u>\$ 13,363,235</u> | <u>\$ 22,817,353</u> | <u>\$ 4,355,417</u> |

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

NOTE 9 - CAPITAL LEASE OBLIGATIONS

The City has entered into a capital lease agreement to finance the purchase of facilities maintenance equipment. As of September 30, 2016, the future minimum lease payments under the capital lease agreements are as follows:

| | Governmental Activities | Business-type Activities | Total |
|---|------------------------------------|-------------------------------------|-----------------|
| 2017 | \$ 4,951 | \$ 3,179 | \$ 8,130 |
| 2018 | - | 3,179 | 3,179 |
| 2019 | - | 3,179 | 3,179 |
| 2020 | - | 3,179 | 3,179 |
| 2021 | - | 796 | 796 |
| Future minimum lease payments | <u>4,951</u> | <u>13,512</u> | <u>18,463</u> |
| Less: amount representing interest | <u>(73)</u> | <u>(1,267)</u> | <u>(1,340)</u> |
| Present value of minimum lease payments | 4,878 | 12,245 | 17,123 |
| Less: current portion | <u>(4,878)</u> | <u>(2,669)</u> | <u>(7,547)</u> |
| Long-term capital lease obligation | <u>\$ -</u> | <u>\$ 9,576</u> | <u>\$ 9,576</u> |

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 9 - CAPITAL LEASE OBLIGATIONS - Continued

As of September 30, 2016, the governmental activities lease had capitalized costs totaling \$20,960 and accumulated depreciation of \$9,781, and a net book value of \$11,179. Interest expense paid under the capital lease agreement totaled \$349 during the year ended September 30, 2016.

As of September 30, 2016, the business-type activities lease had capitalized costs totaling \$14,167 and accumulated depreciation of \$1,889, and a net book value of \$12,278. Interest expense paid under the capital lease agreement totaled \$408 during the year ended September 30, 2016.

NOTE 10 - 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, 2016 totaled \$55,852 for governmental activities and \$143,780 for business-type activities, respectively. Future minimum lease payments due under operating lease agreements consisted of the following for the years ending September 30:

| | Governmental Activities | Business-type Activities | Total |
|------|------------------------------------|-------------------------------------|--------------|
| 2017 | \$ 19,391 | \$ 124,583 | \$ 143,974 |
| 2018 | 11,865 | 112,533 | 124,398 |
| 2019 | 3,881 | 96,645 | 100,526 |
| 2020 | 2,100 | 18,199 | 20,299 |
| 2021 | - | 859 | 859 |
| | \$ 37,237 | \$ 352,819 | \$ 390,056 |

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 11 - PENSION PLAN

General Information about the Pension Plan

Plan description. The Employees' Retirement System of Alabama, an agency multiple-employer 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 13 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 13 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.

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 Tier 1 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, Tier 1 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.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 11 - PENSION PLAN - Continued

General Information about the Pension Plan - Continued

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 credible 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 876 local participating employers. These participating employers include 294 cities, 65 counties, and 517 other public entities. The ERS membership includes approximately 84,393 participants. As of September 30, 2015, membership consisted of:

ERS Membership as of the Measurement Date

| | |
|---|--------|
| Retirees and beneficiaries currently receiving benefits | 22,211 |
| Terminated employees entitled to but not yet receiving benefits | 1,353 |
| Terminated employees not entitled to a benefit | 5,451 |
| Active members | 55,164 |
| Post-DROP retired members still in active service | 214 |
| | 84,393 |

The City's membership as of the measurement date of September 30, 2015 consisted of:

| | |
|---|-----|
| Retired members or their beneficiaries currently receiving benefits | 91 |
| Vested inactive members | 11 |
| Non-vested inactive members | 12 |
| Active members | 304 |
| Post-DROP retired members still in active service | 1 |
| | 419 |

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 11 - PENSION PLAN - Continued

General Information about the Pension Plan - Continued

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, 2016, the City's active employee contribution rate was 5.65% of covered employee payroll, and the City's average contribution rate to fund the normal and accrued liability costs was 11.28% of covered employee payroll.

The City's contractually required contribution rate for the year ended September 30, 2016 was 12.21% of pensionable pay for Tier 1 employees, and 9.61% 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 \$2,050,363 for the year ended September 30, 2016.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 11 - PENSION PLAN - Continued

Net Pension Liability

The City's net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014 rolled forward to September 30, 2015 using standard roll-forward techniques as shown in the following table:

| | Expected | Actual |
|---|---------------|---------------|
| (a) Total Pension Liability as of September 30, 2014 | \$ 67,955,675 | \$ 69,303,661 |
| (b) Entry Age Normal Cost for the period October 1, 2014 - September 30, 2015 | 1,527,047 | 1,527,047 |
| (c) Actual Benefit Payments and Refunds for the period October 1, 2014 - September 30, 2015 | (3,475,609) | (3,475,609) |
| (d) Total Pension Liability as of September 30, 2015 [(a) x 1.08] + (b) - [(c) x (1.04)] | \$ 71,304,543 | \$ 72,760,368 |
| (e) Difference between Expected and Actual Experience (Gain)/Loss | | \$ 1,455,825 |

Actuarial assumptions. The total pension liability in the September 30, 2014 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, 2014 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, 2016
(Continued)

NOTE 11 - 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, 2016
(Continued)

NOTE 11 - PENSION PLAN - Continued

Net Pension Liability - Continued

Changes in the City's net pension liability consisted of the following at September 30, 2015:

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (Asset) (a) - (b) |
|--|--|--|--|
| Balances at September 30, 2014 | \$ 67,955,675 | \$ 49,517,790 | \$ 18,437,885 |
| Changes for the year: | | | |
| Service cost | 1,527,047 | - | 1,527,047 |
| Interest | 5,297,430 | - | 5,297,430 |
| Difference between expected and actual experience | 1,455,825 | - | 1,455,825 |
| Contributions - employer | - | 1,885,223 | (1,885,223) |
| Contributions - employee | - | 996,630 | (996,630) |
| Net investment income | - | 543,034 | (543,034) |
| Benefits of payments, including refunds of employee contributions | (3,475,609) | (3,475,609) | - |
| Transfers among employers | - | 191,161 | (191,161) |
| Net changes: | 4,804,693 | 140,439 | 4,664,254 |
| Balances at September 30, 2015 | <u>\$ 72,760,368</u> | <u>\$ 49,658,229</u> | <u>\$ 23,102,139</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 | \$ 32,091,644 | \$ 23,102,139 | \$ 15,543,673 |

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 11 - 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, 2015. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2015. The auditor’s report dated October 17, 2016 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, 2016, the City recognized pension expense of \$2,284,705. At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Difference between expected and actual experience | \$ 1,253,627 | \$ - |
| Net difference between projected and actual earnings on pension plan investments | 1,664,560 | - |
| Employer contributions subsequent to the measurement date | 2,050,363 | - |
| | \$ 4,968,550 | \$ - |

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

| | Deferred Outflows of Resources |
|------------|---|
| 2017 | \$ 530,341 |
| 2018 | 530,341 |
| 2019 | 530,340 |
| 2020 | 882,330 |
| 2021 | 202,198 |
| Thereafter | 242,637 |
| | \$ 2,918,187 |

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 12 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund payables and receivables consisted of the following at September 30, 2016:

| | Interfund Receivables (Payables) |
|-----------------|---|
| General Fund | \$ (18,774) |
| Special Revenue | 18,774 |
| | \$ - |

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, 2016
(Continued)

NOTE 12 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

Interfund transfers consisted of the following during the year ended September 30, 2016:

| | Transfers In (Out) | | Net Transfers Out (In) |
|-------------------------------|---------------------|--------------------|---------------------------|
| | General Fund | Special Revenue | |
| Transfers Out (In) | | | |
| General Fund | \$ - | \$ - | \$ - |
| Special Revenue | - | - | - |
| Water & Sewer | 92,798 | - | 92,798 |
| Civic Complex and Ice Arena | (1,375,000) | - | (1,375,000) |
| Ballantrae Golf | (951,420) | - | (951,420) |
| Racquet Club | (475,000) | - | (475,000) |
| Garbage Fund | 54,000 | - | 54,000 |
| Rental Fund | 5,026,624 | - | 5,026,624 |
| Net Transfers In (Out) | \$ 2,372,002 | \$ - | \$ 2,372,002 |

- 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, 2016
(Continued)

NOTE 13 - 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 a material adverse impact on the operations for the period in which the ruling occurs.

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 14 - 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, 2016
(Continued)

NOTE 14 - 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.

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, 2016, the City’s portion of health care and dental funding costs for retired employees totaled \$514,599. 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 | \$ 212,855 |
| 30-year UAAL amortization amount | 499,731 |
| Annual required contribution (ARC) | <u>\$ 712,586</u> |

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 14 - 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, 2016 consisted of the following:

| | |
|--|----------------------------|
| Beginning Net OPEB Obligation - September 30, 2015 | \$ 1,748,487 |
| Annual required contribution | 712,586 |
| Interest on Net OPEB Obligation | 69,939 |
| ARC Adjustment | <u>(101,115)</u> |
| OPEB Cost | 681,410 |
| Contribution | - |
| Current year retiree premium | <u>(514,598)</u> |
| Change in Net OPEB Obligation | <u>166,812</u> |
| Ending Net OPEB Obligation - September 30, 2016 | <u><u>\$ 1,915,299</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 | 2016 | \$ 681,410 | 75.52% | \$ 1,915,299 |
| Medical/Dental | 2015 | \$ 647,140 | 69.31% | \$ 1,748,488 |
| Medical/Dental | 2014 | \$ 624,925 | 66.46% | \$ 1,549,870 |

Funded Status and Funding Progress

For the year ended September 30, 2016, the City of Pelham made no contributions to its post-employment benefits plan. The plan is not funded, has no assets, and hence has a funded ratio of zero. Based on the October 1, 2015 actuarial valuation, the most recent actuarial valuation, the Actuarial Accrued Liability (AAL) at the end of the year September 30, 2016 was \$8,986,895 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 2016, the entire actuarial accrued liability of \$8,986,895 was unfunded. The covered payroll was \$17,595,089, and the ratio of the UAAL to the covered payroll was 51.08%.

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 14 - 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 no 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, 2016
(Continued)

NOTE 14 - 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, 2016
(Continued)

NOTE 14 - 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 or 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 45 for valuation purposes.

Inflation Rate

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

Projected Salary Increases

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

Post-retirement Benefit Increases

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

CITY OF PELHAM
Notes to Financial Statements
September 30, 2016
(Continued)

NOTE 15 - FAIR VALUE

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements are as follows at September 30, 2016:

| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|-----------------------|-------------------|---|--|--|
| U.S. Government | | | | |
| Sponsored Enterprise: | | | | |
| Government National | | | | |
| Mortgage Association | \$ 3,670,477 | \$ - | \$ 3,670,477 | \$ - |

The following is a description of the valuation methodologies used for assets measured at fair value. There were no changes in the methodologies used during the year ended September 30, 2016.

- *U.S. Government Sponsored Enterprise:* Valued based on issuance price and secondary trade data provided by recognized broker dealers.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PELHAM
Schedule of Funding Progress
Post-Employment Benefit Plan
Year ended September 30, 2016

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)) |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| 10/1/2013 | \$ - | \$ 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% |
| 10/1/2015 | \$ - | \$ 8,986,895 | \$ 8,986,895 | 0% | \$17,595,089 | 51% |

For information regarding assumptions and amortization methods, see Note 14.

CITY OF PELHAM
Schedule of Changes in the Net Pension Liability
Last Two Years Ended September 30,
(Unaudited)

| | <u>2015</u> | <u>2014</u> |
|---|----------------------|----------------------|
| Total pension liability | | |
| Service cost | \$ 1,527,047 | \$ 1,470,956 |
| Interest | 5,297,430 | 5,015,542 |
| Differences between expected and actual experience | 1,455,825 | - |
| Benefit payments, including refunds of employee contributions | <u>(3,475,609)</u> | <u>(2,450,190)</u> |
| Net change in total pension liability | 4,804,693 | 4,036,308 |
| Total pension liability - beginning | <u>67,955,675</u> | <u>63,919,367</u> |
| Total pension liability - ending (a) | <u>\$ 72,760,368</u> | <u>\$ 67,955,675</u> |
| | | |
| Plan fiduciary net position | | |
| Contributions - employer | \$ 1,885,223 | \$ 1,875,205 |
| Contributions - member | 996,630 | 969,654 |
| Net investment income | 543,034 | 5,281,062 |
| Benefit payments, including refunds of employee contributions | <u>(3,475,609)</u> | <u>(2,450,190)</u> |
| Transfers among employers | 191,161 | 50,891 |
| Net change in plan fiduciary net position | 140,439 | 5,726,622 |
| Plan net position - beginning | <u>49,517,790</u> | <u>43,791,168</u> |
| Plan net position - ending (b) | <u>\$ 49,658,229</u> | <u>\$ 49,517,790</u> |
| | | |
| Net pension liability (a) - (b) | <u>\$ 23,102,139</u> | <u>\$ 18,437,885</u> |
| | | |
| Plan fiduciary net position as a percentage of the total pension liability | <u>68.25%</u> | <u>72.87%</u> |
| | | |
| Covered payroll | <u>\$ 17,534,690</u> | <u>\$ 17,329,276</u> |
| | | |
| Net pension liability as a percentage of covered payroll | <u>131.75%</u> | <u>106.40%</u> |

CITY OF PELHAM
Schedule of Employer Contributions
Last Two Years Ended September 30,
(Unaudited)

| | 2016 | 2015 |
|---|----------------------|----------------------|
| Actuarially determined contribution | \$ 1,985,261 | \$ 1,885,223 |
| Contributions in relation to the actuarially determined contributions | 1,985,261 | 1,885,223 |
| Contributions deficiency (excess) | \$ - | \$ - |
| Covered payroll | \$ 17,595,089 | \$ 17,534,690 |
| Contributions as a percentage of covered payroll | 11.28% | 10.75% |

CITY OF PELHAM
Note to Required Supplementary Information
Pension Plan Practices
September 30, 2016
(Unaudited)

NOTE 1 - SUMMARY OF SIGNIFICANT PENSION PLAN PRACTICES

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2016 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, 2016

| | Budgeted Amounts | | Actual GAAP Basis | Adjustments to Budgetary Basis | Actual - Budgetary Basis |
|---------------------------------------|-------------------------|-----------------------|----------------------------------|---|---|
| | Original | Final | | | |
| Operating revenues: | | | | | |
| Taxes: | | | | | |
| Sales | \$ 22,564,000 | \$ 22,564,000 | \$ 24,732,819 | \$ (91,425) | \$ 24,641,394 |
| Property | 5,660,000 | 5,660,000 | 5,871,694 | 13,901 | 5,885,595 |
| Motor vehicle/gas | 600,000 | 600,000 | 666,154 | 5,803 | 671,957 |
| Other | 216,300 | 216,300 | 286,717 | 10,002 | 296,719 |
| Licenses and permits | 4,370,850 | 4,370,850 | 4,528,076 | - | 4,528,076 |
| Fines and forfeitures | 1,757,939 | 1,757,939 | 1,635,456 | - | 1,635,456 |
| Charges for services | 178,531 | 178,531 | 245,519 | - | 245,519 |
| Interest | 248,250 | 248,250 | 260,875 | - | 260,875 |
| Other | 81,200 | 81,200 | 580,597 | 8,906 | 589,503 |
| Payments from other governments | - | - | 32,215,000 | (32,215,000) | - |
| Total revenues | 35,677,070 | 35,677,070 | 71,022,907 | (32,267,813) | 38,755,094 |
| Expenditures, current: | | | | | |
| General administration | 8,004,685 | 8,373,667 | 8,278,218 | 2,790 | 8,281,008 |
| Police | 7,984,760 | 8,216,490 | 7,625,345 | 68,633 | 7,693,978 |
| Fire | 8,353,855 | 9,024,576 | 8,551,691 | 150,360 | 8,702,051 |
| Public works | 2,448,279 | 4,156,577 | 2,720,491 | 54,472 | 2,774,963 |
| Parks and recreation | 1,014,139 | 1,521,310 | 1,081,486 | 3,222 | 1,084,708 |
| Library | 1,234,326 | 1,254,966 | 1,123,925 | 5,007 | 1,128,932 |
| | 29,040,044 | 32,547,586 | 29,381,156 | 284,484 | 29,665,640 |
| Capital outlay | 612,372 | 2,463,887 | 1,602,069 | - | 1,602,069 |
| Debt service | | | | | |
| Principal retirement | 2,570,794 | 2,570,794 | 1,077,365 | - | 1,077,365 |
| Interest | - | - | 1,822,662 | - | 1,822,662 |
| Issuance of debt costs | - | - | 66,417 | - | 66,417 |
| | 2,570,794 | 2,570,794 | 2,966,444 | - | 2,966,444 |
| Other financing sources (uses) | | | | | |
| Proceeds from sale of capital assets | 520,000 | 520,000 | 544,388 | - | 544,388 |
| Issuance of warrants | - | - | 11,355,000 | - | 11,355,000 |
| Issuance of refunding warrants | - | - | 943,576 | - | 943,576 |
| Premium on issuance of warrants | - | - | 715,398 | - | 715,398 |
| Transfers (out) in | (2,123,743) | (2,647,793) | (2,676,898) | - | (2,676,898) |
| | (1,603,743) | (2,127,793) | 10,881,464 | - | 10,881,464 |
| Net changes in fund balance | \$ 1,850,117 | \$ (4,032,990) | \$ 47,954,702 | \$ (32,552,297) | \$ 15,402,405 |

CITY OF PELHAM
Notes to Required Supplementary Information
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT BUDGETARY PRACTICES

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

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

STATISTICAL INFORMATION
(UNAUDITED)

CITY OF PELHAM
Assessed Value of Taxable Property
Year ended September 30, 2016
(Unaudited)

| | Property Assessed Value (after exemptions) | Motor Vehicles | Total |
|------|--|-------------------|----------------|
| 2016 | \$ 394,291,020 | \$ 59,426,580 | \$ 453,717,600 |
| 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, 2016
(Unaudited)

The City's top ten property taxpayers and amounts paid by each during the year ended September 30, 2016 consisted of the following:

| | |
|-------------------------------------|------------|
| Colonial Pipeline Company | \$ 398,222 |
| Alabama Power Company | 155,455 |
| Edwin B. Lumpkin, Jr. | 62,733 |
| Pelham Industrial Enterprises, LLC | 51,121 |
| Vulcan Threaded Products, Inc. | 44,657 |
| Wal-Mart Real Estate Business Trust | 41,064 |
| Huntley Hall Apartments, Ltd. | 33,367 |
| Birmingham Realty Co. | 31,479 |
| The Grand Reserve at Pelham, LLC | 26,195 |
| Amerisource Bergen Drug Corporation | 21,562 |

CITY OF PELHAM
Water and Sewer System Customer Information
Year ended September 30, 2016
(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> |
|------|--------------|--------------|
| 2016 | 12,286 | 6,829 |
| 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 |

The ten largest customers, using the average amount paid monthly, of the Sewer System for the year ended September 30, 2016, are as follows:

| | | |
|-------------------------------------|----|--------|
| Green Park South Mobile Home Park | \$ | 22,066 |
| The Huntley Apartments | | 7,724 |
| Colonial Pipeline | | 6,293 |
| Oak Mountain Park - Indian Trail | | 5,987 |
| Southgate Mobile Home Park | | 4,934 |
| Justin Trimback (The Grand Reserve) | | 4,748 |
| Pelham High School | | 4,211 |
| The Pantry | | 3,069 |
| Marc I Car Wash | | 2,916 |
| Golden Corral | | 2,759 |

CITY OF PELHAM
Water and Sewer System Rates
Year ended September 30, 2016
(Unaudited)

The water rates as of September 30, 2016 are as follows:

| | |
|-------------|---|
| Residential | \$13.00 minimum on the first 3,000 gallons \$3.30 per 1,000 gallons thereafter |
| Commercial | \$13.00 minimum on the first 3,000 gallons \$3.30 per 1,000 gallons thereafter |

The sewer rates as of September 30, 2016 are as follows:

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