City of Homewood, Alabama

Financial Statements

September 30, 2013

City of Homewood, Alabama
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Carr, Riggs & Ingram, LLC
2100 16th Avenue South
Suite 300
Birmingham, AL 35205

(205) 933-7822
(205) 933-7944 (fax)
www.cricpa.com

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Homewood, Alabama (the "City"), as of and for the year ended September 30, 2013, 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 an opinion 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 opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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, the fiduciary fund, and the aggregate remaining fund information of the Department, as of September 30, 2013, 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

The management's discussion and analysis and budgetary comparison information on pages 3.1 through 3.8 and pages 32 through 34, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated March 14, 2014, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Birmingham, Alabama
March 14, 2014

Notes to Financial Statements Index

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). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies used by the City are discussed below.

A. Reporting entity

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

B. Related organization

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

C. Basis of presentation

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of presentation (continued)

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

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

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

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

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

a. *Ten percent criterion*. An individual governmental fund reports at least 10 percent of any of the following: a) total governmental fund assets, b) total governmental fund liabilities, c) total governmental fund revenues, or d) total governmental fund expenditures.

b. *Five percent criterion*. An individual governmental fund reports at least 5 percent of the aggregated total for both governmental funds and proprietary funds of any one of the items for which it met the 10 percent criterion.

The funds for the financial reporting entity are described below:

Governmental funds

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

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of presentation (continued)

Governmental funds (continued)

3. Debt Service Fund

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

4. Capital Projects Fund

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

5. 2012 General Obligation Warrants Construction Fund

The 2012 General Obligation Warrants Construction Fund is used to account for bond proceeds that are being used to construct the Community Center at Central Park.

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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budget law and practice (continued)

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

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

F. Cash and investments

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

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

Investments are stated at cost or amortized cost, which approximates 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 Board 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, 2013, unused vacation leave totaled $2,138,028. The current and long-term portion of the liability for unused vacation leave is reflected in the City's Statement of 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, 2013 is recorded as a liability.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

L. Long-term obligations

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Long-term obligations (continued)

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

M. Net position / fund equity

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

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

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

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

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Net position / fund equity (continued)

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 $700,000 of the Debt Service Fund fund balance for debt service.

The City has committed $10,699,678 of General Fund fund balance to cover City operations in situations of economic uncertainty.

N. Expenditures/Expenses

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

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

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

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

O. Management estimates

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

P. Subsequent events

The City has evaluated subsequent events through the date of issuance of these 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, 2013, are as follows:

		Cash and Demand Deposits		Restricted		Unrestricted
General Fund	$	26,575,622	$	10,699,678	$	15,875,944
1947 School Tax Fund		5		5		-
Debt Service Fund		11,319,997		11,319,997		-
Capital Projects Fund		2,606,602		2,606,602		-
2012 General Obligation Warrants Construction Fund		11,983,748		11,983,748		-
Other Governmental Funds		3,757,047		3,757,047		-
Total	$	56,243,021	$	40,367,077	$	15,875,944

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, 2013 are held in a qualified public depository.

NOTE 3 – RECEIVABLES

Receivables of the City consist of the following at September 30, 2013:

		General Fund		Special Revenue Funds		Debt Service Fund		Capital Projects Fund		Total
Taxes	$	2,168,470	$	87,689	$	27,338	$	158,983	$	2,442,480
Due from other governmental units		3,650		-		-		-		3,650
	$	2,172,120	$	87,689	$	27,338	$	158,983	$	2,446,130

NOTE 4 – CAPITAL ASSETS

Following is a summary of the changes in the City's capital assets for the year ended September 30, 2013:

	Balance at 09/30/12	Additions and Reclassifications	Retirements and Reclassifications	Balance at 09/30/13
Capital assets not being depreciated:				
Land and improvements	$ 8,933,519	$ 356,293	$ -	$ 9,289,812
Construction progress	1,147,431	5,859,706	-	7,007,137
Total capital assets not being depreciated	10,080,950	6,215,999	-	16,296,949
Capital assets being depreciated:				
Building and improvements	39,250,485	161,966	-	39,412,451
Land and infrastructure improvements	81,678,874	447,374	-	82,126,248
Equipment	25,092,492	1,163,303	(99,269)	26,156,526
Total capital assets being depreciated	146,021,851	1,772,643	(99,269)	147,695,225
Less accumulated depreciation for:				
Building and improvements	12,666,728	1,508,136	-	14,174,864
Land and infrastructure improvements	31,680,045	1,859,978	-	33,540,023
Equipment	19,606,721	1,065,093	(75,521)	20,596,293
Total accumulated depreciation	63,953,494	4,433,207	(75,521)	68,311,180
Total capital assets being depreciated, net	82,068,357	(2,660,564)	(23,748)	79,384,045
Governmental activities capital assets, net	$ 92,149,307	$ 3,555,435	$ (23,748)	$ 95,680,994

Depreciation expense was charged to governmental functions as follows:

General government	$ 2,986,685
Public safety	585,425
Streets	93,570
Sanitation	102,281
Culture and recreation	527,150
Municipal garage	138,096
Total depreciation expense	$ 4,433,207

NOTE 5 – EMPLOYEE RETIREMENT PLAN

A. 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.

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.

Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, and (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement benefits in the amount of the annual salary for the fiscal year preceding death is provided to plan members.

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 3627-139, 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 ERSA issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Retirement System of Alabama. That report may be obtained by writing to the Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

B. Funding policy

ERSA Members are required to contribute 5% (6% for police officers and fire fighters) of their annual covered salary. The City is required to contribute at an actuarially determined rate, which is currently 12.75% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the ERSA Board of Control.

NOTE 5 – EMPLOYEE RETIREMENT PLAN (CONTINUED)

C. Annual pension cost

For the year ended September 30, 2013, the City's annual pension cost of $2,252,356 for the Plan was equal to the City's required and actual contributions. The required contribution was determined as part of the September 30, 2012 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, and (b) projected salary increases ranging from 3.75% to 7.25%, with no cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of the Plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The Plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2012 was thirty years.

Following is the three year trend information for the plan:

Fiscal year ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2012	$ 2,096,525	100%	$ -
September 30, 2011	2,141,647	100%	-
September 30, 2010	2,044,686	100%	-

Following is the schedule of funding progress obtained from most recent actuarial valuation:

Actuarial Valuation Date Sept. 30,		Actuarial Value of Assets* (a)	Entry Age Actuarial Accrued Liability (AAL) Entry Age [1] (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
2012	3,5	$ 50,126,055	$ 80,162,073	$ 30,036,018	62.5%	$ 16,091,387	186.7%
2012	5	50,126,055	80,031,915	29,905,860	62.6%	16,091,387	185.9%
2011	4	51,012,875	82,158,243	31,145,368	62.1%	16,616,171	187.4%
2010	2	52,686,127	80,767,716	28,081,589	65.2%	16,938,122	165.8%
2009		54,145,947	77,587,195	23,441,248	69.8%	16,713,019	140.3%
2008		54,901,010	74,899,340	19,998,330	73.3%	16,761,134	119.3%
2007		54,315,609	70,944,854	16,629,245	76.6%	16,372,314	101.6%

1 Reflects liability for cost of living benefit increases granted on or after October 1, 1978.

2 Reflects the impact of Act 2011-27, which closes the DROP program to new applicants after March 24, 2011.

3 Reflects the impact of Act 2011-676, which increases the member contribution rates by 2.25% beginning October 1, 2011 and by an additional .25% beginning October 1, 2012.

4 Reflects changes in actuarial assumptions.

5 Reflects changes to interest smoothing methodology.

* The actuarial value of assets was set equal to the market value of assets as of September 30, 2012.

NOTE 6 – POST-EMPLOYMENT BENEFITS

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

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

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

Funding policy
Prior to October 1, 2008, the City recognized the cost of providing post-employment medical benefits (the City of Homewood's portion of the retiree medical benefit premiums) as an expense when the benefit premiums were due and thus financed the cost of the post-employment benefits on a pay-as-you-go basis. In fiscal year 2013, the City of Homewood's portion of health care funding cost for retired employees totaled $61,644.

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

Annual required contribution
The City's Annual Required Contribution (ARC) is an amount actuarially determined in accordance with GASB 45. The Annual Required Contribution (ARC) is the sum of the Normal Cost plus the contribution to amortize the Actuarial Accrued Liability (AAL). A level dollar, closed amortization period of 30 years (the maximum amortization period allowed by GASB 43/45) has been used for the post-employment benefits. The total ARC for the fiscal year beginning October 1, 2013 is $118,980, as set forth below:

	Medical
Normal cost	$ 57,158
30-year UAL amortization amount	61,822
Annual required contribution (ARC)	$ 118,980

NOTE 6 – POST-EMPLOYMENT BENEFITS (CONTINUED)

Net post-employment benefit obligation (asset)
The table below shows the City's Net Other Post-employment Benefit (OPEB) Obligation (Asset) for fiscal year ending September 30, 2013:

		Medical
Annual required contribution	$	118,980
ARC adjustment (including interest on net OPEB obligation)		(17,829)
Annual OPEB cost		101,151
Contributions		-
Current year retiree premium		(61,644)
Change in net OPEB obligation		39,507
Beginning net OPEB obligation, beginning of year		1,067,192
Ending net OPEB obligation 9/30/2013	$	1,106,699

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

Post Employment Benefit	Fiscal Year Ended		Annual OPEB Cost	Percentage of Annual Cost Contributed		Net OPEB Obligation
Medical	September 30, 2011	$	173,300	37.07%	$	960,450
Medical	September 30,2012		178,743	40.28%		1,067,192
Medical	September 30, 2013		101,151	60.94%		1,106,699

Funded status and funding progress
In the fiscal year ending September 30, 2013, 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, 2013, the most recent actuarial valuation, the Actuarial Accrued Liability (AAL) was $1,070,234, 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 2013, the entire actuarial accrued liability of $1,070,234 was unfunded.

		Medical
Actuarial Accrued Liability (AAL)	$	1,070,234
Actuarial Value of Plan Assets		-
Unfunded Act. Accrued Liability (UAAL)		1,070,234
Funded Ratio (Act. Val. Assets/AAL)		0%
Covered Payroll (active plan members)		16,631,611
UAAL as a percentage of covered payroll		6.43%

NOTE 6 – 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 6 – POST-EMPLOYMENT BENEFITS (CONTINUED)

Post-employment benefit plan eligibility requirements

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

Investment return assumption (discount rate)

GASB Statement 45 states that the investment return assumption should be the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits (that is, for a plan which is funded). Based on the assumption that the ARC will not be funded, a 4% annual investment return has been used in this valuation. This is a conservative estimate of the expected long term return of a balanced and conservative investment portfolio under professional management.

Health care cost trend rate

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

Mortality rate

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

Method of determining value of benefits

The "value of benefits" has been assumed to be the portion of the premium after retirement date expected to be paid by the employer for each retiree and has been used as the basis for calculating the actuarial present value of OPEB benefits to be paid. The employer pays a portion the cost of the medical insurance for the retiree and dependents. Retiree coverage ceases at age 65.

NOTE 7 – LONG-TERM DEBT

The following is a summary of long-term debt of the City for the year ended September 30, 2013:

	Balance September 30, 2012	Additions	Retirements	Balance September 30, 2013
2007 Warrants	$ 48,006,302	$ -	$ 130,000	$ 47,876,302
Interest Accretion on 2007 Warrants	1,362,899	302,564	-	1,665,463
2012 Warrants	-	15,330,000	-	15,330,000
Unamortized Bond Premium	-	1,068,529	26,713	1,041,816
Total	$ 49,369,201	$ 16,701,093	$ 156,713	$ 65,913,581

Series 2007 General Obligations Capital Improvement and Refunding Warrants
In June 2007, the City issued $48,576,302 in General Obligation Capital and Refunding Warrants (Series 2007 Warrants). The Warrants are secured by a pledge of revenue by the City. The Series 2007 Warrants consists of both current interest paying warrants and capital appreciation warrants. A portion of the Warrants on which interest is payable semiannually (Current Interest Paying Warrants) will occur each March and September 1, at interest rates ranging from 4% to 5% (yields from 3.62% to 5.00%) and maturing in amounts varying from $105,000 to $3,385,000 through 2031. A portion of the Series 2007 Warrants require that interest only be paid at maturity (Capital Appreciation Warrants). The Capital Appreciation Warrants pay interest at 4.85% and mature in amounts ranging from $870,498 to $1,054,215 in the years 2032 through 2036.

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

Year ending September 30,	Principal	Unaccreted Appreciation	Interest	Total
2014	$ 1,595,000	$ 317,361	$ 1,933,131	$ 3,845,492
2015	1,675,000	333,132	1,853,381	3,861,513
2016	1,760,000	349,292	1,769,631	3,878,923
2017	1,830,000	366,620	1,699,231	3,895,851
2018 – 2022	10,555,000	2,120,673	7,093,856	19,769,529
2023 – 2027	13,010,000	2,695,037	4,642,507	20,347,544
2028 – 2032	13,704,215	3,424,773	1,469,401	18,598,389
2033 – 2036	3,747,087	3,396,347	-	7,143,434
Subtotal	47,876,302	13,003,235	20,461,138	81,340,675
Add: Accreted Appreciation through September 30, 2013	1,665,463	-	-	1,665,463
Total	$ 49,541,765	$ 13,003,235	$ 20,461,138	$ 83,006,138

NOTE 7 – LONG-TERM DEBT (CONTINUED)

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
2014	-	647,388	647,388
2015	-	647,388	647,388
2016	-	647,388	647,388
2017	-	647,388	647,388
2018	-	647,388	647,388
2019 – 2023	-	3,236,938	3,236,938
2024 – 2028	-	3,236,938	3,236,938
2029 – 2033	-	3,236,938	3,236,938
2034 – 2038	4,800,000	3,157,288	7,957,288
2039 – 2042	10,530,000	1,298,637	11,828,637
Total	$ 15,330,000 $	$ 17,403,679	$ 32,733,679

Interest paid on long-term debt was $2,394,804 for the year ended September 30, 2013.

NOTE 8 – 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 9 – INTERFUND RECEIVABLES / PAYABLES AND TRANSFERS

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

The City's interfund balances at September 30, 2013, consist of the following:

Due to/from other funds:

Payable from	Payable to		Amount
General Fund	Capital Projects Fund	$	169,966
General Fund	Other Governmental Funds		60,023
Other Governmental Funds	General Fund		304,793
Other Governmental Funds	Other Governmental Funds		28,708
Total		$	563,490

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 transfer in:					
Operating transfer out:		**General Fund**		**Other Governmental Funds**		**Total**
General Fund	$	-	$	232	$	232
1947 School Tax Fund		33,385		-		33,385
Other Governmental Funds		174,658		-		174,658
Total	$	208,043	$	232	$	208,275

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

NOTE 10 – 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.

NOTE 11 – OTHER COMMITMENTS

The City committed to pay $1,400,000 to Colonial Properties, Inc. for infrastructure improvements related to the building of a retail store located in the City. The first $700,000 installment was paid in March 2013, at the time of the store’s opening. The remaining $700,000 installment is due in March 2014.

NOTE 12 – FUND BALANCE CLASSIFICATIONS

The following table details fund balance categories at September 30, 2013 (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	$ 6,153	$ -	$ -	$ -	$ -	$ -	$ 6,153
Restricted for:							
Road maintenance	-	-	-	-	-	414,171	414,171
Road paving	-	-	-	-	-	245,065	245,065
Debt service	-	-	4,313,720	-	-	-	4,313,720
BOE – property tax	-	45,675	-	-	-	-	45,675
Grant expenditures	-	-	-	-	-	100,586	100,586
E911	-	-	-	-	-	1,432,770	1,432,770
Court restricted by law	-	-	-	-	-	665,297	665,297
Drug enforcement task force	-	-	-	-	-	18,613	18,613
Community Center Construction	-	-	-	-	10,510,722	-	10,510,722
Committed to:							
Storm water management	-	-	-	-	-	558	558
Debt service	-	-	700,000	-	-	-	700,000
Reserve for economic uncertainty	10,699,678	-	-	-	-	-	10,699,678
Assigned to:							
Other capital projects	-	-	-	913,524	-	-	913,524
Encumbrances	1,921	-	-	83,083	-	-	85,004
Environmental testing	-	-	-	-	-	7,014	7,014
Inspection technology fund	-	-	-	-	-	42,564	42,564
Drug enforcement task force	-	-	-	-	-	107,222	107,222
Park activity	-	-	-	-	-	240,808	240,808
Library donations	36,259	-	-	-	-	-	36,259
Public access donation	13,121	-	-	-	-	-	13,121
Risk management	1,000,000	-	-	-	-	-	1,000,000
Compensated absences	2,139,854	-	-	-	-	-	2,139,854
Debt service	-	-	5,986,043	-	-	-	5,986,043
Insurance claims	4,853	-	-	-	-	-	4,853
Subsequent years' budget	592,845	-	347,572	1,740,924	-	100,766	2,782,107
General government	2,094	-	-	-	-	4,881	6,975
Unassigned	11,901,273	-	-	-	-	-	11,901,273
Total ending fund balance at September 30, 2013	$ 26,398,051	$ 45,675	$ 11,347,335	$ 2,737,531	$ 10,510,722	3,380,315	$ 54,419,629

NOTE 13 – FUTURE ACCOUNTING PRONOUNCEMENTS

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

- Items previously reported as assets and liabilities
- Accounting and financial reporting for pensions
- Mergers, acquisitions and transfers of operations; and
- Financial guarantees.

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