

CITY OF HOMEWOOD, ALABAMA

HOMEWOOD, ALABAMA

Financial Statements

September 30, 2022

**CITY OF HOMEWOOD, ALABAMA
HOMEWOOD, ALABAMA**

MAYOR

Patrick McClusky

**CITY COUNCIL
PRESIDENT**

Alex Wyatt

CITY COUNCIL

Andy Gwaltney, Ward 1
Melanie Geer, Ward 1
Carlos Aleman, Ward 2
Andrew Wolverton, Ward 2
Nick Sims, Ward 3
Walter Jones, Ward 3
Barry Smith, Ward 4
Jalete Nelms, Ward 4
Jennifer Address, Ward 5
John Hardin, Ward 5

CHIEF OF STAFF

JJ Bischoff

CITY CLERK/ASSISTANT FINANCE DIRECTOR

Melody Salter

FINANCE DIRECTOR/ASSISTANT CITY CLERK

Robert Burgett

CITY ATTORNEYS

Waldrep, Stewart & Kendrick, LLC

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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 of Homewood, Alabama as of September 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Homewood, Alabama and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2022, the City adopted new accounting guidance, GASB Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Homewood, Alabama's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, the schedule of changes in the net pension liability and related ratios, the schedule of employer contributions - pension, and the schedule of changes in total OPEB liability and related ratios on pages 7-15 and pages 64-70 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2023, on our consideration of the City of Homewood, Alabama's internal control over financial reporting and on 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 of Homewood, Alabama'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* in considering the City of Homewood, Alabama's internal control over financial reporting and compliance.

BMSS, LLC

Birmingham, Alabama
June 30, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF HOMEWOOD, ALABAMA

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, 2022. 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 and deferred outflows of resources of the City were more than the liabilities and deferred inflows of resources at the close of the 2022 fiscal year by approximately \$1.9 million (net position).
- The City's net position increased by approximately \$3.8 million in fiscal year 2022, primarily due to an increase in sales and use tax and property tax.
- The total cost of the City's programs for the 2022 fiscal year totaled approximately \$83.0 million. The net cost was approximately \$68.8 million after subtracting grants and charges for services. Of this net cost, approximately \$20.8 million were payments to the Homewood Board of Education.
- The General Fund revenues received for the 2022 fiscal year were greater than expenditures by \$290,194. This was the amount of revenues less expenditures after the City transferred \$9.4 million from the General Fund.
- At the end of the 2022 fiscal year, the General Fund unassigned fund balance was \$15.1 million, or 37% of the total General Fund operating expenditures.
- Net capital assets for the 2022 fiscal year increased by approximately \$2.0 million primarily due to the additions to ongoing infrastructure projects offset by current year depreciation expense.
- The City's long-term debt decreased by approximately \$5.7 million primarily due to principal payments made during the 2022 fiscal year.

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 the *Required Supplementary Information*.

The City's basic financial statements are comprised of three components: 1) *Government-Wide Financial Statements*, 2) *Fund Financial Statements*, and 3) *Notes to the Basic Financial Statements*.

The financial statements for all governmental activities are based on the fiscal year ending September 30, 2022.

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 on all of the governmental activities of the City as a whole.

The *Statement of Net Position* (on page 15) 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 17) 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 18. 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, Capital Projects Fund, GOW Construction Fund, and Grants Fund. All special revenue funds are presented as *other governmental funds*, except the 1947 School Tax Fund and Grants Fund, which are major funds.

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 19 and 21 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 22.

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 64 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 position.

Table 1: Summary of Net Position

	For the year ended September 30, (dollars in thousands)	
	2022	2021
Assets and deferred outflow of resources		
Current and other assets	\$ 101,835	\$ 100,853
Capital assets	143,793	141,749
Deferred outflow of resources	20,997	19,377
Total assets and deferred outflow of resources	<u>266,625</u>	<u>261,979</u>
Liabilities and deferred inflows of resources		
Current liabilities	17,929	17,365
Long-term liabilities	215,307	222,459
Deferred inflows of resources	31,526	24,136
Total liabilities and deferred inflows of resources	<u>264,762</u>	<u>263,960</u>
Net position		
Net investment in capital assets	48,112	45,828
Restricted	27,036	25,404
Unrestricted	(73,285)	(73,213)
Total net position	<u>\$ 1,863</u>	<u>\$ (1,981)</u>

The City's assets were more than its liabilities (net position) by approximately \$1.9 million at September 30, 2022. This consists of assets (net of related debt) invested in capital of approximately \$48.1 million and \$27.0 million of assets restricted by law for specific purposes and a negative balance in unrestricted net position of approximately \$73.3 million. This negative balance in unrestricted net position is primarily the result of warrant proceed amounts contributed to the Homewood Board of Education for capital improvements and due to restricted net position pertaining to funds required to be used for capital projects.

Assets (net of related debt) invested in capital of approximately \$48.1 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 net position, as a whole, are reported in detail in the *Statement of Net Position* on page 15. *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, 2022.

Table 2: Summary of Changes in Net Position

	Fiscal year ended	
	September 30,	
	2022	2021
Program revenues		
Charges for services	\$ 9,216	\$ 8,002
Operating grants and contributions	1,780	1,764
Capital grants and contributions	3,178	474
General revenues		
Taxes	74,289	69,124
Investment earnings	(1,828)	148
Gain on disposal of capital assets	78	29
Miscellaneous revenue	149	254
Total revenues	<u>86,862</u>	<u>79,795</u>
Program expenses		
General government	12,852	12,033
Public safety	23,511	22,814
Public works	9,831	7,209
Culture/recreation	10,673	9,309
Payments to Homewood BOE	20,809	19,551
Interest on long-term debt	5,342	6,945
Total expenses	<u>83,018</u>	<u>77,861</u>
Change in net position	3,844	1,934
Net position, beginning	(1,981)	(5,170)
Restatement	-	1,255
Net position, ending	<u>\$ 1,863</u>	<u>\$ (1,981)</u>

The City's revenues increased by approximately \$7.1 million, or approximately 8.9% from the last fiscal year. This increase is primarily attributable to increased tax revenues received. Capital and operating grants and contributions increased by approximately \$2.7 million in FY 2022 due to receipt of ARPA Funds and capital grants for infrastructure projects. The City's program expenses increased by \$5.2 million resulting from an increase in payments for non-capital public works and culture and recreation projects and an increase in payments to the Homewood Board of Education.

Table 3 is a condensed statement taken from the *Statement of Activities* on page 17 showing the total cost for providing services for six 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

	For the year ended September 30, 2022 (dollars in thousands)	
	Total Cost of Services	Net Cost of Services
General governmental administration	\$ 12,852	\$ 6,104
Public safety	23,511	23,411
Public works	9,831	3,914
Culture and recreation	10,673	9,265
Payments to Homewood BOE	20,809	20,809
Interest on long-term debt	5,342	5,342
Total	\$ 83,018	\$ 68,845

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 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 18.

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financial requirements (Note: the reconciliation statement between the *fund financial statements* and the *government-wide financial statements* is presented on page 19). At the end of the fiscal year, the City's governmental funds reported a combined fund balance of approximately \$67.9 million available for future operations, with \$9.0 million of this fund balance consisting of bond proceeds which will be spent in the immediate future from the GOW Construction Fund capital projects and infrastructure improvements.

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 64. The City's actual results as compared to the City's budget can be briefly summarized as follows:

- Revenues were more than the final approved budget by \$2.2 million, primarily due to sales tax actual collections and lodging taxes being more than budgeted projections.
- Actual expenditures were more than the final approved budget amount by approximately \$2.5 million, primarily due to actual revenues over approved budgeted amounts.
- Overall actual results exceeded final budget projections, after transferring \$9.5 million from the General Fund to the debt service fund. The adopted budget for fiscal year 2022 included the use of a carryover of fund balance that did not have to be utilized during the fiscal year, mainly through closely monitoring expenditures.

Capital Assets and Debt Administration

Capital Assets - The City's investment in capital assets for governmental activities, for the year ended September 30, 2022, totaled \$143.8 million, net of accumulated depreciation. A recap of the City's capital assets at actual or estimated historical cost is shown in *Table 4* on the following page. Assets are presented net of accumulated depreciation.

Table 4: Capital Assets (net of accumulated depreciation)

	As of September 30, (dollars in thousands)	
	2022	2021
	Land	\$ 40,205
Construction in progress	10,426	4,737
Buildings	76,720	79,464
Land/infrastructure improvements	8,139	8,586
Equipment, furniture, computers and vehicles	8,302	9,320
Capital assets, net of depreciation	<u>\$ 143,792</u>	<u>\$ 141,749</u>

Additions to capital assets during the current year included the following (dollars in thousands):

Land and improvements	\$ 563
Construction in progress	5,689
Buildings	97
Land/infrastructure improvements	768
Equipment, furniture, computers, and vehicles	1,345
Total	<u>\$ 8,462</u>

Long-Term Debt - At year end, the City had approximately \$173.9 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, 2022 (dollars in thousands)		
	Beginning Balance	Net Change	Ending Balance
Governmental activities			
2016 warrants with unamortized warrant premium	\$ 49,338	\$ (4,275)	\$ 45,063
2017 warrants with unamortized warrant premium	9,611	(61)	9,550
2020 warrants	48,410	(520)	47,890
2021-A warrant with unamortized warrant premium	6,454	(57)	6,397
2021-B warrant with unamortized warrant premium	62,584	(987)	61,597
Capital lease payable	130	(130)	-
Notes payable	3,097	332	3,429
Totals	<u>\$ 179,624</u>	<u>\$ (5,698)</u>	<u>\$ 173,926</u>

Fiscal Year 2022-2023 Budget - The City Council approved an original budget of revenues and expenditures for a total of approximately \$91 million for all funds (General and Special Revenue), exclusive of the 1947 School Tax Fund and GOW Construction Fund, for the fiscal year ended September 30, 2023. The 1947 School Tax Fund budget consists of property tax dedicated to the schools and this budget for fiscal year 2022-2023 is approximately \$10.2 million. The GOW Construction Fund has an approximate budget of \$7.7 million for the I-65 Lakeshore Diamond Interchange project, Greenway II construction and continued street paving expenditures.

Economic Factors – The City has three major construction projects started in fiscal year 2021-2022 that will continue in fiscal year 2022-2023. The projects include the 18th Street Revitalization west side project, the Green Springs Highway Revitalization, and Greenway Trails Phase I. In July 2022, the City received another \$3 million dollars in American Rescue Plan Act (ARPA) grant money that was budgeted in fiscal year 2022-2023 for storm sewer infrastructure improvements, creek wall repairs and other allowable capital expenditures needed in the City, including replacing the HVAC system in City Hall.

Personnel Administration Cost - The City's personnel administration is provided by the Personnel Board of Jefferson County (PBJC). The fiscal year 2022-2023 budget included a budgeted line item of \$360,000 for this expenditure. During fiscal year 2022-2023, the City received an invoice from the PBJC in the amount of \$345,803 which was accrued as expense and payable at September 30, 2022. This amount represents costs incurred in the prior fiscal year and represents an approximately 3% increase over the fiscal year 2021-2022 payment of \$338,277.

Medical Costs - Employee health insurance is provided through the State of Alabama Insurance Board (SEIB). This Board voted to increase health insurance rates approximately 6.4% beginning January 1, 2023. The City achieved preferred rating in part through meeting the wellness screening participation goals in fiscal year 2021-2022. The Mayor recommended, and the City Council approved, the City and not the employees to fund this increase for the fiscal year 2022-2023 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. In May 2021 the City Council elected to come under the provision of Act 2019-132 converting Tier 2 employees to Tier 1 benefits which will cost the city a conversion payment of over \$700K payable over 15 years and became effective October 1, 2021. The City's contribution percentage for Tier 1 employees and converted Tier 2 employees contributing 7.5% and 8.5% to retirement is 16.21% for Tier 1 employees and 16.39% for converted Tier 2 employees for fiscal year 2022-2023.

Cost-of-Living Raise - The Mayor recommended, and the City Council of Homewood approved, a 5% Cost-of-Living Raise in the Budget for fiscal year 2022-2023.

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/Assistant City Clerk at (205) 332-6118 or Melody Salter City Clerk/Assistant Finance Director at (205) 332-6108

CITY OF HOMEWOOD, ALABAMA
Statement of Net Position
September 30, 2022

	<u>Primary Governmental Activities</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 13,091,168
Deposit and investments	10,553,314
Accounts receivable	30,415,049
Prepaid expenses	502,985
Restricted cash and cash equivalents	40,588,890
Restricted deposits and investments	6,683,572
Total current assets	101,834,978
Noncurrent assets	
Nondepreciable capital assets	50,631,539
Depreciable capital assets, net	93,161,695
Total noncurrent assets	143,793,234
Total assets	245,628,212
Deferred outflows of resources	
Deferred outflows related to pensions	9,112,801
Deferred outflows related to OPEB	872,418
Deferred charge on refunding	11,012,147
Total deferred outflows of resources	20,997,366
Liabilities	
Current liabilities	
Accounts payable	2,918,934
Accrued expenses	699,707
Due to other governments	2,044,028
Unearned revenue	3,412,889
Accrued interest payable	432,570
Current maturities of long-term liabilities	
Warrants payable, net	6,033,529
Notes payable	1,067,876
Compensated absences	1,319,990
Total current liabilities	17,929,523

The notes to the financial statements are an integral part of this statement.

CITY OF HOMEWOOD, ALABAMA
Statement of Net Position
September 30, 2022
(Continued)

	Primary Governme Governmental Activities
Noncurrent liabilities	
Warrants payable, net	\$ 164,463,442
Notes payable	2,360,830
Compensated absences	1,319,990
Other post-employment benefits	2,552,684
Net pension liability	44,609,622
Total noncurrent liabilities	215,306,568
Total liabilities	233,236,091
 Deferred inflows of resources	
Leases	283,404
Property taxes levied for subsequent year	24,573,236
Deferred inflows related to pensions	6,109,706
Deferred inflows related to OPEB	559,980
Total deferred inflows of resources	31,526,326
 Net position	
Net investment in capital assets	48,111,940
Restricted for	
Public works	1,835,645
Public safety/municipal court	1,394,403
Debt service	13,718,943
Capital projects	9,046,736
Other purposes	1,040,485
Unrestricted	(73,284,991)
Total net position	\$ 1,863,161

The notes to the financial statements are an integral part of this statement.

CITY OF HOMEWOOD, ALABAMA

Statement of Activities

Year Ended September 30, 2022

Program Activities	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities
Governmental activities					
General government administration	\$ 12,851,812	\$ 6,504,212	\$ 242,941	\$ -	\$ (6,104,659)
Public safety	23,511,194	46,223	54,203	-	(23,410,768)
Public works	9,831,195	1,319,582	1,420,387	3,177,645	(3,913,581)
Culture and recreation	10,673,332	1,345,672	62,653	-	(9,265,007)
Payments to Homewood BOE	20,808,844	-	-	-	(20,808,844)
Interest on long-term debt	5,342,139	-	-	-	(5,342,139)
Total governmental activities	83,018,516	9,215,689	1,780,184	3,177,645	(68,844,998)
Total primary government	\$ 83,018,516	\$ 9,215,689	\$ 1,780,184	\$ 3,177,645	(68,844,998)
		General revenues and other items			
		Taxes			
		Sales			42,956,900
		Property			22,804,797
		Other			5,871,243
		Franchise fees			2,656,473
		Interest income (loss)			(1,827,707)
		Gain on disposal of capital assets			78,455
		Miscellaneous			149,098
		Total general revenues and other items			72,689,259
		Change in net position			3,844,261
		Net position - beginning of year			(1,981,100)
		Net position - end of year			\$ 1,863,161

The notes to the financial statements are an integral part of this statement.

CITY OF HOMEWOOD, ALABAMA

Balance Sheet

Governmental Funds

September 30, 2022

	General	1947 School Tax	Debt Service	Capital Projects	GOW Construction	Grants Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets								
Cash and cash equivalents	\$ 13,091,168	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,091,168
Deposit and investments	10,553,314	-	-	-	-	-	-	10,553,314
Accounts receivable	11,108,138	11,128,525	6,676,645	230,692	4,848	943,289	322,912	30,415,049
Prepaid expenditures	502,985	-	-	-	-	-	-	502,985
Due from other funds	297,410	56,841	1,569,054	258,605	-	20,000	649,196	2,851,106
Restricted cash and cash equivalents	1,287,394	37,103	19,814,620	2,583,107	9,126,631	3,587,623	4,152,412	40,588,890
Restricted deposits and investments	6,683,572	-	-	-	-	-	-	6,683,572
Total assets	\$ 43,523,981	\$ 11,222,469	\$ 28,060,319	\$ 3,072,404	\$ 9,131,479	\$ 4,550,912	\$ 5,124,520	\$ 104,686,084
Liabilities								
Accounts payable	\$ 1,930,190	\$ -	\$ -	\$ 634,952	\$ 8,177	\$ 25,730	\$ 319,885	\$ 2,918,934
Accrued expenses	699,707	-	-	-	-	-	-	699,707
Due to other governmental units	2,044,028	-	-	-	-	-	-	2,044,028
Due to other funds	1,965,692	-	-	25,371	-	249,508	610,535	2,851,106
Unearned revenue	12,812	-	-	375	-	3,399,702	-	3,412,889
Total liabilities	6,652,429	-	-	660,698	8,177	3,674,940	930,420	11,926,664
Deferred inflow of resources								
Leases	-	-	-	-	-	-	283,404	283,404
Property taxes levied for subsequent years	6,880,506	11,057,956	6,634,774	-	-	-	-	24,573,236
Total deferred inflow of resources	6,880,506	11,057,956	6,634,774	-	-	-	283,404	24,856,640
Fund balance								
Nonspendable	502,985	-	-	-	-	-	-	502,985
Restricted	-	164,513	13,718,943	-	9,046,736	875,972	3,230,048	27,036,212
Committed	10,587,601	-	-	-	-	-	-	10,587,601
Assigned	3,800,188	-	7,706,602	2,411,706	76,566	-	680,720	14,675,782
Unassigned	15,100,272	-	-	-	-	-	(72)	15,100,200
Total fund balances	29,991,046	164,513	21,425,545	2,411,706	9,123,302	875,972	3,910,696	67,902,780
Total liabilities, deferred inflows and fund balance	\$ 43,523,981	\$ 11,222,469	\$ 28,060,319	\$ 3,072,404	\$ 9,131,479	\$ 4,550,912	\$ 5,124,520	\$ 104,686,084

The notes to the financial statements are an integral part of this statement.

CITY OF HOMEWOOD, ALABAMA
 Reconciliation of the Governmental Funds
 Balance Sheet to the Statement of Net Position
 September 30, 2022

Total fund balances - governmental funds \$ 67,902,780

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

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

Governmental capital assets	257,477,462	
Less accumulated depreciation	<u>(113,684,228)</u>	143,793,234

Interest payable is not recognized as an expenditure in governmental funds, but rather is recognized when an expenditure is paid.		(432,570)
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Long-term liabilities, including warrants payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.

Warrants payable	(164,705,000)	
Warrant premiums	(5,791,971)	
Deferred outflows of resources for pensions	9,112,801	
Deferred outflows of resources for OPEB	872,418	
Deferred outflow of resources for deferred charges	11,012,147	
Notes payable	(3,428,706)	
Total OPEB liability	(2,552,684)	
Net pension liability	(44,609,622)	
Compensated absences	(2,639,980)	
Deferred inflows of resources for pensions	(6,109,706)	
Deferred inflows of resources for OPEB	<u>(559,980)</u>	<u>(209,400,283)</u>

Total net position - governmental activities \$ 1,863,161

The notes to the financial statements are an integral part of this statement.

CITY OF HOMEWOOD, ALABAMA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2022

	General	1947 School Tax	Debt Service	Capital Projects	GOW Construction	Grants Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues								
Taxes	\$ 51,975,822	\$ 10,264,801	\$ 6,094,458	\$ 2,628,354	\$ -	\$ -	\$ 669,505	\$ 71,632,940
Licenses and permits	8,850,945	-	-	-	-	-	39,609	8,890,554
Intergovernmental	54,203	-	242,941	-	-	3,177,645	1,420,387	4,895,176
Charges for services	1,392,931	-	-	-	-	-	289,949	1,682,880
Fines and forfeitures	512,185	-	-	-	-	-	130,951	643,136
Other	(1,533,945)	349	38,196	317,117	19,003	3,750	127,460	(1,028,070)
Total revenues	61,252,141	10,265,150	6,375,595	2,945,471	19,003	3,181,395	2,677,861	86,716,616
Expenditures								
General government administration	8,161,054	97,661	220,543	257,486	618,839	1,743,511	1,036,298	12,135,392
Public safety	18,954,677	-	-	781,677	82,845	-	825,189	20,644,388
Public works	6,135,196	-	-	413,757	-	-	712,648	7,261,601
Culture and recreation	7,894,579	-	-	184,882	1,184	7,646	57,531	8,145,822
Capital outlay	137,387	-	-	4,153,976	4,072,097	99,231	-	8,462,691
Debt service	-	-	6,059,418	-	-	-	-	6,059,418
Principal retirement	-	-	5,444,630	-	-	-	-	5,444,630
Interest	-	-	-	-	-	-	-	-
Total expenditures	41,282,893	97,661	11,724,591	5,791,778	4,774,965	1,850,388	2,631,666	68,153,942
Excess (deficiency) of revenues over (under) expenditures	19,969,248	10,167,489	(5,348,996)	(2,846,307)	(4,755,962)	1,331,007	46,195	18,562,674
Other financing sources (uses)								
Proceeds from bond issuance	226,576	-	1,291,089	-	-	-	-	1,291,089
Proceeds from sale of capital assets	(10,522,493)	(10,286,351)	-	-	-	-	-	226,576
Appropriation to Homewood BOE	(9,383,137)	-	8,137,441	1,761,103	(51,641)	(459,582)	(4,184)	(20,808,844)
Operating transfers (out) in	(19,679,054)	(10,286,351)	9,428,530	1,761,103	(51,641)	(459,582)	(4,184)	(19,291,179)
Total other financing sources (uses)	290,194	(118,862)	4,079,534	(1,085,204)	(4,807,603)	871,425	42,011	(728,505)
Net changes in fund balance	29,700,852	283,375	17,346,011	3,496,910	13,930,905	4,547	3,868,685	68,631,285
Fund balance - beginning of year	\$ 29,991,046	\$ 164,513	\$ 21,425,545	\$ 2,411,706	\$ 9,123,302	\$ 875,972	\$ 3,910,696	\$ 67,902,780
Fund balance - end of year								

The notes to the financial statements are an integral part of this statement.

CITY OF HOMEWOOD, ALABAMA
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures and Changes in Fund Balances to the Statement of Activities
 Year Ended September 30, 2022

Net changes in fund balances - governmental funds \$ (728,505)

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

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

Capital outlay	8,462,691	
Less depreciation expense	<u>(6,337,911)</u>	2,124,780

The proceeds from the sale of capital assets (\$158,870) are reported as other financing sources in the governmental funds. However, the net book value of the capital assets (\$80,415) is removed from the capital assets account in the Statement of Net Position and offset against the sales proceeds resulting in a gain in the Statement of Activities of \$78,455. (80,415)

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

Principal retirement	6,059,418	
Proceeds from issuance of warrants	(1,291,089)	
Warrant premiums and deferred amounts on refunding amortization expense	<u>82,483</u>	4,850,812

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Net decrease in accrued compensated absences	(207,964)	
Net increase in pension expense	(2,120,351)	
Net increase in post-employment benefit payable	(14,104)	
Net decrease in accrued interest	<u>20,008</u>	<u>(2,322,411)</u>

Change in net position - governmental activities \$ 3,844,261

The notes to the financial statements are an integral part of this statement.

CITY OF HOMEWOOD, ALABAMA

Notes to Financial Statements

September 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Homewood, Alabama (the City), an Alabama Municipal Corporation, was incorporated in 1926. The City operates under a Mayor-Council form of government. The governing body is an elected Mayor, elected City Council President, and a ten-member elected City Council. The City's major operations include police and fire protection, culture and recreation, public works and general administrative services.

The financial statements of the City are prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The City's reporting entity applies all relevant GASB pronouncements. In preparing the financial statements, management evaluated subsequent events through June 30, 2023, the date the financial statements were available to be issued. The more significant of these accounting policies are described below.

Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity include whether:

- The organization is legally separate (can sue and be sued in its own name);
- The City holds the corporate powers of the organization;
- The City appoints a voting majority of the organization's board;
- The City is able to impose its will on the organization;
- The organization has the potential to impose a financial benefit/burden on the City; and
- There is fiscal dependency by the organization on the City.

Based on the aforementioned criteria, the City of Homewood has no component units.

Government-Wide and Fund Financial Statements

The basic financial statements are presented at both the government-wide (based on the City as a whole) and fund financial level. Governmental activities are normally supported by taxes and intergovernmental revenues. The government-wide financial statements are categorized by primary activities, such as the City's police and fire protection, culture and recreation, public works, and general administrative services, as governmental activities.

Government-Wide Financial Statements display information about the City as a whole. The effect of interfund activity has been removed from these statements. These aggregate statements consist of the *Statement of Net Position* and the *Statement of Activities*.

The *Statement of Net Position* measurement focus is full accrual basis of accounting and economic resource measurement and the statement presents information on all of the City's assets and liabilities (including long-term assets and receivables as well as long-term debt and obligations), with the difference being reported as net position.

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government-Wide and Fund Financial Statements - Continued

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

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

Measurement Focus and Basis of Accounting

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

All transactions and events that affect the total economic resources (net position) during the period are reported. Economic resources measurement focus is connected with the full accrual basis of accounting. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash inflows and outflows.

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus and Basis of Accounting - Continued

Governmental fund financial statements are presented on a modified accrual basis of accounting with a current financial resource measurement focus. The measurement focus concentrates on the fund's resources available for spending currently or in the near future. Only transactions and events affecting the fund's current financial resources during the period are reported. Current resources measurement is connected with the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become *measurable* and *available*). *Measurable* means the amount of the transaction can be determined and revenues are considered *available* when they are collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Revenues considered susceptible to accrual are property taxes, state, county and local shared revenues, franchise taxes and intergovernmental revenues. Expenditures are recognized when the related liability is incurred, with the exception of principal and interest on general obligation long-term debt, compensated absences, net pension obligation and other post-employment benefits payable, and claims and judgments, which are recognized as expenditures to the extent that they have matured.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund-based financial statements into the governmental activities column of the government-wide presentation.

Basis of Presentation - Fund Level Financial Statements

Generally accepted accounting principles set forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section located in the supplementary information section of the financial statements. The City reports the following major governmental funds:

General Fund - To account for all revenues and expenditures applicable to the general operations of government that are not properly accounted for in another fund. All general operating revenues, which are not restricted or designated as to use by outside sources, are recorded in the General Fund.

1947 School Tax Fund - The 1947 School Tax Fund is the City's major special revenue fund. The fund is used to collect property taxes to be disbursed as payments to the Homewood Board of Education.

CITY OF HOMEWOOD, ALABAMA

Notes to Financial Statements

September 30, 2022

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation - Fund Level Financial Statements - Continued

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

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

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

Grants Fund - The City's Grants Fund is used to account for grant proceeds and expenditures related to various grants awarded to the City. The fund includes the City's allocation of the American Rescue Plan Act funds.

Additionally, the City reports the following non-major governmental funds:

Special Revenue Funds - To account for the proceeds of specific revenue resources that are legally restricted or designated for expenditures with specified purposes. All of the City's special revenue funds are non-major with the exception of the 1947 School Tax Fund and the Grants Fund. The City reports all nonmajor funds in the Nonmajor Governmental funds column.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

Cash and Cash Equivalents

The City considers all instruments with an original maturity of three months or less to be cash and cash equivalents. Cash equivalents consist of money market securities stated at fair value which approximates cost. Cash and cash equivalents are maintained at financial institutions, and at times, balances may exceed federally insured limits. These amounts represent actual account balances held by financial institutions at the end of the period, and unlike the balances reported in the financial statements, the account balances do not reflect timing delays inherent in reconciling items such as outstanding checks and deposits in transit. The City has never experienced any losses related to those balances.

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents - Continued

The City also participates in the Alabama State Treasury's Security for Alabama Funds Enhancement (SAFE) program. The bank holding the City's deposits is a certified participant in the SAFE program. Through the SAFE program, all public funds are protected through a collateral pool administered by the Alabama State Treasury.

Investments

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. As of September 30, 2022, the City had investments that meet this criteria.

Investments are stated at market value.

Receivables

Receivables are reported as "Receivables and due from other governments" in the government-wide financial statements and 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.

Prepaid Expenses

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year.

Restricted Assets

The use of restricted assets is limited by legal requirements or restrictions imposed externally by creditors or contributors. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted, as they are needed.

Interfund Transfers, Receivables and Payables

During the normal course of operations, the City has numerous transactions between funds to provide services, construct assets, and service debt. These receivables and payables are classified as "Due to/from other funds," as they are all short-term in nature. These amounts have been eliminated on the government-wide financial statements.

Routine transfers of resources between City funds that are not intended to be repaid are classified separately from revenues and expenditures. Such interfund operating transfers are identified as "Interfund transfers in/(out)" in the accompanying financial statements.

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets

Capital assets, which include property, buildings, equipment, and infrastructure assets, which consist of streets, roads, sidewalks and similar items, are reported in the government-wide financial statements. Capital assets are defined by the government as assets, not including infrastructure assets, with an initial individual cost of more than \$5,000 and more than one year of useful life. Infrastructure assets capitalized have an original cost of \$50,000 or more. Capital assets purchased or acquired are carried at historical cost or estimated historical cost.

Donated or contributed capital assets are recorded at their estimated fair value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' useful lives are charged to operations as incurred. Improvements that materially extend the useful life of an asset are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation of capital assets is computed using the straight-line method over the following estimated useful lives: buildings, 20 to 50 years; improvements, 20 years; machinery and equipment, 5 to 10 years; and infrastructure, 30 to 35 years.

Depreciation is provided in the proprietary funds in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line basis.

Property Taxes

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

Fair Value

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

CITY OF HOMEWOOD, ALABAMA

Notes to Financial Statements

September 30, 2022

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value - Continued

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

Level 2 - Inputs to the valuation methodology include:

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

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

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

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

Deferred Outflows of Resources

The City's *Statement of Net Position* reports a separate section for deferred outflows of resources. This separate financial statement element reflects a decrease in net position that applies to future periods. Deferred outflows of resources reported in the financial statements are amounts of pension contributions through the end of the City's fiscal year to be recognized by the pension plan on the accrual basis of accounting in the next measurement period and are deferred amounts arising from the refunding of warrants payable. The deferred refunding amounts are being amortized over the remaining lives of the refunding warrants as part of interest expense.

Unearned Revenue

The City reports unearned revenue in connection with resources that have been received but are not yet recognizable.

CITY OF HOMEWOOD, ALABAMA

Notes to Financial Statements

September 30, 2022

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Long-term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column of the *Statement of Net Position*. Warrant premiums and discounts are deferred and amortized over the lives of the warrants using the warrant outstanding method. Warrants payable are reported net of the applicable warrant premium or discount. Warrant issue costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize warrants premiums, discounts and issuance costs during the current period. The face amount of debt issued is reported as other financing sources, while premiums and discounts are reported as other financing sources and uses, respectively.

Compensated Absences

The City's full-time employees earn vacation leave in accordance with their years of service. Vacation leave earned, but not used, during the calendar year may be accumulated up to a maximum of forty days. Vacation leave earned in excess of forty days not used by December 31 is rolled over to employee sick leave balances. An employee who resigns or retires in good standing shall be paid for earned vacation leave up to a maximum of forty days.

The City's employees are permitted to accrue overtime leave/compensatory time in lieu of monetary overtime compensation for hours worked in excess of a normal week. Forty hour per week employees may accrue up to 80 hours of overtime leave/compensatory time. Any time accrued over 80 hours, with the exception of public safety employees, is compensated at a rate in accordance with FLSA policy. Police department employees are permitted to carry 80 hours of overtime leave. Any time accrued over 80 hours is compensated at straight time up to 171 hours in a 28-day pay period. Any time accrued over 171 hours in a 28-day pay period is compensated at time and one half. Fire department non-exempt employees are allowed to carry up to 150 hours of overtime leave. Any time accrued over 150 hours is compensated at straight time unless earned within a 26-day pay period. Any time accrued over 150 hours in a 26-day pay period is compensated at time and one half.

The City's employees accrue paid sick leave at a rate of one work day for each month of service. Sick leave earned during the year but not used may be accumulated and carried forward from year to year with no maximum amount. Employees are not paid for unused sick leave upon termination of employment. Accordingly, sick pay is charged to expense when taken. No provision has been made in the financial statements for unused sick leave.

The accrued amounts of vacation and compensatory time are recorded as noncurrent liabilities in proprietary funds, net of estimated current portion. The accrued amounts of vacation and compensatory time earned by employees whose salaries are charged to the General Fund are recorded as noncurrent liabilities in the government-wide financial statements, net of estimated current portion.

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Other Post-employment Benefit Obligations (OPEB)

The City is required to report the City's actuarially determined net OPEB obligation as a long-term liability in the government-wide financial statements (See Note 12).

Pensions

The Employees' Retirement System of Alabama (the Plan or ERS) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the Plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the GASB. Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report. The last year for which actuarial information is available is for the fiscal year ending September 30, 2021 and, therefore, this actuarial information is reported in the 2022 financial statements.

Deferred Inflows of Resources

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

Net Position

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

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

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

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

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Equity

The City is required, as applicable, to present fund balances in five categories. The fund balance categories are:

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

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

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

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

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

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

The City has fiscal policies that define specific financial reserve policies for each fund. The General Fund must maintain undesignated cash reserves of at least 16% of annual General Fund budgeted expenditures (excluding Homewood Board of Education allocations). The Capital Projects Fund must maintain undesignated cash reserves of \$750,000. The Debt Service fund must maintain undesignated cash reserves equal to at least one year's worth of payments on its outstanding bond issues. The City assigns fund balance in the General Fund of \$1,000,000 for risk management to cover expenditures not covered by City insurance, and assigns fund balance equal to fiscal year end compensated absence liability.

In addition to reserve policies, the City has a policy to address reserves for financial and economic uncertainty. The City strives to maintain an accumulated balance of 30% of the annual fund budgeted expenditures for economic uncertainty, to be funded with General Fund surplus.

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Accounting Standards Adopted

In fiscal year 2022, the City adopted GASB Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The implementation of this standard required the City to record \$378,598 in lease receivables and deferred inflows as of October 1, 2021.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Equity

The deficit fund equities of \$72 in the Homewood court restitution fund, \$70,133 in the correction fund, and \$40,745 in the municipal court fund, non-major governmental funds, are the result of revenues being inadequate to cover expenditures. These deficits are offset through interfund borrowings from the General Fund.

NOTE 3 - DEPOSITS AND INVESTMENTS

As of September 30, 2022, the City had the following investments, which were reported at fair value in governmental activities:

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>(in Years)</u>	
		<u>1-5</u>	<u>6-10</u>
Municipal bonds	\$ 2,722,150	\$ 2,582,066	\$ 140,084
Government-sponsored entities	14,514,736	8,276,731	6,238,005
Total	<u>\$ 17,236,886</u>	<u>\$ 10,858,797</u>	<u>\$ 6,378,089</u>

State statutes authorize the City to invest in obligations of the U.S. Treasury, certain U.S. agency obligations, State of Alabama obligations, county obligations, and other municipal obligations, as well as bank certificates of deposit and bank public investment accounts.

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 3 - DEPOSITS AND INVESTMENTS - Continued

In addition to limits imposed by state statute, the City has a formal investment policy that limits its allowable deposits or investments or that addresses the specific types of risks that the government is exposed to through its deposits or investments.

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

Credit Risk - It is the City's policy to invest public funds in a manner which maximizes return and provides maximum security in preserving and protecting funds while meeting the City's cash flow demands and conforming to all applicable statutes governing the investment of public funds. The City adheres to the "prudent person standard," and its pertinent application within state statutes made with judgment and care, under circumstances prevailing, which persons of prudence, discretion, and intelligence exercise in 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.

Credit Risk - Continued - The City's investment in municipal bonds had ratings ranging from Aa1 to AA, none of which make up more than 5% of the City's total investment portfolio.

Concentration of Credit Risk - The City places no limit on the amount it may invest in any one issuer. The following issuers represent 5% or more of the City's total investments portfolio at September 30, 2022: Federal Home Loan Bank - 40.07%, Federal Farm Credit Bank - 15.29%, Federal National Mortgage Association - 14.28%, Federal Home Loan Mortgage Corporation - 12.42%, and Alabaster Board of Education municipal bonds - 5.94%.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investments. All of the City's investments at September 30, 2022 were insured.

At September 30, 2022, the City held certain investments that were not authorized by state statute.

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 4 - RECEIVABLES AND PAYABLES

Receivables consisted of the following at September 30, 2022:

	General	1947		Debt Service	Capital Projects	2016 GOW Construction	Grants Fund	Nonmajor Governmental Funds		Total
		School Tax						Funds	Funds	
Sales tax	\$ 3,974,689	\$ -	\$ -	\$ 230,692	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,205,381
Property tax	6,880,506	11,057,956	6,634,774	-	-	-	-	-	-	24,573,236
Intergovernmental	-	-	-	-	-	-	-	39,452	-	39,452
Leases	-	-	-	-	-	-	-	283,460	-	283,460
Other receivables	252,943	70,569	41,871	-	4,848	943,289	-	-	-	1,313,520
Total receivables	\$ 11,108,138	\$ 11,128,525	\$ 6,676,645	\$ 230,692	\$ 4,848	\$ 943,289	\$ 322,912	\$ -	\$ -	\$ 30,415,049

Payables consisted of the following at September 30, 2022:

	General	1947		Debt Service	Capital Projects	2016 GOW Construction	Grants Fund	Nonmajor Governmental Funds		Total
		School Tax						Funds	Funds	
Trade	\$ 1,930,190	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,730	\$ 319,885	\$ -	\$ 2,275,805
Capital assets	-	-	-	634,952	8,177	-	-	-	-	643,129
Total payables	\$ 1,930,190	\$ -	\$ -	\$ 634,952	\$ 8,177	\$ 8,177	\$ 25,730	\$ 319,885	\$ -	\$ 2,918,934

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 5 - CAPITAL ASSETS

Capital assets activity for governmental activities consisted of the following for the year ended September 30, 2022:

	Governmental Activities			
	October 1, 2021	Additions	Disposals	September 30, 2022
Depreciable assets				
Land and infrastructure improvements	\$ 58,391,903	\$ 767,535	\$ 42,567	\$ 59,116,871
Buildings and improvements	107,093,741	97,387	-	107,191,128
Equipment	39,525,437	1,345,316	332,829	40,537,924
	<u>205,011,081</u>	<u>2,210,238</u>	<u>375,396</u>	<u>206,845,923</u>
Less accumulated depreciation				
Land and infrastructure improvements	49,805,406	1,173,003	946	50,977,463
Buildings and improvements	27,630,074	2,840,801	-	30,470,875
Equipment	30,205,818	2,324,107	294,035	32,235,890
	<u>107,641,298</u>	<u>6,337,911</u>	<u>294,981</u>	<u>113,684,228</u>
	97,369,783	(4,127,673)	80,415	93,161,695
Non-depreciable assets				
Land and improvements	39,642,075	563,349	-	40,205,424
Construction in progress	4,737,011	5,689,104	-	10,426,115
	<u>44,379,086</u>	<u>6,252,453</u>	<u>-</u>	<u>50,631,539</u>
	<u>\$ 141,748,869</u>	<u>\$ 2,124,780</u>	<u>\$ 80,415</u>	<u>\$ 143,793,234</u>

Depreciation expense was charged to governmental activities as follows:

General government administration	\$ 2,289,657
Public safety	1,306,585
Public works	497,299
Culture and recreation	<u>2,244,370</u>
	<u>\$ 6,337,911</u>

CITY OF HOMEWOOD, ALABAMA

Notes to Financial Statements

September 30, 2022

(Continued)

NOTE 6 - LEASES

The City has entered into lease agreements as lessor for office space and cell towers. The total amount of inflows of resources, including lease revenue, interest revenue, and other lease related inflows recognized during the fiscal year was \$95,194.

NOTE 7 - LONG-TERM DEBT

The City issues general obligation warrants to provide funds for the acquisition and construction of major capital facilities. The City is in compliance with all significant limitations and restrictions contained in the ordinances authorizing the issuance of general obligation warrants.

General obligation warrants are direct obligations and pledge the full faith and credit of the City. Debt service for the warrants is provided by tax revenues of the City's General Fund. These warrants generally are issued as 20-year serial warrants with increasing amounts of principal maturing and decreasing amounts of interest payable each year.

The general obligation warrants payable consisted of the following at September 30, 2022:

	<u>Governmental Activities</u>
Series 2016 General Obligation Warrants, dated December 8, 2016, due in semi-annual payments through September 1, 2046, bearing interest rates of 2.00% to 5.25%	\$ 40,855,000
Series 2017 General Obligation Warrants, dated December 28, 2017, due in semi-annual payments through September 1, 2024, bearing interest rates of 2.00% to 4.00%	9,355,000
Series 2020 Taxable General Obligation Warrants, dated October 22, 2020, due in semi-annual payments through September 1, 2046, bearing interest rates of .325% to 2.753%	47,890,000
Series 2021-A General Obligation Warrants, dated September 1, 2021, due in semi-annual payments through September 1, 2041, bearing interest rates of 4.00%	5,330,000
Series 2021-B Taxable General Obligation Warrants, dated September 1, 2021, due in semi-annual payments through September 1, 2040, bearing interest rates of 1.891% to 2.60%	61,275,000
Total warrants payable	<u>\$ 164,705,000</u>

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 7 - LONG-TERM DEBT - Continued

	Governmental Activities
Total warrants payable	\$ 164,705,000
Deferred amounts for	
Unamortized premiums (GOW Series 2016)	4,207,815
Unamortized premiums (GOW Series 2017)	194,680
Unamortized premiums (GOW Series 2021-A)	1,066,978
Unamortized premiums (GOW Series 2021-B)	322,498
Total warrants payable, net	\$ 170,496,971

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

	Governmental Activities	
	Principal	Interest
2023	\$ 5,170,000	\$ 5,143,940
2024	5,365,000	4,939,579
2025	5,585,000	4,724,945
2026	5,815,000	4,499,603
2027-2031	32,895,000	18,695,240
2032-2036	38,690,000	12,885,358
2037-2041	38,720,000	8,278,144
2042-2046	32,465,000	2,598,276
	\$ 164,705,000	\$ 61,765,085

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 7 - LONG-TERM DEBT - Continued

Notes payable consisted of the following at September 30, 2022:

	<u>Governmental Activities</u>
2.741% note payable - bank, due in sixty monthly installments of \$21,924 including interest, final unpaid balance due November 2023, secured by motor vehicles	\$ 298,866
3.04% line of credit - bank, due in monthly installments including interest, final unpaid balance due December 2028	1,053,258
2.160% note payable - bank, due in sixty monthly installments of \$14,093 including interest, final unpaid balance due January 2025, secured by motor vehicles	384,364
2.160% note payable - bank, due in sixty monthly installments of \$20,735 including interest, final unpaid balance due January 2025, secured by motor vehicles	565,483
2.09% note payable - bank, due in sixty monthly installments of \$11,270 including interest, final unpaid balance due January 2027, secured by motor vehicles	559,479
2.09% note payable - bank, due in sixty monthly installments of \$11,427 including interest, final unpaid balance due January 2027, secured by motor vehicles	567,256
Total notes payable	<u>\$ 3,428,706</u>

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 7 - LONG-TERM DEBT - Continued

Future principal and interest requirements of notes payable for governmental activities consist of the following for the years ended September 30:

	Governmental Activities	
	Principal	Interest
2023	\$ 1,067,876	\$ 51,563
2024	869,465	33,101
2025	567,971	20,593
2026	440,056	14,795
2027	268,398	9,472
Thereafter	214,940	4,116
	\$ 3,428,706	\$ 133,640

Changes in long-term liabilities consisted of the following at September 30, 2022:

Governmental Activities	October 1, 2021	Additions	Retirements	September 30, 2022	Due within one year
Warrants, notes and capital lease payables					
Capital lease payable	\$ 130,384	\$ -	\$ 130,384	\$ -	\$ -
Notes payable	3,096,651	1,291,089	959,034	3,428,706	1,067,876
General obligation warrants	169,675,000	-	4,970,000	164,705,000	5,170,000
	172,902,035	1,291,089	6,059,418	168,133,706	6,237,876
Plus: warrant premiums	10,667,734	-	4,875,763	5,791,971	863,529
Total warrants, notes and capital lease payables	183,569,769	1,291,089	10,935,181	173,925,677	7,101,405
Other liabilities					
Net pension liability	46,180,533	-	1,570,911	44,609,622	-
Total OPEB liability	2,263,626	289,058	-	2,552,684	-
Compensated absences	2,432,016	1,633,864	1,425,900	2,639,980	1,319,990
	\$ 234,445,944	\$ 3,214,011	\$ 13,931,992	\$ 223,727,963	\$ 8,421,395

General obligation warrants, and notes payable are liquidated by the Debt Service Fund while net pension liabilities, net other post-employment benefit liabilities, and compensated absences are liquidated by the General Fund and certain special revenue funds.

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 7 - LONG-TERM DEBT - Continued

On December 28, 2017, the City issued Series 2017 Warrants in the amount of \$9,715,000 for the purpose of (i) financing certain capital improvements in the City, (ii) advance refunding a portion of the City's Series 2012 Warrants (the "Refunded Series 2012 Warrants") in the amount of \$8,000,000, and (iii) paying the costs of issuance of the Series 2017 Warrants. The proceeds of the Series 2017 warrants used to advance refund a portion of Series 2012 warrants were placed in an irrevocable trust account to provide for all future debt service payments on old warrants. Accordingly, the trust account assets and the liabilities for the defeased warrants are not included in the government's financial statements. At September 30, 2022, \$0 of the defeased warrants remained outstanding.

On October 22, 2020, the City issued Series 2020 Taxable General Obligation Warrants in the amount of \$49,090,000 for the purpose of (i) financing certain capital improvements in the City, (ii) advance refunding the City's outstanding General Obligation Capital Improvement Warrants, Series 2012 (the "Refunded Series 2012 Warrants") in the amount of \$7,330,000, (iii) advance refunding a portion of the City's outstanding General Obligation Warrants, Series 2016 (the "Refunded Series 2016 Warrants") in the amount of \$27,625,000, and (iv) paying the costs of issuance of the Series 2020 Warrants. The proceeds of the Series 2020 warrants used to advance refund outstanding Series 2012 warrants and a portion of Series 2016 warrants were placed in an irrevocable trust account to provide for all future debt service payments on old warrants. Accordingly, the trust account assets and the liabilities for the defeased warrants are not included in the City's financial statements. At September 30, 2022, \$27,625,000 of the defeased warrants remained outstanding.

On September 1, 2021, the City issued Series 2021-B Taxable General Obligation Warrants in the amount of \$62,235,000 for the purpose of (i) refunding a portion of the City's outstanding General Obligation Warrants, Series 2016 (the "Refunded Warrants"), and (ii) paying the costs of issuance of the Series 2021-B Warrants. The proceeds of the Series 2021-B warrants used to advance refund a portion of Series 2016 warrants were placed in an irrevocable trust account to provide for all future debt service payments on old warrants. Accordingly, the trust account assets and the liabilities for the defeased warrants are not included in the City's financial statements. At September 30, 2022, \$51,490,000 of the defeased warrants remained outstanding.

NOTE 8 - COMMITMENTS

The Capital Projects Fund had contractual commitments as of September 30, 2022 totaling \$2,701,011 pertaining to ongoing construction for the City's Greensprings revitalization, City park improvements, and various sidewalk projects.

CITY OF HOMEWOOD, ALABAMA

Notes to Financial Statements

September 30, 2022

(Continued)

NOTE 9 - PENSION PLAN

General Information about the Pension Plan

Plan Description

The ERS, an agent multiple-employer public employee retirement plan, was established as of October 1, 1945, pursuant to the *Code of Alabama 1975, Title 36, Chapter 27* (Act 515 of the Legislature of 1945). The valuation took into account amendments to the ERS effective through the valuation date. The purpose of the ERS is to provide retirement allowances and other specified benefits for state employees, State Police, and, on an elective basis, to all cities, counties, towns, and quasi-public organizations. The responsibility for the general administration and operation of ERS is vested in its Board of Control which consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975, Title 36, Chapter 27* grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

The ERS Board of Control consists of 13 trustees as follows:

- 1) The Governor, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Personnel Director, ex officio.
- 4) The State Director of Finance, ex officio.
- 5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
- 6) Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
 - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
 - b. Two vested active state employees.
 - c. Two vested active employees of an employer participating in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 9 - PENSION 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.

Act 2019-132 allowed local employers that participate in the ERS to elect to provide Tier 1 retirement benefits to their Tier 2 employees, upon approval by the Board of Control, and is reflected in the valuations prepared for the individual employers. The City of Homewood elected to provide Tier 1 benefits to Tier 2 employees. As a result, effective October 1, 2020, the benefits provided to Tier 2 employees are the same as those provided to Tier 1 employees.

Members are eligible for disability retirement if they have 10 years of creditable service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending September 30 are paid to the beneficiary.

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 9 - PENSION PLAN - Continued

Benefits Provided - Continued

The ERS serves approximately 879 local participating employers. The ERS membership includes approximately 104,510 participants. As of September 30, 2021, membership consisted of:

ERS Membership as of the Measurement Date

Retirees and beneficiaries currently receiving benefits	29,727
Terminated employees entitled to but not yet receiving benefits	2,130
Terminated employees not entitled to a benefit	16,415
Active members	56,184
Post-DROP retired members still in active service	54
	104,510

The City's membership as of the measurement date of September 30, 2021 consisted of:

Retired members or their beneficiaries currently receiving benefits	235
Vested inactive members	8
Non-vested inactive members	51
Active members	343
Post-DROP retired members still in active service	-
	637

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.

CITY OF HOMEWOOD, ALABAMA

Notes to Financial Statements

September 30, 2022

(Continued)

NOTE 9 - PENSION PLAN - Continued

Contributions - Continued

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.

In accordance with the provisions of Act 2019-132, the City's Tier 2 covered members of the ERS contribute 7.5% of earnable compensation to the ERS. The City's Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.5% of earnable compensation.

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 preretirement death benefit, and administrative expenses of the Plan. For the year ended September 30, 2022, the City's active employee contribution rate was 7.35% of covered employee payroll, and the City's average contribution rate to fund the normal and accrued liability costs was 14.51% of pensionable payroll.

The City's contractually required contribution rate for the year ended September 30, 2022 was 16.06% of pensionable pay for Tier 1 employees, and 16.29% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2019, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the City totaled \$3,224,000 for the year ended September 30, 2022.

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 9 - PENSION PLAN - Continued

Net Pension Liability

The City's net pension liability was measured as of September 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2020 rolled forward to September 30, 2021, using standard roll-forward techniques as shown in the following table:

	<u>Expected</u>	<u>Actual Before Act 2019-132</u>	<u>Actual After Act 2019-132</u>	<u>Actual After 2020 Experience Study</u>
(a) Total pension liability as of September 30, 2020	\$ 114,267,084	\$ 115,298,504	\$ 116,722,638	\$ 121,149,834
(b) Discount rate	7.70%	7.70%	7.70%	7.45%
(c) Entry age normal cost for the period October 1, 2020 - September 30, 2021	1,791,163	1,791,163	1,979,525	2,189,467
(d) Transfers among employers	-	447,968	447,968	447,968
(e) Actual benefit payments and refunds for the period October 1, 2020 - September 30, 2021	(7,894,689)	(7,894,689)	(7,894,689)	(7,894,689)
(f) Total pension liability as of September 30, 2021 [(a) x (1+(b))] + (c) + (d) + [(e) x (1+0.5*(b))]	<u>\$ 116,658,178</u>	<u>\$ 118,216,985</u>	<u>\$ 119,939,140</u>	<u>\$ 124,624,165</u>
(g) Difference between expected and actual		\$ 1,558,807		
(h) Less liability transferred for immediate recognition		<u>447,968</u>		
(i) Experience (gain)/loss = (g) - (h)		<u>\$ 1,110,839</u>		
(j) Difference between Actual TPL Before and After Act 2019-132 - Benefit Change (Gain)/Loss			\$ 1,722,155	
(k) Difference between Actual TPL Before and After 2020 Experience Study - Assumption Change (gain)/loss				\$ 4,685,025

Actuarial Assumptions

The total pension liability as of September 30, 2021 was determined based on the annual actuarial funding valuation report prepared as of September 30, 2020. The key actuarial assumptions are summarized below:

1. An investment rate of return of 7.70% (net of pension plan investment expense), including inflation at 2.75%, per annum compounded annually on the investment of present and future assets.
2. Projected salary increases, based on age ranging from 3.25% to 5.00%.

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 9 - PENSION PLAN - Continued

Actuarial Assumptions - Continued

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

The actuarial assumptions used in the actuarial valuation, as of September 30, 2019, were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 30, 2016, which became effective at the beginning of fiscal year 2016.

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	15.00%	2.80%
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%	9.00%
Real estate	10.00%	6.50%
Cash	5.00%	1.50%
	100.00%	

*Includes assumed rate of inflation of 2.0%.

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 9 - PENSION PLAN - Continued

Discount Rate

The discount rate used to measure the total pension liability was the long-term rate of return, 7.45%. 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.

Changes in the City's net pension liability consisted of the following at September 30, 2021:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at September 30, 2020	\$ 114,267,084	\$ 68,086,551	\$ 46,180,533
Changes for the year			
Service cost	1,791,163	-	1,791,163
Interest	8,494,620	-	8,494,620
Changes of benefit terms	1,722,155	-	1,722,155
Changes of assumptions	4,685,025	-	4,685,025
Difference between expected and actual experience	1,110,839	-	1,110,839
Contributions - employer	-	3,047,639	(3,047,639)
Contributions - employee	-	1,526,366	(1,526,366)
Net investment income	-	14,800,708	(14,800,708)
Benefits of payments, including refunds of employee contributions	(7,894,689)	(7,894,689)	-
Administrative expenses	-	-	-
Transfers among employers	447,968	447,968	-
Net changes	10,357,081	11,927,992	(1,570,911)
Balances at September 30, 2021	\$ 124,624,165	\$ 80,014,543	\$ 44,609,622

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 9 - PENSION PLAN - Continued

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 7.45%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower (6.45%) or one-percentage-point higher (8.45%) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Plan’s Net Pension Liability	\$ 58,846,312	\$ 44,609,622	\$ 32,605,903

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, 2021. The supporting actuarial information is included in the GASB Statement No. 68 *Report for the ERS* prepared as of September 30, 2021. The auditor’s report on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes detail by employer, and in the aggregate, additional information needed to comply with GASB 68. The additional financial and actuarial information is available at <http://www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/>.

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 9 - PENSION PLAN - Continued

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

For the year ended September 30, 2022, the City recognized pension expense of \$5,344,351. At September 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,734,412	\$ 328,390
Changes of assumptions	4,154,389	-
Net difference between projected and actual earnings on pension plan investments	-	5,781,316
Employer contributions subsequent to the measurement date	3,224,000	-
	\$ 9,112,801	\$ 6,109,706

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

	Deferred Outflows/ (Inflows) of Resources
2023	\$ 98,394
2024	137,498
2025	(490,448)
2026	(932,323)
2027	965,974
Thereafter	-

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 10 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund payables and receivables consisted of the following at September 30, 2022:

	Payable to							Total payable To
	General	1947 School Tax	Debt Service	Capital Projects	Grant Fund	Nonmajor Governmental Funds		
Payable from								
General Fund	\$ -	\$ -	\$ 1,567,116	\$ 29,151	\$ -	\$ 369,425	\$ 1,965,692	
Capital Projects	5,372	-	-	-	20,000	-	25,372	
Grants Fund	20,053	-	-	229,454	-	-	249,507	
Nonmajor Governmental Funds	271,985	56,841	1,938	-	-	279,771	610,535	
Total payable from	\$ 297,410	\$ 56,841	\$ 1,569,054	\$ 258,605	\$ 20,000	\$ 649,196	\$ 2,851,106	

Interfund payables and receivables resulted from reimbursements made by the General Fund to the Debt Service, Capital Projects and Special Revenue for various operating expenses.

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 10 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

Interfund transfers consisted of the following during the year ended September 30, 2022:

	Transfers In					Transfers Out
	General	Debt Service	Capital Projects	GOW Construction	Nonmajor Governmental Funds	
Transfers Out						
General Fund	\$ -	\$ 9,428,530	\$ 16,000	\$ -	\$ -	\$ 9,444,530
Debt Service Fund	-	-	1,291,089	-	-	1,291,089
Capital Projects Fund	-	-	-	-	-	-
Grants Fund	5,568	-	454,014	-	-	459,582
GOW Construction	51,641	-	-	-	-	51,641
Nonmajor Governmental Funds	4,184	-	-	-	2,237	6,421
Transfers In	\$ 61,393	\$ 9,428,530	\$ 1,761,103	\$ -	\$ 2,237	\$ 11,253,263

- Transfers from the General Fund and Special Revenue Funds to proprietary funds are in accordance with the normal course of the City's operations.
- Transfers between various proprietary funds are in accordance with the normal course of the City's operations.

CITY OF HOMEWOOD, ALABAMA

Notes to Financial Statements

September 30, 2022

(Continued)

NOTE 11 - CONTINGENCIES

The City is involved in various claims and lawsuits, both for and against the City, arising in the normal course of business. Litigation is subject to inherent uncertainties and, were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on the operations of the City for the period in which the ruling occurs.

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers' compensation; and natural disasters for which the City carries commercial insurance.

The City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed or not incurred in a timely manner under the terms of the grant. City management believes such disallowances, if any, would be immaterial.

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)

General Information about the OPEB Plan

Plan Description

The City provides certain continuing health care and life insurance benefits for its retired employees. The City of Homewood's OPEB Plan (the OPEB Plan) is a single-employer defined benefit OPEB plan administered by the City. The authority to establish and/or amend the obligation of the employer, employees and retirees rests with the City. No assets are accumulated in a trust that meets the criteria in Governmental Accounting Standards Board (GASB) Statement 75, paragraph 4, *Postemployment Benefits Other Than Pensions - Reporting For Benefits Not Provided Through Trusts That Meet Specified Criteria - Defined Benefit*.

Benefits Provided

Medical benefits are provided through a comprehensive medical plan and are made available to employees upon actual retirement. Eligible participants must be eligible to retire through the Retirement Systems of Alabama and must meet the eligibility requirements of that system, which are as follows: 25 years of service at any age; or, age 60 and 10 years of service (called "Tier I" members). Employees hired on and after January 1, 2013 (called "Tier II" members) are eligible to retire only after attainment of age 62 or later completion of 10 years of service.

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS - Continued

The retiree contributes a portion of the monthly contribution rate for medical benefits elected based on the contribution rate for active employees. The City contributes the balance of the contribution for retirees who are not Medicare eligible. Benefits are provided through the Local Government Health Insurance Programs (“LGHIP”) administered by the Alabama State Employee Insurance Board. Dental benefits are included in the medical plan. Medical benefits continue for the life of the retiree, as long as contributions are made. The City does not contribute for coverage beyond the Medicare eligibility age. Life insurance benefits are provided by eligible retirees to age 65 with no contribution made by the City.

Employees Covered by Benefit Terms

At September 30, 2022, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	17
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	306
	323

Total OPEB Liability

The City’s total OPEB liability of \$2,552,684 was measured as of September 30, 2022 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the September 30, 2022 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% including inflation
Discount rate	2.25% annually (Beginning of year)
	4.77% annually (As of end of year measurement date)
Healthcare cost trend rates	4.50% level

The discount rate was based on the average of the Bond Buyers’ 20-Year General Obligation municipal bond index as of September 30, 2022, the end of the applicable measurement period.

Mortality rates were based on the RPH-2014 Table with projection to MP-2021.

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS - Continued

The actuarial assumptions used in the September 30, 2022 valuation were based on the results of ongoing evaluations of the assumptions from October 1, 2009 to September 30, 2022.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balances at September 30, 2021	\$ 2,263,626
Changes for the year	
Service cost	101,539
Interest	51,045
Changes of assumptions	(573,417)
Difference between expected and actual experience	902,854
Benefit payments and net transfers	<u>(192,963)</u>
Net change in total OPEB liability	<u>289,058</u>
Balances at September 30, 2022	<u><u>\$ 2,552,684</u></u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.77%) or 1-percentage-point higher (5.77%) than the current discount rate.

	1% Decrease (3.77%)	Current Discount Rate (4.77%)	1% Increase (5.77%)
Plan's Total OPEB Liability	<u>\$ 2,763,402</u>	<u>\$ 2,552,684</u>	<u>\$ 2,363,501</u>

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS - Continued

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (3.50%) or 1-percentage-point higher (5.50%) than the current healthcare cost trend rate.

	1% Decrease (3.50)%	Current Trend Rate (4.50%)	1% Increase (5.50)%
Plan's Total OPEB Liability	\$ 2,334,233	\$ 2,552,684	\$ 2,807,346

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2022, the City recognized OPEB expense of \$207,067. At September 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 773,689	\$ 68,596
Changes of assumptions	98,729	491,384
	\$ 872,418	\$ 559,980

CITY OF HOMEWOOD, ALABAMA

Notes to Financial Statements

September 30, 2022

(Continued)

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS - Continued

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

	Deferred Outflows/ (Inflows) of Resources
2023	\$ 54,483
2024	54,483
2025	54,483
2026	54,483
2027	47,861
Thereafter	46,645

NOTE 13 - FAIR VALUE

The following is a description of the valuation methodologies used for assets measured at fair value. There were no changes in the methodologies used during the year ended September 30, 2022.

- *U.S. Treasury bills:* Valued based on secondary trade data provided by an independent source.
- *Municipal bonds:* Valued based on recently executed transactions, market price quotations, matrix pricing, an income approach that factors in interest rates and bond or credit default swap spreads, or secondary trade data provide by an independent source.
- *U.S. Government-sponsored entities:* Valued based on issuance price and secondary trade data provided by recognized broker dealers.

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

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 13 - FAIR VALUE - Continued

The following table sets forth, by level within the fair value hierarchy, the investments at fair value as of September 30, 2022:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Municipal bonds	\$ 2,722,150	\$ -	\$ 2,722,150	\$ -
Government-sponsored entities	14,514,736	-	14,514,736	-
Total	<u>\$ 17,236,886</u>	<u>\$ -</u>	<u>\$ 17,236,886</u>	<u>\$ -</u>

NOTE 14 - CONDUIT DEBT

From time to time, the City’s Commercial Development Authority issues bonds to provide assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. At September 30, 2022, the aggregate principal amount payable totaled \$229,810,000.

CITY OF HOMEWOOD, ALABAMA

Notes to Financial Statements

September 30, 2022

(Continued)

NOTE 15 - FUND BALANCE CLASSIFICATIONS

The following table details fund balance categories as of September 30, 2022:

	General	1947 School Tax	Debt Service	Capital Projects	GOW Construction	Grants Fund	Other Governmental Funds	Total Governmental Funds
Fund balances								
Nonspendable								
Prepaid expenses	\$ 502,985	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 502,985
Restricted for								
Road maintenance	-	-	-	-	-	-	1,425,253	1,425,253
Road paving	-	-	-	-	-	-	410,392	410,392
Debt service	-	-	13,718,943	-	-	-	-	13,718,943
BOE—property tax	-	164,513	-	-	-	-	-	164,513
Grant expenditures	-	-	-	-	-	875,972	-	875,972
E911	-	-	-	-	-	-	211,192	211,192
Court restricted by law	-	-	-	-	-	-	1,107,885	1,107,885
Drug enforcement task for	-	-	-	-	-	-	75,326	75,326
Construction projects	-	-	-	-	9,046,736	-	-	9,046,736
Committed to								
Reserve for economic uncertainty	10,587,601	-	-	-	-	-	-	10,587,601
Assigned to								
Other capital projects	-	-	-	(679,511)	-	-	-	(679,511)
Debt service	-	-	5,951,380	-	-	-	-	5,951,380
Encumbrances	147,771	-	-	1,421,009	76,566	-	-	1,645,346
Environmental testing	-	-	-	-	-	-	81,903	81,903
Inspection technology	-	-	-	-	-	-	153,493	153,493
Park activity	-	-	-	-	-	-	309,977	309,977
Library donations	12,087	-	-	-	-	-	12,087	12,087
Other donations	350	-	-	-	-	-	350	350
Risk management	1,000,000	-	-	-	-	-	-	1,000,000
Compensated absences	2,639,980	-	-	-	-	-	-	2,639,980
Subsequent years' budget	-	-	1,755,222	1,670,208	-	-	-	3,560,777
Unassigned (deficit)	15,100,272	-	-	-	-	-	135,347	15,100,200
Total fund balance	\$ 29,991,046	\$ 164,513	\$ 21,425,545	\$ 2,411,706	\$ 9,123,302	\$ 875,972	\$ 3,910,696	\$ 67,902,780

CITY OF HOMEWOOD, ALABAMA

Notes to Financial Statements

September 30, 2022

(Continued)

NOTE 16 - TAX ABATEMENTS

The City enters into sales tax abatement agreements with local businesses under the Tax Incentive Reform Act of 1992. Under the Act, cities, counties and public industrial authorities have the ability to abate sales and use taxes and property taxes for various time periods depending on the type of business, all for the purpose of attracting or retaining businesses within their jurisdictions. The abatements may be granted to any business located within or promising to relocate to the City. For the fiscal year ended September 30, 2022, the City abated taxes totaling \$1,462,682 under this Act, as summarized below.

Purpose	Type of Taxes Abated	Percentage of Taxes Abated During the Fiscal Year	Amount of Taxes Abated During the Fiscal Year	Expiration of Incentive¹	Maximum Incentive Amount
Retail development	Sales ⁴	87.50%	\$ 1,140,465	March 2023	\$ 9,000,000
		62.50%	-	March 2028	
Medical center development and expansion	Ad Valorem ²	75.00%	104,994	March 2032	5,000,000
	Ad Valorem ²	100% ⁴	-	October 2027	N/A
Bank development	Construction-related transactions ³			October 2037	
Commercial development	Lodging tax	75.00%	148,690	December 2028	10,000,000
	Sales ⁴	50.00%	7,543	February 2028	
Restaurant development	Ad Valorem ²	100.00%	-	February 2018	500,000
	Business License	100.00%	-	February 2021	
	Ad Valorem ²	100.00%	-	October 2024	N/A
Restaurant development	Construction-related transactions ³				
Restaurant development	Sales ⁴	50.00%	60,991	July 2028	300,000

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 2% sales tax

CITY OF HOMEWOOD, ALABAMA

Notes to Financial Statements

September 30, 2022

(Continued)

NOTE 17 - 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 emergencies.

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 a 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 18 - ACCOUNTING CHANGES AND ACCOUNTING STANDARDS

The GASB has issued the following statements and implementation guides:

The GASB issued Statement No. 87, *Leases*, to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this Statement were in effect for financial statements starting with the fiscal year that ends June 30, 2022. The City implemented GASB 87 for the fiscal year ending September 30, 2022.

The GASB issued Statement No. 91, *Conduit Debt Obligations*, to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of GASB 91 will take effect for financial statements starting with the fiscal year that ends December 31, 2022. The City is currently evaluating the impact GASB 91 may have on its financial statements.

CITY OF HOMEWOOD, ALABAMA

Notes to Financial Statements

September 30, 2022

(Continued)

NOTE 18 - ACCOUNTING CHANGES AND ACCOUNTING STANDARDS - Continued

The GASB issued Statement No. 92, *Omnibus 2020*, to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of GASB 92 were in effect for financial statements starting with the fiscal year that ends June 30, 2022. The City implemented GASB 92 for the fiscal year ending September 30, 2022. Adoption did not effect the City's current year financial statements.

The GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*, to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The requirement in paragraph 11b were in effect for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 were in effect for financial statements starting with the fiscal year that ends June 30, 2022. The City implemented GASB 93 for the fiscal year ending September 30, 2022. Adoption did not effect the City's current year financial statements.

The GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The requirements of GASB 94 will take effect for financial statements starting with the fiscal year that ends June 30, 2023. The City is currently evaluating the impact GASB 94 may have on its financial statements.

The GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. The requirements of GASB 96 will take effect for financial statements starting with the fiscal year that ends June 30, 2023. The City is currently evaluating the impact GASB 96 may have on its financial statements.

The GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. There was no financial statement impact as a result of the implementation of paragraph 4 & 5 of the Statement. All other requirements of GASB 97 were in effect for financial statements starting with the fiscal year that ends June 30, 2022. The City implemented GASB 97 for the fiscal year ending September 30, 2022.

CITY OF HOMEWOOD, ALABAMA
Notes to Financial Statements
September 30, 2022
(Continued)

NOTE 18 - ACCOUNTING CHANGES AND ACCOUNTING STANDARDS - Continued

The GASB issued Implementation Guide No. 2019-3, *Leases*, to provide guidance for reporting of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this Implementation Guide will take effect for financial statements starting with the fiscal year that ends June 30, 2022. The City implemented GASB 87 for the fiscal year ending September 30, 2022.

For the original pronouncements and the implementation guides, please visit the GASB's website, www.gasb.org.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HOMEWOOD, ALABAMA
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
Year Ended September 30, 2022

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 43,263,521	\$ 47,208,762	\$ 51,975,822	\$ 4,767,060
Licenses and permits	7,926,212	7,924,356	8,850,945	926,589
Intergovernmental	106,295	116,000	54,203	(61,797)
Charges for services	1,130,009	1,227,480	1,392,931	165,451
Fines and forfeitures	789,990	606,114	512,185	(93,929)
Other	2,156,120	1,966,989	(1,533,945)	(3,500,934)
Total revenues	<u>55,372,147</u>	<u>59,049,701</u>	<u>61,252,141</u>	<u>2,202,440</u>
Expenditures				
General government administration	6,906,987	8,476,577	8,161,054	315,523
Public safety	19,154,565	19,961,523	18,954,677	1,006,846
Public works	6,525,406	6,712,419	6,135,196	577,223
Culture and recreation	8,062,033	8,677,664	7,894,579	783,085
Capital outlay	-	-	137,387	(137,387)
Total expenditures	<u>40,648,991</u>	<u>43,828,183</u>	<u>41,282,893</u>	<u>2,545,290</u>
Excess of revenues over expenditures	<u>14,723,156</u>	<u>15,221,518</u>	<u>19,969,248</u>	<u>4,747,730</u>
Other financing sources (uses)				
Proceeds from sales of capital assets	80,000	165,636	226,576	60,940
Appropriation to City Board of Education	(8,896,273)	(9,618,494)	(10,522,493)	(903,999)
Operating transfers in (out)	(5,901,882)	(5,808,200)	(9,383,137)	(3,574,937)
Total other financing sources (uses)	<u>(14,718,155)</u>	<u>(15,261,058)</u>	<u>(19,679,054)</u>	<u>(4,417,996)</u>
Net changes in fund balance	<u>\$ 5,001</u>	<u>\$ (39,540)</u>	<u>\$ 290,194</u>	<u>\$ 329,734</u>

See notes to required supplementary information.

CITY OF HOMEWOOD, ALABAMA
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
1947 School Tax Special Revenue Fund
Year Ended September 30, 2022

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 10,049,095	\$ 10,284,065	\$ 10,264,801	\$ (19,264)
Other	-	-	349	349
Total revenues	<u>10,049,095</u>	<u>10,284,065</u>	<u>10,265,150</u>	<u>(18,915)</u>
Expenditures				
General government administration	<u>223,429</u>	<u>273,341</u>	<u>97,661</u>	<u>175,680</u>
Total expenditures	<u>223,429</u>	<u>273,341</u>	<u>97,661</u>	<u>175,680</u>
Excess of revenues over expenditures	<u>9,825,666</u>	<u>10,010,724</u>	<u>10,167,489</u>	<u>156,765</u>
Other financing sources (uses)				
Appropriation to City Board of Education	(9,825,666)	(10,010,724)	(10,286,351)	275,627
Operating transfers in (out)	-	-	-	-
Total other financing sources (uses)	<u>(9,825,666)</u>	<u>(10,010,724)</u>	<u>(10,286,351)</u>	<u>275,627</u>
Net changes in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (118,862)</u>	<u>\$ 432,392</u>

See notes to required supplementary information.

CITY OF HOMEWOOD, ALABAMA
Schedule of Changes in the Net Pension Liability and Related Ratios
Last Eight Years Ended September 30,

	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability								
Service cost	\$ 1,791,163	\$ 1,737,226	\$ 1,682,515	\$ 1,617,464	\$ 1,596,114	\$ 1,570,223	\$ 1,606,256	\$ 1,514,594
Interest	8,494,620	8,291,605	7,988,096	7,900,805	7,631,698	7,452,923	7,064,565	6,864,354
Changes of benefit terms	1,722,155	-	-	-	-	-	-	-
Differences between expected and actual experience	1,110,839	87,760	1,268,729	(887,912)	632,642	(1,385,530)	2,393,143	-
Changes of assumptions	4,685,025	-	-	526,996	-	4,195,512	-	-
Benefit payments, including refunds of employee contributions	(7,894,689)	(7,382,605)	(7,210,155)	(7,237,379)	(6,885,805)	(6,393,275)	(6,025,687)	(5,726,936)
Transfers among employers	447,968	158,620	298,709	(137,955)	673,497	118,385	-	-
Net change in total pension liability	10,357,081	2,892,606	4,027,894	1,782,019	3,648,146	5,558,238	5,038,277	2,652,012
Total pension liability - beginning	114,267,084	111,374,478	107,346,584	105,564,565	101,916,419	96,358,181	91,319,904	88,667,892
Total pension liability - ending (a)	\$ 124,624,165	\$ 114,267,084	\$ 111,374,478	\$ 107,346,584	\$ 105,564,565	\$ 101,916,419	\$ 96,358,181	\$ 91,319,904
Plan fiduciary net position								
Contributions - employer	\$ 3,047,639	\$ 3,092,544	\$ 2,951,627	\$ 2,490,953	\$ 2,362,811	\$ 2,227,078	\$ 2,175,800	\$ 2,170,917
Contributions - member	1,526,366	1,565,050	1,628,411	1,546,005	1,460,525	1,440,137	1,399,641	1,416,151
Net investment income	14,800,708	3,749,711	1,704,121	5,861,750	7,514,350	5,655,277	684,853	6,467,463
Benefit payments, including refunds of employee contributions	(7,894,689)	(7,382,605)	(7,210,155)	(7,237,379)	(6,885,805)	(6,393,275)	(6,025,687)	(5,726,936)
Transfers among employers	447,968	158,620	298,709	(137,955)	673,497	118,385	(703,937)	8,096
Net change in plan fiduciary net position	11,927,992	1,183,320	(627,287)	2,523,374	5,125,378	3,047,602	(2,469,330)	4,335,691
Plan net position - beginning	68,086,551	66,903,231	67,530,518	65,007,144	59,881,766	56,834,164	59,303,494	54,967,803
Plan net position - ending (b)	\$ 80,014,543	\$ 68,086,551	\$ 66,903,231	\$ 67,530,518	\$ 65,007,144	\$ 59,881,766	\$ 56,834,164	\$ 59,303,494
Net pension liability (a) - (b)	\$ 44,609,622	\$ 46,180,533	\$ 44,471,247	\$ 39,816,066	\$ 40,557,421	\$ 42,034,653	\$ 39,524,017	\$ 32,016,410
Plan fiduciary net position as a percentage of the total pension liability	64.20%	59.59%	60.07%	62.91%	61.58%	58.76%	58.98%	64.94%
Covered payroll	\$ 20,293,621	\$ 20,618,399	\$ 26,124,101	\$ 18,668,442	\$ 17,881,512	\$ 17,449,607	\$ 17,215,560	\$ 17,735,242
Net pension liability as a percentage of covered payroll	219.82%	223.98%	170.23%	213.28%	226.81%	240.89%	229.58%	180.52%

This schedule is presented to illustrate the requirement to show information for 10 years. Until a full 10-year trend is compiled, the City of Homewood will only present information for those years for which information is available.

See notes to required supplementary information.

CITY OF HOMEWOOD, ALABAMA
Schedule of Employer Contributions - Pension
Last Eight Years Ended September 30,

	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 3,224,000	\$ 3,047,639	\$ 3,092,544	\$ 2,935,850	\$ 2,490,953	\$ 2,428,864	\$ 2,229,341	\$ 2,235,651
Contributions in relation to the actuarially determined contributions	3,224,000	3,047,639	3,092,544	2,935,850	2,490,953	2,428,864	2,229,341	2,235,651
Contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 22,225,248	\$ 20,293,621	\$ 20,618,399	\$ 26,124,101	\$ 18,668,442	\$ 17,881,512	\$ 17,449,607	\$ 17,215,560
Contributions as a percentage of covered payroll	14.51%	15.02%	15.00%	11.24%	13.34%	13.58%	12.78%	12.99%

This schedule is presented to illustrate the requirement to show information for 10 years. Until a full 10-year trend is compiled, the City of Homewood will only present information for those years for which information is available.

See notes to required supplementary information.

CITY OF HOMEWOOD, ALABAMA
 Schedule of Changes in Total OPEB Liability and Related Ratios
 Last Five Years Ended September 30,

	2022	2021	2020	2019	2018
Total OPEB liability					
Service cost	\$ 101,539	\$ 101,539	\$ 66,448	\$ 66,448	\$ 63,855
Interest	51,045	50,791	84,652	78,129	77,367
Differences between expected and actual experience	902,854	-	(118,786)	-	-
Changes of assumptions	(573,417)	-	170,972	-	-
Benefit payments and net transfers	(192,963)	(89,075)	(42,991)	(57,708)	(59,478)
Net change in total OPEB liability	289,058	63,255	160,295	86,869	81,744
Total OPEB liability - beginning	2,263,626	2,200,371	2,040,076	1,953,207	1,871,463
Total OPEB liability - ending	\$ 2,552,684	\$ 2,263,626	\$ 2,200,371	\$ 2,040,076	\$ 1,953,207
Covered payroll					
	\$ 18,299,512	\$ 18,109,896	\$ 18,109,896	\$ 16,835,986	\$ 16,835,986
Total OPEB liability as a percentage of covered payroll	13.95%	12.50%	12.15%	12.12%	11.60%

This schedule is presented to illustrate the requirement to show information for 10 years. Until a full 10- year trend is compiled, the City of Homewood will only present information for those years for which information is available.

See notes to required supplementary information.

CITY OF HOMEWOOD, ALABAMA
Notes to Required Supplementary Information
September 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT BUDGETARY PRACTICES

The City Council adopts budgets for the General Fund and the 1947 School Tax Special Revenue Fund at the beginning of each fiscal year in accordance with Alabama law. Once approved, the City Council may amend the legally adopted budgets when unexpected modifications are required in estimated revenues and expenditures.

NOTE 2 - SUMMARY OF SIGNIFICANT PENSION PLAN PRACTICES

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2022 were based on the September 30, 2019 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period October 1, 2021 to September 30, 2022 consisted of the following:

Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	27.4 years
Asset valuation method	Five-year smoothed market
Inflation	2.75%
Salary increases	3.25 - 5.00%, including inflation
Investment rate of return	7.70%, net of pension plan investment expense, including inflation

NOTE 3 - SUMMARY OF SIGNIFICANT OPEB PLAN PRACTICES

Benefit Changes - There were no changes of benefit terms for the year ended September 30, 2022.

Changes in Assumptions - The discount rate as of September 30, 2021 was 2.25% and it changed to 4.77% as of September 30, 2022.

No assets are accumulated in a trust that meets the criteria in Governmental Accounting Standards Board (GASB) Statement No. 75, paragraph 4, *Post-employment Benefits Other Than Pensions - Reporting For Benefits Not Provided Through Trusts That Meet Specified Criteria - Defined Benefit* to pay related benefits.

CITY OF HOMEWOOD, ALABAMA
Notes to Required Supplementary Information
September 30, 2022
(Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT OPEB PLAN PRACTICES - Continued

Methods and assumptions used to determine contribution rates for the period October 1, 2021 to September 30, 2022 consisted of the following:

Actuarial cost method	Individual Entry Age Normal
Amortization method	Level percent closed
Remaining amortization period	30 years
Asset valuation method	Market value
Inflation	2.50%
Healthcare trend	4.50% level
Salary increases	3.50%, including inflation
Discount rate	2.25% annually (beginning of year) 4.77% annually (as of end of year to measurement date)
Retirement age	Retirement through the Retirement System of Alabama with 25 years of service or age 60 and 10 years of service. Retirees must have at least 15 years of service with the City and be at least age 50 at retirement.
Mortality	RPH-2014 with projection MP-2021
Turnover	Age-specific table with an average of 10% when applied to the active census