

City of Homewood, Alabama

Financial Statements

September 30, 2017



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City of Homewood, Alabama
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September 30, 2017

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TAB: THOUGHT LEADERSHIP

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 the City of Homewood, Alabama (the "City"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2017, 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 43 through 50 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 of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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.

Carri Riggs & Ingram, L.L.C.

Birmingham, Alabama

June 30, 2018

**City of Homewood
Management's Discussion & Analysis (MD&A)
September 30, 2017**

The City of Homewood Management's Discussion and Analysis report provides an overview of the City's financial activities for the fiscal year ended September 30, 2017. Please read the report in conjunction with the City's financial statements and 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 2017 fiscal year by approximately \$47 million (net position).
- The City's net position increased by approximately \$ 172,000 in fiscal year 2017, primarily due to the change in interest on long-term debt resulting from the new 2016 warrant issue, which refunded the 2007 outstanding warrants as well as resulted in approximately \$110 million of new funds split between the City and the Homewood City Board of Education for capital construction projects. Effective February 1, 2017 the City of Homewood increased sales tax by 1% to help offset the cost of this new bond issue. As a result of this increase, tax revenues are up from the 2015-2016 fiscal year by over \$7 million; however, for fiscal year 2016-2017 all sales and use tax revenue generated from the new 1 percent was transferred out of the General Fund into the Debt Service Fund to pay the increased warrant payments since the new tax was only in effect for a portion of the fiscal year.
- The total cost of the City's programs for the 2017 fiscal year was \$ 50.2 million. The net cost was approximately \$ 41.3 million after subtracting grants and charges for services.
- The General Fund revenues received for the 2017 fiscal year exceeded expenditures by \$410,247. This was the amount of revenues exceeding expenditures after the City transferred \$500,000 from General Fund to Capital Projects Fund for future capital expenditures and also paid employees bonuses of a not-to-exceed amount of \$350,000.
- At the end of the 2017 fiscal year, the general fund unassigned fund balance was slightly over \$13.1 million, approximately 39.4% of the total general fund operating expenditures.
- Net capital assets for the 2017 fiscal year decreased by approximately \$3.9 million primarily due to annual depreciation of \$6.2 million in addition to the City selling land and other various pieces of equipment.
- The City's long-term debt increased by approximately \$109 million primarily due to entering into a capital lease for city vehicles in the amount of \$710,000 and issuing almost \$159 million in 2016 warrants. As mentioned earlier, this 2016 warrant issue refunded over \$45.5 million from the 2007 warrant issue and resulted in new money of approximately \$110 million for capital improvements including City park renovations and additions to West Homewood Park, constructing a new Public Safety Center and paying \$55 million on behalf of the Homewood Board of Education for school renovations and construction projects in order to meet future demand from increased enrollments and needed infrastructure improvements.

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, 2017.

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, the Capital Projects Fund and the 2016 GOW Construction Fund. All special revenue funds are presented as *other governmental 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 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 43 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, a City’s net position 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 Position

	As of September 30, (dollars in thousands)	
	<u>2017</u>	<u>2016</u>
Assets:		
Current and other assets	\$ 157,636	\$ 45,615
Capital assets	103,969	107,862
Deferred outflow of resources	11,816	6,070
Total assets and deferred outflows of resources	<u>273,421</u>	<u>159,547</u>
Liabilities:		
Current liabilities	8,705	6,536
Long-term liabilities	216,261	105,887
Deferred inflow of resources	1,158	-
Total liabilities and deferred inflows of resources	<u>226,124</u>	<u>112,423</u>
Net Position:		
Invested in capital assets, (net of related debt)	41,283	42,278
Restricted	15,560	8,218
Unrestricted	<u>(9,546)</u>	<u>(3,371)</u>
Total Net Position	<u>\$ 47,297</u>	<u>\$ 47,125</u>

- The City’s assets exceeded liabilities (net position) by \$47.3 million at September 30, 2017. This consists of assets (net of related debt) invested in capital of approximately \$41.2 million and \$15.6 million of assets restricted by law for specific purposes and a negative balance in unrestricted net position of over \$(9.5) million. This negative balance in unrestricted net position is primarily the result of increased long-term liabilities resulting from the 2016 warrant issue.

Assets (net of related debt) invested in capital of \$41.2 million reflect 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 assets 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 assets as of September 30, 2017.

Table 2: Summary of Changes in Net Position

	Fiscal Year Ended	
	September 30,	
	(dollars in thousands)	
	2017	2016
Program revenues:		
Charges for services	\$ 8,433	\$ 7,952
Operating grants/contributions	321	450
Capital grants/contributions	118	1,027
General revenues:		
Taxes	57,480	50,379
Investment earnings	655	298
Gain on sale of assets	15	166
Miscellaneous revenue	26	152
Total revenues	<u>67,048</u>	<u>60,424</u>
Program expenses:		
General government	12,295	10,882
Public safety	19,131	18,411
Public works	6,834	6,775
Culture/recreation	7,371	7,188
Interest on long-term debt	4,598	2,842
Total expenses	<u>50,229</u>	<u>46,098</u>
Transfer to BOE	<u>(16,647)</u>	<u>(16,136)</u>
Change in net position	172	(1,810)
Net position, beginning	<u>47,125</u>	<u>48,935</u>
Net position, ending	<u>\$ 47,297</u>	<u>\$ 47,125</u>

The City's revenues increased by approximately almost \$7 million, or almost 11%, from the prior fiscal year. This increase is primarily attributable to the City Council approving a 1% sales tax increase which was effective January 1, 2017 to be used as a funding source for the warrant proceeds borrowed for capital expansion in the 2016 warrant issue. Capital and operating grants and contributions decreased over \$1 million because in fiscal year 2016 the City received grant revenue reimbursement for right-of-way purchased for the Greenway II project and in fiscal year 2017 this did not occur. This is an ongoing project and will continue over several fiscal years. Tax revenue increased over \$7.1 million primarily due to increased sales tax revenue due to the

1% increased rate. The City’s program expenses increased over \$6.5 million primarily due to increased general government, public safety program expenses and interest on long-term debt.

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, 2017	
	(dollars in thousands)	
	Total Cost of Services	Net Cost of Services
General government administration	\$ 12,295	\$ 6,222
Public safety	19,131	18,995
Public works	6,834	5,440
Culture and recreation	7,371	6,103
Interest on long-term debt	<u>4,598</u>	<u>6,978</u>
Total	<u>\$ 50,229</u>	<u>\$ 43,738</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 statements between the *fund financial statements* and the *government-wide financial statements* is presented on page 7 and page 9). At the end of the fiscal year, the City's governmental funds reported a combined fund balance of approximately \$153.8 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 43. The City’s actual results as compared to the City’s budget can be briefly summarized as follows:

- Tax revenues fell short of final approved budget by \$551K, primarily due to all other miscellaneous taxes excluding sales/use and ad valorem collections falling short of budgeted projections. Total licenses and permits exceeded budget by almost \$476K, due to higher actual building permit revenue than projected. Total charges for services decreased by approximately \$74K due to decreased collections for general governmental charges of almost \$142K while culture and recreation revenue exceeded budget by approximately \$64K due to the increased membership and usage at the new Central Park and Recreation Center. Actual expenditures were lower than the final approved budget by slightly more than \$2.3 million primarily due to carefully monitoring expenditures, especially with payroll costs of new hires and temporary employees. All city government departments were under budget at year end.
- Overall actual results exceeded final budget projections by \$410,247. This amount is the surplus existing after expensing \$350,000 in employee bonuses and transferring \$500,000 from the general fund to the capital fund. The adopted budget for fiscal year 2016-17 included the use of carryover fund balance of almost \$2.3 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 the reason Other Revenues fell short of budget by over \$2 million as this was the category where the projected use of carryover fund balance as a funding source was budgeted.

Capital Assets and Debt Administration

Capital Assets - The City's investment in capital assets for governmental activities for the year ended September 30, 2017, amounted to almost \$104 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)	
	<u>2017</u>	<u>2016</u>
Land	\$ 13,600	\$ 13,541
Construction-in-progress	2,865	2,123
Buildings	34,108	36,208
Land/infrastructure improvements	43,583	45,201
Equipment, furniture, computers and vehicles	9,813	10,789
Capital assets, net of depreciation	<u>\$ 103,969</u>	<u>\$ 107,862</u>

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

Land & Improvements	\$ 59
Construction in progress	742
Buildings	70
Land/infrastructure improvements	
Equipment, furniture, computers, vehicles	<u>1,575</u>
Total	\$ <u>1,645</u>

Long-Term Debt - At year-end, the City had almost \$175 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, 2017 (dollars in thousands)		
	Beginning Balance	Net Change	Ending Balance
Governmental activities:			
2007 Warrants w/accretion	\$ 45,511	\$ (45,511)	\$ 0
2012 Warrants w/unamortized bond premium	16,265	(36)	16,229
2015 Warrants	1,004	(288)	716
2016 Warrants w/unamortized bond premium	0	154,995	154,995
Capital Lease Payable	<u>2,804</u>	<u>(86)</u>	<u>2,718</u>
Totals	\$ <u>65,584</u>	\$ <u>109,074</u>	\$ <u>174,658</u>

Long-term debt activity for the year consisted of the following:

- Outstanding debt was over \$65 million at the beginning of the fiscal year and consisted of the 2007, 2012, 2015 warrant issues as well as capital leases for city equipment. As previously aforementioned the City issued new debt of over \$110 million through a 2016 warrant issue which also refunded over \$45 million from the 2007 warrant issue. The new proceeds from this issue will be split evenly between the City and the Board of Education for capital improvement projects to be completed in the coming fiscal years.

Economic Factors and Next Year's Budget

Fiscal Year 2018 Budget - The City Council approved an original budget beginning in October, 2017 exceeding \$124.5 million for all funds (General and Special Revenue), exclusive of the School Trust Fund. Included in this amount is \$51 million budgeted to be expended during fiscal year 2017-2018 for construction projects related to the 2016 warrant issue including \$16 million for Homewood City School projects. The General Fund budget was approved for \$50.3 million and the Capital Projects Fund budget was approved for \$6.2million.

Economic Factors – During the first quarter of fiscal year 2016-2017 the City Council of the City of Homewood approved a 1% increase in city sales and use tax to be effective January 1, 2017 and issued 2016 warrants in the amount of approximately \$160 million. This issue refunded the 2007 warrant issue as well as issuing new debt in the amount of approximately \$110 million for capital improvement projects. \$55 million of this new debt was issued by the City of Homewood on behalf of the Homewood City Board of Education for infrastructure improvements to the schools. The remaining bond proceeds will be utilized by the City for various capital projects including renovations to West Homewood Parks and Pool as well as relocating the Police/Jail operations to Bagby Drive in Homewood with all new facilities which will major construction projects for fiscal year 2017-2018.

Personnel Administration Cost – The City’s personnel administration is provided by the Personnel Board of Jefferson County (PBJC). The City of Homewood’s Council approved 2017-2018 budget included a line item of \$296,101 for this expenditure based on analysis of prior year cost to the City. Actual costs invoiced to the City of Homewood by the PBJC and payable during fiscal year 2017-2018 year totaled \$342,965, which represents a 15.8% increase over fiscal year 2016-2017 costs. Explanations provided to the City by the PBJC included their organization increasing their budgeted expenditures to cover a new human resource computer system in addition to Homewood having more classified employees over the prior fiscal year. The City of Homewood is required to be a member of the PBJC.

Medical Costs – Employee health insurance is provided through the State of Alabama Insurance Board (SEIB). This Board voted to increase health insurance rates 1.5% beginning January 1, 2018. The City achieved preferred rating in part through meeting the wellness screening participation goals in fiscal year 2016-2017. This increase was absorbed by the City of Homewood and not the employee and was budgeted in the approved FY 17-18 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 13.90% for fiscal year 2017-2018. The City’s contribution percentage for Tier 2 employees that contribute 6% and 7% to retirement is 13.01% for fiscal year 2017-2018.

Cost-of-Living Raise – Homewood City Council, upon recommendation of the Mayor voted to give employees a 2% Cost-of-Living Raise in the FY 17-18 budget. In addition, the Mayor recommended and Council approved the payment of up to \$350,000 in bonuses from September 30, 2017 surplus to be paid in November, 2017.

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 Robert Burgett, Finance Director/Acting City Clerk, City of Homewood, 2850 19th Street South, Homewood, Alabama, 35209.

City of Homewood, Alabama
Statement of Net Position

<i>September 30, 2017</i>	Primary Government Governmental Activities
Assets	
Current assets	
Cash and cash equivalents	\$ 18,744,292
Investments	112,571,901
Receivables	3,206,605
Prepaid expenses	17,261
Restricted assets:	
Cash and cash equivalents	23,096,388
Total current assets	157,636,447
 Noncurrent assets	
Capital assets	
Land, improvements and construction in progress	16,464,993
Other capital assets, net of depreciation	87,504,206
Total capital assets	103,969,199
Total assets	261,605,646
 Deferred outflows of resources	
Employer contributions subsequent to measurement date	2,360,262
Changes of assumptions	3,507,723
Differences between expected and actual earnings on pension plan investments and experience	2,109,459
Deferred charges from refunding	3,838,370
Total deferred outflows of resources	11,815,814
Total assets and deferred outflows of resources	\$ 273,421,460

See accompanying notes to basic financial statements.

September 30, 2017

Primary Government
Governmental
Activities

Liabilities

Current liabilities

Accounts payable	\$	1,648,229
Current portion of compensated absences		120,911
Accrued interest payable		633,905
Accrued expenses		543,129
Due to other governmental units		1,659,796
Capital lease payable		841,299
Warrants payable		3,257,804
Total current liabilities		8,705,073

Long-term liabilities

Net post-employment benefit obligation		1,369,821
Net pension liability		42,034,653
Compensated absences		2,297,312
Capital lease payable		1,876,699
Warrants payable		168,682,456
Total long-term liabilities		216,260,941

Total liabilities

224,966,014

Deferred inflows of resources

Difference between projected and actual earnings on pension plan investments		1,158,394
Total deferred inflows of resources		1,158,394

Net position

Net investment in capital assets		41,283,469
Restricted for:		
Public safety		1,545,294
Public works		1,074,889
Other purposes		12,939,397
Unrestricted (deficit)		(9,545,997)

Total net position

\$ 47,297,052

City of Homewood, Alabama Statement of Activities

Year ended September 30, 2017

Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Primary Governmental Activities	
		Charges for Services	Operating Grants and Contributions			Capital Grants and Contributions
Primary government						
Governmental activities:						
General government administration	\$ 12,294,962	\$ 5,851,830	\$ 221,522	\$ -	\$ (6,221,610)	
Public safety	19,131,371	37,894	98,137	-	(18,995,340)	
Public works	6,834,150	1,276,264	-	118,302	(5,439,584)	
Culture and recreation	7,370,874	1,266,848	750	-	(6,103,276)	
Interest on long-term debt	4,597,629	-	-	-	(4,597,629)	
Total primary government	\$ 50,228,986	\$ 8,432,836	\$ 320,409	\$ 118,302	(41,357,439)	
General revenues:						
Taxes:						
Ad Valorem (real and personal property)					17,364,307	
Sales and use					30,589,081	
Other taxes					6,830,163	
Franchise fees					2,696,942	
Investment earnings					655,084	
Miscellaneous					26,219	
Gain on capital asset disposals					15,075	
Transfer to City Board of Education					(16,647,087)	
Total general revenues and transfers					<u>41,529,784</u>	
Change in net position					172,345	
Net position at beginning of year					<u>47,124,707</u>	
Net position at end of year					<u>\$ 47,297,052</u>	

See accompanying notes to basic financial statements.

City of Homewood, Alabama
Balance Sheet—Governmental Funds

<i>September 30, 2017</i>	General Fund	1947 School Tax Fund	Debt Service Fund
Assets			
Cash and cash equivalents	\$ 18,744,292	\$ -	\$ -
Investments	10,283,557	-	-
Receivables	2,910,194	51,633	27,707
Prepaid expenses	17,261	-	-
Due from other funds	48,535	330	1,385,712
Cash and cash equivalents - restricted	845,140	324,073	9,411,270
Investments - restricted	-	-	-
Total assets	\$ 32,848,979	\$ 376,036	\$ 10,824,689
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 1,345,770	\$ -	\$ -
Accrued expenses	379,314	-	-
Due to other governmental units	1,366,050	293,746	-
Due to other funds	1,843,056	-	-
Unearned revenue	8,883	-	-
Total liabilities	4,943,073	293,746	-
Fund balances			
Nonspendable	17,261	-	-
Restricted	-	82,290	11,519,904
Committed	11,173,241	-	-
Assigned	3,608,178	-	1,427,837
Unassigned (deficit)	13,107,226	-	(2,123,052)
Total fund balances	27,905,906	82,290	10,824,689
Total liabilities and fund balances	\$ 32,848,979	\$ 376,036	\$ 10,824,689

See accompanying notes to basic financial statements.

Capital Projects Fund	Obligation Warrants Construction Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 18,744,292
-	-	-	10,283,557
163,296	-	53,775	3,206,605
-	-	-	17,261
501,144	-	42,957	1,978,678
4,912,471	2,878,523	4,724,911	23,096,388
-	102,288,344	-	102,288,344
\$ 5,576,911	\$ 105,166,867	\$ 4,821,643	\$ 159,615,125

\$ 228,424	\$ -	\$ 74,035	\$ 1,648,229
-	-	154,932	534,246
-	-	-	1,659,796
-	-	135,622	1,978,678
-	-	-	8,883
228,424	-	364,589	5,829,832

-	-	-	-
-	-	-	17,261
-	-	-	11,173,241
5,348,487	-	499,739	10,884,241
-	-	(71)	10,984,103
5,348,487	105,166,867	4,457,054	153,785,293
\$ 5,576,911	\$ 105,166,867	\$ 4,821,643	\$ 159,615,125

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

September 30, 2017

Fund balance - total governmental funds \$ 153,785,293

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	\$ 193,023,658	
Accumulated depreciation	<u>(89,054,459)</u>	103,969,199

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	(633,905)	
Net post-employment benefit obligation	(1,369,821)	
Net pension obligation	(42,034,653)	
Compensated absences	(2,418,223)	
Capital lease payable	(2,717,998)	
Warrants payable	<u>(171,940,260)</u>	(221,114,860)

Deferred outflows related to pensions		11,815,814
Deferred inflows related to pensions		<u>(1,158,394)</u>

Net position of governmental activities		<u>\$ 47,297,052</u>
--	--	-----------------------------

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, 2017

	General Fund	1947 School Tax Fund	Debt Service Fund
Revenues			
Taxes	\$ 37,715,397	\$ 8,393,211	\$ 4,963,159
Licenses and permits	7,882,987	-	-
Intergovernmental	98,137	-	215,321
Charges for services	1,386,228	-	-
Fines and forfeitures	694,551	-	-
Other revenues	642,500	653	26,747
Total revenues	48,419,800	8,393,864	5,205,227
Expenditures			
Current:			
General government administration	5,406,951	195,352	227,600
Public safety	15,971,191	-	-
Public works	5,801,170	-	-
Culture and recreation	6,056,721	-	-
Debt service:			
Principal retirement	-	-	4,593,185
Interest and fiscal charges	-	-	6,668,810
Capital outlay	-	-	-
Total expenditures	33,236,033	195,352	11,489,595
Excess of revenue over (under) expenditures	15,183,767	8,198,512	(6,284,368)
Other financing sources (uses)			
Operating transfers in	8,167	-	10,299,049
Proceeds from capital leases	-	-	710,000
Proceeds from bond issuance	-	-	139,395,000
Premium on debt issuance	-	-	19,599,899
Payment to refunded warrant and bond escrow agent	-	-	(46,860,744)
Appropriation to City Board of Education	(8,233,887)	(8,197,859)	-
Operating transfers out	(6,547,800)	-	(110,684,258)
Total other financing sources (uses)	(14,773,520)	(8,197,859)	12,458,946
Excess of revenues and other sources over (under) expenditures and other uses	410,247	653	6,174,578
Fund balance, beginning of year	27,495,659	81,637	4,650,111
Fund balance, end of year	\$ 27,905,906	\$ 82,290	\$ 10,824,689

See accompanying notes to basic financial statements.

	2016 General			
Capital	Obligation Warrants		Other	Total
Projects	Construction		Governmental	Governmental
Fund	Fund		Funds	Funds
\$ 1,993,819	\$ -		\$ 1,717,965	\$ 54,783,551
-	-		40,980	7,923,967
-	-		124,505	437,963
-	-		481,372	1,867,600
-	-		214,820	909,371
196,387	280,087		148,527	1,294,901
2,190,206	280,087		2,728,169	67,217,353
1,841,381	-		1,076,601	8,747,885
-	-		647,122	16,618,313
-	-		221,304	6,022,474
-	-		32,539	6,089,260
-	-		-	4,593,185
-	-		-	6,668,810
2,244,437	695,174		134,203	3,073,814
4,085,818	695,174		2,111,769	51,813,741
(1,895,612)	(415,087)		616,400	15,403,612
1,223,483	110,006,980		-	121,537,679
-	-		-	710,000
-	-		-	139,395,000
-	-		-	19,599,899
-	-		-	(46,860,744)
-	(173,612)		(41,729)	(16,647,087)
-	(4,251,414)		(54,207)	(121,537,679)
1,223,483	105,581,954		(95,936)	96,197,068
(672,129)	105,166,867		520,464	111,600,680
6,020,616	-		3,936,590	42,184,613
\$ 5,348,487	\$ 105,166,867		\$ 4,457,054	\$ 153,785,293

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, 2017

Net change in fund balances - total governmental funds \$ 111,600,680

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

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.

Expenditures for capital assets	\$ 2,445,935	
Less current year depreciation	<u>(6,169,437)</u>	(3,723,502)

The net effect of transactions involving the sale of capital assets is to decrease net position. (168,935)

For governmental funds, the issuance of long-term debt provides current financial resources and the repayment of long-term debt consumes current financial resources. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued whereas these amounts are deferred and amortized in the Statement of Activities. These amounts are the net effect of these differences in the treatment of long-term debt and related items:

Proceeds from issuance of 2016 warrants payable		(139,395,000)
Premium on 2016 warrants payable		(19,599,899)
Defeasance of 2007 warrants payable		46,860,744
Change in accreted interest		2,665,248
Amortization of premiums		525,615
Amortization of deferred charges from refunding		(176,072)
Principal payments		4,593,185
Proceeds from capital lease payable		(710,000)

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.

Change in long-term compensated absences	(51,948)	
Change in accrued interest payable	(417,995)	
Change in net post-employment benefit obligation	(67,902)	
Change in pension expense	<u>(1,761,874)</u>	<u>(2,299,719)</u>

Change in net position of governmental activities \$ 172,345

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.

City of Homewood, Alabama
Notes to Financial Statements

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.

City of Homewood, Alabama
Notes to Financial Statements

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 and is classified as a major fund of the City.

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 and is classified as a major fund of the City.

5. 2016 General Obligation Warrants Construction Fund

The 2016 General Obligation Warrants Construction Fund is used to account for bond proceeds that are being used for construction projects.

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 owning investments 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, 2017, unused vacation leave totaled \$2,418,223. 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, 2017 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.

City of Homewood, Alabama
Notes to Financial Statements

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. 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, warrant 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)

M. Net position / fund equity (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 \$11,173,241 of General Fund fund balance to cover City operations in situations of economic uncertainty. Such uncertainty includes a severe economic downturn or major unforeseen events (as determined by council action) where a significant portion of revenues supporting the City’s basic operations are projected to decline for more than two years or permanently.

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.



City of Homewood, Alabama
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

The City passed an ordinance authorizing the issuance of General Obligation Warrants Series 2017 in the amount of \$46,330,000. The closing date was December 28, 2017.

Subsequent events were evaluated through June 30, 2018, the date these financial statements were available to be issued.

City of Homewood, Alabama
Notes to Financial Statements

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, 2017, are as follows:

	Cash and Demand Deposits	Restricted	Unrestricted
General Fund	\$ 19,589,432	\$ 845,140	\$ 18,744,292
1947 School Tax Fund	324,073	324,073	-
Debt Service Fund	9,411,270	9,411,270	-
Capital Projects Fund	4,912,471	4,912,471	-
2016 GOW Construction Fund	2,878,523	2,878,523	-
Other Governmental Funds	4,724,911	4,724,911	-
Total	\$ 41,840,680	\$ 23,096,388	\$ 18,744,292

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 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, 2017 are held in a qualified public depository.

City of Homewood, Alabama
Notes to Financial Statements

NOTE 3 - INVESTMENTS

As of September 30, 2017, the City had the following investments held in the general fund for emergency reserves:

Investment type	Fair Value	Weighted Average Duration	Fair Value Measurements		
			Level 1	Level 2	Level 3
Certificates of deposit	\$ 5,016,404		\$ -	\$ 5,016,404	\$ -
Municipal bonds	3,415,153		-	3,415,153	-
Agency bonds	1,852,000		-	1,852,000	-
Total	\$ 10,283,557	2.06	\$ -	\$ 10,283,557	\$ -

As of September 30, 2017, the City had the following investments held in the 2016 General Obligation Warrants Construction fund for the construction of various building projects:

Investment type	Fair Value	Weighted Average Duration	Fair Value Measurements		
			Level 1	Level 2	Level 3
Agency bonds	\$ 100,643,376		\$ 28,622,190	\$ 72,021,186	\$ -
U.S. Treasury Notes	1,644,968		1,644,968	-	-
Total	\$ 102,288,344	2.170	\$ 30,267,158	\$ 72,021,186	\$ -

The City's investments are held at fair value. The City classifies its fair value measurements in accordance with GASB Statement No. 72, Fair Value Measurement and Application, which categorizes the inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets. Level 2 inputs are inputs – other than quoted prices included in Level 1 – that are observable for an asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for an asset or liability. The City does not have any assets that are categorized as Level 2 or Level 3 inputs.

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.

City of Homewood, Alabama
Notes to Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

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, 2017 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.

NOTE 4 – RECEIVABLES

Receivables of the City consist of the following at September 30, 2017:

	General Fund	Special Revenue Funds	1947 School Tax Fund	Debt Service Fund	Capital Projects Fund	Total
Taxes	\$ 2,830,284	\$ 50,272	\$ 51,633	\$ 27,707	\$ 163,296	\$ 3,123,192
Other receivables	79,910	3,503	-	-	-	83,413
	<u>\$ 2,910,194</u>	<u>\$ 53,775</u>	<u>\$ 51,633</u>	<u>\$ 27,707</u>	<u>\$ 163,296</u>	<u>\$ 3,206,605</u>

City of Homewood, Alabama
Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS

Following is a summary of the changes in the City's capital assets for the year ended September 30, 2017:

	Balance at 9/30/2016	Additions and Reclassifications	Retirements and Reclassifications	Balance at 9/30/2017
Capital assets not being depreciated:				
Land and improvements	\$ 13,541,062	\$ 58,719	\$ -	\$ 13,599,781
Construction in progress	2,122,717	742,495	-	2,865,212
Total capital assets not being depreciated	15,663,779	801,214	-	16,464,993
Capital assets being depreciated:				
Building and improvements	56,345,712	70,247	(136,761)	56,279,198
Land and infrastructure improvements	83,289,420	-	-	83,289,420
Equipment	35,964,991	1,574,474	(549,418)	36,990,047
Total capital assets being depreciated	175,600,123	1,644,721	(686,179)	176,558,665
Less accumulated depreciation for:				
Building and improvements	20,137,922	2,048,742	(15,575)	22,171,089
Land and infrastructure improvements	38,088,263	1,617,785	-	39,706,048
Equipment	25,176,081	2,502,910	(501,669)	27,177,322
Total accumulated depreciation	83,402,266	6,169,437	(517,244)	89,054,459
Total capital assets being depreciated, net	92,197,857	(4,524,716)	(168,935)	87,504,206
Governmental activities capital assets, net	\$ 107,861,636	\$ (3,723,502)	\$ (168,935)	\$ 103,969,199

Depreciation expense was charged to governmental functions as follows:

General government	\$ 3,013,024
Public safety	1,669,443
Streets	121,989
Sanitation	237,777
Culture and recreation	978,560
Municipal garage	148,644
Total depreciation expense	\$ 6,169,437

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:
 - 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 Code of Alabama 1975, Section 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.

City of Homewood, Alabama
Notes to Financial Statements

NOTE 6 – EMPLOYEE RETIREMENT PLAN (CONTINUED)

Benefits provided

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

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

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

The ERS serves approximately 846 local participating employers. These participating employers include 287 cities, 65 counties, and 494 other public entities. The ERS membership includes approximately 84,393 participants. As of September 30, 2015, membership consisted of:

Retirees and beneficiaries currently receiving benefits	23,007
Terminated employees entitled to but not yet receiving benefits	1,155
Terminated employees not entitled to a benefit	6,654
Active Members	54,826
Post-Drop Participants who are still in active service	<u>235</u>
Total	<u>85,877</u>

NOTE 6 – EMPLOYEE RETIREMENT PLAN (CONTINUED)

Contributions

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

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

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2017, the City's active employee contribution rate was 13.92% of covered employee payroll.

The City's contractually required contribution rate for the year ended September 30, 2017 was 13.10% of pensionable pay for Tier 1 employees and 12.79% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2013, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan were \$2,360,262 for the year ended September 30, 2017.

City of Homewood, Alabama
Notes to Financial Statements

NOTE 6 – EMPLOYEE RETIREMENT PLAN (CONTINUED)

Net Pension Liability

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

Total Pension Liability Roll Forward			
	Expected Valuation Assumption	Actual 2015 Valuation Assumptions	Actual 2016 Valuation Assumptions
(a) Total Pension Liability as of September 30, 2015	\$ 96,358,181	\$ 95,075,282	\$ 99,174,492
(b) Discount Rate	8.00%	8.00%	7.75%
(c) Entry Age Normal Cost for October 1, 2015 – September 30, 2016	1,570,223	1,570,223	1,578,533
(d) Transfers Among Employers	-	118,385	118,385
(e) Actual Benefit Payment and Refunds for October 1, 2015 – September 30, 2016	(6,393,275)	(6,393,275)	(6,393,275)
(f) Total Pension Liability as of September 30, 2016 [(a) x (1+(b))] + (c) + (d) + [(e) x (1+.5*(b))]	\$ 98,988,052	\$ 97,720,907	\$ 101,916,419
(g) Difference between Expected and Actual Experience (Gain)/Loss		\$ (1,267,145)	
(h) Less Liability Transferred for Immediate Recognition		118,385	
(i) Experience (Gain)/Loss = (g) - (h)		\$ (1,385,530)	
(j) Difference between Actual (2015 Assumptions) and Actual (2016 Assumptions): Assumption Change (Gain)/Loss			\$ 4,195,512

Actuarial assumptions

The total pension liability in the September 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

*Net of pension plan investment expense

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

City of Homewood, Alabama
Notes to Financial Statements

NOTE 6 – EMPLOYEE RETIREMENT PLAN (CONTINUED)

The actuarial assumptions used in the September 30, 2015 valuation were based on the results of an actuarial experience study for the period October 1, 2010 - September 30, 2015.

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

	Target Allocation	Long-Term Expected Rate of Return *
Fixed Income	17.00%	4.40%
U. S. Large Stocks	32.00%	8.00%
U. S. Mid Stocks	9.00%	10.00%
U. S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash	3.00%	1.50%
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, 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of 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, 2015	\$ 96,358,181	\$ 56,834,164	\$ 39,524,017
Changes for the year:			
Service cost	1,570,223	-	1,570,223
Interest	7,452,923	-	7,452,923
Changes in assumptions	4,195,512	-	4,195,512
Difference between expected and actual experience	(1,385,530)	-	(1,385,530)
Contributions – employer	-	2,227,078	(2,227,078)
Contributions – employee	-	1,440,137	(1,440,137)
Net investment income	-	5,655,277	(5,655,277)
Benefit payments, including refunds of employee contributions	(6,393,275)	(6,393,275)	-
Administrative expense	-	-	-
Transfers among employers	118,385	118,385	-
Net Changes	5,558,238	3,047,602	2,510,636
Balances at September 30, 2016	\$ 101,916,419	\$ 59,881,766	\$ 42,034,653

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

The following table presents the City’s net pension liability calculated using the discount rate of 7.75%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease 6.75%	Current Discount Rate 7.75%	1% Increase 8.75%
Plan’s Net Pension Liability	\$ 52,939,364	\$ 42,034,653	\$ 32,777,629

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2016. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2016. The auditor’s report September 18, 2017 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, 2017, the City recognized pension expense of \$4,122,136. At September 30, 2017, 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	\$ 1,581,909	\$ 1,158,394
Changes of assumptions	3,507,723	-
Net difference between projected and actual earnings on plan investments	527,550	-
Employer contributions subsequent to the Measure Date	2,360,262	-
Total	\$ 7,977,444	\$ 1,158,394

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:	
2018	\$ 979,290
2019	979,290
2020	1,410,351
2021	583,140
2022	460,653
Thereafter	46,064
Total	\$ 4,458,788

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.

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 ending September 30, 2017 is \$161,173, as set forth below:

	Medical
Normal cost	\$ 73,193
30-year UAL amortization amount	87,980
Annual required contribution (ARC)	\$ 161,173

City of Homewood, Alabama
Notes to Financial Statements

NOTE 7 – POST-EMPLOYMENT BENEFITS (CONTINUED)

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

	Medical
Annual required contribution	\$ 161,173
ARC adjustment (including interest on net OPEB obligation)	(21,751)
Annual OPEB cost	139,422
Contributions	-
Current year retiree premium	(71,520)
Change in net OPEB obligation	67,902
Beginning net OPEB obligation, beginning of year	1,301,919
Ending net OPEB obligation at September 30, 2017	\$ 1,369,821

Funded status and funding progress

In the fiscal year ending September 30, 2017, 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, 2016, the most recent actuarial valuation, the projected Actuarial Accrued Liability (AAL) was \$1,525,917, 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 2017, the entire actuarial accrued liability of \$1,525,917 was unfunded.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Sept. 30,	(a)	(b)	(b-a)	(a/b)	(c)	(b-a/c)
2017	\$ -	\$ 1,525,917	\$ 1,525,917	-	\$ 16,078,793	9.49%

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 RPH-2014 Total Table with Projection MP-2016 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, 2017:

	Balance September 30, 2016	Additions	Retirements	Balance September 30, 2017
Capital Leases Payable	\$ 2,803,505	\$ 710,000	\$ 795,507	\$ 2,717,998
2007 Warrants	42,846,302	-	42,846,302	-
Interest Accretion on				
2007 Warrants	2,665,248	-	2,665,248	-
2012 Warrants	15,330,000	-	-	15,330,000
Unamortized Bond				
Premium (2012 GOW)	934,962	-	35,618	899,344
2015 Warrants	1,003,692	-	287,678	716,014
2016 Warrants	-	139,395,000	3,510,000	135,885,000
Unamortized Bond				
Premium (2016 GOW)	-	19,599,899	489,997	19,109,902
Total	\$ 65,583,709	\$ 159,704,899	\$ 50,630,350	\$ 174,658,258

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, 2016 was \$615,731.

On November 15, 2015, the City entered into a capital lease agreement with Regions Equipment Finance Corporation to acquire a fire truck for \$615,000. The lease requires three yearly payments of \$209,632 with an interest rate of 1.81%. The balance at September 30, 2017 was \$205,971.

On April 5, 2016, the City entered into a capital lease agreement with Southlake Capital, LLC to acquire radio equipment for \$1,750,000. The lease requires quarterly payments of \$92,285 ending in 2021 with an interest rate of 2.05%. The balance at September 30, 2017 was \$1,328,765.

On November 10, 2016, the City entered into a capital lease agreement with Regions Equipment Finance Corporation to purchase equipment for \$710,000. The lease requires monthly payments of \$15,512 ending in 2020 with an interest rate of 2.35%. The balance at September 30, 2017 was \$567,531.

City of Homewood, Alabama
Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT (CONTINUED)

Future minimum lease payments under the capital lease at September 30, 2017 are as follows:

Fiscal year ending September 30,	Present value of minimum lease payments	Interest	Total lease payments
2018	\$ 841,299	\$ 57,935	\$ 899,234
2019	650,009	39,495	689,504
2020	665,035	24,468	689,503
2021	431,635	10,462	442,097
2022	130,020	3,833	133,853
Total	\$ 2,717,998	\$ 136,193	\$ 2,854,191

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.

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

Year ending September 30,	Principal	Interest	Total
2018	\$ -	\$ 647,388	\$ 647,388
2019	-	647,388	647,388
2020	-	647,388	647,388
2021	-	647,388	647,388
2022	-	647,388	647,388
2023-2027	-	3,236,938	3,236,938
2028-2032	-	3,236,938	3,236,938
2033-2037	2,360,000	3,236,938	5,596,938
2038-2042	12,970,000	1,866,375	14,836,375
Total	\$ 15,330,000	\$ 14,814,129	\$ 30,144,129

City of Homewood, Alabama
Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT (CONTINUED)

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
2018	\$ 292,804	\$ 9,901	\$ 302,705
2019	297,820	4,885	302,705
2020	125,390	534	125,924
Total	\$ 716,014	\$ 15,320	\$ 731,334

Series 2016 General Obligation Warrant

In December 2016, the City issued \$158,994,899, including premium, of Series 2016 General Obligation Warrants to refund the 2007 warrants and to provide funding for future capital projects of the City and Board of Education. Interest is payable semiannually each March and September 1, at interest rates ranging from 0% to 5%. Principal is payable annually on September 1, maturing in varying amounts from \$1,920,000 to \$4,801,302 through 2036.

Annual requirements to retire the Series 2016 Warrants debt are as follows:

Year ending September 30,	Principal	Interest	Total
2018	\$ 2,965,000	\$ 6,705,675	\$ 9,670,675
2019	3,055,000	6,616,725	9,671,725
2020	3,175,000	6,494,525	9,669,525
2021	3,280,000	6,393,563	9,673,563
2022	3,440,000	6,229,562	9,669,562
2023 – 2027	118,970,000	23,149,750	142,119,750
2028 – 2032	-	200,000	200,000
2033 – 2037	1,000,000	120,000	1,120,000
Total	\$ 135,885,000	\$ 55,909,800	\$ 191,794,800

Interest paid on long-term debt was \$5,659,184 for the year ended September 30, 2017.

NOTE 8 – LONG-TERM DEBT (CONTINUED)

Debt Refundings

In December 2016, the City issued \$158,994,899, including premium, of Series 2016 General Obligation Warrants of which a portion was used to refund \$42,846,302 of the City's previously issued and outstanding Series 2007 Warrants. Appropriate refunding proceeds were deposited with an escrow agent who early redeemed the Series 2007 warrants (including outstanding interest) in March 2017. As a result, the Series 2007 warrants are considered fully redeemed, and the City has removed the liability from its accounts.

As a result of the refunding, the City reduced its aggregate debt service payments to maturity by \$5,648,515, and obtained an economic gain (difference between present value of the debt service payments on the old and new debt) of \$4,219,562.

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.

City of Homewood, Alabama
Notes to Financial Statements

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

The City’s interfund balances at September 30, 2017, consist of the following:

Due to/from other funds:

Payable from	Payable to	Amount
General Fund	Capital Projects Fund	\$ 496,404
General Fund	Other Governmental Funds	8,184
General Fund	Debt Service Fund	1,338,468
Other Governmental Funds	General Fund	48,535
Other Governmental Funds	1947 School Tax Fund	330
Other Governmental Funds	Debt Service Fund	47,244
Other Governmental Funds	Capital Projects Fund	4,740
Other Governmental Funds	Other Governmental Funds	34,773
Total		\$ 1,978,678

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.

Interfund transfers:

	Operating Transfers In:				Total
	General Fund	Debt Service Fund	Capital Projects Fund	2016 GOW Construction Fund	
Operating transfer out:					
General Fund	\$ -	\$ 6,047,800	\$ 500,000	\$ -	\$ 6,547,800
Debt Service Fund	-	-	677,278	110,006,980	110,684,258
2016 GOW Construction Fund	-	4,251,249	165	-	4,251,414
Other Governmental Funds	8,167	-	46,040	-	54,207
Total	\$ 8,167	\$ 10,299,049	\$ 1,223,483	\$ 110,006,980	\$ 121,537,679

The City routinely budgets transfers to various funds to finance the operating costs in those funds. Interfund receivables and payables and transfers between funds within governmental activities are eliminated in the Statement of Net Position and the Statement of Activities.



City of Homewood, Alabama Notes to Financial Statements

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, 2017 (see Note 1 M.):

	General Fund	1947 School Tax Fund	Debt Service Fund	Capital Projects Fund	2012 GOW Construction Fund	Other Govern- mental Funds	Total Governmental Funds
Fund balances							
Nonspendable							
Prepaid expenses	\$ 17,261	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,261
Restricted for:							
Road maintenance	-	-	-	-	-	819,618	819,618
Road paving	-	-	-	-	-	255,271	255,271
Debt service	-	-	11,519,904	-	-	-	11,519,904
BOE – property tax	-	82,290	-	-	-	-	82,290
Grant expenditures	-	-	-	-	-	82,558	82,558
E911	-	-	-	-	-	1,481,615	1,481,615
Court restricted by law	-	-	-	-	-	1,254,645	1,254,645
Drug enforcement task force	-	-	-	-	-	63,679	63,679
Constuction projects in progress	-	-	-	-	105,166,867	-	105,166,867
Committed to:							
Reserve for economic uncertainty	11,173,241	-	-	-	-	-	11,173,241
Assigned to:							
Other capital projects	-	-	-	2,418,649	-	-	2,418,649
Encumbrances	75,100	-	-	392,970	-	-	468,070
Environmental testing	-	-	-	-	-	84,247	84,247
Inspection technology fund	-	-	-	-	-	102,592	102,592
Park activity	-	-	-	-	-	228,712	228,712
Library donations	8,533	-	-	-	-	-	8,533
Other donations	350	-	-	-	-	-	350
Risk management	1,000,000	-	-	-	-	-	1,000,000
Compensated absences	2,418,223	-	-	-	-	-	2,418,223
Subsequent years' budget	105,972	-	1,427,837	2,536,868	-	84,188	4,154,865
Unassigned (deficit)	13,107,226	-	(2,123,052)	-	-	(71)	10,984,103
Total ending fund balance at							
September 30, 2017	\$ 27,905,906	\$ 82,290	\$ 10,824,689	\$ 5,348,487	\$ 105,166,867	\$ 4,457,054	\$ 153,785,293

City of Homewood, Alabama Notes to Financial Statements

NOTE 13 – TAX ABATEMENTS

The City has entered into various tax abatements with property owners, businesses and real estate developers for the purpose of a) recruiting new business development and b) promoting the development of commercial parcels within the City. The agreements have limited terms and are entered into by the City as they are expected to benefit the City to increase revenue. These incentive agreements require approval by the City Council and are authorized by Amendment 772 to the Constitution of Alabama (1901) (Article 94.01 of the Recompiled Constitution of Alabama). The incentive agreements generally expire upon the earlier of a specified term of years or the satisfaction of the agreed upon incentive amount. Following is a summary of such agreements:

Nature of Incentive	Type of Tax	% of City Taxes Abated	FYE September 30, 2017 Abatement Amount	Expiration of Incentive ¹	Maximum Incentive Amount
Retail development	Sales tax ⁹	87.5% ¹¹ 62.5% ¹¹	\$1,067,018 N/A	September 2020 September 2025	\$9,000,000
Medical center development and expansion	Ad Valorem tax ² Ad Valorem tax ²	75%	\$608,044	March 2032	\$5,000,000
Bank development	Construction-related transaction taxes ³	100% ⁴	\$0 ¹⁰	October 2027 and October 2037 ⁵	N/A
Commercial development	Sales tax ⁷ Sales tax ⁹	100% ⁸ 50%	\$0 ¹⁰	December 31, 2028 February 2028	\$5,000,000
Restaurant development	Ad Valorem tax ² Business license	100% 100%	\$0 ¹⁰	February 2028 February 2021	\$500,000

1 Earlier of date below or maximum incentive amount, if applicable

2 Non-educational portion only

3 Transaction taxes imposed by chapter 23 of Title 40 of the Code of Alabama 1975 on tangible personal property and taxable services to be incorporated into the Project except any taxes levied for educational purposes.

4 100% Jefferson County and State of Alabama and 100% City less \$30,000 payment by Bank

5 Jefferson County and State of Alabama incentive expires in October 2027; City of Homewood incentive expires in October 2037

6 City ad valorem

7 Non-educational portion only and none dedicated to capital reserves

8 From project tenants

9 2% sales tax

10 Abatement amounts commenced after September 30, 2017

NOTE 14 – FUTURE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued statements that will become effective in 2018. The statements address:

- OPEB – accounting and financial reporting by employers;
- Split-interest agreements;
- Various practice issues (Omnibus); and
- Certain debt extinguishment issues.

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

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, 2017

	Budget - Original	Budget - Final	General Fund Actual	Variance
Revenues				
Taxes				
Advalorem	\$ 5,015,535	\$ 5,015,535	\$ 5,255,297	\$ 239,762
Sales tax	22,548,085	28,024,524	28,595,262	570,738
Other taxes	4,124,833	4,124,833	3,864,838	(259,995)
Total taxes	31,688,453	37,164,892	37,715,397	550,505
Licenses and permits				
Motor vehicle licenses	70,480	70,480	70,553	73
Business licenses	4,250,000	4,250,000	4,292,314	42,314
Utility licenses	2,207,181	2,207,181	2,254,898	47,717
Building permits	859,677	879,677	1,265,222	385,545
Total licenses and permits	7,387,338	7,407,338	7,882,987	475,649
Intergovernmental				
Local	196,274	196,274	98,137	(98,137)
Total intergovernmental	196,274	196,274	98,137	(98,137)
Charges for services				
General governmental	644,409	652,009	510,325	(141,684)
Public safety	33,712	33,712	37,894	4,182
Culture and recreation	773,997	773,997	838,009	64,012
Total charges for services	1,452,118	1,459,718	1,386,228	(73,490)
Fines and forfeiture	710,956	710,956	694,551	(16,405)
Other revenues	1,643,717	2,721,539	642,500	(2,079,039)
Total revenues	43,078,856	49,660,717	48,419,800	(1,240,917)

(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, 2017

	Budget - Original	Budget - Final	Actual	Variance
Expenditures				
Current:				
General government administration	\$ 5,521,425	\$ 5,818,495	\$ 5,406,951	\$ 411,544
Public safety	16,906,628	16,921,652	15,971,191	950,461
Public works	6,027,722	6,154,212	5,801,170	353,042
Culture and recreation	6,661,196	6,661,196	6,056,721	604,475
Total expenditures	35,116,971	35,555,555	33,236,033	2,319,522
Excess of revenues over expenditures	7,961,885	14,105,162	15,183,767	1,078,605
Other financing sources (uses)				
Operating transfers in	176,526	176,526	8,167	(168,359)
Appropriations to City Board of Education	(8,138,411)	(8,233,888)	(8,233,887)	1
Operating transfers out	-	(6,047,800)	(6,547,800)	(500,000)
Total other financing sources (uses)	(7,961,885)	(14,105,162)	(14,773,520)	(668,358)
Excess of revenues and other financing sources over expenditures	\$ -	\$ -	\$ 410,247	\$ 410,247

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, 2017

	Budget - Original	Budget - Final	Actual	Variance
Revenues				
Taxes	\$ 8,585,140	\$ 8,585,140	\$ 8,393,211	\$ (191,929)
Other revenue	250	250	653	403
Total revenues	8,585,390	8,585,390	8,393,864	(191,526)
Expenditures				
General government administration	202,175	202,175	195,352	6,823
Excess of revenues over expenditures	8,383,215	8,383,215	8,198,512	(184,703)
Other financing sources (uses)				
Appropriations to City Board of Education	(8,383,215)	(8,383,215)	(8,197,859)	185,356
Total other financing sources (uses)	(8,383,215)	(8,383,215)	(8,197,859)	185,356
Excess of revenues and other financing sources over (under) expenditures	-	-	653	653
Fund balances, beginning of year	81,637	81,637	81,637	-
Fund balances, end of year	\$ 81,637	\$ 81,637	\$ 82,290	\$ 653

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

Employee Retirement Plan (see also Note 6)

Schedule of Changes in Net Pension Liability

	2016	2015	2014
Total pension liability			
Service Cost	\$ 1,570,223	\$ 1,606,256	\$ 1,514,594
Interest	7,452,923	7,064,565	6,864,354
Changes in benefit terms	-	-	-
Differences between expected and actual experience	(1,385,530)	2,393,143	-
Changes of assumptions	4,195,512	-	-
Benefit payments, including refunds of employee contributions	(6,393,275)	(6,025,687)	(5,726,936)
Transfers among employers	118,385	-	-
Net change in total pension liability	5,558,238	5,038,277	2,652,012
Total pension liability - beginning	96,358,181	91,319,904	88,667,892
Total pension liability - ending (a)	\$ 101,916,419	\$ 96,358,181	\$ 91,319,904
Plan Fiduciary Net Position			
Contributions - employer	\$ 2,227,078	\$ 2,175,800	\$ 2,170,917
Contributions - employee	1,440,137	1,399,641	1,416,151
Net investment income	5,655,277	684,853	6,467,463
Benefit payments, including refunds of employee contributions	(6,393,275)	(6,025,687)	(5,726,936)
Transfers among employers	118,385	(703,937)	8,096
Net change in plan fiduciary net position	3,047,602	(2,469,330)	4,335,691
Plan net position - beginning	56,834,164	59,303,494	54,967,803
Plan net position - ending (b)	\$ 59,881,766	\$ 56,834,164	\$ 59,303,494
Net pension liability (asset) - ending (a) - (b)	\$ 42,034,653	\$ 39,524,017	\$ 32,016,410
Plan fiduciary net position as a percentage of total pension liability	58.76%	58.98%	64.94%
Covered employee payroll	\$ 17,449,607	\$ 17,215,560	\$ 17,735,242
Net pension liability as a percentage of covered employee payroll	240.89%	229.58%	180.52%

City of Homewood, Alabama
Schedule of Employer Contributions

Employee Retirement Plan (see also Note 6)

	2017	2016	2015
Actuarially Determined Contribution	\$ 2,428,864	\$ 2,229,341	\$ 2,235,651
Employer Contributions to Pension Plan	2,428,864	2,229,341	2,235,651
Annual Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
Covered Employee Payroll	17,449,607	\$ 17,215,560	\$ 17,735,242
Employer Contributions to Pension Plan as a % of Covered Employee Payroll	13.92%	12.95%	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, 2017	\$ 139,422	51.30%	\$ 1,369,821
Medical	September 30, 2016	146,423	46.23%	1,301,919
Medical	September 30, 2015	145,767	49.21%	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)
2016	\$ -	\$ 1,525,917	\$ 1,525,917	-	\$ 16,078,793	9.49%
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 (RSA)

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 RSAs' 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 2017 were 13.10% for tier 1 employees (hired before January 1, 2013) and 12.79% 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	29 years
Asset Valuation Method	5-year smoothed market
Investment Rate of Return:	7.75%
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.