

CITY OF PELHAM, ALABAMA

PELHAM, ALABAMA

Financial Statements

September 30, 2017

**CITY OF PELHAM, ALABAMA
PELHAM, ALABAMA**

MAYOR

Gary Waters

CITY COUNCIL

Rick Hayes
Mildred Lanier
Beth McMillan
Maurice Mercer
Ron Scott

CITY MANAGER

Gretchen DiFante

CITY CLERK & TREASURER

Tom Seale

CITY ATTORNEYS

Ellis, Head, Owens & Justice

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pelham, Alabama (the City), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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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, 2017, 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 - post-employment benefit plan, schedule of changes in the net pension liability, the schedule of employer contributions, and budgetary comparison information on pages 7-13 and 64-69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pelham, Alabama's basic financial statements. The introductory section and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2018, on our consideration of the City of Pelham, Alabama's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Pelham, Alabama's internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Pelham, Alabama's internal control over financial reporting and compliance.

Barfield, Murphy, Shank & Smith, LLC

Birmingham, Alabama
June 26, 2018

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 \$8,666,922.
- The total cost of the City's programs was \$53,799,202.
- During the year, the City had expenses of \$36,411,173 for governmental activities and transfers of \$3,566,811 to business-type activities, which was \$8,666,922 less than the \$48,644,906 generated in general and program revenues.
- The City's combined assets exceeded its combined liabilities by \$94,619,562, which will allow the City to continue to meet ongoing obligations to citizens and creditors.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 14 and 16) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements begin on page 17. For governmental activities, these statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail by providing information about the City's most significant funds.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 8. One of the most important questions asked about the City's finances is, "Is the City, as a whole, better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used in most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

- Governmental Activities - Most of the City's basic services are reported here, including general administration, police, fire, public works, parks and recreation, and library. Property taxes, sales taxes, program revenues, and grants finance most of these activities.
- Business-type Activities - The City's Water and Sewer System, Civic Complex and Ice Arena, Ballantrae Golf Club, Racquet Club, 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 17. The fund financial statements provide detailed information about the most significant funds and not the City as a whole. Some funds are required to be established by State law and bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two kinds of funds, governmental and proprietary, use different accounting approaches.

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

THE CITY AS A WHOLE

Financial Analysis of the City as a Whole

Net Position

The City's combined net position as of September 30, 2017 was \$94,619,562. The governmental activities net position was \$49,404,576 and the business-type activities net position was \$45,214,986.

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,	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	\$79,177,677	\$79,769,723	\$ 6,485,768	\$ 8,682,440	\$85,663,445	\$88,452,163
Capital assets	52,553,700	37,664,774	62,185,916	59,274,888	114,739,616	96,939,662
Total assets	<u>131,731,377</u>	<u>117,434,497</u>	<u>68,671,684</u>	<u>67,957,328</u>	<u>200,403,061</u>	<u>185,391,825</u>
Deferred outflows of resources						
Deferred outflows related to pensions	5,967,929	4,001,212	1,427,476	967,338	7,395,405	4,968,550
Deferred charge on refunding	409,630	478,047	323,293	484,321	732,923	962,368
Total deferred outflows of resources	<u>6,377,559</u>	<u>4,479,259</u>	<u>1,750,769</u>	<u>1,451,659</u>	<u>8,128,328</u>	<u>5,930,918</u>
Liabilities						
Long-term liabilities	80,088,792	79,412,384	23,858,262	27,332,035	103,947,054	106,744,419
Other liabilities	2,638,239	1,462,701	1,349,205	1,506,121	3,987,444	2,968,822
Total liabilities	<u>82,727,031</u>	<u>80,875,085</u>	<u>25,207,467</u>	<u>28,838,156</u>	<u>107,934,498</u>	<u>109,713,241</u>
Deferred inflows of resources						
Property taxes levied for subsequent year	5,977,329	301,017	-	-	5,977,329	301,017
Total deferred inflows of resources	<u>5,977,329</u>	<u>301,017</u>	<u>-</u>	<u>-</u>	<u>5,977,329</u>	<u>301,017</u>
Net Position						
Net investment in capital assets	42,766,214	26,964,427	44,239,968	37,320,337	87,006,182	64,284,764
Restricted	2,544,384	2,224,396	-	-	2,544,384	2,224,396
Unrestricted	4,093,978	11,548,831	975,018	3,250,494	5,068,996	14,799,325
Total net position	<u>\$49,404,576</u>	<u>\$40,737,654</u>	<u>\$45,214,986</u>	<u>\$40,570,831</u>	<u>\$94,619,562</u>	<u>\$81,308,485</u>

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

The City's unrestricted net position for governmental activities that can be used to finance day-to-day operations was \$(3,918,188).

Changes in Net Position

The City's Change in Net Position of the governmental activities was \$8,666,922 and the change in net position of business-type activities was \$4,644,155.

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,	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues						
Fees, fines and charges for service	\$ 7,080,340	\$ 6,988,762	\$17,176,337	\$16,290,862	\$24,256,677	\$23,279,624
Operating grants and contributions	1,337,121	1,309,379	14,000	14,000	1,351,121	1,323,379
Capital grants and contributions	5,204,865	506,994	1,256,908	395,380	6,461,773	902,374
General revenues						
Sales taxes	26,187,468	24,732,819	-	-	26,187,468	24,732,819
Property taxes	6,069,162	5,871,694	-	-	6,069,162	5,871,694
Other taxes	235,681	286,717	-	-	235,681	286,717
Interest earnings	2,181,676	261,727	14,822	18,393	2,196,498	280,120
Gain (loss) on disposal of capital assets	348,593	490,644	3,306	(53,994)	351,899	436,650
Payments from other govts	-	32,215,000	-	-	-	32,215,000
Total revenues	<u>48,644,906</u>	<u>72,663,736</u>	<u>18,465,373</u>	<u>16,664,641</u>	<u>67,110,279</u>	<u>89,328,377</u>
Expenses						
General administration	10,773,721	8,931,254	-	-	10,773,721	8,931,254
Police	8,990,390	8,334,700	-	-	8,990,390	8,334,700
Fire	8,929,096	9,026,264	-	-	8,929,096	9,026,264
Public works	3,428,568	3,512,245	-	-	3,428,568	3,512,245
Parks and recreation	1,270,088	1,186,290	-	-	1,270,088	1,186,290
Library	1,259,856	1,263,802	-	-	1,259,856	1,263,802
Interest on long-term debt	1,759,454	1,849,502	-	-	1,759,454	1,849,502
Water and Sewer	-	-	9,170,244	9,102,508	9,170,244	9,102,508
Civic Complex and Ice Arena	-	-	3,378,901	3,264,512	3,378,901	3,264,512
Ballantrae Golf Club	-	-	2,501,909	2,485,354	2,501,909	2,485,354
Racquet Club	-	-	1,202,805	1,141,969	1,202,805	1,141,969
Rental Fund	-	-	-	34,026	-	34,026
Garbage Fund	-	-	1,134,170	917,833	1,134,170	917,833
Total expenses	<u>36,411,173</u>	<u>34,104,057</u>	<u>17,388,029</u>	<u>16,946,202</u>	<u>53,799,202</u>	<u>51,050,259</u>
Excess (deficiency) before transfers	12,233,733	38,559,679	1,077,344	(281,561)	13,311,077	38,278,118
Transfers	<u>(3,566,811)</u>	<u>2,372,002</u>	<u>3,566,811</u>	<u>(2,372,002)</u>	-	-
Change in net position	8,666,922	40,931,681	4,644,155	(2,653,563)	13,311,077	38,278,118
Beginning net position	40,737,654	(194,027)	40,570,831	43,224,394	81,308,485	43,030,367
Total net position	<u>\$49,404,576</u>	<u>\$40,737,654</u>	<u>\$45,214,986</u>	<u>\$40,570,831</u>	<u>\$94,619,562</u>	<u>\$81,308,485</u>

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

The governmental activities total revenues decreased by 33.05% to \$48,644,906 due primarily to a decrease in payments from other governments. Sales and property taxes account for 66.31% 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 10.81%.

The total cost of all programs and services increased by \$2,748,943. The cost of governmental activities increased by \$2,307,116 and the cost of business-type activities increased by \$441,827.

Governmental Activities

The change in net position of governmental activities was \$8,666,922, resulting primarily from an increase in capital grants and contributions.

Business-type Activities

The change in net position of business-type activities was \$4,644,155, resulting primarily from an increase in revenues from charges for services.

THE CITY'S FUNDS

Governmental Funds

As of September 30, 2017, the governmental funds reported a combined fund balance of \$70,933,377, which is 9.52% less than the beginning of the year. The General Fund experienced a net decrease of \$8,083,017 resulting primarily from increases in capital outlay and principal retirement.

Business-type Funds

As of September 30, 2017, business-type funds reported a combined net position of \$45,214,986. The business-type funds Change in Net Position totaled \$4,644,155, resulting primarily from transfers from the governmental activities.

General Fund Budgetary Highlights

General Fund revenues exceeded budget by \$5,243,486, 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 \$3,297,101, 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 2017, the City had \$114,724,094 invested in a broad range of capital assets, including the Water and Sewer System, Civic Complex and Ice Arena, Racquet Club, Ballantrae Golf Club, fire and police equipment, vehicles, buildings, a library, a senior citizen center, park facilities, streets, and roads. This amount represents a net increase (including additions, disposals and depreciation) of \$17,784,432 or 18.35% more than last year. The increase can be attributed to capital asset additions offset by depreciation expense and the sale of surplus capital assets.

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

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$ 9,060,722	\$ 8,977,864	\$ 8,801,321	\$ 8,801,321	\$ 17,862,043	\$17,779,185
Construction in progress	13,675,438	2,126,223	4,489,264	1,770,524	18,164,702	3,896,747
Infrastructure, net	14,869,082	12,999,355	-	-	14,869,082	12,999,355
System and facilities, net	-	-	47,659,911	47,662,783	47,659,911	47,662,783
Buildings and improvements, net	9,083,230	9,089,614	609,506	594,992	9,692,736	9,684,606
Equipment, net	5,865,228	4,471,718	625,914	445,268	6,491,142	4,916,986
Total capital assets, net	<u>\$52,553,700</u>	<u>\$37,664,774</u>	<u>\$62,185,916</u>	<u>\$59,274,888</u>	<u>\$ 114,739,616</u>	<u>\$96,939,662</u>

Commitments

The General Fund had contractual commitments as of September 30, 2017 of \$3,778,735 for various capital improvements within the City.

The Pelham Civic Complex had contractual commitments as of September 30, 2017 of \$2,703,336 for renovations to the civic complex.

Long-Term Debt

At September 30, 2017, the City had \$73,329,995 in warrants, notes payable, and capital leases payable outstanding versus \$79,813,717 at September 30, 2016, a decrease of 8.12%. This decrease resulted primarily from payment on debt principal.

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

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
General Obligation						
Warrants	\$54,881,946	\$57,192,587	\$18,269,241	\$22,438,872	\$73,151,187	\$79,631,459
Notes payable	84,092	165,135	-	-	84,092	165,135
Capital lease payable	85,140	4,878	9,576	12,245	94,716	17,123
Totals	<u>\$55,051,178</u>	<u>\$57,362,600</u>	<u>\$18,278,817</u>	<u>\$22,451,117</u>	<u>\$73,329,995</u>	<u>\$79,813,717</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, 2018. The City Council took the Mayor's proposed budget under consideration and, after further review and evaluation, adopted the fiscal year 2018 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 2017, 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, 2018. Amounts available for expenditure in the General Fund budget are \$41,306,804 for the fiscal year 2018. The City took into consideration the current year increase in revenue and its effect on the City when budgeting expenditures for the fiscal year 2018.

If these estimates are realized, the City's budgetary fund balance is expected to not increase or decrease by the close of fiscal year 2018.

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, ALABAMA
Statement of Net Position
September 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 18,448,458	\$ 4,332,482	\$ 22,780,940
Deposit and investments	3,720,078	-	3,720,078
Accounts receivable	8,218,485	1,329,581	9,548,066
Inventory	-	348,561	348,561
Prepaid expenses	431,512	90,499	522,011
Current maturity of long-term notes receivable	1,796,209	-	1,796,209
Restricted cash and cash equivalents	2,477,935	-	2,477,935
Restricted deposit	150,000	-	150,000
Total current assets	35,242,677	6,101,123	41,343,800
Noncurrent assets			
Restricted cash	-	384,645	384,645
Notes receivable	43,935,000	-	43,935,000
Nondepreciable capital assets	22,736,160	13,290,585	36,026,745
Depreciable capital assets, net	29,817,540	48,895,331	78,712,871
Total noncurrent assets	96,488,700	62,570,561	159,059,261
Total assets	131,731,377	68,671,684	200,403,061
Deferred outflows of resources			
Deferred outflows related to pensions	5,967,929	1,427,476	7,395,405
Deferred charge on refunding	409,630	323,293	732,923
Total deferred outflows of resources	6,377,559	1,750,769	8,128,328
Total assets and deferred outflows of resources	\$ 138,108,936	\$ 70,422,453	\$ 208,531,389
Liabilities			
Current liabilities			
Accounts payable	\$ 1,538,343	\$ 676,240	\$ 2,214,583
Unearned revenue	-	8,426	8,426
Accrued liabilities	552,372	205,869	758,241
Accrued interest payable	371,268	74,025	445,293
Payable from restricted assets - customer deposits	176,256	384,645	560,901
Current maturities of long-term liabilities			
Warrants payable, net	2,271,509	4,434,522	6,706,031
Notes payable	84,092	-	84,092
Capital lease payable	27,397	2,795	30,192
Compensated absences	796,750	193,531	990,281
Total current liabilities	5,817,987	5,980,053	11,798,040

See notes to financial statements.

CITY OF PELHAM, ALABAMA
Statement of Net Position
September 30, 2017
(Continued)

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Noncurrent liabilities			
Warrants payable, net	\$ 52,610,437	\$ 13,834,719	\$ 66,445,156
Capital lease payable	57,743	6,781	64,524
Compensated absences	796,750	193,528	990,278
Other post-employment benefits	2,066,472	-	2,066,472
Net pension liability	21,377,642	5,192,386	26,570,028
Total noncurrent liabilities	76,909,044	19,227,414	96,136,458
Total liabilities	82,727,031	25,207,467	107,934,498
Deferred inflows of resources			
Property taxes levied for subsequent year	5,977,329	-	5,977,329
Total deferred inflows of resources	5,977,329	-	5,977,329
Net position			
Net investment in capital assets	42,766,214	44,239,968	87,006,182
Restricted for			
Street improvements	246,357	-	246,357
Court	816,067	-	816,067
Police/municipal corrections	503,422	-	503,422
Library	108,049	-	108,049
Capital projects	870,489	-	870,489
Unrestricted	4,093,978	975,018	5,068,996
Total net position	49,404,576	45,214,986	94,619,562
Total liabilities, deferred inflows of resources and net position	\$ 138,108,936	\$ 70,422,453	\$ 208,531,389

See notes to financial statements.

CITY OF PELHAM, ALABAMA
Statement of Activities
Year Ended September 30, 2017

Program Activities:	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Governmental activities							
General administration	\$ 10,773,721	\$ 6,876,147	\$ 223,883	\$ -	\$ (3,673,691)	\$ -	\$ (3,673,691)
Police	8,990,390	41,894	232,460	180,000	(8,536,036)	-	(8,536,036)
Fire	8,929,096	-	9,610	20,000	(8,899,486)	-	(8,899,486)
Public works	3,428,568	4,500	852,158	4,895,193	2,323,283	-	2,323,283
Parks and recreation	1,270,088	135,334	-	89,672	(1,045,082)	-	(1,045,082)
Library	1,259,856	22,465	19,010	20,000	(1,198,381)	-	(1,198,381)
Interest on long-term debt	1,759,454	-	-	-	(1,759,454)	-	(1,759,454)
Total governmental activities	36,411,173	7,080,340	1,337,121	5,204,865	(22,788,847)	-	(22,788,847)
Business-type activities							
Water and Sewer	9,170,244	10,509,785	-	1,256,908	-	2,596,449	2,596,449
Civic Complex and Ice Arena	3,378,901	2,671,165	-	-	-	(707,736)	(707,736)
Ballantrae Golf	2,501,909	2,073,897	14,000	-	-	(414,012)	(414,012)
Racquet Club	1,202,805	677,963	-	-	-	(524,842)	(524,842)
Garbage Fund	1,134,170	1,243,527	-	-	-	109,357	109,357
Total business-type activities	17,388,029	17,176,337	14,000	1,256,908	-	1,059,216	1,059,216
Total primary government	\$ 53,799,202	\$ 24,256,677	\$ 1,351,121	\$ 6,461,773	(22,788,847)	1,059,216	(21,729,631)
General revenues and other items:							
Taxes:							
Sales					26,187,468	-	26,187,468
Property					6,069,162	-	6,069,162
Other					235,681	-	235,681
Interest earnings					2,181,676	14,822	2,196,498
Gain on disposal of capital assets					348,593	3,306	351,899
Transfers (out) in					(3,566,811)	3,566,811	-
Total general revenues and other items					31,455,769	3,584,939	35,040,708
Change in net position					8,666,922	4,644,155	13,311,077
Net position - beginning of year					40,737,654	40,570,831	81,308,485
Net position - end of year					\$ 49,404,576	\$ 45,214,986	\$ 94,619,562

See notes to financial statements.

CITY OF PELHAM, ALABAMA

Balance Sheet
Governmental Funds
September 30, 2017

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Current assets			
Cash and cash equivalents	\$ 18,448,458	\$ -	\$ 18,448,458
Deposit and investments	3,720,078	-	3,720,078
Accounts receivable	8,218,485	-	8,218,485
Prepaid expenditures	431,512	-	431,512
Current maturity of long-term notes receivable	1,796,209	-	1,796,209
Restricted cash and cash equivalents	441,544	2,036,391	2,477,935
Restricted deposit	-	150,000	150,000
	<u>33,056,286</u>	<u>2,186,391</u>	<u>35,242,677</u>
Non-current assets			
Note receivable	43,935,000	-	43,935,000
	<u>43,935,000</u>	<u>-</u>	<u>43,935,000</u>
Total assets	<u>\$ 76,991,286</u>	<u>\$ 2,186,391</u>	<u>\$ 79,177,677</u>
Liabilities			
Current liabilities			
Accounts payable	\$ 1,538,343	\$ -	\$ 1,538,343
Accrued liabilities	552,372	-	552,372
Payable from restricted assets - due (from) to other funds	(18,774)	18,774	-
Payable from restricted assets - deposits	111,479	64,777	176,256
Total liabilities	<u>2,183,420</u>	<u>83,551</u>	<u>2,266,971</u>
Deferred inflow of resources			
Property taxes levied for subsequent year	5,977,329	-	5,977,329
Fund balance			
Nonspendable			
Notes receivable	45,731,209	-	45,731,209
Prepaid expenditures	431,512	-	431,512
Restricted for			
Street improvements	-	246,357	246,357
Court	441,544	374,523	816,067
Police/municipal corrections	-	503,422	503,422
Library	-	108,049	108,049
Capital projects	-	870,489	870,489
Unassigned	22,226,272	-	22,226,272
Total fund balances	<u>68,830,537</u>	<u>2,102,840</u>	<u>70,933,377</u>
Total liabilities, deferred inflows, and fund balance	<u>\$ 76,991,286</u>	<u>\$ 2,186,391</u>	<u>\$ 79,177,677</u>

See notes to financial statements.

CITY OF PELHAM, ALABAMA
 Reconciliation of the Governmental Funds
 Balance Sheet to the Statement of Net Position
 September 30, 2017

Total fund balances - governmental funds		\$ 70,933,377
<p>Amounts reported for governmental activities in the Statement of Net Position are different due to the following:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		
Governmental capital assets	78,573,586	
Less accumulated depreciation	<u>(26,019,886)</u>	52,553,700
<p>Interest payable is not recognized as an expenditure in governmental funds, but rather is recognized when an expenditure is paid.</p>		
		(371,268)
<p>Long-term liabilities, including warrants payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p>		
Warrants payable	(52,043,254)	
Warrant discounts and premiums	(2,838,692)	
Deferred outflow of resources for deferred charges	409,630	
Deferred outflows of resources for pension	5,967,929	
Notes payable	(84,092)	
Capital lease payable	(85,140)	
Other post-employment benefits payable	(2,066,472)	
Net pension liability	(21,377,642)	
Compensated absences	<u>(1,593,500)</u>	<u>(73,711,233)</u>
Total net position- governmental activities		<u>\$ 49,404,576</u>

See notes to financial statements.

CITY OF PELHAM, ALABAMA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2017

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Operating revenues			
Taxes			
Sales	\$ 26,187,468	\$ -	\$ 26,187,468
Property	6,069,162	-	6,069,162
Motor vehicle/gas	642,645	209,513	852,158
Other	235,681	-	235,681
Licenses and permits	4,491,230	-	4,491,230
Fines and forfeitures	1,643,334	520,035	2,163,369
Charges for services	212,380	-	212,380
Interest	2,179,953	1,723	2,181,676
Other	2,673,038	490,677	3,163,715
Total revenues	44,334,891	1,221,948	45,556,839
Expenditures, current			
General administration	10,037,221	418,876	10,456,097
Police	7,998,346	196,282	8,194,628
Fire	8,334,061	-	8,334,061
Public works	2,537,466	140,923	2,678,389
Parks and recreation	1,095,357	-	1,095,357
Library	1,084,749	30,990	1,115,739
	31,087,200	787,071	31,874,271
Capital outlay	14,060,153	97,471	14,157,624
Debt service			
Principal retirement	2,173,307	-	2,173,307
Interest	1,960,142	-	1,960,142
	4,133,449	-	4,133,449
Other financing sources (uses)			
Proceeds from sale of capital assets	600,430	-	600,430
Issuance of capital leases	115,556	-	115,556
Interfund transfers out	(3,853,092)	286,281	(3,566,811)
	(3,137,106)	286,281	(2,850,825)
Net changes in fund balance	(8,083,017)	623,687	(7,459,330)
Fund balance - beginning of year	76,913,554	1,479,153	78,392,707
Fund balance - end of year	<u>\$ 68,830,537</u>	<u>\$ 2,102,840</u>	<u>\$ 70,933,377</u>

See notes to financial statements.

CITY OF PELHAM, ALABAMA
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures and Changes in Fund Balances to the Statement of Activities
 Year Ended September 30, 2017

Net changes in fund balances - governmental funds \$ (7,459,330)

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	14,157,624	
Less depreciation expense	<u>(1,756,335)</u>	12,401,289

The proceeds from the sale of capital assets (\$600,430) are reported as
 other financing sources in the governmental funds. However, the
 the net book value of the capital assets (\$251,837) is removed from
 the capital assets account in the Statement of Net Position and offset
 against the sales proceeds resulting in a loss in the Statement of
 Activities of \$(348,593). (251,837)

Donations of capital assets do not provide current financial
 resources and are not recorded in governmental funds. However,
 donations of capital assets increase net position. 2,739,475

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	2,173,307	
Issuance of capital leases	(115,556)	
Bond discounts, premiums, and deferred amounts on refunding amortization expense	<u>185,254</u>	2,243,005

See notes to financial statements.

CITY OF PELHAM, ALABAMA
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures and Changes in Fund Balances to the Statement of Activities
 Year Ended September 30, 2017
 (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 increase in accrued compensated absences	(46,472)	
Net increase in pension expense	(823,469)	
Net increase in post-employment benefit payable	(151,173)	
Net decrease in accrued interest	15,434	(1,005,680)
Change in net position - governmental activities		\$ 8,666,922

See notes to financial statements.

CITY OF PELHAM, ALABAMA
Statement of Proprietary Fund Net Position
September 30, 2017

	Water and Sewer	Civic Complex and Ice Arena	Ballantrae Golf	Other Proprietary Funds	Total Proprietary Funds
Assets					
Current assets					
Cash and cash equivalents	\$ 3,782,865	\$ 81,095	\$ 34,804	\$ 433,718	\$ 4,332,482
Accounts receivable	1,188,645	19,767	54,162	67,007	1,329,581
Inventory	163,326	103,575	67,473	14,187	348,561
Prepaid expenses	46,835	22,174	13,456	8,034	90,499
Total current assets	5,181,671	226,611	169,895	522,946	6,101,123
Non-current assets					
Restricted cash	384,645	-	-	-	384,645
Non-depreciable assets	2,848,091	2,593,791	7,463,703	385,000	13,290,585
Depreciable capital assets, net	36,699,838	6,261,794	3,147,291	2,786,408	48,895,331
Total noncurrent assets	39,932,574	8,855,585	10,610,994	3,171,408	62,570,561
Total assets	45,114,245	9,082,196	10,780,889	3,694,354	68,671,684
Deferred outflows of resources					
Contributions to pension plans	671,692	258,570	310,235	186,979	1,427,476
Deferred charge on refunding	223,729	51,807	29,785	17,972	323,293
Total deferred outflows of resources	895,421	310,377	340,020	204,951	1,750,769
Total assets and deferred outflows of resources	\$ 46,009,666	\$ 9,392,573	\$ 11,120,909	\$ 3,899,305	\$ 70,422,453
Liabilities					
Current liabilities					
Accounts payable	\$ 135,298	\$ 409,846	\$ 14,508	\$ 116,588	\$ 676,240
Unearned revenue	-	8,426	-	-	8,426
Accrued liabilities	112,333	24,515	54,047	14,974	205,869
Accrued interest payable	61,685	1,875	4,329	6,136	74,025
Payable from restricted assets - customer deposits	384,645	-	-	-	384,645
Current maturities of long-term liabilities					
Warrants payable, net	3,091,781	584,546	594,576	163,619	4,434,522
Capital lease payable	-	-	2,795	-	2,795
Compensated absences	85,653	36,193	41,892	29,793	193,531
Total current liabilities	3,871,395	1,065,401	712,147	331,110	5,980,053
Noncurrent liabilities					
Warrants payable, net	8,737,787	1,199,669	3,095,144	802,119	13,834,719
Capital lease payable	-	-	6,781	-	6,781
Compensated absences	85,652	36,193	41,891	29,792	193,528
Net pension liability	2,476,992	922,381	1,144,980	648,033	5,192,386
Total noncurrent liabilities	11,300,431	2,158,243	4,288,796	1,479,944	19,227,414
Total liabilities	15,171,826	3,223,644	5,000,943	1,811,054	25,207,467
Net position					
Net investment in capital assets	27,942,090	7,123,177	6,951,059	2,223,642	44,239,968
Unrestricted	2,895,750	(954,248)	(831,093)	(135,391)	975,018
Total net position	30,837,840	6,168,929	6,119,966	2,088,251	45,214,986
Total liabilities and net position	\$ 46,009,666	\$ 9,392,573	\$ 11,120,909	\$ 3,899,305	\$ 70,422,453

See notes to financial statements.

CITY OF PELHAM, ALABAMA
Statement of Revenues, Expenses, and Changes in
Proprietary Fund Net Position
Year Ended September 30, 2017

	Water and Sewer	Civic Complex and Ice Arena	Ballantrae Golf	Other Proprietary Funds	Total Proprietary Funds
Operating Revenues	\$ 10,509,785	\$ 2,671,165	\$ 2,087,897	\$ 1,921,490	\$ 17,190,337
Operating Expenses					
Salaries	1,635,021	1,168,288	1,070,938	609,880	4,484,127
Employee benefits	505,975	207,951	218,295	135,795	1,068,016
Payroll taxes	124,560	64,516	80,993	43,528	313,597
Depreciation	2,792,110	341,405	147,316	121,513	3,402,344
Water purchases	1,656,119	-	-	-	1,656,119
Contract services - garbage pickup	-	-	-	1,134,170	1,134,170
Programs and events	-	682,554	-	62,046	744,600
Utilities and telephone	615,953	284,803	74,093	37,326	1,012,175
Supplies	477,060	197,971	546,967	37,862	1,259,860
Maintenance and repairs	321,888	187,030	114,394	76,944	700,256
Insurance	73,254	50,241	53,890	19,333	196,718
Other	621,400	119,567	108,644	36,512	886,123
Total operating expenses	8,823,340	3,304,326	2,415,530	2,314,909	16,858,105
Operating income (loss)	1,686,445	(633,161)	(327,633)	(393,419)	332,232
Non-Operating Expenses					
Gain (loss) on disposal of capital assets	3,026	360	(80)	-	3,306
Interest income	14,322	105	130	265	14,822
Interest expense	(346,904)	(74,575)	(86,379)	(22,066)	(529,924)
Total non-operating expenses	(329,556)	(74,110)	(86,329)	(21,801)	(511,796)
Income (loss) before capital contributions and interfund transfers (out) in	1,356,889	(707,271)	(413,962)	(415,220)	(179,564)
Capital contributions	1,256,908	-	-	-	1,256,908
Interfund transfers (out) in	(1,153,625)	3,600,038	801,452	318,946	3,566,811
Change in net position	1,460,172	2,892,767	387,490	(96,274)	4,644,155
Net position, beginning of year	29,377,668	3,276,162	5,732,476	2,184,525	40,570,831
Net position, end of year	<u>\$ 30,837,840</u>	<u>\$ 6,168,929</u>	<u>\$ 6,119,966</u>	<u>\$ 2,088,251</u>	<u>\$ 45,214,986</u>

See notes to financial statements.

CITY OF PELHAM, ALABAMA
Statement of Proprietary Fund Cash Flows
Year Ended September 30, 2017

	Water and Sewer	Civic Complex and Ice Arena	Ballantrae Golf	Other Proprietary Funds	Total Proprietary Funds
Cash Flows from Operating Activities					
Cash received from customers	\$10,627,397	\$ 2,655,842	\$ 2,084,276	\$ 1,888,411	\$17,255,926
Cash paid to employees	(2,132,651)	(1,404,002)	(1,332,262)	(761,523)	(5,630,438)
Cash paid to suppliers for goods and services	(3,973,621)	(1,584,731)	(890,519)	(1,288,885)	(7,737,756)
Net cash provided (used) by operating activities	<u>4,521,125</u>	<u>(332,891)</u>	<u>(138,505)</u>	<u>(161,997)</u>	<u>3,887,732</u>
Cash Flows from Noncapital Financing Activities					
Transfers (to) from other funds	(1,153,625)	3,600,038	801,452	318,946	3,566,811
Net cash (used) provided by noncapital financing activities	<u>(1,153,625)</u>	<u>3,600,038</u>	<u>801,452</u>	<u>318,946</u>	<u>3,566,811</u>
Cash Flows from Capital and Related Financing Activities					
Purchase of property, plant, and equipment	(2,181,582)	(2,616,453)	(39,725)	(23,539)	(4,861,299)
Proceeds from sale of capital assets	10,845	360	-	-	11,205
Principal payments on debt	(2,863,505)	(574,585)	(585,947)	(145,097)	(4,169,134)
Interest payments on debt	(416,259)	(36,023)	(77,368)	(34,431)	(564,081)
Net cash used by capital and related financing activities	<u>(5,450,501)</u>	<u>(3,226,701)</u>	<u>(703,040)</u>	<u>(203,067)</u>	<u>(9,583,309)</u>
Cash Flows from Investing Activities					
Proceeds from maturity of certificate of deposit	-	-	14,000	-	14,000
Interest on cash and investments	14,322	105	130	265	14,822
Net cash provided by investing activities	<u>14,322</u>	<u>105</u>	<u>14,130</u>	<u>265</u>	<u>28,822</u>
Net (decrease) increase in cash and cash equivalents	(2,068,679)	40,551	(25,963)	(45,853)	(2,099,944)
Cash and cash equivalents at beginning of year	6,236,189	40,544	60,767	479,571	6,817,071
Cash and cash equivalents at end of year	<u>\$ 4,167,510</u>	<u>\$ 81,095</u>	<u>\$ 34,804</u>	<u>\$ 433,718</u>	<u>\$ 4,717,127</u>

See notes to financial statements.

CITY OF PELHAM, ALABAMA
Statement of Proprietary Fund Cash Flows
Year Ended September 30, 2017
(Continued)

	<u>Water and Sewer</u>	<u>Civic Complex and Ice Arena</u>	<u>Ballantrae Golf</u>	<u>Other Proprietary Funds</u>	<u>Total Proprietary Funds</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating income (loss)	\$ 1,686,445	\$ (633,161)	\$ (327,633)	\$ (393,419)	\$ 332,232
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	2,792,110	341,405	147,316	121,513	3,402,344
Bad debt expense	(18,130)	-	-	-	(18,130)
(Increase) decrease in:					
Accounts receivable	185,597	363	9,692	(33,079)	162,573
Deferred outflows of resources for pensions	(216,250)	(79,821)	(101,868)	(62,199)	(460,138)
Prepaid expenses	(18,733)	(1,449)	208	900	(19,074)
Inventory	(34,846)	(17,418)	3,287	6,337	(42,640)
Increase (decrease) in:					
Accounts payable	(174,458)	(45,872)	4,098	108,212	(108,020)
Accrued expenses	36,297	192	(10)	1,250	37,729
Customer deposits	17,583	-	-	-	17,583
Unearned revenue	(85,568)	(15,686)	(14,000)	-	(115,254)
Net pension liability	323,294	120,388	149,441	84,581	677,704
Compensated absences	27,784	(1,832)	(9,036)	3,907	20,823
Net Cash Provided (Used) by Operating Activities	<u>\$ 4,521,125</u>	<u>\$ (332,891)</u>	<u>\$ (138,505)</u>	<u>\$ (161,997)</u>	<u>\$ 3,887,732</u>
Reconciliation of Cash and Cash Equivalents to Statement of Net Position:					Water and Sewer
Cash and cash equivalents in current assets					\$ 3,782,865
Restricted cash					384,645
Total cash and cash equivalents					<u>\$ 4,167,510</u>

Noncash Investing, Capital, and Financing Activities

Pelham Water and Sewer had amortization of warrant discounts of \$1,283, amortization of warrant premiums of \$4,105, and amortization of deferred amounts on refunding of \$104,289 during the year ended September 30, 2017.

Construction in progress and system lines contributed by developers to Pelham Water and Sewer totaled \$1,256,908 during the year ended September 30, 2017.

See notes to financial statements.

CITY OF PELHAM, ALABAMA
Statement of Proprietary Fund Cash Flows
Year Ended September 30, 2017
(Continued)

Noncash Investing, Capital, and Financing Activities - Continued

Pelham Civic Complex and Ice Arena had amortization of deferred amounts on refunding of \$39,156 during the year ended September 30, 2017.

Ballantrae Golf Club had amortization of deferred amounts on refunding of \$9,696 during the year ended September 30, 2017.

Pelham Racquet Club had amortization of warrant discounts of \$155, amortization of warrant premiums of \$497, and amortization of deferred amounts on refunding of \$7,886 during the year ended September 30, 2017.

See notes to financial statements.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Pelham, Alabama (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 26, 2018, 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.

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.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2017
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government-Wide and Fund Financial Statements - Continued

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

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

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded. The government-wide financial statements are presented on a full accrual basis of accounting with an economic resource measurement focus. An economic resource focus concentrates on an entity or fund's net position.

All transactions and events that affect the total economic resources (net position) during the period are reported. Economic resources measurement focus is connected with the full accrual basis of accounting. 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.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2017
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus and Basis of Accounting - Continued

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.

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.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2017
(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 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.

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.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2017
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2017
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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:

CITY OF PELHAM, ALABAMA

Notes to Financial Statements

September 30, 2017

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value - Continued

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

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.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2017
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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).

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2017
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Pensions

The Employees' Retirement Systems of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the Plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the GASB. Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report. The last year for which actuarial information is available is for the fiscal year ending September 30, 2016 and, therefore, this actuarial information is reported in the 2017 financial statements.

Deferred Inflows of Resources

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

Net Position

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

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

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

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

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2017
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Property Taxes

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Equity

The deficit fund equity of \$3,957 in the state forfeiture fund, a non-major governmental fund, is the result of revenues being inadequate to cover expenditures. This deficit is offset through interfund borrowings from the general fund.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2017
(Continued)

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, 2017, the City had non-negotiable certificates of deposit in the amount of \$150,000 in the governmental activities.

As of September 30, 2017, 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	\$ 3,720,078	\$ -	\$ -	\$ 3,720,078

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, 2017 were insured.

CITY OF PELHAM, ALABAMA

Notes to Financial Statements

September 30, 2017

(Continued)

NOTE 4 - RECEIVABLES AND PAYABLES

Receivables consisted of the following at September 30, 2017:

	Governmental Activities	Business-type Activities	Total
Taxes			
Sales	\$ 2,329,486	\$ -	\$ 2,329,486
Property	5,767,120	-	5,767,120
Customers	-	1,464,386	1,464,386
Intergovernmental	121,879	-	121,879
Gross receivables	8,218,485	1,464,386	9,682,871
Less: Allowance for uncollectible accounts	-	(134,805)	(134,805)
Net receivables	<u>\$ 8,218,485</u>	<u>\$ 1,329,581</u>	<u>\$ 9,548,066</u>

Payables consisted of the following at September 30, 2017:

	Governmental Activities	Business-type Activities	Total
Trade	\$ 178,490	\$ 278,290	\$ 456,780
Capital Assets	1,359,853	397,950	1,757,803
Net Payables	<u>\$ 1,538,343</u>	<u>\$ 676,240</u>	<u>\$ 2,214,583</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. As of September 30, 2017, the balance on the note receivable totaled \$3,275,000. Principal is due at maturity (August 2021), and interest is due monthly on the unpaid balance as follows: a) for the period commencing July 2013 through, and including, July 2017, at a rate of three percent (3.00%) per year; and (b) for the period commencing August 2017, through and including, August 2021, at a rate of four percent (4.00%) per year. The note is secured by the property.

CITY OF PELHAM, ALABAMA

Notes to Financial Statements

September 30, 2017

(Continued)

NOTE 5 - NOTE RECEIVABLE - Continued

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. As of September 30, 2017, the balance on the note receivable totaled \$621,209. Principal is due at maturity (July 2018), and interest is 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. As of September 30, 2017, the balance on the note receivable totaled \$41,835,000. Principal and interest are 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.

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

2018	\$ 1,796,209
2019	1,180,000
2020	1,212,500
2021	4,707,500
2022	1,660,000
2023-2040	<u>35,175,000</u>
	<u>\$ 45,731,209</u>

NOTE 6 - LEASING ACTIVITIES

During fiscal year 2016, 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 \$200,423 and a carrying amount of \$133,389. 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, 2017, the Board of Education still occupied the space. Future minimum rent amounts are \$48,000 in 2018 and \$40,000 in 2019. Rent income associated with the lease agreement was \$48,000 for the year ended September 30, 2017.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2017
(Continued)

NOTE 7 - CAPITAL ASSETS

Capital assets activity for governmental activities consisted of the following for the year ended September 30, 2017:

	Governmental Activities			
	October 1, 2016	Additions	Disposals	September 30, 2017
Depreciable assets				
Infrastructure	\$ 22,981,338	\$ 2,444,475	\$ -	\$ 25,425,813
Buildings and improvements	16,596,803	405,418	7,300	16,994,921
Equipment	11,649,193	2,210,835	443,336	13,416,692
	<u>51,227,334</u>	<u>5,060,728</u>	<u>450,636</u>	<u>55,837,426</u>
Less accumulated depreciation				
Infrastructure	9,981,983	574,748	-	10,556,731
Buildings and improvements	7,463,501	448,190	-	7,911,691
Equipment	7,221,163	733,397	403,096	7,551,464
	<u>24,666,647</u>	<u>1,756,335</u>	<u>403,096</u>	<u>26,019,886</u>
	26,560,687	3,304,393	47,540	29,817,540
Non-depreciable assets				
Land	8,977,864	287,157	204,299	9,060,722
Construction in progress	2,126,223	11,844,492	295,277	13,675,438
	<u>11,104,087</u>	<u>12,131,649</u>	<u>499,576</u>	<u>22,736,160</u>
	<u>\$ 37,664,774</u>	<u>\$ 15,436,042</u>	<u>\$ 547,116</u>	<u>\$ 52,553,700</u>

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2017
(Continued)

NOTE 7 - CAPITAL ASSETS - Continued

Capital assets activity for business-type activities consisted of the following for the year ended September 30, 2017:

	Business-type Activities			September 30, 2017
	October 1, 2016	Additions	Disposals	
Depreciable assets				
System and facilities	\$ 103,531,066	\$ 3,262,551	\$ -	\$ 106,793,617
Water & Sewer and Rental Fund				
Buildings and improvements	1,047,539	53,462	-	1,101,001
Equipment	2,668,483	278,699	250,605	2,696,577
	<u>107,247,088</u>	<u>3,594,712</u>	<u>250,605</u>	<u>110,591,195</u>
Less accumulated depreciation				
System and facilities	55,868,283	3,265,423	-	59,133,706
Water & Sewer and Rental Fund				
Buildings and improvements	452,547	38,948	-	491,495
Equipment	2,223,215	97,972	250,524	2,070,663
	<u>58,544,045</u>	<u>3,402,343</u>	<u>250,524</u>	<u>61,695,864</u>
	48,703,043	192,369	81	48,895,331
Non-depreciable assets				
Land	8,801,321	-	-	8,801,321
Construction in progress	1,770,524	4,631,554	1,912,814	4,489,264
	<u>10,571,845</u>	<u>4,631,554</u>	<u>1,912,814</u>	<u>13,290,585</u>
	<u>\$ 59,274,888</u>	<u>\$ 4,823,923</u>	<u>\$ 1,912,895</u>	<u>\$ 62,185,916</u>

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2017
(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	\$ 96,009
Police	461,697
Fire	306,960
Public works	683,252
Parks and recreation	113,113
Library	95,304
	<u>\$ 1,756,335</u>

Business-type activities

Water and Sewer	\$ 2,792,110
Civic Complex	341,405
Ballantrae Golf Club	147,316
Racquet Club	121,512
	<u>\$ 3,402,343</u>

CITY OF PELHAM, ALABAMA

Notes to Financial Statements

September 30, 2017

(Continued)

NOTE 8 - LONG-TERM DEBT

The general obligation warrants payable consisted of the following at September 30, 2017:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
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%	\$ -	\$ 1,240,000
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%	-	1,760,000
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%	925,006	3,689,720
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%	6,702,663	-
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%	141,798	2,548,097
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%	822,919	-
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%	82,292	-
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%	31,250,000	-

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2017
(Continued)

NOTE 8 - LONG-TERM DEBT - Continued

The general obligation warrants payable consisted of the following at September 30, 2017 (continued):

	Governmental Activities	Business-type Activities
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%	\$ 11,175,000	\$ -
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	52,043,254	18,269,241
Less deferred amounts for:		
Unamortized discounts (2014)	(90,337)	-
Unamortized discounts (2015)	(49,616)	-
Unamortized premiums (2014)	2,291,078	-
Unamortized premiums (2015)	687,567	-
Total warrants payable, net	\$ 54,881,946	\$ 18,269,241

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

	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 2,025,212	\$ 1,906,371	\$ 4,434,522	\$ 306,043
2019	2,033,033	1,854,070	4,528,619	218,675
2020	2,071,232	1,801,234	3,048,190	129,272
2021	2,991,583	1,738,941	2,218,789	85,179
2022	2,499,025	1,636,373	2,244,568	48,646
2023-2027	13,682,832	6,873,649	1,794,553	14,882
2028-2032	12,310,337	4,527,450	-	-
2033-2037	10,385,000	1,828,235	-	-
2038-2040	4,045,000	225,750	-	-
	\$ 52,043,254	\$ 22,392,073	\$ 18,269,241	\$ 802,697

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2017
(Continued)

NOTE 8 - LONG-TERM DEBT - Continued

Notes payable consisted of the following at September 30, 2017:

	Governmental Activities
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	\$ 33,294
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	50,798
Total notes payable	\$ 84,092

Future principal and interest requirements of notes payable for governmental activities consist of \$84,092 and \$3,178, respectively, for the year ending September 30, 2018.

Changes in long-term liabilities for governmental activities consisted of the following at September 30, 2017:

Governmental Activities	October 1, 2016	Additions	Retirements	September 30, 2017	Due within one year
Warrants and notes payable:					
Notes payable	\$ 165,135	\$ -	\$ 81,043	\$ 84,092	\$ 84,092
Capital lease payable	4,878	115,556	35,294	85,140	27,397
General Obligation Warrants	54,100,224	-	2,056,970	52,043,254	2,025,212
	54,270,237	115,556	2,173,307	52,212,486	2,136,701
Plus: bond discounts and premiums	3,092,363	-	253,671	2,838,692	246,297
Total warrants and notes payable	57,362,600	115,556	2,426,978	55,051,178	2,382,998
Other liabilities:					
Other post-employment benefit payable	1,915,299	151,173	-	2,066,472	-
Compensated absences	1,547,028	1,155,328	1,108,856	1,593,500	796,750
	\$ 60,824,927	\$ 1,422,057	\$ 3,535,834	\$ 58,711,150	\$ 3,179,748

CITY OF PELHAM, ALABAMA

Notes to Financial Statements

September 30, 2017

(Continued)

NOTE 8 - LONG-TERM DEBT - Continued

Changes in long-term liabilities for business-type activities consisted of the following at September 30, 2017:

Business-type Activities	October 1, 2016	Additions	Retirements	September 30, 2017	Due within one year
Warrants payable:					
General Obligation Warrants	\$ 22,435,708	\$ -	\$ 4,166,467	\$ 18,269,241	\$ 4,434,522
Capital lease payable	12,245	-	2,669	9,576	2,795
	<u>22,447,953</u>	<u>-</u>	<u>4,169,136</u>	<u>18,278,817</u>	<u>4,437,317</u>
Plus: bond discounts and premiums	3,164	-	3,164	-	-
Total warrants payable	<u>22,451,117</u>	<u>-</u>	<u>4,172,300</u>	<u>18,278,817</u>	<u>4,437,317</u>
Other liabilities:					
Compensated absences	366,236	229,809	208,986	387,059	193,531
	<u>\$ 22,817,353</u>	<u>\$ 229,809</u>	<u>\$ 4,381,286</u>	<u>\$ 18,665,876</u>	<u>\$ 4,630,848</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, 2017, the future minimum lease payments under the capital lease agreements are as follows:

	Governmental Activities	Business-type Activities	Total
2018	\$ 30,416	\$ 3,179	\$ 33,595
2019	30,416	3,179	33,595
2020	30,416	3,179	33,595
2021	-	796	796
Future minimum lease payments	<u>91,248</u>	<u>10,333</u>	<u>101,581</u>
Less: amount representing interest	<u>(6,108)</u>	<u>(757)</u>	<u>(6,865)</u>
Present value of minimum lease payments	85,140	9,576	94,716
Less: current portion	<u>(27,397)</u>	<u>(2,795)</u>	<u>(30,192)</u>
Long-term capital lease obligation	<u>\$ 57,743</u>	<u>\$ 6,781</u>	<u>\$ 64,524</u>

CITY OF PELHAM, ALABAMA

Notes to Financial Statements

September 30, 2017

(Continued)

NOTE 9 - CAPITAL LEASE OBLIGATIONS - Continued

As of September 30, 2017, the governmental activities lease had capitalized costs totaling \$136,516 and accumulated depreciation of \$31,640, and a net book value of \$104,876. Interest expense paid under the capital lease agreement totaled \$73 during the year ended September 30, 2017.

As of September 30, 2017, the business-type activities lease had capitalized costs totaling \$14,167 and accumulated depreciation of \$4,722, and a net book value of \$9,445. Interest expense paid under the capital lease agreement totaled \$510 during the year ended September 30, 2017.

NOTE 10 - COMMITMENTS

The City leases certain office and park equipment, 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, 2017 totaled \$23,960 for governmental activities and \$142,882 for business-type activities, respectively. Future minimum lease payments due under operating lease agreements consist of the following for the years ending September 30:

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
2018	\$ 20,132	\$ 150,078	\$ 170,210
2019	12,148	136,210	148,358
2020	5,787	57,764	63,551
2021	-	26,700	26,700
2022	-	14,136	14,136
	<u>\$ 38,067</u>	<u>\$ 384,888</u>	<u>\$ 422,955</u>

The General Fund had contractual commitments as of September 30, 2017 of \$3,778,735 for various capital improvements within the City.

The Pelham Civic Complex had contractual commitments as of September 30, 2017 of \$2,703,336 for renovations to the civic complex.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2017
(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, ALABAMA
Notes to Financial Statements
September 30, 2017
(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 creditable service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary on the member's age, service credit, employment status and eligibility for retirement.

The ERS serves approximately 875 local participating employers. These participating employers include 294 cities, 65 counties, and 516 other public entities. The ERS membership includes approximately 85,874 participants. As of September 30, 2016, membership consisted of:

Retirees and beneficiaries currently receiving benefits	23,007
Terminated employees entitled to but not yet receiving benefits	1,155
Terminated employees not entitled to a benefit	6,654
Active members	54,823
Post-DROP retired members still in active service	235
	85,874

The City's membership as of the measurement date of September 30, 2016 consisted of:

Retired members or their beneficiaries currently receiving benefits	101
Vested inactive members	8
Non-vested inactive members	19
Active members	294
Post-DROP retired members still in active service	1
	423

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2017
(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, 2017, the City's active employee contribution rate was 5.69% of covered employee payroll, and the City's average contribution rate to fund the normal and accrued liability costs was 11.29% of covered employee payroll.

The City's contractually required contribution rate for the year ended September 30, 2017 was 13.52% of pensionable pay for Tier 1 employees, and 10.35% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2014, 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 \$2,145,957 for the year ended September 30, 2017.

Net Pension Liability

The City's net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015 rolled forward to September 30, 2016 using standard roll-forward techniques as shown in the following table:

CITY OF PELHAM, ALABAMA

Notes to Financial Statements

September 30, 2017

(Continued)

NOTE 11 - PENSION PLAN - Continued

Net Pension Liability - Continued

	Expected	Actual - 2015 Valuation Assumptions	Actual - 2016 Valuation Assumptions
(a) Total Pension Liability as of September 30, 2015	\$ 72,760,368	\$ 73,446,593	\$ 76,853,332
(b) Discount Rate	8.00%	8.00%	7.75%
(c) Entry Age Normal Cost for the period October 1, 2015 - September 30, 2016	1,544,506	1,544,506	1,567,625
(d) Transfers Among Employers:	-	(95,878)	(95,878)
(e) Actual Benefit Payments and Refunds for the period October 1, 2015 - September 30, 2016	<u>(4,247,332)</u>	<u>(4,247,332)</u>	<u>(4,247,332)</u>
(f) Total Pension Liability as of September 30, 2016 [(a) x (1+(b))] + (c) + (d) + [(e) x (1+0.5*(b))]	<u>\$ 75,708,478</u>	<u>\$ 76,353,723</u>	<u>\$ 79,869,296</u>
 (g) Difference between Expected and Actual:		\$ 645,245	
(h) Less Liability Transferred for Immediate Recognition:		<u>(95,878)</u>	
(i) Experience (Gain)/Loss = (g) - (h)		<u>\$ 741,123</u>	
(j) Difference Between Actual (2015 Assumptions) and Actual (2016 Assumptions): Assumption Change (Gain)/Loss			<u>\$ 3,515,573</u>

Actuarial assumptions. The total pension liability as of September 30, 2016 was determined based on the annual actuarial funding valuation report prepared as of September 30, 2015. The key actuarial assumptions are summarized below:

Inflation	2.75%
Salary increases	3.25% - 5.00%
Investment rate of return*	7.75%

Mortality rates were based on the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females at ages on and after age 78. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

CITY OF PELHAM, ALABAMA

Notes to Financial Statements

September 30, 2017

(Continued)

NOTE 11 - PENSION PLAN - Continued

Net Pension Liability - Continued

The actuarial assumptions used in the September 30, 2015 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:

	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	17.00%	4.40%
U.S. Large Stocks	32.00%	8.00%
U.S. Mid Stocks	9.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash	3.00%	1.50%
	<u>100.00%</u>	

*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, 7.75%. 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, ALABAMA
Notes to Financial Statements
September 30, 2017
(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, 2016:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at September 30, 2015	\$ 72,760,368	\$ 49,658,229	\$ 23,102,139
Changes for the year:			
Service cost	1,544,506	-	1,544,506
Interest	5,650,936	-	5,650,936
Changes of assumptions	3,515,573	-	3,515,573
Difference between expected and actual experience	741,123	-	741,123
Contributions - employer	-	1,985,261	(1,985,261)
Contributions - employee	-	1,053,668	(1,053,668)
Net investment income	-	4,945,320	(4,945,320)
Benefits of payments, including refunds of employee contributions	(4,247,332)	(4,247,332)	-
Transfers among employers	(95,878)	(95,878)	-
Net changes:	<u>7,108,928</u>	<u>3,641,039</u>	<u>3,467,889</u>
Balances at September 30, 2016	<u>\$ 79,869,296</u>	<u>\$ 53,299,268</u>	<u>\$ 26,570,028</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 7.75%, 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 (6.75%) or one-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Plan's Net Pension Liability	<u>\$ 36,447,605</u>	<u>\$ 26,570,028</u>	<u>\$ 18,268,359</u>

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2017
(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, 2016. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2016. 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, 2017, the City recognized pension expense of \$3,186,993. At September 30, 2017, 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	\$ 1,692,400	\$ -
Changes of assumptions	3,040,496	-
Net difference between projected and actual earnings on pension plan investments	516,551	-
Employer contributions subsequent to the measurement date	2,145,958	-
	\$ 7,395,405	\$ -

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
2018	\$ 900,603
2019	900,602
2020	1,252,592
2021	572,462
2022	777,427
Thereafter	845,761
	\$ 5,249,447

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2017
(Continued)

NOTE 12 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund payables and receivables consisted of the following at September 30, 2017:

	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.

Interfund transfers consisted of the following during the year ended September 30, 2017:

	Transfers In (Out)		
	General Fund	Special Revenue	Net Transfers Out (In)
Transfers Out (In)			
General Fund	\$ -	\$ 286,281	\$ 286,281
Special Revenue	(286,281)	-	(286,281)
Water & Sewer	1,153,625	-	1,153,625
Civic Complex and Ice Arena	(3,600,038)	-	(3,600,038)
Ballantrae Golf	(801,452)	-	(801,452)
Racquet Club	(533,758)	-	(533,758)
Garbage Fund	214,812	-	214,812
Net Transfers In (Out)	\$ (3,853,092)	\$ 286,281	\$ (3,566,811)

- 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, ALABAMA

Notes to Financial Statements

September 30, 2017

(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 of the City 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, ALABAMA

Notes to Financial Statements

September 30, 2017

(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, 2017, the City's portion of health care and dental funding costs for retired employees totaled \$555,767. 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	\$	221,369
30-year UAAL amortization amount		519,720
Annual required contribution (ARC)	\$	<u>741,089</u>

CITY OF PELHAM, ALABAMA

Notes to Financial Statements

September 30, 2017

(Continued)

NOTE 14 - OTHER POST-EMPLOYMENT BENEFITS - Continued

Net Post-Employment Benefit Obligation

The table below shows the City's Net Other Post-employment Benefit Obligation (OPEB) for the fiscal year ending September 30, 2017:

Beginning Net OPEB Obligation - September 30, 2016	\$ 1,915,299
Annual required contribution	741,089
Interest on Net OPEB Obligation	76,612
ARC Adjustment	<u>(110,762)</u>
OPEB Cost	706,939
Contribution to irrevocable trust	-
Current year retiree premium	<u>(555,766)</u>
Change in Net OPEB Obligation	<u>151,173</u>
Ending Net OPEB Obligation - September 30, 2017	<u><u>\$ 2,066,472</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	2017	\$ 706,939	78.62%	\$ 2,066,472
Medical/Dental	2016	\$ 681,410	75.52%	\$ 1,915,299
Medical/Dental	2015	\$ 647,140	69.31%	\$ 1,748,488

Funded Status and Funding Progress

For the year ended September 30, 2017, 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, 2017 was \$9,346,371 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 2017, the entire actuarial accrued liability of \$9,346,371 was unfunded. The covered payroll was \$20,005,880, and the ratio of the UAAL to the covered payroll was 46.72%.

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2017
(Continued)

NOTE 14 - OTHER POST-EMPLOYMENT BENEFITS - Continued

Funded Status and Funding Progress - 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, ALABAMA
Notes to Financial Statements
September 30, 2017
(Continued)

NOTE 14 - OTHER POST-EMPLOYMENT BENEFITS - Continued

Turnover Rate

An age-related turnover scale based on actual experience 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.

Age	Percent Turnover
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, ALABAMA
Notes to Financial Statements
September 30, 2017
(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.

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, 2017:

CITY OF PELHAM, ALABAMA
Notes to Financial Statements
September 30, 2017
(Continued)

NOTE 15 - FAIR VALUE - Continued

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
U.S. Government				
Sponsored Enterprise:				
Government National				
Mortgage Association	\$ 3,720,078	\$ -	\$ 3,720,078	\$ -

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, 2017.

- *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.

NOTE 16 - TAX ABATEMENTS

The City enters into sales tax abatement agreements with local businesses under the Tax Incentive Reform Act of 1992. Under the Act, cities, counties and public industrial authorities have the ability to abate sales and use taxes and property taxes for various time periods depending on the type of business, all for the purpose of attracting or retaining businesses within their jurisdictions. The abatements may be granted to any business located within or promising to relocate to the City. For the fiscal year ended September 30, 2017, the City abated taxes totaling \$438,882 under this Act, as summarized below.

<u>Purpose</u>	<u>Type of Taxes Abated</u>	<u>Percentage of Taxes Abated during the Fiscal Year</u>	<u>Amount of Taxes Abated during the Fiscal Year</u>
Commerical & Residential Improvement	Sales Taxes	100%	\$ 438,882

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PELHAM, ALABAMA
Schedule of Funding Progress
Post-Employment Benefit Plan
Year ended September 30, 2017

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))
10/1/2014	\$ -	\$ 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%
10/1/2016	\$ -	\$ 9,346,371	\$ 9,346,371	0%	\$20,005,880	47%

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

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability			
Service cost	\$ 1,544,506	\$ 1,527,047	\$ 1,470,956
Interest	5,650,936	5,297,430	5,015,542
Changes of assumptions	3,515,573	-	-
Differences between expected and actual experience	741,123	1,455,825	-
Benefit payments, including refunds of employee contributions	(4,247,332)	(3,475,609)	(2,450,190)
Transfers among employers	(95,878)	-	-
Net change in total pension liability	<u>7,108,928</u>	<u>4,804,693</u>	<u>4,036,308</u>
Total pension liability - beginning	<u>72,760,368</u>	<u>67,955,675</u>	<u>63,919,367</u>
Total pension liability - ending (a)	<u>\$ 79,869,296</u>	<u>\$ 72,760,368</u>	<u>\$ 67,955,675</u>
 Plan fiduciary net position			
Contributions - employer	\$ 1,985,261	\$ 1,885,223	\$ 1,875,205
Contributions - member	1,053,668	996,630	969,654
Net investment income	4,945,320	543,034	5,281,062
Benefit payments, including refunds of employee contributions	(4,247,332)	(3,475,609)	(2,450,190)
Transfers among employers	(95,878)	191,161	50,891
Net change in plan fiduciary net position	<u>3,641,039</u>	<u>140,439</u>	<u>5,726,622</u>
Plan net position - beginning	<u>49,658,229</u>	<u>49,517,790</u>	<u>43,791,168</u>
Plan net position - ending (b)	<u>\$ 53,299,268</u>	<u>\$ 49,658,229</u>	<u>\$ 49,517,790</u>
 Net pension liability (a) - (b)	<u>\$ 26,570,028</u>	<u>\$ 23,102,139</u>	<u>\$ 18,437,885</u>
 Plan fiduciary net position as a percentage of the total pension liability	<u>66.73%</u>	<u>68.25%</u>	<u>72.87%</u>
 Covered payroll	<u>\$ 17,595,089</u>	<u>\$ 17,534,690</u>	<u>\$ 17,329,276</u>
 Net pension liability as a percentage of covered payroll	<u>151.01%</u>	<u>131.75%</u>	<u>106.40%</u>

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 2,077,833	\$ 1,985,261	\$ 1,885,223
Contributions in relation to the actuarially determined contributions	<u>2,077,833</u>	<u>1,985,261</u>	<u>1,885,223</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 18,412,041</u>	<u>\$ 17,595,089</u>	<u>\$ 18,534,690</u>
Contributions as a percentage of covered payroll	<u>11.29%</u>	<u>11.28%</u>	<u>10.17%</u>

CITY OF PELHAM, ALABAMA
Note to Required Supplementary Information
Pension Plan Practices
September 30, 2017
(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 2017 were based on the September 30, 2014 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period October 1, 2016 to September 30, 2017:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	23 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, ALABAMA
Budgetary Comparison Schedule - General Fund
Year Ended September 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual GAAP Basis</u>	<u>Adjustments to Budgetary Basis</u>	<u>Actual - Budgetary Basis</u>
	<u>Original</u>	<u>Final</u>			
Operating revenues:					
Taxes:					
Sales	\$ 23,774,750	\$ 23,774,750	\$ 26,187,468	\$ (105,634)	\$ 26,081,834
Property	6,025,000	6,025,000	6,069,162	(24,105)	6,045,057
Motor vehicle/gas	650,000	650,000	642,645	2,483	645,128
Other	235,850	235,850	235,681	(1,252)	234,429
Licenses and permits	4,440,850	4,440,850	4,491,230	-	4,491,230
Fines and forfeitures	1,626,741	1,626,741	1,643,334	-	1,643,334
Charges for services	190,431	190,431	212,380	120	212,500
Interest	270,709	270,709	2,179,953	-	2,179,953
Other	224,900	224,900	2,673,038	(1,523,786)	1,149,252
Total revenues	37,439,231	37,439,231	44,334,891	(1,652,174)	42,682,717
Expenditures, current:					
General administration	7,229,126	9,928,756	10,037,221	14,449	10,051,670
Police	8,057,013	8,109,617	7,998,346	(7,108)	7,991,238
Fire	8,683,653	9,541,274	8,334,061	67,012	8,401,073
Public works	2,484,932	3,719,081	2,537,466	(6,513)	2,530,953
Parks and recreation	1,203,465	2,029,650	1,095,357	(932)	1,094,425
Library	1,116,366	1,121,737	1,084,749	(1,094)	1,083,655
	28,774,555	34,450,115	31,087,200	65,814	31,153,014
Capital outlay	6,328,000	7,506,496	14,060,153	(3,880,823)	10,179,330
Debt service					
Principal retirement	4,127,240	4,127,240	2,173,307	-	2,173,307
Interest	-	-	1,960,142	-	1,960,142
Issuance of debt costs	-	-	-	-	-
	4,127,240	4,127,240	4,133,449	-	4,133,449
Other financing sources (uses)					
Proceeds from sale of capital assets	4,027,838	4,027,838	600,430	-	600,430
Issuance of capital leases	-	-	115,556	-	115,556
Transfers (out) in	(2,467,585)	(2,526,596)	(3,853,092)	-	(3,853,092)
	1,560,253	1,501,242	(3,137,106)	-	(3,137,106)
Net changes in fund balance	\$ (230,311)	\$ (7,143,378)	\$ (8,083,017)	\$ 2,162,835	\$ (5,920,182)

CITY OF PELHAM, ALABAMA
Note to Required Supplementary Information
September 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT BUDGETARY PRACTICES

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

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

FEDERAL AWARDS PROGRAMS



LOCAL FIRM.
NATIONAL KNOWLEDGE.
GLOBAL REACH.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pelham, Alabama (the City), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated June 26, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses and, therefore, material weaknesses may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses. [2017-001, 2017-002, 2017-003, and 2017-004.]

Compliance and Other Matters

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

City's Response to Findings

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

Purpose of this Report

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

Barfield, Murphy, Shank & Smith, LLC

Birmingham, Alabama
June 26, 2018



LOCAL FIRM.
NATIONAL KNOWLEDGE.
GLOBAL REACH.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Pelham, Alabama's (the City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City of Pelham, Alabama complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

Report on Internal Control over Compliance

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

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

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

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

Barfield, Murphy, Shank & Smith, LLC

Birmingham, Alabama
June 26, 2018

CITY OF PELHAM, ALABAMA
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

Federal Grantor/Pass-through Agency/ Program Title/Contract Number	Federal CFDA Number	Federal Expenditures
U.S. Department of Defense		
1033 Program - direct (Note 3)	12.205	\$ <u>194,925</u>
U.S. Department of Justice		
Bulletproof Vest Partnership Program - direct	16.607	<u>4,095</u>
U.S. Department of Transportation		
Highway Planning and Construction Cluster:		
Pass-through from Alabama Department of Transportation		
Recreational Trails Program - CMAQ-5916	20.219	74,181
Highway Planning and Construction - CMAQ-CN17	20.205	1,540,002
Pass-through from Alabama Department of Economic and Community Affairs		
Recreational Trails Program - 16-RT-54-07	20.219	<u>5,659</u>
Total Highway Planning and Construction Cluster		1,619,842
Pass-through from Alabama Department of Economic and Community Affairs		
State and Community Highway Safety - 17-sp-pt-004, 17-HD-M5-004	20.600	<u>59,840</u>
Total U.S. Department of Transportation		1,679,682
U.S. Department of Homeland Security		
Pass-through from Alabama Emergency Management Agency		
Hazard Mitigation Grant Program - HMGP DR (1797-0006)	97.039	<u>771,624</u>
Total expenditures of federal awards		<u>\$ 2,650,326</u>

See note to schedule of expenditures of federal awards and independent auditors' report.

CITY OF PELHAM, ALABAMA
Notes to Schedule of Expenditures of Federal Awards
September 30, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Pelham, Alabama and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of Title 2 U.S. *Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

NOTE 2 - INDIRECT COST RATE

City of Pelham, Alabama has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 - NONCASH AWARDS

Noncash awards are reported in the Schedule at the fair market value of the awards on the date received by the City of Pelham, Alabama. For the year ended September 30, 2017, the City of Pelham, Alabama received \$194,925 in surplus items from the Department of Defense.

CITY OF PELHAM, ALABAMA
Schedule of Findings and Questioned Costs
Year Ended September 30, 2017

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of the City of Pelham, Alabama (the City).
2. Four material weaknesses disclosed during the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the City, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses in internal control over major federal award programs are reported in the Independent Auditors' Report on Compliance For Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditors' report on compliance for the major federal award programs for the City expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with 2 CFR section 200.516(a).
7. The program tested as a major program was the Highway Planning and Construction Cluster which consisted of the Highway Planning and Construction Program (CFDA number 20.205) and the Recreational Trails Program (CFDA number 20.219).
8. The threshold for distinguishing between Type A and B programs was \$750,000.
9. The City does not qualify as a low-risk auditee.

FINANCIAL STATEMENT FINDINGS

2017-001 - Accrual Basis Accounting

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

CITY OF PELHAM, ALABAMA
Schedule of Findings and Questioned Costs
Year Ended September 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS - Continued

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

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

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

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

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

2017-002 - Journal Entries

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

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

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

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

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

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

CITY OF PELHAM, ALABAMA
Schedule of Findings and Questioned Costs
Year Ended September 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS - Continued

2017-003 - Water and Sewer Allowance for Doubtful Accounts

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

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

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

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

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

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

2017-004 - Payments between Proprietary Funds

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

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

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

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

CITY OF PELHAM, ALABAMA
Schedule of Findings and Questioned Costs
Year Ended September 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS - Continued

2017-004 - Payments between Proprietary Funds - Continued

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

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

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

There are no current findings or questioned costs that are considered material instances of noncompliance in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

There were no prior year findings or questioned costs that were considered material instances of noncompliance in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

STATISTICAL INFORMATION
(UNAUDITED)

CITY OF PELHAM, ALABAMA
Assessed Value of Taxable Property
Year Ended September 30, 2017
(Unaudited)

	Property Assessed Value (after exemptions)	Motor Vehicles	Total
2017	\$ 407,500,860	\$ 56,725,380	\$ 464,226,240
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, ALABAMA
Top Ten Property Taxpayers
Year Ended September 30, 2017
(Unaudited)

The City's top ten property taxpayers and amounts paid by each during the year ended September 30, 2017 consisted of the following:

Colonial Pipeline Company	\$ 331,775
Alabama Power Company	162,770
Edwin B. Lumpkin, Jr.	66,548
Pelham Industrial Enterprises, LLC	54,047
The Grand Reserve at Pelham, LLC	53,750
Wal-Mart Real Estate Business Trust	40,610
Huntley Hall Apartments, Ltd.	40,469
Steel Dynamics, Inc.	40,139
Birmingham Realty Co.	32,761
New Market Southgate, LLC	32,442

CITY OF PELHAM, ALABAMA
Water and Sewer System Customer Information
Year Ended September 30, 2017
(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>
2017	12,447	6,620
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, 2017, are as follows:

Green Park South Mobile Home Park	\$ 29,748
Plaza Pines Trailer Park	10,066
Colonial Pipeline	6,842
The Grand Reserve	6,222
The Huntly Apartments	6,017
The Pantry	4,263
Pelham City Board of Education	3,646
Marc I Car Wash	2,858
MW Pelham, LLC	2,552
The Mountain Lodge	2,229

CITY OF PELHAM, ALABAMA
Water and Sewer System Rates
Year Ended September 30, 2017
(Unaudited)

The water rates as of September 30, 2017 are as follows:

Residential (inside City)	\$15.00 minimum on the first 3,000 gallons \$3.88 per 1,000 gallons thereafter
Residential (outside City)	\$17.75 minimum on the first 3,000 gallons \$4.47 per 1,000 gallons thereafter
Commercial (inside City)	\$15.00 minimum on the first 3,000 gallons \$3.88 per 1,000 gallons thereafter
Commercial (outside City)	\$17.75 minimum on the first 3,000 gallons \$4.47 per 1,000 gallons thereafter

The sewer rates as of September 30, 2017 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