

City of Homewood, Alabama

Financial Statements

September 30, 2015



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City of Homewood, Alabama
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September 30, 2015

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TAB: THOUGHT LEADERSHIP

**City of Homewood
Management's Discussion & Analysis (MD&A)
September 30, 2015**

The City of Homewood Management's Discussion and Analysis (MD&A) report provides an overview of the City's financial activities for the fiscal year that ended September 30, 2015. Please read the report in conjunction with the City's financial statements along with the notes to the financial statements that immediately follow this analysis.

Financial Highlights: Significant Items to Note

Governmental Activities:

- The assets of the City exceeded the liabilities at the close of the 2015 fiscal year by \$48.9 million (net position).
- The City's net position decreased by approximately \$31.7 million in fiscal year 2015. This decrease primarily was attributed to implementing Governmental Account Standards Board (GASB) Statement 68, Accounting and Financial Reporting for Pensions. Statement 68 required the City to begin reporting a pension liability position for future pension payments.
- The total cost of the City's programs for the 2015 fiscal year was \$43 million. The net cost was \$34.4 million after subtracting grants and charges for services.
- The General Fund revenues received for the 2015 fiscal year exceeded expenditures by \$285,574. This was the amount of revenues exceeding expenditures after the City transferred \$1 million from the General Fund to the Capital Projects Fund for future capital expenditures and also paid employee bonuses in an amount of \$375,000.
- At the end of the 2015 fiscal year, the general fund unassigned fund balance was \$11.9 million, or 38% of the total general fund operating expenditures.
- Net capital assets for the 2015 fiscal year decreased by nearly \$2.1 million due to depreciation.
- The City's long-term debt decreased by \$197,396. This change is a result of paying down debt and issuing Series 2015 General Obligation Warrants in the amount of \$1.45 million.

Using the Annual Financial Report - An Overview for the User

The annual financial report consists of four parts - *management's discussion and analysis* (this section), the *independent auditors' report*, the *basic financial statements* and *required supplementary information*.

The City's basic financial statements are comprised of three components: 1) *government-wide financial statements*, 2) *fund financial statements*, 3) *notes to the basic financial statements*.

The financial statements for all governmental activities are based on the fiscal year ending September 30, 2015.

Government-Wide Financial Statements - The focus of these statements is to provide readers with a broad overview of the City's finances as a whole, similar to a private-sector business, instead of on an individual fund basis.

Government-wide statements report both long-term and short-term information about the City's overall financial status including the capitalization of capital assets and depreciation of all exhaustible capital assets and the outstanding balances of long-term debt and other obligations. These statements report all assets and liabilities perpetuated by these activities using the accrual basis of accounting. The accrual basis takes into account all of the City's current year revenues and expenses regardless of when cash is received or paid. This approach moves the financial reporting method for governmental entities closer to the financial reporting methods used in the private sector.

The following *government-wide financial statements* report is on all of the governmental activities of the City as a whole.

The *statement of net position* (on page 4) most closely resembles a balance sheet. It presents information on all of the City's assets (what it owns) and liabilities (what it owes), with the difference between the two reported as net position. The net position reported in this statement represents the accumulation of changes in net position for the current fiscal year and all fiscal years in the past combined. Over time, the increase or decrease in net position reported in this statement may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* (on page 5) most closely resembles an income statement. It presents information showing how the City's net assets changed during the current fiscal year only. All of the current year's revenues and expenses are accounted for in the *statement of activities* regardless of when cash is received or paid. This statement shows gross expenses and offsetting program revenues to arrive at net cost information for each major expense function or activity of the City. By showing the change in net assets for the year, the reader may be able to determine whether the City's financial position has improved or deteriorated over the course of the current fiscal year.

However, the reader will also need to consider non-financial factors, such as changes in the City's property tax base, businesses operating within the City, and the condition of the City's infrastructure assets, in order to assess the overall health of the City.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal and internal requirements. The City's funds include governmental funds.

Governmental Funds - Governmental *fund financial statements* begin on page 6. These statements account for basically the same governmental activities reported in the *government-wide financial statements*. *Fund financial statements* presented herein display information on each of the City's most important governmental funds or *major funds*. This is required in order to better assess the City's accountability for significant governmental programs or certain dedicated revenue. The City's *major funds* are the General Fund, 1947 School Tax Fund, Debt

Service Fund and Capital Projects Fund. All special revenue funds are presented as *other funds*, except the 1947 School Tax Fund which is a major fund.

The *Governmental Fund Financial Statements* are measured on the modified-accrual basis of accounting. As a result, the *fund financial statements* focus more on the near term use and availability of spendable resources. The information provided in these statements is useful in determining the City's immediate financial needs. This is in contrast to the accrual-based *government-wide financial statements*, which focus more on overall long-term availability of spendable resources. The relationship between governmental activities reported in the *government-wide financial statements* and the governmental funds reported in the *fund financial statements* are reconciled on pages 7 and 9 of these financial statements. These reconciliations are useful to readers in understanding the long-term impact of the City's short-term financing decisions.

Notes to the Basic Financial Statements - The *notes to the basic financial statements* provide additional information that is essential for the statements to fairly represent the City's financial position and its operations. The notes contain important information that is not part of the basic financial statements. However, the notes are an integral part of the statements, not an appendage to them. The *notes to the basic financial statements* begin on page 10 in this section.

After the presentation of the basic financial statements, the *required supplementary information* is presented following the notes to the basic financial statements. The *required supplementary information* beginning on page 39 provides a comparison of the adopted budget of the City's General Fund and 1947 School Tax Special Revenue Fund to the actual operating results for the fiscal year. The comparison of this data allows users to assess management's ability to project and plan for its operations throughout the year.

Analysis of the City of Homewood's Overall Financial Position Government-Wide Funds

As indicated earlier, net assets may serve over time as a useful indicator of a government's financial position. Refer to *Table 1* when reading the following analysis of net assets.

Table 1: Summary of Net Assets

	As of September 30, (dollars in thousands)	
	<u>2015</u>	<u>2014</u>
Assets:		
Current and other assets	\$ 50,129	\$ 47,857
Capital assets	103,284	105,370
Deferred outflow of resources	2,184	-
Total assets & deferred outflow of resources	<u>155,597</u>	<u>153,227</u>
Liabilities:		
Current liabilities	6,112	5,362
Long-term liabilities	98,788	67,208
Deferred inflow of resources	1,762	-
Total liabilities	<u>106,662</u>	<u>72,570</u>

Net position:		
Net investment in capital assets	37,937	39,826
Restricted	8,811	8,086
Unrestricted	<u>2,187</u>	<u>32,707</u>
Total net position	<u>\$ 48,935</u>	<u>\$ 80,619</u>

The City's assets exceeded liabilities by \$48.9 million at September 30, 2015. This consisted of net investment in capital assets of \$37.9 million and \$8.8 million of assets restricted by law for specific purposes and unrestricted net assets of \$2.2 million.

Net position invested in capital assets of \$37.9 million reflects the City's investment in capital assets (e.g., land, infrastructure, buildings, improvements other than buildings, fixtures, furniture, equipment and transportation equipment), less accumulated depreciation and debt related to the acquisition of the assets. Since these capital assets are used in governmental activities, this portion of net position is not available for future spending or funding of operations.

Analysis of the City of Homewood's Operating Results

The results of this fiscal year's operations as a whole are reported in detail in the *Statement of Activities* on page 5. *Table 2* below condenses the results of operations for the fiscal year into a format where the reader can easily see the total revenues of the City for the year. It also shows the impact that operations had on changes in net position as of September 30, 2015.

Table 2: Summary of Changes in Net Position

	Fiscal Year Ended	
	September 30,	
	(dollars in thousands)	
	<u>2015</u>	<u>2014</u>
Program revenues:		
Charges for services	\$ 7,783	\$ 7,199
Operating grants/contributions	423	305
Capital grants/contributions	377	625
General revenues:		
Taxes	49,254	49,025
Investment earnings	274	276
Gain on sale of assets	145	-
Miscellaneous revenue	<u>205</u>	<u>152</u>
Total revenues	<u>58,461</u>	<u>57,582</u>
Program expenses:		
General government	10,395	9,980
Public safety	16,901	17,042
Public works	6,297	6,048
Culture/recreation	6,535	6,249
Interest on long-term debt	<u>2,878</u>	<u>2,900</u>
Total expenses	<u>43,006</u>	<u>42,219</u>

Transfer to BOE	<u>(15,609)</u>	<u>(15,471)</u>
Change in net position	(154)	(108)
Net position, beginning (as originally stated)	80,619	80,727
Restatement	<u>(31,529)</u>	-
Net position, ending	<u>\$ 48,935</u>	<u>\$ 80,619</u>

The City's revenue increased approximately 1.5%. Capital and operating grants and contributions decreased by \$130,000 and tax revenue increased by \$229,000, primarily due to increased ad valorem tax. The City's program expenses increased by \$787,000 compared to the prior fiscal year.

Table 3 is a condensed statement taken from the *Statement of Activities* on page 5 showing the total cost for providing services for five major City activities. Total cost of services is compared to the net cost of providing these services. The net cost of services is the remaining cost of services after subtracting grants and charges for services that the City used to offset the program's total cost. In other words, the net cost shows the financial burden that was placed on all taxpayers for each of these activities. This information allows citizens to consider the cost of each program in comparison to the benefits provided.

Table 3: Net Cost of Government-Wide Activities

	Fiscal Year Ended	
	September 30, 2015	
	(dollars in thousands)	
	Total Cost of Services	Net Cost of Services
General government administration	\$ 10,395	\$ 4,210
Public safety	16,901	16,685
Public works	6,297	5,057
Culture and recreation	6,535	5,593
Interest on long-term debt	<u>2,878</u>	<u>2,878</u>
Total	<u>\$ 43,006</u>	<u>\$ 34,423</u>

Performance of City Funds

As noted earlier, the City uses fund accounting to control and manage resources in order to ensure compliance with finance-related legal and internal requirements. Using funds to account for resources for particular purposes helps the reader to determine the City's accountability for these resources whether provided by taxpayers or other entities, and to help to provide more insight into the City's overall financial health. The following analysis of the City's funds should be read in reference to the *fund financial statements* that begin on page 6.

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financial requirements (Note: the reconciliation statement between the *fund financial statements* and the *government-wide financial statements* is presented on page 7. At the end of the fiscal year, the City's governmental funds reported a combined fund balance of \$46.5 million available for future operations.

Budgetary Highlights of the General Fund

On or before October 1 of each year, the Mayor prepares and submits an annual budget to be adopted by the City Council. The comparison of general fund budget to the actual results is detailed in the “Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual” on page 40. The City’s actual results as compared to the City’s budget can be briefly summarized as follows:

- Tax revenues exceeded budgeted project by over \$45,000. Total licenses and permits exceeded budgeted projections over \$134,000.
- Actual expenditures were lower than budget by almost \$1.2 million or 3.7% of the final budget. Most city government departments were under budget at year end; with the exception being the general government administration and this primarily is due to the increased sales tax revenues over budget paid to the Board of Education.
- Actual net excess revenues for the year were \$286,000. This amount is the surplus existing after expensing \$375,000 in employee bonuses and \$1,000,000 as transfers to the capital projects fund from the general fund. The adopted budget for fiscal year 2015 included in other revenues the use of carryover fund balance of almost \$1.2 million that did not have to be utilized during the fiscal year, mainly through closely monitoring expenditures, including personnel costs. The fact that this revenue source was not utilized accounts for the majority of revenues under budgeted projections.

Capital Assets and Debt Administration

Capital Assets - The City's investment in capital assets for governmental activities for the year ended September 30, 2015, amounted to \$103.2 million, net of accumulated depreciation. A recap of the City's capital assets at actual or estimated historical cost is shown in *Table 4*. Assets are presented net of accumulated depreciation.

Table 4: Capital Assets (net of accumulated depreciation)

	Fiscal Year Ended September 30, (dollars in thousands)	
	2015	2014
Land	\$ 9,290	\$ 9,290
Construction-in-progress	2,802	2,299
Buildings	38,082	40,401
Land/infrastructure improvements	45,971	46,984
Equipment, furniture, computers and vehicles	7,139	6,397
Capital assets, net of depreciation	<u>\$ 103,284</u>	<u>\$ 105,371</u>

Additions and reclassifications to capital assets during the current year included the following:

Construction in progress	\$ 503
Buildings	259
Equipment, furniture, computers, vehicles	2,764
Total	<u>\$ 3,526</u>

Long-Term Debt - At year-end, the City had over \$65 million in general obligation warrants and other long-term debt outstanding as shown in *Table 5* below.

Table 5: Outstanding Debt

	As of September 30, 2015 (dollars in thousands)		
	Beginning Balance	Net Change	Ending Balance
Governmental activities:			
2007 Warrants w/accretion	\$ 48,264	\$ (1,342)	\$ 46,922
2012 Warrants w/unamortized bond premium	16,336	(36)	16,300
Capital lease payable	944	(106)	838
2015 Warrants	<u> </u>	<u>1,286</u>	<u>1,286</u>
Totals	<u>\$ 65,544</u>	<u>\$ (198)</u>	<u>\$ 65,346</u>

2015 Warrants for the year consisted of the following:

- Outstanding Warrant Obligations were \$64.6 million at the beginning of the fiscal year and consisted of the 2007 and 2012 warrant issues. During the year, the City issued Series 2015 General Warrant Obligations in the amount of \$1.45 million. The City made principal payments of \$1.675 million on the 2007 warrants and the addition to the accretion on these warrants was \$333,361. The City paid interest only on the 2012 warrants for fiscal year 2015; however, this reduced the outstanding amount by \$36K retired unamortized bond premium. Additionally, the City made principal payments of \$164K on the 2015 warrants.

Economic Factors and Next Year's Budget

Fiscal Year 2016 Budget - The City Council approved an original budget of revenues and expenditures over \$56 million for all funds (General and Special Revenue), exclusive of the School Trust Fund, for fiscal year ending September 30, 2016. The General Fund budget was approved for \$41.8 million and the Capital Projects Fund budget was approved for \$4.1 million.

Economic Factors – The City of Homewood should experience continued development in the fiscal year 2016-2017. Brookwood Hospital has been approved to build a new orthopedic pavilion on their campus. Samford University has started construction on the first of three new residence halls. ServisFirst has broken ground on their new headquarters building. Healthsouth is planning an addition to the Rehabilitation Hospital at the Lakeshore Foundation. A small subdivision is under construction off of Columbiana Rd. New construction is planned for both the Homewood and Birmingham portions of Wildwood Center, which should increase economic activity in the immediate area. Homewood continues to see the establishment of new restaurants and other new business startups in conversions/rehab of existing buildings. The new construction at the Montessori School improves the viability of the surrounding area. The Greenway Trail will begin construction as soon as right-of-way acquisition is completed. Valley Avenue repaving should start in the fall and the Oxmoor Road/I-65 project should go out to bid at the beginning of 2017.

Personnel Administration Cost – The City's personnel administration is provided by the Personnel Board of Jefferson County (PBJC). The PBJC has been operating under a 1981 Federal Consent Decree issued in connection with litigation over hiring practices. This Decree was satisfied in 2009. Costs, which are passed on to municipalities served by the PBJC, have risen substantially in recent years. In fiscal year 2009, the PBJC reached an agreement with municipalities to reduce the legal fees due to their association with the Decree from \$10,000,000 to \$2,250,000 payable over a 5 year period. This agreement is currently awaiting approval by the U.S. District Judge and each municipality's share of the \$2,250,000 is still to be determined. The 2014-2015 budget included a line item of \$ 275,000 budgeted for this expenditure. Actual costs invoiced to the City of Homewood by the PBJC and payable during fiscal year 2015-2016 year totaled \$303,978, or \$1,003 per employee.

Medical Costs – Employee health insurance is provided through the State of Alabama Insurance Board (SEIB). This Board voted to increase health insurance rates 7.8% for year 2015-2016. The City achieved preferred rating in part through meeting the wellness screening participation goals in fiscal year 2014-2015. The Mayor recommended and the City Council voted for the City to fund this increase for the FY 15-16 budget.

Retirement Costs –The City's retirement program for employees is provided through the Retirement System of Alabama (RSA). Effective October 1, 2013, the City opted to come under the provisions of Act 2011-676 thereby changing the rates contributed by employees. The City's contribution percentage for Tier 1 employees that contribute 7.5% and 8.5% to retirement is 13.10% for fiscal year 2015. The City's contribution percentage for Tier 2 employees that contribute 6% and 7% to retirement is 12.79% for the fiscal year 2016.

Cost-of-Living Raise - The City Council approved a 1.5% cost-of-living raise for full-time employees during fiscal year 2015-2016. In addition, the Mayor recommended and Council approved the payment of up to \$375,000 in bonuses from September 30, 2015 surplus to be paid in November, 2015.

Contacting the City's Financial Management

This financial report is designed to provide citizens, taxpayers, 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 any questions about this report or need additional financial information, please contact Melody Salter, CPA, Finance Director, City of Homewood, 2850 19th Street South, Homewood, Alabama, 35209.



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Independent Auditors' Report

To the Mayor and City Council
City of Homewood
Homewood, Alabama

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Homewood, Alabama (the "City"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; 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 of material misstatement.

An audit includes examining, on a test basis, evidence supporting 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 auditors consider 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 opinions. 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 obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of a Matter

As discussed in Note 6 and Note 14 to the basic financial statements, during 2015 the City adopted Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions, and Governmental Accounting Standards Board Statements No. 71, Pension Transactions for Contributions Subsequent to the Measurement Date. As a result of the adoption, the City has restated its net position as of October 1, 2014 to comply with the pronouncements. Our opinion is not modified with respect to this matter.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2015, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and the schedules listed in the table of contents as "required supplementary information" on pages 3.1 through 3.9 and pages 40 through 47 be presented to supplement the 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 information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit or 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 Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated May 13, 2016, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Carr, Riggs & Ingram, L.L.C.

Birmingham, Alabama
May 13, 2016

City of Homewood, Alabama
Statement of Net Position

September 30, 2015

Primary Government
Governmental
Activities

Assets

Current assets

Cash and cash equivalents	\$	18,335,676
Investments		10,230,398
Receivables, net		2,486,245
Prepaid expenses		51
Restricted assets:		
Cash and cash equivalents		19,077,111
Total current assets		50,129,481

Noncurrent assets

Capital assets

Land, improvements and construction in progress		12,091,602
Other capital assets, net of depreciation		91,192,852
Total capital assets		103,284,454

Total assets		153,413,935
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Deferred outflows of resources		2,183,900
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Total assets and deferred outflows of resources	\$	155,597,835
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See accompanying notes to basic financial statements.

September 30, 2015

**Primary Government
Governmental
Activities**

Liabilities

Current liabilities

Accounts payable	\$	1,696,772
Current portion of compensated absences		123,891
Accrued interest payable		201,003
Accrued expenses		594,790
Due to other governmental units		1,342,917
Capital lease payable		109,577
Warrants payable		2,043,022
Total current liabilities		6,111,972

Long-term liabilities

Net post-employment benefit obligation		1,223,185
Net pension liability		32,016,410
Compensated absences		2,353,926
Capital lease payable		728,666
Warrants payable		62,466,218
Total long-term liabilities		98,788,405

Total liabilities

104,900,377

Deferred inflows of resources

Taxes and donations		37,861
Difference between projected and actual earnings on pension plan investments		1,724,248
Total deferred inflows of resources		1,762,109

Net position

Net investment in capital assets		37,936,971
Restricted for:		
Public safety		2,559,890
Public works		1,136,126
Capital projects		143
Other purposes		5,114,969
Unrestricted		2,187,250

Total net position

\$ 48,935,349

City of Homewood, Alabama Statement of Activities

Year ended September 30, 2015

Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government
Primary government					
Governmental activities:					
General government					
administration	\$ 10,394,584	\$ 5,950,039	\$ 234,103	\$ -	\$ (4,210,442)
Public safety	16,901,465	27,756	188,425	-	(16,685,284)
Public works	6,297,093	862,708	-	377,449	(5,056,936)
Culture and recreation	6,535,234	942,173	500	-	(5,592,561)
Interest on long-term debt	2,877,956	-	-	-	(2,877,956)
Total primary government	\$ 43,006,332	\$ 7,782,676	\$ 423,028	\$ 377,449	(34,423,179)

General revenues:

Taxes:

Ad Valorem (real and personal property)	16,507,730
Sales and use	23,575,489
Other taxes	6,490,360
Franchise fees	2,680,528
Investment earnings	273,865
Miscellaneous	205,595
Gain on capital asset disposals	144,664
Transfer to City Board of Education	(15,609,406)
Total general revenues and transfers	<u>34,268,825</u>

Change in net position (154,354)

Net position at beginning of year as originally stated	80,618,875
Restatement (Note 14)	(31,529,172)
Net position at beginning of year as originally stated	<u>49,089,703</u>

Net position at end of year \$ 48,935,349

See accompanying notes to basic financial statements.

City of Homewood, Alabama
Balance Sheet—Governmental Funds

<i>September 30, 2015</i>	General Fund	1947 School Tax Fund	Debt Service Fund
Assets			
Cash and cash equivalents	\$ 18,335,676	\$ -	\$ -
Investments	10,230,398		
Receivables, net	2,197,758	51,632	29,953
Prepaid expenses	51	-	-
Due from other funds	666,508	-	-
Cash and cash equivalents - restricted	605,907	7	11,254,569
Total assets	\$ 32,036,298	\$ 51,639	\$ 11,284,522
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 1,117,346	\$ -	\$ -
Accrued expenses	412,015	-	-
Due to other governmental units	1,342,917	-	-
Due to other funds	2,032,157	29,685	71,245
Deferred revenue	37,861	-	-
Total liabilities	4,942,296	29,685	71,245
Fund balances			
Nonspendable	51	-	-
Restricted	-	21,954	5,032,221
Committed	10,836,305	-	-
Assigned	4,350,019	-	6,181,056
Unassigned	11,907,627	-	-
Total fund balances	27,094,002	21,954	11,213,277
Total liabilities and fund balances	\$ 32,036,298	\$ 51,639	\$ 11,284,522

See accompanying notes to basic financial statements.

Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 18,335,676
-	-	10,230,398
163,296	43,606	2,486,245
-	-	51
2,025,242	46,608	2,738,358
1,996,895	5,219,733	19,077,111
<u>\$ 4,185,433</u>	<u>\$ 5,309,947</u>	<u>\$ 52,867,839</u>

\$ 323,880	\$ 255,546	\$ 1,696,772
-	182,775	594,790
-	-	1,342,917
-	605,271	2,738,358
-	-	37,861
<u>323,880</u>	<u>1,043,592</u>	<u>6,410,698</u>

-	-	51
-	3,756,954	8,811,129
-	-	10,836,305
3,861,553	509,401	14,902,029
-	-	11,907,627
<u>3,861,553</u>	<u>4,266,355</u>	<u>46,457,141</u>
<u>\$ 4,185,433</u>	<u>\$ 5,309,947</u>	<u>\$ 52,867,839</u>

City of Homewood, Alabama
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position

September 30, 2015

Fund balance - total governmental funds \$ 46,457,141

Amounts reported for governmental activities in the statement of net position are different because:

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

Governmental capital assets	\$ 181,013,554	
Accumulated depreciation	<u>(77,729,100)</u>	103,284,454

Long-term liabilities are not due and payable in the current period, and therefore they are not reported in the governmental funds balance sheet.

Accrued interest payable	(201,003)	
Net post-employment benefit obligation	(1,223,185)	
Net pension obligation	(32,016,410)	
Compensated absences	(2,477,817)	
Capital lease payable	(838,243)	
Warrants payable	<u>(64,509,240)</u>	(101,265,898)

Deferred outflow related to pensions		2,183,900
Deferred inflow related to pensions		<u>(1,724,248)</u>

Net position of governmental activities		<u><u>\$ 48,935,349</u></u>
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See accompanying notes to basic financial statements.

City of Homewood, Alabama
Statement of Revenues, Expenditures, and Changes in
Fund Balances—Governmental Funds

Year ended September 30, 2015

	General Fund	1947 School Tax Fund	Debt Service Fund
Revenues			
Taxes	\$ 30,269,307	\$ 7,984,508	\$ 4,718,104
Licenses and permits	7,318,847	-	-
Intergovernmental	188,425	-	215,156
Charges for services	1,351,694	-	-
Fines and forfeitures	778,574	-	-
Other revenues	597,601	362	38,639
Total revenues	40,504,448	7,984,870	4,971,899
Expenditures			
Current:			
General government administration	4,874,049	351,939	210,835
Public safety	15,136,497	-	-
Public works	5,572,256	-	-
Culture and recreation	5,761,216	-	-
Debt service:			
Principal retirement	-	-	1,944,911
Interest and fiscal charges	-	-	2,552,218
Capital outlay	-	-	-
Total expenditures	31,344,018	351,939	4,707,964
Excess of revenue over (under) expenditures	9,160,430	7,632,931	263,935
Other financing sources (uses)			
Operating transfers in	71,751	-	-
Proceeds from bond issuance	-	-	-
Appropriation to City Board of Education	(7,946,607)	(7,662,799)	-
Operating transfers out	(1,000,000)	-	-
Total other financing sources (uses)	(8,874,856)	(7,662,799)	-
Excess of revenues and other sources over (under) expenditures and other uses	285,574	(29,868)	263,935
Fund balance, beginning of year	26,808,428	51,822	10,949,342
Fund balance, end of year	\$ 27,094,002	\$ 21,954	\$ 11,213,277

See accompanying notes to basic financial statements.

Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,923,657	\$ 1,054,666	\$ 45,950,242
-	48,787	7,367,634
-	396,396	799,977
-	501,001	1,852,695
-	229,400	1,007,974
278,891	799,597	1,715,090
<u>2,202,548</u>	<u>3,029,847</u>	<u>58,693,612</u>
15,701	1,023,662	6,476,186
-	791,934	15,928,431
-	246,936	5,819,192
25,452	81,867	5,868,535
-	-	1,944,911
-	-	2,552,218
3,593,803	460,976	4,054,779
<u>3,634,956</u>	<u>2,605,375</u>	<u>42,644,252</u>
<u>(1,432,408)</u>	<u>424,472</u>	<u>16,049,360</u>
2,470,885	2,288	2,544,924
-	1,450,000	1,450,000
-	-	(15,609,406)
(2,288)	(1,542,636)	(2,544,924)
<u>2,468,597</u>	<u>(90,348)</u>	<u>(14,159,406)</u>
1,036,189	334,124	1,889,954
<u>2,825,364</u>	<u>3,932,231</u>	<u>44,567,187</u>
<u>\$ 3,861,553</u>	<u>\$ 4,266,355</u>	<u>\$ 46,457,141</u>

City of Homewood, Alabama

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Government-wide
Statement of Activities**

September 30, 2015

Net change in fund balances - total governmental funds		\$ 1,889,954
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
Expenditures for capital assets	\$ 3,525,230	
Less current year depreciation	<u>(5,379,252)</u>	(1,854,022)
<p>The net effect of transactions involving the sale of capital assets is to decrease net position.</p>		
		(232,227)
<p>The issuance of long-term debt provides current financial resources to governmental funds, but the issuance of this debt increases long-term liabilities in the government-wide statement of net position.</p>		
		(1,450,000)
<p>Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
		1,944,911
<p>Some expenses reported in the government-wide statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
Change in long-term compensated absences	(61,224)	
Change in accrued interest payable	7,394	
Change in accreted interest on long term debt	(333,132)	
Change in net post-employment benefit obligation	(74,038)	
Change in pension expense	(27,588)	
Change in deferred items related to debt issuance	<u>35,618</u>	(452,970)
Change in net position of governmental activities		<u><u>\$ (154,354)</u></u>

See accompanying notes to basic financial statements.



City of Homewood, Alabama
Notes to Financial Statements Index

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City of Homewood, Alabama Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Homewood, Alabama, (the "City") was incorporated in 1926. The City operates under a Mayor-Council form of government. The City's major operations include police and fire protection, culture and recreation, public works and general administrative services.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies used by the City are discussed below.

A. Reporting entity

The City, for financial purposes, includes all of the funds relevant to the operations of the City of Homewood. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City of Homewood.

B. Related organization

The City Council is responsible for appointing the members of the Homewood Board of Education (the Board). However, the City has no control or influence in the presentation or adoption of the Board's annual operating budget; the City is not responsible for any budget deficits incurred by the Board; and the Board has the authority to issue debt securities, which are neither secured by the City's revenues or obligations of the City. Accordingly, the financial statements of the Board are not presented in the accompanying financial statements because the City is not considered to be financially accountable for the Board.

C. Basis of presentation

The City's basic financial statements include both government-wide (reporting the government as a whole) and fund financial statements. The government-wide financial statements categorize primary activities such as the City's police and fire protection, culture and recreation, public works, and general administrative services as governmental activities.

In the government-wide Statement of Net Position, the governmental column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts — net investment in capital assets, restricted net position, and unrestricted net position.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of presentation (continued)

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions (police, fire, public works, etc.). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). In the Statement of Activities, gross expenses (including depreciation) are offset by related program revenues and operating or capital grants, and must be directly associated with the function. The net costs (by function) are normally covered by general revenues such as property, sales and other taxes.

This government-wide focus is based more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

Also, the financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses.

The focus of the governmental funds' measurement (in the fund statement) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income.

An emphasis is placed on major funds within the governmental categories. At a minimum, governmental funds other than the general fund must be reported as major funds if they meet both of the following criteria:

- a. *Ten percent criterion.* An individual governmental fund reports at least 10 percent of any of the following: a) total governmental fund assets, b) total governmental fund liabilities, c) total governmental fund revenues, or d) total governmental fund expenditures.
- b. *Five percent criterion.* An individual governmental fund reports at least 5 percent of the aggregated total for both governmental funds and proprietary funds of any one of the items for which it met the 10 percent criterion.

The funds for the financial reporting entity are described below:

Governmental funds

1. General Fund

The general fund is the principal fund of the City and is always classified as a major fund. It is used to account for all revenues and expenditures applicable to the general operations of the City government which are not properly accounted for in another fund. All general operating revenues which are not restricted or designated as to their use by outside sources are recorded in the General Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of presentation (continued)

Governmental funds (continued)

2. Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The 1947 School Tax Fund is the City's major special revenue fund.

3. Debt Service Fund

The debt service fund is used to account for payments of principal and interest on the general obligation warrants.

4. Capital Projects Fund

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The Capital Project Fund accounts for revenues to the acquisition, construction, and redevelopment of the City's capital assets and infrastructure.

The City reports all nonmajor funds in the Other Governmental funds column.

D. Measurement focus and basis of accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental funds are reported using a current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues reported in the governmental funds (excluding state and federal reimbursements) to be available if the revenues are collected within sixty days after year-end. Expenditures are generally recorded when the related fund liability is incurred.

City of Homewood, Alabama
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budget law and practice

The City Charter establishes the fiscal year as the twelve-month period beginning October 1st. The departments submit to the Mayor a budget of estimated expenditures for the ensuing fiscal year after which the Mayor subsequently submits a General Fund budget of estimated expenditures and revenues to the City Council by the first scheduled council meeting in July.

This operating budget includes proposed expenditures and means of financing them for the following departments: administrative and general government, police, court management, fire, street, sanitation, library, park and recreation, landscaping, engineering and zoning, and the municipal garage. Any revisions that alter the total budgeted expenditures of any department or any transfer of funds within or between departments must be approved by the City Council. Budgets are prepared using the modified accrual basis of accounting.

The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund and 1947 School Tax Fund present a comparison of budgetary data to actual results. The General Fund and 1947 School Tax Fund utilize the same basis of accounting for both budgetary purposes and actual results.

F. Cash and investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

The State Attorney General has issued a legal opinion that cities may not put public funds at risk by investing in companies not insured by the federal government.

Investments are stated at market value.

G. Receivables

Receivables are reported as Receivables and Due from Other Governments in the government-wide financial statements and as Receivables, Due from Other Funds, and Due from Other Governments in the fund financial statements. Receivables due from other governments include amounts due to the City for property, sales and other taxes and due to the City from grantors for grants issued for specific programs and local taxes. No allowances are made for uncollectible amounts because the amounts are considered immaterial.

H. Compensated absences

Full-time employees of the City earn vacation leave at graduated rates based on length of service. Up to forty days of unused vacation leave may be carried over to the following calendar year. As of September 30, 2015, unused vacation leave totaled \$2,477,817. The current and long-term portion of the liability for unused vacation leave is reflected in the City's Statement of

City of Homewood, Alabama
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Compensated absences (continued)

Net Position. The liabilities include required salary related expenses. In the fund financial statements, only the portion of compensated absences representing amounts due to separated employees at September 30, 2015 is recorded as a liability.

I. Property tax calendar

The Jefferson County Commission levies property taxes for all jurisdictions including the municipalities and school boards within the county. Millage rates for property taxes are levied at the first regular meeting of the County Commission in February of each year. Property taxes are assessed for property as of October 1 of the preceding year based on the millage rates established by the County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31. Real property taxes are collected and remitted to the City by the County Tax Assessor on a monthly basis.

J. Sales taxes

Sales taxes are collected by the State and remitted to the City in the month following collection. The City has appropriated one-third of its sales tax collections to the Homewood, Alabama Board of Education. All sales tax revenues are included in the City's tax revenues and the amounts transferred to the Board are included in the Statement of Net Activities as education expense.

K. Capital assets

Capital assets, which include buildings, equipment, and infrastructure assets, are reported in the applicable governmental unit columns in the government-wide financial statements. Capital assets are recorded as expenditures at the acquisition date in the fund financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses.

City assets capitalized, not including infrastructure assets, have an original cost of \$5,000 and more than one year of useful life. Infrastructure assets capitalized have an original cost of \$50,000 or more. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20-50 years
Improvements	20 years
Machinery and equipment	5-10 years
Infrastructure	30-35 years

The capitalization threshold for land, construction in progress, and inexhaustible land improvements is \$1 or more. However, these capital assets are not depreciated.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Long-term obligations

In the government-wide financial statements, the unmatured principal of long-term debt and compensated absences are reported in the statement of position. Interest expense for long-term debt, including accrued interest payable, is reported in the statement of activities. For warrants (bonds) issued after October 1, 2002, the related premiums and discounts are amortized under accrual accounting and the annual amortization of these accruals is included in the statement of activities. The unamortized portion is reported as an asset on the statement of net position.

In the fund financial statements, bond premiums and the face amount of debt issued during the year are reported as an other financing source. Debt issuance costs are not deducted from the amount reported as an other financing source but are reported as debt service expenditures. Any discount is reported as an other financing use. Expenditures for debt principal, interest and related costs are reported in the fiscal year payment is made. The balance sheet does not reflect a liability for long-term debt.

M. Net position / fund equity

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislations, law through constitutional provisions or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Fund equity is reported in the fund financial statements as fund balance. In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

City of Homewood, Alabama
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by resolutions of the Council – the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance. The classification reflects the amounts constrained by the City’s “intent” to be used for specific purposes, but are neither restricted nor committed. The Council and management have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then committed, assigned, and unassigned – in order as needed.

The City has committed \$10,836,305 of General Fund fund balance to cover City operations in situations of economic uncertainty.

N. Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for the governmental activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds – By Character:	Current (further classified by function)
	Debt Service
	Capital Outlay

In the fund financial statements, governmental funds report expenditures of financial resources.

O. Management estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent liabilities and the reported amount of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

City of Homewood, Alabama
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Pensions

The Employees’ Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State’s Comprehensive Annual Financial Report.

Q. Subsequent events

Subsequent events were evaluated through the date these financial statements were available to be issued.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents (highly liquid debt instruments purchased with a maturity of three months or less) of the City at September 30, 2015, are as follows:

	Cash and Demand Deposits	Restricted	Unrestricted
General Fund	\$ 18,941,583	\$ 605,907	\$ 18,335,676
1947 School Tax Fund	7	7	-
Debt Service Fund	11,254,569	11,254,569	-
Capital Projects Fund	1,996,895	1,996,895	-
Other Governmental Funds	5,219,733	5,219,733	-
Total	\$ 37,412,787	\$ 19,077,111	\$ 18,335,676

The Alabama State Legislature has enacted the Security of Alabama Funds Enhancement (SAFE) Program (Title 41, Chapter 14A, Code of Alabama 1975, as amended) that prescribes the way all Alabama public deposits are collateralized. Public deposits include the funds of any covered public entity or covered public official placed on deposit in a qualified depository, including time and demand deposit accounts and certificates of deposit but excluding bonds, notes, money market mutual funds, repurchase agreements and similar investment instruments. Covered public entities include the state and its political subdivisions, including school boards. In the past, the bank pledged collateral directly to each public entity. Under SAFE, which is mandatory, each qualified public depository (QPD) is required to hold collateral for all of its public deposits on a pooled basis in a custody account (SAFE Custody Account) established by the State Treasurer as SAFE

City of Homewood, Alabama
Notes to Financial Statements

NOTE 2 – CASH AND CASH EQUIVALENTS

Administrator. In the unlikely event a public entity should suffer a deposit loss due to QPD insolvency or default; a claim form would be filed with the State Treasurer, pool collateral or other means to reimburse the loss. All deposits of the City as of September 30, 2015 are held in a qualified public depository.

NOTE 3 - INVESTMENTS

As of September 30, 2015, the City had the following investments:

Investment type	Fair Value	Weighted Average Duration
Certificates of deposit	\$ 5,766,174	
Municipal bonds	4,226,150	
Agency bonds	238,074	
Total	\$ 10,230,398	2.120

Interest rate risk

Through its investment policy, the City manages its exposure to fair value losses arising from increasing interest rates by limiting the weighted average maturity of the total portfolio to no more than five years.

Credit risk

It is the City’s policy to invest public funds in a manner which maximizes return and provides maximum security in preserving and protecting funds while meeting the City’s cash flow demands and conforming to all applicable statutes governing the investment of public funds. The City adheres to the ‘prudent person standard’, and its pertinent application within State statutes governing the investment management of public funds. This rule states that investments shall be made with judgment and care, under circumstances prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculations, but for investment, considering probable safety of their principal as well as probable income to be derived.

The investments held as of September 30, 2015 were allowable under Alabama law. The certificates of deposit are secured by federal depository insurance or the SAFE program and other investments are United States government backed mortgage obligations or financial instruments offered through a Registered Investment Advisor who acts in a fiduciary capacity.

City of Homewood, Alabama
Notes to Financial Statements

NOTE 4 – RECEIVABLES

Receivables of the City consist of the following at September 30, 2015:

	General Fund	Special Revenue Funds	1947 School Tax Fund	Debt Service Fund	Capital Projects Fund	Total
Taxes	\$ 2,193,518	\$ 43,606	\$ 51,632	\$ 29,953	\$ 163,296	\$ 2,482,005
Due from other governmental units	4,240	-	-	-	-	4,240
	<u>\$ 2,197,758</u>	<u>\$ 43,606</u>	<u>\$ 51,632</u>	<u>\$ 29,953</u>	<u>\$ 163,296</u>	<u>\$ 2,486,245</u>

NOTE 5 – CAPITAL ASSETS

Following is a summary of the changes in the City's capital assets for the year ended September 30, 2015:

	Balance at 9/30/2014	Additions and Reclassifications	Retirements and Reclassifications	Balance at 9/30/2015
Capital assets not being depreciated:				
Land and improvements	\$ 9,289,812	\$ -	\$ -	\$ 9,289,812
Construction in progress	2,299,234	502,556	-	2,801,790
Total capital assets not being depreciated	11,589,046	502,556	-	12,091,602
Capital assets being depreciated:				
Building and improvements	55,934,752	258,835	-	56,193,587
Land and infrastructure improvements	82,459,652	-	-	82,459,652
Equipment	28,365,949	2,763,839	(861,075)	30,268,713
Total capital assets being depreciated	166,760,353	3,022,674	(861,075)	168,921,952
Less accumulated depreciation for:				
Building and improvements	15,533,362	2,577,954	-	18,111,316
Land and infrastructure improvements	35,475,162	1,012,796	-	36,487,958
Equipment	21,970,172	1,788,502	(628,848)	23,129,826
Total accumulated depreciation	72,978,696	5,379,252	(628,848)	77,729,100
Total capital assets being depreciated, net	93,781,657	(2,356,578)	(232,227)	91,192,852
Governmental activities capital assets, net	\$ 105,370,703	\$ (1,854,022)	\$ (232,227)	\$ 103,284,454

City of Homewood, Alabama
Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to governmental functions as follows:

General government	\$ 3,377,926
Public safety	900,032
Streets	100,324
Sanitation	225,088
Culture and recreation	647,903
Municipal garage	127,979
Total depreciation expense	\$ 5,379,252

NOTE 6 – EMPLOYEE RETIREMENT PLAN

Plan description

The City contributes to the Employees' Retirement System of Alabama (ERSA), an agent multiple-employee retirement system, which acts as a common investment and administrative agent for the various state agencies and departments.

The ERSA was established as of October 1, 1945, under the provisions of Act 505, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specific benefits for State employees, State police and, on an elective basis, to all cities, counties, towns and quasi-public organizations. The responsibility for general administration and operation of the ERSA is vested in the Board of Control. Benefit provisions are established by the Code of Alabama 1975, Section 36-27-1 through 36-27-103, as amended, Sections 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Commission authority to accept or reject various Cost-of-Living Adjustments (COLAs) granted to retirees.

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:

City of Homewood, Alabama Notes to Financial Statements

NOTE 6 – EMPLOYEE RETIREMENT PLAN (CONTINUED)

- 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.

Substantially all employees are members of the ERSA. Membership is mandatory for covered or eligible employees of the City. Benefits vest after ten years of creditable service. Vested employees may retire with full benefits at age sixty or after twenty-five years of service.

Benefits provided

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

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

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the

City of Homewood, Alabama
Notes to Financial Statements

NOTE 6 – EMPLOYEE RETIREMENT PLAN (CONTINUED)

Benefits provided (continued)

beneficiary on the member's age, service credit, employment status and eligibility for retirement.

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

Retirees and beneficiaries currently receiving benefits	21,691
Terminated employees entitled to but not yet receiving benefits	1,252
Terminated employees not entitled to a benefit	5,048
Active Members	<u>55,883</u>
Total	<u>83,874</u>

Contributions

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

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

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2015, the City's active employee contribution rate was 12.61% of covered employee payroll.

City of Homewood, Alabama
Notes to Financial Statements

NOTE 6 – EMPLOYEE RETIREMENT PLAN (CONTINUED)

Contributions (continued)

The City’s contractually required contribution rate for the year ended September 30, 2015 was 15.12% of pensionable pay for Tier 1 employees and 12.82% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2012, 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 were \$2,235,651 for the year ended September 30, 2015.

Net Pension Liability

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

Total Pension Liability Roll Forward	
Total Pension Liability	
as of September 30, 2013 (a)	\$ 88,667,892
Entry Age Normal Cost for	
October 1, 2013 – September 30, 2014 (b)	1,514,594
Actual Benefit Payment and Refunds for	
October 1, 2013 – September 30, 2014 (c)	(5,726,936)
Total Pension Liability	
as of September 30, 2014	
$[(a) \times (1.08)] + (b) - [(c) \times (1.04)]$	\$ 91,319,904

Actuarial assumptions

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

Inflation	3.00%
Salary increases	3.75%-7.25%
Investment rate of return	8.00%*

*Net of pension plan investment expense

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

City of Homewood, Alabama
Notes to Financial Statements

NOTE 6 – EMPLOYEE RETIREMENT PLAN (CONTINUED)

Actuarial assumptions (continued)

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

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

	Target Allocation	Long-Term Expected Rate of Return *
Fixed Income	25.00%	5.00%
U. S. Large Stocks	34.00%	9.00%
U. S. Mid Stocks	8.00%	12.00%
U. S. Small Stocks	3.00%	15.00%
International Developed Market Stocks	15.00%	11.00%
International Emerging Market Stocks	3.00%	16.00%
Real Estate	10.00%	7.50%
Cash	2.00%	1.50%
Total	100.00%	

* Included assumed rate of Inflation of 2.50%

Discount rate

The discount rate used to measure the total pension liability was the long-term rate of return, 8%. 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 Homewood, Alabama
Notes to Financial Statements

NOTE 6 – EMPLOYEE RETIREMENT PLAN (CONTINUED)

Changes in Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balances at September 30, 2013	\$ 88,667,892	\$ 54,967,803	\$ 33,700,089
Changes for the year:			
Service cost	1,514,594	-	1,514,594
Interest	6,864,354	-	6,864,354
Changes in assumptions	-	-	-
Difference between expected and actual experience	-	-	-
Contributions – employer	-	2,170,917	(2,170,917)
Contributions – employee	-	1,416,151	(1,416,151)
Net investment income	-	6,467,463	(6,467,463)
Benefit payments, including refunds of employee contributions	(5,726,936)	(5,726,936)	-
Administrative expense	-	-	-
Transfers among employers	-	8,096	(8,096)
Net Changes	2,652,012	4,335,691	(1,683,679)
Balances at September 30, 2014	\$ 91,319,904	\$ 59,303,494	\$ 32,016,410

Sensitivity of the net pension liability to changes in the discount rate

The following table presents the City’s net pension liability calculated using the discount rate of 8%, 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 1-percentage point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease 7.00%	Current Discount Rate 8.00%	1% Increase 9.00%
Plan’s Net Pension Liability	\$ 41,992,755	\$ 32,016,410	\$ 23,533,627

Pension plan fiduciary net position

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

City of Homewood, Alabama
Notes to Financial Statements

NOTE 6 – EMPLOYEE RETIREMENT PLAN (CONTINUED)

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

For the year ended September 30, 2015, the City recognized pension expense of \$2,263,237. At September 30, 2015, the 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
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on plan investments	-	1,724,248
Employer contributions subsequent to the Measure Date	2,183,900	-
Total	\$ 2,183,900	\$ 1,724,248

Amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized in pension expense as follows:

Year Ended September 30:	
2016	\$ 431,062
2017	431,062
2018	431,062
2019	431,062
2020	-
Thereafter	-
Total	\$ 1,724,248

City of Homewood, Alabama
Notes to Financial Statements

NOTE 7 – POST-EMPLOYMENT BENEFITS

Plan description

The City's medical benefits are provided through a comprehensive medical plan and are made available to employees upon actual retirement.

The employees are covered by the Retirement System of Alabama and must meet the eligibility provisions of that system and also have fifteen years of service with the City of Homewood to receive retiree medical benefits. The state system eligibility provisions are as follows: 10 years of consecutive service and attainment of age 60; or, 25 years of service at any age. Complete plan provisions are included in the official plan documents.

Contribution rates

Employees do not contribute to their post-employment benefits costs until they become retirees and begin receiving those benefits. The plan provisions and contribution rates are contained in the official plan documents.

Funding policy

Prior to October 1, 2008, the City recognized the cost of providing post-employment medical benefits (the City of Homewood's portion of the retiree medical benefit premiums) 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. In fiscal year 2013, the City of Homewood's portion of health care funding cost for retired employees totaled \$60,060.

Effective with the Fiscal Year beginning October 1, 2008, the City of Homewood implemented Government Accounting Standards Board Statement Number 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions* (GASB 45).

Annual required contribution

The City's Annual Required Contribution (ARC) is an amount actuarially determined in accordance with GASB 45. The Annual Required Contribution (ARC) is the sum of the Normal Cost plus the contribution to amortize the Actuarial Accrued Liability (AAL). A level dollar, closed amortization period of 30 years (the maximum amortization period allowed by GASB 43/45) has been used for the post-employment benefits. The total ARC for the fiscal year beginning October 1, 2015 is \$164,966, as set forth below:

	Medical
Normal cost	\$ 72,531
30-year UAL amortization amount	92,435
Annual required contribution (ARC)	\$ 164,966

City of Homewood, Alabama
Notes to Financial Statements

NOTE 7 – POST-EMPLOYMENT BENEFITS (CONTINUED)

Net post-employment benefit obligation (asset)

The table below shows the City's Net Other Post-employment Benefit (OPEB) Obligation (Asset) for fiscal year ending September 30, 2015:

	Medical
Annual required contribution	\$ 164,966
ARC adjustment (including interest on net OPEB obligation)	(19,199)
Annual OPEB cost	145,767
Contributions	-
Current year retiree premium	(71,729)
Change in net OPEB obligation	74,038
Beginning net OPEB obligation, beginning of year	1,149,147
Ending net OPEB obligation at September 30, 2015	\$ 1,223,185

Funded status and funding progress

In the fiscal year ending September 30, 2015, the City of Homewood made no contributions to its post-employment benefits plan. The plan was not funded at all, has no assets, and hence has a funded ratio of zero. As of October 1, 2015, the most recent actuarial valuation, the projected Actuarial Accrued Liability (AAL) was \$1,604,713, which is defined as that portion, as determined by a particular actuarial cost method (the City of Homewood uses the Projected Unit Cost Method), for each employee as the Actuarial Present Value of Benefits allocated to the valuation year. The benefit attributed to the valuation year is that incremental portion of the total projected benefit earned during the year in accordance with the Plan's benefit formula. This allocation is based on each individual's service between date of hire and date of expected termination. Since no plan funding has occurred through fiscal year 2015, the entire actuarial accrued liability of \$1,604,713 was unfunded.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
Sept. 30, 2015	-	1,604,713	1,604,713	-	16,727,549	9.59%

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about the actuarial value of the plan. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects off legal or contractual funding limitations.

NOTE 7 – POST-EMPLOYMENT BENEFITS (CONTINUED)

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 Homewood and its employee plan members) at the time of the valuation and on the pattern of sharing costs between the City of Homewood 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 Homewood 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.

Turnover rate

An age-related turnover scale based on actual experience as described by administrative staff has been used. The rates, when applied to the active employee census, produce an annual turnover of approximately 6%. The rates for each age are below:

Age	Percent Turnover
25	11.00%
40	4.50%
55	4.25%

NOTE 7 – POST-EMPLOYMENT BENEFITS (CONTINUED)

Post-employment benefit plan eligibility requirements

It is assumed that entitlement to benefits will commence upon actual retirement at an assumed age of the earlier of 25 years of service or age 60 and 15 years of service as described above under "Plan Description". Medical benefits are provided to employees upon actual retirement. The employees are covered by the Retirement System of Alabama and must meet the eligibility provisions of that system and also have fifteen years of service with the City of Homewood to receive retiree medical benefits. The state system eligibility provisions are as follows: 10 years of consecutive service and attainment of age 60 or, 25 years of service at any age.

Investment return assumption (discount rate)

GASB Statement 45 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. This is a conservative estimate of the expected long term return of a balanced and conservative investment portfolio under professional management.

Health care cost trend rate

The per capita claims cost are based on the current retiree premiums of the Local Government Health Insurance Plan ("LGHIP"). Retiree benefits are provided through the LGHIP and are not separately determined by the medical plan experience of the City. A 5% level trend was applied to these premiums to reflect future year health cost trends.

Mortality rate

The RP-2000 Combined Mortality Table M/F Projection AA 2015 with separate rates for male and female was used.

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 a portion the cost of the medical insurance for the retiree and dependents. Retiree coverage ceases at age 65.

City of Homewood, Alabama
Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT

The following is a summary of long-term debt of the City for the year ended September 30, 2015:

	Balance September 30, 2014	Additions	Retirements	Balance September 30, 2015
Capital Lease Payable	\$ 944,555	\$ -	\$ 106,312	\$ 838,243
2007 Warrants	46,281,302	-	1,675,000	44,606,302
Interest Accretion on				
2007 Warrants	1,982,824	333,132	-	2,315,956
2012 Warrants	15,330,000	-	-	15,330,000
Unamortized Bond				
Premium	1,006,198	-	35,618	970,580
2015 Warrants	-	1,450,000	163,598	1,286,402
Total	\$ 65,544,879	\$ 1,783,132	\$ 1,980,528	\$ 65,347,483

Capital Lease Payable

On December 4, 2013, the City entered into a capital lease agreement with Regions Equipment Finance Corporation to acquire a ladder truck for \$1,078,772. The lease requires nine yearly payments of \$134,218 with an interest rate of 2.94%. The balance at September 30, 2015 was \$838,243.

Future minimum lease payments under the capital lease at September 30, 2015 are as follows:

Fiscal year ending September 30,	Present value of minimum lease payments	Interest	Total lease payments
2016	\$ 109,577	\$ 24,641	\$ 134,218
2017	112,799	21,419	134,218
2018	116,115	18,103	134,218
2019	119,529	14,689	134,218
2020	123,043	11,175	134,218
Thereafter	257,180	11,390	268,570
Total	\$ 838,243	\$ 101,417	\$ 939,660

Series 2007 General Obligations Capital Improvement and Refunding Warrants

In June 2007, the City issued \$48,576,302 in General Obligation Capital and Refunding Warrants (Series 2007 Warrants). The Warrants are secured by a pledge of revenue by the City. The Series 2007 Warrants consists of both current interest paying warrants and capital appreciation warrants. A portion of the Warrants on which interest is payable semiannually (Current Interest Paying

City of Homewood, Alabama
Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT (CONTINUED)

Warrants) will occur each March and September 1, at interest rates ranging from 4% to 5% (yields from 3.62% to 5.00%) and maturing in amounts varying from \$105,000 to \$3,385,000 through 2031.

A portion of the Series 2007 Warrants require that interest only be paid at maturity (Capital Appreciation Warrants). The Capital Appreciation Warrants pay interest at 4.85% and mature in amounts ranging from \$870,498 to \$1,054,215 in the years 2032 through 2036.

Annual requirements to retire the Series 2007 Warrants debt are as follows:

Year ending September 30,	Principal	Unaccrued Appreciation	Interest	Total
2016	\$ 1,760,000	\$ 349,292	\$ 1,769,631	\$ 3,878,923
2017	1,830,000	366,620	1,699,231	3,895,851
2018	1,920,000	384,532	1,607,731	3,912,263
2019	2,020,000	403,224	1,511,732	3,934,956
2020	2,120,000	423,278	1,410,732	3,954,010
2021 – 2025	11,970,000	2,448,742	5,675,908	20,094,650
2026 – 2030	14,800,000	3,111,695	2,915,800	20,827,495
2031 – 2035	7,315,804	3,954,162	143,862	11,413,828
2036 – 2040	870,498	911,196	-	1,781,694
Subtotal	44,606,302	12,352,741	16,734,627	73,693,670
Add: Accrued Appreciation through September 30, 2015	2,315,956	-	-	2,315,956
Total	\$ 46,922,258	\$ 12,352,741	\$ 16,734,627	\$ 76,009,626

Series 2012 General Obligations Capital Improvement Warrants

In December 2012, the City issued \$15,330,000 in General Obligation Capital Improvement Warrants (Series 2012 Warrants). Interest is payable semiannually each March and September 1, at interest rates ranging from 3.375% to 5% and maturing in varying amounts from \$2,360,000 to \$2,800,000 through 2042.

City of Homewood, Alabama
Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT (CONTINUED)

Annual requirements to retire the Series 2012 Warrants debt are as follows:

Year ending September 30,	Principal	Interest	Total
2016	\$ -	\$ 647,388	\$ 647,388
2017	-	647,388	647,388
2018	-	647,388	647,388
2019	-	647,388	647,388
2020	-	647,388	647,388
2021 – 2025	-	3,236,938	3,236,938
2026 – 2030	-	3,236,938	3,236,938
2031 – 2035	-	3,236,938	3,236,938
2036 – 2040	9,865,000	2,747,900	12,612,900
2041 – 2042	5,465,000	413,250	5,878,250
Total	\$ 15,330,000	\$ 16,108,904	\$ 31,438,904

Series 2015 General Obligation Warrant

In February 2015, the City issued \$1,450,000 in General Obligation Warrant (Series 2015 Warrant). Principal and interest are payable monthly at a fixed interest rate of 1.70 and maturing in 2020.

Annual requirements to retire the Series 2015 Warrant debt are as follows:

Year ending September 30,	Principal	Interest	Total
2016	\$ 283,022	\$ 19,682	\$ 19,682
2017	287,871	14,833	14,833
2018	292,804	9,901	9,901
2019	297,820	4,885	4,885
2020	124,885	534	125,419
Total	\$ 1,286,402	\$ 49,835	\$ 174,720

Interest paid on long-term debt was \$2,552,218 for the year ended September 30, 2015.

City of Homewood, Alabama
Notes to Financial Statements

NOTE 9 – CONTINGENCIES

The City is a party to various legal proceedings that are common in governmental operations. In the opinion of the City's management, these proceedings are either without merit, adequately covered by insurance or involve amounts that would not have a material adverse effect on the City's basic financial statements in the event of an unfavorable outcome to the City.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the City. The amount, if any, of expenditures, which may be disallowed by the grantor, cannot be determined at this time. However, the City believes such amounts, if any, to be immaterial.

NOTE 10 – INTERFUND RECEIVABLES / PAYABLES AND TRANSFERS

During the course of normal operations, the City incurs numerous transactions between funds to provide services, construct assets, service debt, etc. These transactions are generally reported as operating interfund transfers except in instances where the transfer represents the reimbursement to a fund for expenditures incurred for the benefit of another fund in which case they are reported as due to/from balances. Remaining fund balances in discontinued funds and non-recurring, non-routine transfers are accounted for as residual equity transfers.

The City's interfund balances at September 30, 2015, consist of the following:

Due to/from other funds:

Payable from	Payable to	Amount
General Fund	Capital Projects Fund	\$ 2,025,242
General Fund	Other Governmental Funds	6,915
Other Governmental Funds	General Fund	595,263
Debt Service Fund	General Fund	71,245
1947 School Tax Fund	Other Governmental Funds	29,685
Other Governmental Funds	Other Governmental Funds	10,008
Total		\$ 2,738,358

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

City of Homewood, Alabama
Notes to Financial Statements

NOTE 10 – INTERFUND RECEIVABLES / PAYABLES AND TRANSFERS (CONTINUED)

Interfund transfers:

Operating transfer out:	General Fund	Capital Projects Fund	Other Governmental Funds	Total
General Fund	\$ -	\$ 1,000,000	\$ -	\$ 1,000,000
Capital Projects Fund	-	-	2,288	2,288
Other Governmental Funds	71,751	1,470,885	-	1,542,636
Total	\$ 71,751	\$ 2,470,885	\$ 2,288	\$ 2,544,924

Interfund receivables and payables and transfers between funds within governmental activities are eliminated in the Statement of Net Position and the Statement of Activities.

NOTE 11 – DEFERRED COMPENSATION PLAN

The City offers its employees deferred compensation plans created in accordance with Internal Revenue Code (IRC) Section 457. The plans, available to all City employees, permit them to defer a portion of their salary until future years. The deferred compensation is payable to employees upon termination, retirement, death, or unforeseen emergency.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plans. Under the plans, participants select investments from alternatives offered by the plan administrators, who are under contract with the City to manage the plans. Investment selection by a participant may be changed from time to time. The City manages none of the investment selections. By making the selection, enrollees accept and assume all risks that pertain to the particular plan and its administration.

The City placed the deferred compensation plan's assets into trust for the exclusive benefit of the plan's participants and beneficiaries in accordance with Governmental Accounting Standards Board (GASB) Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.

The City has little administrative involvement and does not perform the investing function for the plans. The City does not hold the assets in a trustee capacity and does not perform fiduciary accountability for the plans. Therefore, the City employees' deferred compensation plans created in accordance with IRC 457 are not reported in the financial statements of the City.

City of Homewood, Alabama
Notes to Financial Statements

NOTE 12 – FUND BALANCE CLASSIFICATIONS

The following table details fund balance categories at September 30, 2015 (see Note 1 M.):

	General Fund	1947 School Tax Fund	Debt Service Fund	Capital Projects Fund	Other Govern- mental Funds	Total Governmental Funds
Fund balances						
Nonspendable						
Prepaid expenses	\$ 51	\$ -	\$ -	\$ -	\$ -	\$ 51
Restricted for:						
Road maintenance	-	-	-	-	705,981	705,981
Road paving	-	-	-	-	430,145	430,145
Debt service	-	-	5,032,221	-	-	5,032,221
BOE – property tax	-	21,954	-	-	-	21,954
Grant expenditures	-	-	-	-	60,794	60,794
E911	-	-	-	-	1,583,327	1,583,327
Court restricted by law	-	-	-	-	954,317	954,317
Drug enforcement task force	-	-	-	-	22,247	22,247
Community Center Construction	-	-	-	-	143	143
Committed to:						
Reserve for economic uncertainty	10,836,305	-	-	-	-	10,836,305
Assigned to:						
Other capital projects:	-	-	-	2,040,729	-	2,040,729
Encumbrances	31,938	-	-	269,823	-	301,761
Environmental testing	-	-	-	-	90,240	90,240
Inspection technology fund	-	-	-	-	54,770	54,770
Drug enforcement task force:	-	-	-	-	102,937	102,937
Park activity	-	-	-	-	214,806	214,806
Library donations	36,259	-	-	-	-	36,259
Public access donation	13,121	-	-	-	-	13,121
Risk management	1,000,000	-	-	-	-	1,000,000
Compensated absences	2,477,817	-	-	-	-	2,477,817
Debt service	-	-	5,952,207	-	-	5,952,207
Insurance claims	20,751	-	-	-	-	20,751
Subsequent years' budget	770,133	-	228,849	1,551,001	46,648	2,596,631
Unassigned	11,907,627	-	-	-	-	11,907,627
Total ending fund balance at						
September 30, 2015	\$ 27,094,002	\$ 21,954	\$ 11,213,277	\$ 3,861,553	\$ 4,266,355	\$ 46,457,141



City of Homewood, Alabama Notes to Financial Statements

NOTE 13 – FUTURE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued statements that will become effective in subsequent fiscal years. The statements address:

- Fair value measurement and application;
- Amendments to accounting and financial reporting for pensions;
- GAAP hierarchy
- Tax abatement disclosures;
- Financial reporting and accounting related to other-post employment benefits.

The City of Homewood is currently evaluating the effects that these statements will have on its financial statements in subsequent fiscal years.

NOTE 14 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT

The City implemented Governmental Accounting Standards Board (GASB) Statement 68, Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27), in the fiscal year ended September 30, 2015. The implementation of the statement required the City to record a beginning net pension liability and a beginning net pension asset and the effect on net position of contributions made by the City during the measurement period (fiscal year ended September 30, 2014). As a result, beginning net position for the year ended September 30, 2015 decreased by \$31,529,172.

Required Supplementary Information

City of Homewood, Alabama
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget to Actual—General Fund

Year ended September 30, 2015

	Budget - Original	Budget - Final	General Fund Actual	Variance
Revenues				
Taxes				
Advalorem	\$ 4,466,028	\$ 4,466,028	\$ 4,997,396	\$ 531,368
Sales tax	21,680,569	21,680,569	21,651,833	(28,736)
Other taxes	4,077,486	4,077,486	3,620,078	(457,408)
Total taxes	30,224,083	30,224,083	30,269,307	45,224
Licenses and permits				
Motor vehicle licenses	73,210	73,210	69,444	(3,766)
Business licenses	4,162,000	4,162,000	4,208,265	46,265
Utility licenses	2,149,073	2,149,073	2,190,682	41,609
Building permits	800,080	800,080	850,456	50,376
Total licenses and permits	7,184,363	7,184,363	7,318,847	134,484
Intergovernmental				
Local	120,349	120,349	188,425	68,076
Total intergovernmental	120,349	120,349	188,425	68,076
Charges for services				
General governmental	457,517	457,517	616,666	159,149
Public safety	37,696	37,696	27,756	(9,940)
Culture and recreation	669,138	669,138	707,272	38,134
Total charges for services	1,164,351	1,164,351	1,351,694	187,343
Fines and forfeiture	660,679	660,679	778,574	117,895
Other revenues	1,350,577	1,502,379	597,601	(904,278)
Total revenues	40,704,402	40,856,204	40,504,448	(351,256)

(Continued on the following page.)

City of Homewood, Alabama
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget to Actual—General Fund (continued)

Year ended September 30, 2015

	Budget - Original	Budget - Final	Actual	Variance
Expenditures				
Current:				
General government administration	\$ 4,269,355	\$ 4,385,062	\$ 4,874,049	\$ (488,987)
Public safety	12,201,355	16,093,466	15,136,497	956,969
Public works	4,322,461	5,832,635	5,572,256	260,379
Culture and recreation	4,322,461	6,200,294	5,761,216	439,078
Total expenditures	25,115,632	32,511,457	31,344,018	1,167,439
Excess of revenues over expenditures	15,588,770	8,344,747	9,160,430	815,683
Other financing sources (uses)				
Operating transfers in	53,106	53,106	71,751	18,645
Appropriations to City Board of Education	(7,932,000)	(7,932,000)	(7,946,607)	(14,607)
Operating transfers out	(495,854)	(495,854)	(1,000,000)	(504,146)
Total other financing sources (uses)	(8,374,748)	(8,374,748)	(8,874,856)	(500,108)
Excess of revenues and other financing sources over expenditures	\$ 7,214,022	\$ (30,001)	\$ 285,574	\$ 315,575

City of Homewood, Alabama
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget to Actual—1947 School Tax Special Revenue Fund

Year ended September 30, 2015

	Budget - Original	Budget - Final	Actual	Variance
Revenues				
Taxes	\$ 7,605,652	\$ 8,008,969	\$ 7,984,508	\$ (24,461)
Other revenue	116	363	362	(1)
Total revenues	7,605,768	8,009,332	7,984,870	(24,462)
Expenditures				
General government administration	327,149	386,399	351,939	34,460
Excess of revenues over expenditures	7,278,619	7,622,933	7,632,931	9,998
Other financing sources (uses)				
Appropriations to City Board of Education	(7,278,619)	(7,622,933)	(7,662,799)	(39,866)
Total other financing sources (uses)	(7,278,619)	(7,622,933)	(7,662,799)	(39,866)
Excess of revenues and other financing sources over (under) expenditures	-	-	(29,868)	(29,868)
Fund balances, beginning of year	51,822	51,822	51,822	-
Fund balances, end of year	\$ 51,822	\$ 51,822	\$ 21,954	\$ (29,868)

City of Homewood, Alabama
Schedule of Changes in Net Pension Liability

Employee Retirement Plan (see also Note 6)

	2014
Total pension liability	
Service Cost	\$ 1,514,594
Interest	6,864,354
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of employee contributions	(5,726,936)
Net change in total pension liability	2,652,012
Total pension liability - beginning	88,667,892
Total pension liability - ending (a)	\$ 91,319,904
Plan Fiduciary Net Position	
Contributions - employer	\$ 2,170,917
Contributions - employee	1,416,151
Net investment income	6,467,463
Benefit payments, including refunds of employee contributions	(5,726,936)
Transfers among employers	8,096
Net change in plan fiduciary net position	4,335,691
Plan net position - beginning	54,967,803
Plan net position - ending (b)	\$ 59,303,494
Net pension liability (asset) - ending (a) - (b)	\$ 32,016,410
Plan fiduciary net position as a percentage of total pension liability	64.94%
Covered employee payroll	\$ 17,735,242
Net pension liability as a percentage of covered employee payroll	180.52%

City of Homewood, Alabama
Schedule of Employer Contributions

Employee Retirement Plan (see also Note 6)

	2015
Actuarially Determined Contribution	\$ 2,235,651
Employer Contributions to Pension Plan	2,235,651
Annual Contribution Deficiency (Excess)	\$ -
Covered Employee Payroll	\$ 17,735,242
Employer Contributions to Pension Plan as a % of Covered Employee Payroll	12.61%

Schedule of Funding Progress – Other Post – Employment Benefit Plan

Post-employment benefits (See also Note 7)

A. Trend information

The following table shows the City’s annual post-employment benefits (PEB) cost, percentage of the cost contributed, and the net unfunded post-employment benefits (PEB) liability since September 30, 2010:

Post Employment Benefit	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
Medical	September 30, 2015	\$ 145,767	42.91%	\$ 1,223,185
Medical	September 30, 2014	102,508	58.59%	1,149,147
Medical	September 30, 2013	101,151	60.94%	1,106,699
Medical	September 30, 2012	178,743	40.28%	1,067,192
Medical	September 30, 2011	173,300	37.07%	960,450
Medical	September 30, 2010	488,026	8.67%	851,399

B. Funded status and funding progress

The following table shows the City’s funded status and funding progress. The City of Homewood has made no contributions to its post-employment benefits plan. The plan was not funded at all, has no assets, and hence has a funded ratio of zero.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
2015	-	1,604,713	1,604,713	-	16,727,549	9.59%
2014	-	1,080,111	1,080,111	-	16,631,611	6.49%
2013	-	1,070,234	1,070,234	-	16,631,611	6.43%
2012	-	1,725,398	1,725,398	-	17,800,000	9.69%
2011	-	1,691,923	1,691,923	-	15,982,304	10.59%
2010	-	3,635,742	3,635,782	-	16,800,000	21.64%

City of Homewood
Notes to Required Supplementary Information

Employees' Retirement System of Alabama

NOTE 1 – SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND SCHEDULE OF PENSION LIABILITY AND FIDUCIARY NET POSITION

The total pension liabilities presented in these schedules were provided by the Systems' actuarial consultants, Cavanaugh Macdonald Consulting, LLC. The net pension liability is measured as the total pension liability less the components of the plan net position reserved to fund the total pension liability. Those components are annuity savings and pension accumulation. The related ratios show plan net position as a percentage of the total pension liability and the net pension liability as a percentage of covered employee payroll.

NOTE 2 – SCHEDULE OF ACTUARIALY DETERMINED CONTRIBUTIONS

Contributions were made in accordance with actuarially determined contribution requirements. The employer contribution rate expressed as a percent of payroll is determined annually by reviewing a variety of factors including benefits promised, member contributions, investment earnings, mortality, and withdrawal experience. The employer contribution rates for fiscal year 2015 were 17.2% for tier 1 employees (hired before January 1, 2013) and 14.82% for tier 2 employees (hired after January 1, 2013).

NOTE 3 – ACTUARIAL ASSUMPTIONS

The actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. Contributions for the fiscal year 2015 were based on the September 30, 2012 actuarial valuation. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial Cost Method	Entry age
Amortization Method	Level percent closed
Remaining Amortization Period	27 years
Asset Valuation Method	5-year smoothed market
Investment Rate of Return:	8.00%
Projected Salary Increases:	3.75 - 7.25%

Changes to benefit terms

Members hired after January 1, 2013 are covered under a new benefit structure.



City of Homewood, Alabama
Notes to Required Supplementary Information

NOTE 3 – ACTUARIAL ASSUMPTIONS (CONTINUED)

Changes to assumptions

In 2010 and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2010. In 2010, rates of withdrawal, retirement, disability, and mortality were adjusted to more closely reflect actual experience. In 2010, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.