

CITY OF EVERGREEN, ALABAMA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

CITY OF EVERGREEN, ALABAMA
SEPTEMBER 30, 2012

TABLE OF CONTENTS

PAGE

Independent Auditors' Report..... 1
Financial Management Discussion and Analysis 3

FINANCIAL STATEMENTS

Statement of Net Assets..... 10
Statement of Activities 11
Balance Sheet – Governmental Funds..... 12
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets 13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds 14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities 15
Statement of Net Assets – Proprietary Fund 16
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund 17
Statement of Cash Flows – Proprietary Fund..... 18
Notes to Financial Statements 20

REQUIRED SUPPLEMENTARY INFORMATION

Employees' Retirement System of Alabama – Schedule of Funding Progress..... 44
Employees' Medical Insurance Plan of the City of Evergreen, Alabama – Schedule of
Funding Progress 45

CITY OF EVERGREEN, ALABAMA
SEPTEMBER 30, 2012

TABLE OF CONTENTS (Continued)

PAGE

SUPPLEMENTARY INFORMATION

Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual – General Fund	46
Combining Balance Sheet – Nonmajor Governmental Funds.....	47
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	48
Computation of Legal Debt Margin	49
Computation of Direct and Overlapping Bonded Debt	50

Independent Auditors' Report

Honorable Mayor and Members of
The City Council
City of Evergreen, Alabama

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Evergreen, Alabama (the City) as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 46 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.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining and individual major and nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual major and nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Warren Averett, LLC

Montgomery, Alabama
April 30, 2013

CITY OF EVERGREEN
355 East Front Street, P. O. Box 229
Evergreen, AL 36401

**FINANCIAL MANAGEMENT DISCUSSION AND ANALYSIS
ANNUAL FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

The Management's Discussion and Analysis (MD&A) offers readers of the City of Evergreen's (the City) financial statements a narrative overview and analysis of the City's financial activities for the fiscal year ended September 30, 2012. It is our intent that these comments provide all parties interested in the City's financial condition a better understanding of the City's operations and financial position.

The City reports its annual financial statements in a format required by the Governmental Accounting Standards Board.

FINANCIAL HIGHLIGHTS

- As of September 30, 2012, the City's net assets (assets minus liabilities) totaled \$15,131,990, a decrease of \$599,264 over the September 30, 2011, figure.
- Total net assets for governmental activities are comprised of the following:
 - (1) Capital assets net of related debt of \$9,346,522, include property and equipment, net of accumulated depreciation, and is reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Net assets of \$3,303,568 are restricted by constraints imposed from outside the City such as debt covenants, laws and regulations.
 - (3) Unrestricted net assets of \$2,481,900 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- Total net assets for governmental activities increased by \$42,177, thus bringing the total down to \$11,352,969 for fiscal year 2012.
- Total net assets for business-type activities decreased by \$641,441, thus bringing the total to \$3,779,021 for fiscal year 2012.
- The general fund unassigned fund balance, as of September 30, 2012, was \$3,835,573, or 66% of total general fund expenditures.

- The City's total bond and capital lease debt increased by \$4,163,441 (27.84%) during the current fiscal year.
- The City entered into one capital lease agreement this year for the purchase of a backhoe.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and budgetary comparison, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide our readers with an overview of the City's finances, presenting all funds in a more simplified format. This section is similar to financial reporting used by commercial entities. Government-wide statements are separated into two major categories: 1) governmental activities that are principally supported by taxes and intergovernmental revenues, and 2) business-type activities that are supported by user fees and charges. Governmental activities include administrative functions, streets, garbage, public safety, public works, recreation, community development, and the cemetery funds. The sole business-type activity of the City is the Utility Fund.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. This statement serves a purpose similar to that of the balance sheet of a private-sector business. Again, this year we have added prior year information to analyze how the City's financial position has changed.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. Because it separates program revenue (revenue generated by specific programs through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on taxes for funding. All changes in net assets are reported using the accrual basis of accounting, requiring that revenues be reported when they are earned and expenses are reported when the goods and services are received, regardless of the timing of the cash flow.

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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for the same functions as those reported under the government-wide statement of net assets and statement of activities. However, unlike the government-wide financial statements, governmental fund financial statements focus on events that produce near-term inflows and outflows of spendable resources as well as on the balances of spendable resources available at the end of the year and is a narrower focus than the government-wide financial statements.

Because the focus of governmental fund financial statements is narrower than that of government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to the governmental activities column in the government-wide statements, in order to facilitate this comparison.

The City maintains budgetary controls over its operating funds. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget. Budgets for governmental funds are established in accordance with state law, and are adopted on a fund level. A budgetary comparison statement is provided for the general fund to demonstrate compliance with the budget. Budgetary variances for the general fund are discussed in some detail later in this section.

Proprietary Funds – The City maintains only one proprietary fund type, an Enterprise Fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Enterprise Fund for the City is the Utility Fund. Enterprise funds are used to report business-type activities.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The *statement of net assets* provides an overview of the City's assets, liabilities and net assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

The City's net assets totaled \$15,131,990, as of September 30, 2012. The following table reflects the condensed government-wide statement of net assets:

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 7,944,731	\$ 6,976,997	\$ 2,696,129	\$ 3,105,678	\$ 10,640,860	\$ 10,082,675
Capital assets	16,266,642	12,733,194	5,003,135	5,205,701	21,269,777	17,938,895
Total Assets	<u>24,211,373</u>	<u>19,710,191</u>	<u>7,699,264</u>	<u>8,311,379</u>	<u>31,910,637</u>	<u>28,021,570</u>
Current and other liabilities	2,441,696	1,704,449	1,424,038	1,158,238	3,865,734	2,862,687
Long-term liabilities	10,416,708	6,694,950	2,496,205	2,732,679	12,912,913	9,427,629
Total Liabilities	<u>12,858,404</u>	<u>8,399,399</u>	<u>3,920,243</u>	<u>3,890,917</u>	<u>16,778,647</u>	<u>12,290,316</u>
Net assets:						
Invested in capital assets, net of related debt	6,487,304	6,225,581	2,859,218	2,859,218	9,346,522	9,084,799
Restricted	3,303,568	2,408,179	-	-	3,303,568	2,408,179
Unrestricted	1,562,097	2,677,032	919,803	1,561,244	2,481,900	4,238,276
Total Net Assets	<u>\$ 11,352,969</u>	<u>\$ 11,310,792</u>	<u>\$ 3,779,021</u>	<u>\$ 4,420,462</u>	<u>\$ 15,131,990</u>	<u>\$ 15,731,254</u>

The City's total assets were \$31,910,637 as of September 30, 2012. Of this amount, \$21,269,777 is accounted for by capital assets, which includes infrastructure.

Of the remaining City assets, \$4,084,101 is accounted for in cash and cash equivalents, \$1,471,403 in accounts receivable, \$481,985 in inventory, \$1,042,399 in restricted cash and cash equivalents, \$3,089,830 in restricted cash held by fiscal agent, and the remainder spread among miscellaneous assets.

At September 30, 2012, the City had outstanding liabilities of \$16,778,647, of which \$12,912,913 was long-term debt. Long-term debt includes bonds and warrants payable and capital lease obligations. Of the total amount outstanding, approximately \$2,233,215 was due within one year, with the remainder due at various dates before 2041.

Included in current and other liabilities in the above table are \$830,443 in accounts payable and other current liabilities and \$129,886 in accrued interest payable, \$231,691 in deferred revenue and \$440,499 in customer deposits.

The largest portion of the City's net assets reflects its investment in capital assets, less any outstanding related debt used to acquire those assets. The City's capital assets are used to provide services to citizens. Consequently, investments in capital assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net assets represents resources that are subject to external restrictions on how they may be used. In the current fiscal year, this represents \$3,303,568 or 21.75% of total net assets. The remaining \$4,238,276 or 26.94% of total net assets may be used to meet the City's ongoing obligations to its citizens and creditors for all activities.

The second statement in the government-wide statements is the *statement of activities*. The following table outlines the major components of this statement:

	Changes in Net Assets As of September 30					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues:						
Charges for services	\$ 331,170	\$ 287,617	\$ 6,683,952	\$ 6,953,215	\$ 7,015,122	\$ 7,240,832
Operating grants and contributions	108,535	160,252	-	-	108,535	160,252
Capital grants and contributions	431,301	198,122	-	-	431,301	198,122
General revenues:						
Property taxes	286,925	279,383	-	-	286,925	279,383
Sales and use taxes	1,039,700	1,023,391	-	-	1,039,700	1,023,391
Motor fuel taxes	1,097,210	989,309	-	-	1,097,210	989,309
Alcoholic beverage taxes	53,384	53,017	-	-	53,384	53,017
Other income	572,017	332,013	-	-	572,017	332,013
Interest income	90,990	123,761	672	2,890	91,662	126,651
Extraordinary item	-	-	-	-	-	-
Transfers	1,753,205	1,641,861	(1,753,205)	(1,641,861)	-	-
Total revenues	5,764,437	5,088,726	4,931,419	5,314,244	10,695,856	10,402,970
Expenses:						
General government	1,602,677	1,520,856	-	-	1,602,677	1,520,856
Public safety	1,537,431	1,457,975	-	-	1,537,431	1,457,975
Public works	1,311,278	1,056,297	-	-	1,311,278	1,056,297
Civic improvement	496,759	368,606	-	-	496,759	368,606
Cultural and recreation	408,900	393,420	-	-	408,900	393,420
Interest on long-term debt	365,215	309,770	-	-	365,215	309,770
Utility fund	-	-	5,572,860	5,192,034	5,572,860	5,192,034
Total expenses	5,722,260	5,106,924	5,572,860	5,192,034	11,295,120	10,298,958
Increase (decrease) in net assets	42,177	(18,198)	(641,441)	122,210	(599,264)	104,012
Net assets - beginning	11,310,792	11,328,990	4,420,462	4,298,252	15,731,254	15,627,242
Net assets - ending	\$ 11,352,969	\$ 11,310,792	\$ 3,779,021	\$ 4,420,462	\$ 15,131,990	\$ 15,731,254

Total revenues for the City were \$10,695,856 for the year ended September 30, 2012. Governmental activities provided \$5,764,437 or 53.89% while \$4,931,419 of business-type activities revenue was provided by charges for services and interest income. The governmental activities received \$1,097,210, or 10.27% of total revenue, from sales taxes and \$1,039,700, or 9.73% of total revenue, from motor fuel taxes.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Fund balances increased by \$800,694 in the current year. The capital projects fund increased by \$1,116,556, while other governmental funds balance decreased by \$225,760. The other governmental fund column consists of four funds combined for this report because their revenues and expenses are smaller than other funds of the City.

Proprietary Fund

The fund statements for the proprietary fund look much like the business-type activities in the government-wide statements. Proprietary fund financial information is measured with the same principles used by commercial enterprises, so this information does not change from the fund statements to the government-wide statements.

General Fund Budgetary Highlights

Total revenues reported for the general fund were \$3,886,936 which was an increase of \$1,526,161 or 39.26% over final budgeted revenues. The primary cause of this is as follows:

- Tax revenue was more than budgeted by \$447,806. This was due to the opening of Love's Truck Stop which resulted in an increase in both sales tax and gasoline tax revenue.
- Intergovernmental revenue was more than budgeted by \$507,620. This was due to the City receiving funding reimbursements related to the Sleep Inn project, the Exit 93 landscape project and the I65/US84 sewer project.

Total general fund expenditures were \$5,810,944, which was an increase of \$2,070,867 or 35.64% over final budgeted expenditures.

- Public safety was more than budgeted by \$176,844. This was due to an increase in police salaries and drug task force expenses.
- Capital outlay expenditures were more than budgeted by \$77,413. This was due to the City incurring expenses related to the sanitary sewer project. In addition, the City purchased three police cars, a fire truck, track loader, dump truck, and a backhoe.
- Debt service principal retirement expenditures were more than budgeted by \$242,550. This was due to the City making principal payments on six new BB&T notes.

Capital Asset and Debt Administration

The City's investment in capital assets for governmental and business-type activities as of September 30, 2012, was \$21,269,777 (net of accumulated depreciation). Capital asset investments include land, buildings, building improvements, machinery and equipment, net of depreciation. New additions to capital assets included improvement projects related to infrastructure, the utility system and the airport as well as the purchase of various vehicles and equipment.

At the end of the fiscal year the City had secured and bonded debt outstanding of \$14,956,346. Of this amount \$14,824,813 comprises debt backed by the full faith and credit of the City and \$131,533 in long-term leases. The City's long-term debt increased \$4,163,441 or 27.84% from the previous year.

THE OUTLOOK FOR NEXT YEAR

The City of Evergreen has experienced a policy shift towards what type of economic growth makes best use of its resources. "Growth" has become a generic term which has very broad interpretive meaning for the City. Essentially, the policy shift mentioned is one which focuses solely on project investments which generate a return.

For instance, the economic outlook for previous years submitted in this report have been assumptive and largely absent of dedicated task meant to increase tax revenues and utility revenues. Here now exist a tangible and defined scope of applied development in which the City of Evergreen will incur growth and increase revenues.

Development of Interstate exits along I-65 within the City are a priority. Specifically, the development literally means application of infrastructure (including site prep) to accommodate the location of businesses. Since last reporting period, the City of Evergreen has purchased some 100 acres near the Interstate at “Liberty Hill” exit (96). The City of Evergreen has hired Engineers and Architects along with the City planner to Master Plan the site and work has begun to level the property and improve it for prospective clients to locate.

Respective to the “Liberty Hill” development, the City has secured agreements with multiple retail clients to locate there. Of note, one of the clients located and finished construction on the site at the end of 2012; “The Shrimp Basket.” Expected to locate there in 2013 are a grocery store, a hotel, a sporting goods store, a Shoney’s and a barbeque restaurant.

Mentioned above are mainly retail clients. This urge to locate retail clients is part of the new focus mentioned towards promoting growth through retail expansion. Retail growth provides greater return than concentrating solely on industrial growth. Sales tax revenues make up a large part of the revenues for the City’s total revenues. Industrial clients are without exception granted statutory tax abatements where Retail clients are not. Retail clients as a percentage on volume of workforce also use higher amounts of utility resources, creating in return a higher yield of margin on utility revenues than Industrial clients.

The efforts to develop other interstate exits are on-going. In late 2012, FedEx began construction on a new facility at the “Fairview” exit, near the municipal airport. One of the critical elements of any development efforts to any place are the application of infrastructure. Due to the economic incentives provided to FedEx infrastructure was extended for portions of Fairview near the Interstate. The same intent for retail and light commercial growth are held for Fairview. Currently, a Hotel and Gas Station are slated to begin construction in late 2013 at Fairview.

In other parts of the City, the policy shift of focusing on revenue producing projects also include the renovation of the downtown area. Just as with all small towns, the downtown area is somewhat dilapidated and blighted. Early in 2012, the City of Evergreen created a “Downtown Redevelopment Authority” (a political subdivision) and funded it with a Hotel Occupancy Fee. That Fee will generate enough revenue to significantly fund revitalization in the downtown area and improve properties to accommodate clients. The City Council has also began to exercise powers of eminent domain to procure those blighted and dilapidated properties and place them in the hands of legitimate and capable developers.

Late in 2012, the City of Evergreen struck a deal with a successful developer from Thomasville to initiate renovation of a historic structure near City Hall. Work has already begun on that facility and the work is scheduled to be completed in late 2013.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City’s finances for anyone with interest in the economic well being of the City. Questions concerning any of the information provided in this report or request for additional information should be addressed to The Finance Department, 355 East Front Street, P. O. Box 229, Evergreen, Alabama, 36401.

FINANCIAL STATEMENTS

CITY OF EVERGREEN, ALABAMA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,084,101	\$ -	\$ 4,084,101
Receivables, net	205,425	1,265,978	1,471,403
Internal balances	18,023	(18,023)	-
Inventory	30,030	451,955	481,985
Prepaid expenses	75,666	-	75,666
Other assets	14,758	-	14,758
Deferred debt expense, net	328,470	52,248	380,718
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	603,501	438,898	1,042,399
Cash held by fiscal agent	2,584,757	505,073	3,089,830
Capital assets not being depreciated:			
Land	1,116,003	19,301	1,135,304
Construction in progress	2,424,880	-	2,424,880
Capital assets net of accumulated depreciation:			
Buildings	4,915,800	-	4,915,800
Machinery and equipment	1,698,842	481,060	2,179,902
Utility system	-	4,502,774	4,502,774
Infrastructure	6,111,117	-	6,111,117
TOTAL ASSETS	\$ 24,211,373	\$ 7,699,264	\$ 31,910,637
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$ 346,004	\$ 459,019	\$ 805,023
Accrued interest payable	119,887	9,999	129,886
Other current liabilities	25,420	-	25,420
Deferred revenue	-	231,691	231,691
Customer deposits	-	440,499	440,499
Noncurrent liabilities:			
Due within one year	1,950,385	282,830	2,233,215
Due in more than one year	10,416,708	2,496,205	12,912,913
TOTAL LIABILITIES	12,858,404	3,920,243	16,778,647
NET ASSETS			
Investment in capital assets, net of related debt	6,487,304	2,859,218	9,346,522
Restricted for:			
Public safety	23,690	-	23,690
Public works	90,513	-	90,513
Capital projects	3,188,268	-	3,188,268
Debt service	1,097	-	1,097
Unrestricted	1,562,097	919,803	2,481,900
TOTAL NET ASSETS	11,352,969	3,779,021	15,131,990
TOTAL LIABILITIES AND NET ASSETS	\$ 24,211,373	\$ 7,699,264	\$ 31,910,637

See accompanying notes to financial statements.

CITY OF EVERGREEN, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

<u>Function/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government				
Governmental activities:				
General government	\$ 1,602,677	\$ 210,017	\$ 59,603	\$ -
Public safety	1,537,431	78,315	37,870	-
Public works	1,311,278	-	11,062	431,301
Civic improvement	496,759	42,838	-	-
Cultural and recreation	408,900	-	-	-
Interest and fiscal charges on long-term debt	365,215	-	-	-
Total governmental activities	<u>5,722,260</u>	<u>331,170</u>	<u>108,535</u>	<u>431,301</u>
Business-type activities:				
Utility Fund	<u>5,572,860</u>	<u>6,683,952</u>	<u>-</u>	<u>-</u>
 Total primary government	 <u>\$ 11,295,120</u>	 <u>\$ 7,015,122</u>	 <u>\$ 108,535</u>	 <u>\$ 431,301</u>

General Revenues

Property taxes
Sales taxes
Motor fuel taxes
Alcoholic beverage taxes
Interest income
Miscellaneous revenue

Transfers

Total general revenues and transfers
Change in net assets
Net assets - beginning
Net assets - ending

**Net (Expense) Revenue and
Changes in Net Assets**

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (1,333,057)	\$ -	\$ (1,333,057)
(1,421,246)	-	(1,421,246)
(868,915)	-	(868,915)
(453,921)	-	(453,921)
(408,900)	-	(408,900)
(365,215)	-	(365,215)
<u>(4,851,254)</u>	<u>-</u>	<u>(4,851,254)</u>
<u>-</u>	<u>1,111,092</u>	<u>1,111,092</u>
<u>(4,851,254)</u>	<u>1,111,092</u>	<u>(3,740,162)</u>
286,925	-	286,925
1,039,700	-	1,039,700
1,097,210	-	1,097,210
53,384	-	53,384
90,990	672	91,662
572,017	-	572,017
1,753,205	(1,753,205)	-
<u>4,893,431</u>	<u>(1,752,533)</u>	<u>3,140,898</u>
42,177	(641,441)	(599,264)
11,310,792	4,420,462	15,731,254
<u>\$ 11,352,969</u>	<u>\$ 3,779,021</u>	<u>\$ 15,131,990</u>

See accompanying notes to financial statements.

CITY OF EVERGREEN, ALABAMA

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2012

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Debt Service Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 3,818,173	\$ -	\$ -	\$ 264,831	\$ 4,083,004
Receivables - taxes	174,169	-	-	11,849	186,018
Receivables - other	19,407	-	-	-	19,407
Prepaid expenses	75,666	-	-	-	75,666
Due from other funds	18,023	-	-	-	18,023
Inventory	30,030	-	-	-	30,030
Other assets	14,748	-	-	-	14,748
Restricted assets:					
Cash and cash equivalents	603,511	-	-	-	603,511
Cash held by fiscal agent	141,481	2,443,276	1,097	-	2,585,854
TOTAL ASSETS	<u>\$ 4,895,208</u>	<u>\$ 2,443,276</u>	<u>\$ 1,097</u>	<u>\$ 276,680</u>	<u>\$ 7,616,261</u>
 LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 183,527	\$ -	\$ -	\$ 162,477	\$ 346,004
Other current liabilities	25,420	-	-	-	25,420
TOTAL LIABILITIES	<u>208,947</u>	<u>-</u>	<u>-</u>	<u>162,477</u>	<u>371,424</u>
 FUND BALANCES					
Nonspendable	105,696	-	-	-	105,696
Restricted	744,992	2,443,276	1,097	114,203	3,303,568
Unassigned	3,835,573	-	-	-	3,835,573
TOTAL FUND BALANCES	<u>4,686,261</u>	<u>2,443,276</u>	<u>1,097</u>	<u>114,203</u>	<u>7,244,837</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,895,208</u>	<u>\$ 2,443,276</u>	<u>\$ 1,097</u>	<u>\$ 276,680</u>	<u>\$ 7,616,261</u>

See accompanying notes to financial statements.

CITY OF EVERGREEN, ALABAMA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

Differences in amounts reported for governmental activities in the Statement of Net Assets.

Total fund balances - governmental funds		\$ 7,244,837
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		16,266,642
Deferred debt expenses are allocated over their estimated useful lives and are shown net of amortization expense as an asset in the Statement of Net Assets.		380,718
Long-term liabilities, including bonds payable, and accrued interest are not due and payable in the current period and, therefore, are not reported in the governmental funds. Balances at September 30, 2012, were:		
Bonds, leases and notes payable	\$ (12,215,295)	
Accrued interest	(119,887)	
Compensated absences	(51,242)	
Postemployment benefits other than pensions	(152,804)	
Total long-term liabilities		<u>(12,539,228)</u>
Net assets of governmental activities		<u>\$ 11,352,969</u>

See accompanying notes to financial statements.

CITY OF EVERGREEN, ALABAMA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Debt Service Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes	\$ 2,371,806	\$ -	\$ -	\$ 137,893	\$ 2,509,699
Licenses and permits	239,785	-	-	10,499	250,284
Intergovernmental	527,820	-	-	-	527,820
Fines and forfeitures	78,315	-	-	-	78,315
Other revenues	580,872	-	-	-	580,872
Interest	88,338	1,550	1,102	-	90,990
Total revenues	<u>3,886,936</u>	<u>1,550</u>	<u>1,102</u>	<u>148,392</u>	<u>4,037,980</u>
EXPENDITURES					
Current operations:					
General government	1,558,441	-	-	-	1,558,441
Public safety	1,173,090	-	-	180,192	1,353,282
Public works	751,644	-	-	193,960	945,604
Civic improvement	379,009	-	-	-	379,009
Cultural and recreation	315,955	-	-	-	315,955
Capital outlay	1,390,255	2,891,488	-	-	4,281,743
Debt service:					
Principal retirement	170,152	-	965,000	-	1,135,152
Debt issue costs	-	153,350	23,857	-	177,207
Interest charges	72,398	-	232,430	-	304,828
Total expenditures	<u>5,810,944</u>	<u>3,044,838</u>	<u>1,221,287</u>	<u>374,152</u>	<u>10,451,221</u>
Deficiency of revenues under expenditures	<u>(1,924,008)</u>	<u>(3,043,288)</u>	<u>(1,220,185)</u>	<u>(225,760)</u>	<u>(6,413,241)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	1,815,000	-	594,915	-	2,409,915
Transfers out	(656,710)	-	-	-	(656,710)
Bond discount	-	(54,454)	(9,340)	-	(63,794)
Proceeds from notes payable	674,524	4,214,298	635,702	-	5,524,524
Total other financing sources (uses)	<u>1,832,814</u>	<u>4,159,844</u>	<u>1,221,277</u>	<u>-</u>	<u>7,213,935</u>
Net change in fund balances	<u>(91,194)</u>	<u>1,116,556</u>	<u>1,092</u>	<u>(225,760)</u>	<u>800,694</u>
FUND BALANCES - BEGINNING	<u>4,777,455</u>	<u>1,326,720</u>	<u>5</u>	<u>339,963</u>	<u>6,444,143</u>
FUND BALANCES - ENDING	<u>\$ 4,686,261</u>	<u>\$ 2,443,276</u>	<u>\$ 1,097</u>	<u>\$ 114,203</u>	<u>\$ 7,244,837</u>

See accompanying notes to financial statements.

CITY OF EVERGREEN, ALABAMA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2012

Differences in amounts reported for Governmental Activities in the Statement of Activities.

Net change in fund balances - total governmental funds		\$	800,694
Capital outlays, reported as expenditures in governmental funds, is shown as capital assets in the Statement of Net Assets.			4,281,743
Depreciation expense on governmental capital assets included in the governmental activities in the Statement of Activities.			(721,546)
The costs of deferred debt expense incurred are allocated over the term of the bond or warrant issue and reported as amortization expense.			(26,319)
Loan proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Assets.			
Bond proceeds	\$	(5,524,524)	
Issuance costs		177,207	
Discounts on bonds		63,794	
Total loan proceeds		<u> </u>	(5,283,523)
Repayment of long-term debt is reported as an expenditure in governmental funds, but a reduction of long-term liabilities in the Statement of Net Assets.			
General obligation bonds and warrants		1,109,161	
Capital leases		25,991	
Total repayments		<u> </u>	1,135,152
The net effect of transactions involving the sale and disposal of capital assets is to decrease net assets in the Statement of Activities.			(26,748)
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.			
Compensated absences		145	
Accrued interest		(60,387)	
Postemployment benefits other than pensions		(57,034)	
Additional expenses		<u> </u>	(117,276)
Change in net assets of governmental activities		\$	<u> 42,177</u>

See accompanying notes to financial statements.

CITY OF EVERGREEN, ALABAMA
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2012

	<u>Utility Fund</u>
ASSETS	
CURRENT ASSETS	
Receivables, net	\$ 1,265,978
Inventory	451,955
Bond issue cost	52,248
Restricted assets:	
Cash and cash equivalents	438,898
Cash held by fiscal agent	505,073
Total current assets	<u>2,714,152</u>
CAPITAL ASSETS	
Land	19,301
Machinery and equipment	1,442,341
Utility system	12,172,883
Less accumulated depreciation	<u>(8,631,390)</u>
Total capital assets, net of accumulated depreciation	<u>5,003,135</u>
TOTAL ASSETS	<u>7,717,287</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	459,019
Accrued interest payable	9,999
Due to other funds	18,023
Deferred revenue	231,691
Compensated absences	46,400
Bonds and leases payable	236,430
Customer deposits	440,499
Total current liabilities	<u>1,442,061</u>
NONCURRENT LIABILITIES	
Bonds and leases payable	<u>2,496,205</u>
TOTAL LIABILITIES	<u>3,938,266</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,859,218
Unassigned	919,803
TOTAL NET ASSETS	<u>\$ 3,779,021</u>

See accompanying notes to financial statements.

CITY OF EVERGREEN, ALABAMASTATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Utility Fund
OPERATING REVENUES	
Charges for services:	
Electric revenues	\$ 5,283,552
Garbage revenues	305,224
Sewer revenues	431,922
Water revenues	627,894
Miscellaneous revenue	35,360
Total operating revenues	<u>6,683,952</u>
OPERATING EXPENSES	
Personnel, operations and maintenance, utilities:	
Electric expenses	3,738,537
Garbage expenses	259,671
Sewer expenses	326,508
Water expenses	447,689
Depreciation and amortization	362,104
Administrative costs	314,196
Total operating expenses	<u>5,448,705</u>
OPERATING INCOME	<u>1,235,247</u>
NONOPERATING REVENUES (EXPENSE)	
Interest income	672
Interest expense	(124,155)
Total nonoperating revenues (expense)	<u>(123,483)</u>
Income before transfers	1,111,764
Transfers in	61,795
Transfers out	(1,815,000)
Change in net assets	<u>(641,441)</u>
TOTAL NET ASSETS - BEGINNING	<u>4,420,462</u>
TOTAL NET ASSETS - ENDING	<u><u>\$ 3,779,021</u></u>

See accompanying notes to financial statements.

CITY OF EVERGREEN, ALABAMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

**Utility
Fund**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 6,627,215
Payments to suppliers for goods and services	(4,003,811)
Payments to employees for services	(845,202)
	<u>1,778,202</u>
Net cash provided by operating activities	<u>1,778,202</u>

**CASH FLOWS FROM NONCAPITAL FINANCING
ACTIVITIES**

Cash payments to other funds	<u>(1,755,752)</u>
------------------------------	--------------------

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Purchases of capital assets	(149,959)
Principal payments on bond	(225,931)
Interest paid on bond	(124,155)
	<u>(500,045)</u>
Net cash used by capital and related financing activities	<u>(500,045)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	<u>672</u>
-----------------	------------

NET DECREASE IN CASH AND CASH EQUIVALENTS

	(476,923)
--	-----------

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR

	<u>1,420,894</u>
--	------------------

DISPLAYED ON THE STATEMENT OF NET ASSETS AS:

Restricted assets:	
Cash and cash equivalents	\$ 505,073
Cash held by fiscal agent	438,898
	<u>\$ 943,971</u>

See accompanying notes to financial statements.

CITY OF EVERGREEN, ALABAMA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

	<u>Utility Fund</u>
Operating income	\$ 1,235,247
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	362,104
Increase in accounts receivable	(101,535)
Decrease in inventory	27,128
Increase in accounts payable	204,706
Increase in other liabilities	50,552
	<u>50,552</u>
Net cash provided by operating activities	<u>\$ 1,778,202</u>

See accompanying notes to financial statements.

CITY OF EVERGREEN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Evergreen (the City) was incorporated under the laws of the State of Alabama in 1873 and operates under an elected Mayor-Council form of government as required by State of Alabama Legislative Act No. 73-618 approved August 28, 1973. The City provides the following services: public safety (police and fire), highways and streets, sanitation and utilities (water, electric and sewer), health and social services, public improvements, planning and zoning, recreation and general administrative services. The City provides library, public housing and education services through separate operating boards recognized as separate legal entities and, accordingly, those boards' financial statements and information are not included herein.

Government-Wide and Fund Financial Statements

The basic financial statements consist of the government-wide financial statements and fund financial statements. Both sets of statements distinguish between governmental and business-type activities. Government-wide financial statements are comprised of the statement of net assets and the statement of activities and reports information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of inter-fund activity has been removed from these statements. The exception to this is interfund services provided and used which are eliminated in the consolidation process. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit.

The statement of activities demonstrates the degree to which the 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 are classified into three categories: charges for services, operating grants and contributions, and capital grants and contributions. Charges for services refer to direct recovery from customers for services rendered. Grants and contributions refer to revenues restricted for specific programs whose use may be restricted further to operational or capital items. The general revenues section displays revenue collected that help support all functions of government and contribute to the change in the net assets for the fiscal year.

The fund financial statements follow and report additional and detailed information about operations for major funds individually and nonmajor funds in the aggregate for governmental funds. A reconciliation is provided that converts the results of governmental fund accounting to the government-wide presentations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year received or when an enforceable legal claim exists, whichever comes first. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period, considered to be sixty days for property taxes and ninety days for all other revenue. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund – This is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital Projects – Accounts for the acquisition and construction of a variety of public works projects as well as the cost of various City capital spending projects.

Debt Service – Accounts for the resources accumulated and payments made for principal and interest payments on City debt.

The City reports the following major enterprise fund:

Utility Fund – Accounts for water, sanitary sewer and electric services provided to residents of the City.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the enterprise funds and of the internal service funds are charges to customers for sales and services. Operating expenses for the enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Stewardship, Compliance, and Accountability

An annual budget is adopted for the City's general fund. Under state law, the Mayor submits the annual budget to the Council for consideration and approval no later than October 1. Such budget is based on expected expenditures by program and estimated resources by source. The budget is prepared using the modified accrual basis of accounting. Revisions to the budget must be approved by the Council. All annual appropriations lapse at fiscal year-end.

Management Estimates and Assumptions

The preparation of 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 and 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 results could vary from estimates used.

Assets, Liabilities, and Equity

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the noncurrent portion of inter-fund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All receivables are shown net of any applicable allowance for uncollectibles.

CITY OF EVERGREEN, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Equity (Continued)

Receivables and Payables (Continued)

Property taxes are assessed on October 1 and levied on the subsequent October 1 for the fiscal year beginning on the levy date, at which time a lien is attached. These taxes are due and payable on October 1 (levy date) and delinquent after December 31 in each year (except with respect to motor vehicles, which have varying due dates), after which a penalty and interest are required to be charged. If real property taxes are not paid by the June 15 following the due date, a tax sale is required to be held. Revenue is recognized in the year when the taxes are levied and collected. The taxes are collected by the Conecuh County tax collector and remitted to the City net of a collection fee ranging from 1 to 5 percent for different taxes.

Inventories and Prepaid Items

Inventories are valued at cost using the first-in first-out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. An equivalent fund balance is reserved for inventories indicating that it does not constitute "available expendable resources" even though it is a component of net current assets. Inventories are summarized as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Fuel	\$ 25,857	\$ 2,836	\$ 28,693
Materials and supplies	<u>4,173</u>	<u>449,119</u>	<u>453,292</u>
Totals	<u>\$ 30,030</u>	<u>\$ 451,955</u>	<u>\$ 481,985</u>

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain proceeds from the City's Series 2006-A Special Obligation Bonds, Series 2007 Electrical Revenue Warrants, the Series 2009 General Obligation Warrants and the Series 2012-A and 2012-B General Obligation Warrants, as well as certain resources set aside for their repayment, are classified as restricted on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

CITY OF EVERGREEN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Equity (Continued)

Restricted Assets (Continued)

A certificate of deposit is classified as restricted in the statement of net assets because it is pledged as collateral against a note payable with the Bank of Evergreen.

Meter deposits received from customers are restricted in the statement of net assets because they are maintained in a separate bank account and their use is limited.

Capital Assets

Capital assets, purchased or constructed, are reported at cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life greater than two years. The City did not report infrastructure acquired prior to October 1, 2001.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings	20-40 years
Improvements	20-40 years
Equipment	5-10 years
Vehicles	5-10 years
Utility system	10-40 years
Infrastructure	10-40 years

Compensated Absences

The City allows employees to accumulate vacation and sick leave up to certain limits for use in subsequent periods.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Equity (Continued)

Long-Term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Lease Obligations

Capital lease obligations are stated at the original fair market value of leased assets capitalized, less payments since the inception of the lease discounted at the implicit rate of interest in the lease. Also, in the year an asset is acquired by capital lease, the expenditure for the asset and the offsetting amount of the financing source are reflected in the fund financial statements in the statement of revenues, expenditures, and changes in fund balances. Capital lease obligations of proprietary funds and governmental activities in the government-wide financial statements and the cost of assets so acquired are reflected in the accounts of those funds and statements.

Fund Equity

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable - This classification includes amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - This classification includes amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - This classification includes amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

CITY OF EVERGREEN, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Equity (Continued)

Fund Equity (Continued)

Assigned - This classification includes amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the City's adopted policy, only the City Council may assign amounts for specific purposes.

Unassigned - This classification includes all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

2. CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk.

As of September 30, 2012, none of the City's bank balance of \$9,815,821 was exposed to custodial credit risk. All of the City's bank balances are insured by the Federal Deposit Insurance Corporation (FDIC) and the Security for Alabama Funds Enhancement (SAFE) Program. The SAFE Program is a multiple financial collateral pool administered by the State Treasurer according to State of Alabama statute.

3. RECEIVABLES

Receivables as of September 30, 2012, for the government's individual major and nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Utility Fund</u>	<u>Total</u>
Taxes	\$ 174,169	\$ 11,849	\$ -	\$ 186,018
Accounts	-	-	1,710,521	1,710,521
Interest	<u>19,407</u>	<u>-</u>	<u>-</u>	<u>19,407</u>
Gross receivables	193,576	11,849	1,710,521	1,915,946
Less allowance for uncollectible	<u>-</u>	<u>-</u>	<u>444,543</u>	<u>444,543</u>
Net total receivables	<u>\$ 193,576</u>	<u>\$ 11,849</u>	<u>\$ 1,265,978</u>	<u>\$ 1,471,403</u>

CITY OF EVERGREEN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012, was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 584,018	\$ 531,986	\$ -	\$ 1,116,004
Construction in progress	-	2,424,880	-	2,424,880
Total capital assets, not being depreciated	<u>584,018</u>	<u>2,956,866</u>	<u>-</u>	<u>3,540,884</u>
Capital assets, being depreciated:				
Buildings	7,560,259	12,443	-	7,572,702
Machinery and equipment	3,277,688	704,071	93,325	3,888,434
Infrastructure	<u>7,779,755</u>	<u>608,362</u>	<u>-</u>	<u>8,388,117</u>
Total capital assets, being depreciated	<u>18,617,702</u>	<u>1,324,876</u>	<u>93,325</u>	<u>19,849,253</u>
Less accumulated depreciation for:				
Buildings	2,434,573	222,331	-	2,656,904
Machinery and equipment	1,978,749	277,419	66,577	2,189,591
Infrastructure	<u>2,055,204</u>	<u>221,796</u>	<u>-</u>	<u>2,277,000</u>
Total accumulated depreciation	<u>6,468,526</u>	<u>721,546</u>	<u>66,577</u>	<u>7,123,495</u>
Total capital assets, being depreciated, net	<u>12,149,176</u>	<u>603,330</u>	<u>26,748</u>	<u>12,725,758</u>
Governmental activities capital assets, net	<u>\$12,733,194</u>	<u>\$ 3,560,196</u>	<u>\$ 26,748</u>	<u>\$16,266,642</u>

CITY OF EVERGREEN, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

4. CAPITAL ASSETS (Continued)

Primary Government (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 19,301	\$ -	\$ -	\$ 19,301
Total capital assets, not being depreciated	<u>19,301</u>	<u>-</u>	<u>-</u>	<u>19,301</u>
Capital assets, being depreciated:				
Machinery and equipment	1,396,829	45,512	-	1,442,341
Utility system	<u>12,068,436</u>	<u>104,447</u>	<u>-</u>	<u>12,172,883</u>
Total capital assets, being depreciated	<u>13,465,265</u>	<u>149,959</u>	<u>-</u>	<u>13,615,224</u>
Less accumulated depreciation for:				
Machinery and equipment	879,326	81,955	-	961,281
Utility system	<u>7,399,539</u>	<u>270,570</u>	<u>-</u>	<u>7,670,109</u>
Total accumulated depreciation	<u>8,278,865</u>	<u>352,525</u>	<u>-</u>	<u>8,631,390</u>
Total capital assets, being depreciated, net	<u>5,186,400</u>	<u>(202,566)</u>	<u>-</u>	<u>4,983,834</u>
Business-type activities capital assets, net	<u>\$ 5,205,701</u>	<u>\$ (202,566)</u>	<u>\$ -</u>	<u>\$ 5,003,135</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General government	\$ 14,652
Public safety	153,772
Public works	352,699
Civic improvement	116,347
Cultural and recreation	<u>84,076</u>
Total depreciation expense – governmental activities	<u>\$ 721,546</u>
Business-type Activities	<u>\$ 352,525</u>

CITY OF EVERGREEN, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

5. INTERFUND BALANCES

Interfund balances are generally used to meet cash demands necessary to pay operating expenditures. Except for amounts due from Enterprise and Internal Service Funds, these amounts should be repaid during the next fiscal year. The composition of interfund balances as of September 30, 2012, is shown below.

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Utility Fund	\$ <u>18,023</u>

Interfund Transfers:

<u>Transfer Out:</u>	<u>Transfer In:</u>			<u>Total</u>
	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Utility Fund</u>	
General	\$ -	\$ 594,915	\$ 61,795	\$ 656,710
Utility Fund	<u>1,815,000</u>	<u>-</u>	<u>-</u>	<u>1,815,000</u>
Total	<u>\$ 1,815,000</u>	<u>\$ 594,915</u>	<u>\$ 61,795</u>	<u>\$ 2,471,710</u>

Transfers are used to move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, and to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

6. LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
General City bonds and warrants	\$ 6,877,453	\$ 4,850,000	\$ 984,748	\$ 10,742,705	\$ 460,571
Notes payable	851,997	674,524	124,413	1,402,108	1,402,108
Capital leases	104,889	-	25,991	78,898	30,317
Compensated absences	51,388	51,242	51,388	51,242	51,242
Postemployment benefits other than pensions	<u>95,770</u>	<u>63,181</u>	<u>6,147</u>	<u>152,804</u>	<u>6,147</u>
	<u>\$ 7,981,497</u>	<u>\$ 5,638,947</u>	<u>\$ 1,192,687</u>	<u>\$ 12,427,757</u>	<u>\$ 1,950,385</u>
Business-type Activities:					
Revenue warrants	\$ 2,890,000	\$ -	\$ 210,000	\$ 2,680,000	\$ 220,000
Capital leases	68,566	-	15,931	52,635	17,997
Compensated absences	<u>40,646</u>	<u>46,400</u>	<u>40,646</u>	<u>46,400</u>	<u>46,400</u>
	<u>\$ 2,999,212</u>	<u>\$ 46,400</u>	<u>\$ 266,577</u>	<u>\$ 2,779,035</u>	<u>\$ 284,397</u>

CITY OF EVERGREEN, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

6. LONG-TERM DEBT (Continued)

Long-term debt payable at September 30, 2012, is comprised of the following:

General City Bonds and Warrants

The City issues general obligation bonds and warrants to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The current outstanding balances are as follows:

Series 2001 General Obligation Water System Warrants, interest at 3.85%	\$ 490,000
Series 2002 General Obligation Sewer System Warrants, interest at 3.50%	460,000
Series 2006-A Special Obligation Bonds, interest at 3.65% to 4.15%	1,685,000
Series 2009 General Obligation Warrants, interest at 2.0% to 4.62%	2,295,000
Series 2009-A USDA General Obligation Warrants, interest at 4.125%	648,132
Series 2009-B USDA General Obligation Warrants, interest at 4.25%	314,573
Series 2012-A General Obligation Warrants, interest at 1.25%	1,695,000
Series 2012-B General Obligation Warrants, interest at 3.50%	<u>3,155,000</u>
Total bonds and warrants	<u>\$ 10,742,705</u>

The annual debt service requirements to maturity, including principal and interest, for General City bonds and warrants as of September 30, 2012, are as follows:

	<u>Principal</u>	<u>Interest</u>
Year Ending September 30:		
2013	\$ 460,571	\$ 419,235
2014	476,427	405,862
2015	492,321	391,398
2016	508,251	376,092
2017	529,220	358,403
2018-2022	2,757,111	1,472,420
2023-2027	2,328,170	954,368
2028-2032	2,851,264	429,544
2033-2037	252,995	56,132
2038-2042	<u>86,375</u>	<u>7,234</u>
Total	<u>\$ 10,742,705</u>	<u>\$ 4,870,688</u>

CITY OF EVERGREEN, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

6. LONG-TERM DEBT (Continued)

Revenue Warrants

The City has issued revenue warrants to provide for the acquisition and construction of electrical system improvements. The current outstanding balances are as follows:

Series 2007 Electrical Revenue Warrants, interest at 4.125% to 5% \$ 2,680,000

The annual debt service requirements to maturity, including principal and interest, for revenue warrants as of September 30, 2012, are as follows:

	<u>Principal</u>	<u>Interest</u>
Year Ending September 30:		
2013	\$ 220,000	\$ 111,582
2014	230,000	103,222
2015	240,000	94,367
2016	250,000	84,767
2017	260,000	74,642
2018-2022	<u>1,480,000</u>	<u>189,971</u>
Total	<u>\$ 2,680,000</u>	<u>\$ 658,551</u>

Notes Payable

The City has received funding from local banks to provide for the acquisition of capital assets and various infrastructure projects. The current outstanding balances are as follows:

Note payable with the Bank of Evergreen used to fund costs related to infrastructure improvements. The note has an interest rate of 2.5% and matures on September 30, 2012. The note is secured by a certificate of deposit in the amount of \$600,000. \$ 600,240

Note payable with BB&T used to fund costs related to police cars. The note has an interest rate of 2.87% and matures on March 2, 2016. 97,818

Note payable with BB&T used to fund costs related to the sidewalk improvement project and the purchase of an airport hangar. The note has an interest rate of 4.50% and matures on March 1, 2014. 75,661

Note payable with BB&T used to fund costs related to a garbage truck. The note has an interest rate of 2.67% and matures on October 13, 2016. 90,089

Note payable with BB&T used to fund costs related to a fire truck. The note has an interest rate of 3.03% and matures February 14, 2022. 124,837

CITY OF EVERGREEN, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

6. LONG-TERM DEBT (Continued)

Notes Payable (Continued)

Note payable with Bancorp used to fund costs related to a sewer camera. The note has an interest rate of 2.24% and matures on May 20, 2017.	\$ 86,324
Note payable with Bancorp used to fund costs related to track loader. The note has an interest rate of 2.24% and matures on August 25, 2017.	122,020
Note payable with BB&T used to fund costs related to rescue equipment. The note has an interest rate of 2.41% and matures on April 12, 2017.	48,850
Note payable with BB&T used to fund costs related to a backhoe. The note has an interest rate of 2.41% and matures on April 12, 2017.	73,238
Note payable with BB&T used to fund costs related to three police cars. The note has an interest rate of 2.41% and matures on June 8, 2017.	<u>83,031</u>
Total notes payable	<u>\$ 1,402,108</u>

The annual debt service requirements to maturity, including principal and interest, for notes payable as of September 30, 2012, are as follows:

	<u>Principal</u>	<u>Interest</u>
Year Ending September 30:		
2013	\$ 743,684	\$ 35,703
2014	222,798	13,772
2015	150,916	9,419
2016	137,113	5,663
2017	85,758	3,008
2018-2022	<u>61,839</u>	<u>4,563</u>
Total	<u>\$ 1,402,108</u>	<u>\$ 72,128</u>

Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of property and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

CITY OF EVERGREEN, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

6. LONG-TERM DEBT (Continued)

Capital Leases (Continued)

The assets acquired through capital leases are as follows:

<u>Asset</u>	<u>Governmental Activities</u>
Machinery and equipment	\$ 135,152
Less accumulated depreciation	<u>35,409</u>
Total	<u>\$ 104,743</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2012, were as follows:

	<u>Governmental Activities</u>
Year ending September 30:	
2013	\$ 30,317
2014	30,317
2015	<u>23,691</u>
Total minimum lease payments	84,325
Less amount representing interest	<u>5,427</u>
Present value of minimum lease payments	<u>\$ 78,898</u>

<u>Asset</u>	<u>Business-type Activities</u>
Machinery and equipment	\$ 82,706
Less accumulated depreciation	<u>15,652</u>
Total	<u>\$ 67,054</u>

CITY OF EVERGREEN, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

6. LONG-TERM DEBT (Continued)

Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2012, were as follows:

	Business-type Activities
Year ending September 30:	
2013	\$ 17,997
2014	17,997
2015	17,997
2016	<u>3,000</u>
Total minimum lease payments	56,991
Less amount representing interest	<u>3,007</u>
Present value of minimum lease payments	<u>\$ 53,984</u>

Current Refunding

The City issued 2012-A general obligation bonds in the amount of \$1,695,000 during 2012. A portion of this bond issue was utilized for a current refunding of certain existing debt in the amount of \$600,000. The refunding was undertaken to lower interest rates and extended debt maturity from 2023 to 2031. The reacquisition price exceeded the carrying amount of the old debt by \$14,286. This amount is being netted against the new debt and amortized over the remaining life of the old debt, which is shorter than the maturity of the new debt. Due to extended maturity dates, future debt service payments on the new debt are expected to exceed that of the old debt by \$111,582. The transaction resulted in an economic gain of \$65,124.

7. EMPLOYEES' RETIREMENT PLAN

Employee Pension Plan

The City has a defined contribution benefit pension plan covering substantially all employees. The pension plan is funded as required by applicable statutes, ordinances, or as a percentage of eligible salaries and/or based upon actuarial valuations. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and beneficiaries. The plan is an agent multiple-employer retirement plan. The agent for the plan is the Employees' Retirement System of Alabama.

7. EMPLOYEES' RETIREMENT PLAN (Continued)

Plan Description

The Employees' Retirement System of Alabama (ERS) is an agent multiple-employer public employee retirement system. The ERS was established on October 1, 1945, under the provisions of Act 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for state employees, state police, and, on an elective basis, all cities, counties, towns, and quasi-public organizations. The responsibility for the general administration and operations of the ERS is vested in the ERS Board of Control. Authority to amend the plan rests with the Legislature of Alabama.

Substantially all employees are members of the ERS. Membership is mandatory for covered or eligible employees of the City of Evergreen. The ERS provides retirement benefits as well as death and disability benefits as established by state law. The retirement benefits are established by Title 36, Chapter 27 of Alabama State Law and must be amended by statute. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service, regardless of age (30 years of service for those units that have not elected 25 years retirement). Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the highest monthly benefit. The two methods are (1) Minimum Guaranteed, and (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under the formula method, upon service retirement, a member receives a retirement allowance equal to 2.0125% of the member's average final compensation (best three of last ten years) multiplied by the number of years of creditable service. At retirement, a member receives one additional year of creditable service in determining the retirement allowance for each five years of service as a full-time certified firefighter, police officer, or correctional officer. Disability benefits are calculated in the same manner as regular retirement benefits. A pre-retirement death benefit in the amount of the annual salary for the fiscal year preceding death is provided to plan members.

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

Contributions Required and Contributions Made

The actuary has computed, as of the date of the latest actuarial valuation (September 30, 2011), the estimated present value of benefits payable to retired members, beneficiaries, and active members. The actuarial valuation is prepared using the entry age method. The present value of all expected benefits payable to the present group of members and beneficiaries is calculated by adding the present value of the expected benefits payable to the active members to the present value of the expected future payments to retired members and beneficiaries.

CITY OF EVERGREEN, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

7. EMPLOYEES' RETIREMENT PLAN (Continued)

Contributions Required and Contributions Made (Continued)

As required by statute, the ERS funding policy provides for employer contributions at actuarially determined rates, expressed as a percent of annual covered payroll, in amounts sufficient to accumulate assets to pay benefits when due. The employer contributions required to support the benefits of each system are determined following a level funding approach and consist of a normal contribution, an accrued liability contribution, a pre-retirement death benefit contribution, and a portion to finance administrative costs.

The required contribution rate is 5% for regular members and 6% for certified law enforcement, correctional officers, and firefighters. For the fiscal year ended September 30, 2011, the required employer contribution rate was 9.99% of annual covered compensation.

Annual Pension Cost

1. Current-Year Contribution Information

For the year ended September 30, 2012, the City's annual pension cost contributed by employees was \$116,351 and the City contributed \$181,862, or a total of \$298,213. Contributions were made in accordance with actuarially determined contribution requirements through an actuarial valuation performed at September 30, 2011.

2. Actuarial Assumptions and Methods

Valuation date	September 30, 2011
Actuarial cost method	Entry Age
Asset valuation method	5-Year Smoothed Market
Amortization method	Level Percent Open
Remaining amortization period	30 years
Period closed/open	Open
Actuarial assumptions:	
Investment rate of return	8%*
Projected salary increases	3.75% - 7.25%*
Cost of living increases	None

*Includes inflation at 3.00%.

CITY OF EVERGREEN, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

7. EMPLOYEES' RETIREMENT PLAN (Continued)

Annual Pension Cost (Continued)

2. Actuarial Assumptions and Methods (Continued)

In accordance with GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, a pension liability of \$0 was calculated at the transition date. Trend information for the most current valuation year and the two preceding years is as follows:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (NPO)</u>
9/30/2009	\$ 142,582	100.0%	\$ -
9/30/2010	145,883	100.0%	-
9/30/2011	174,085	100.0%	-

3. Funding Status

The funding status of the plan as of the most recent actuarial valuation is as follows:

<u>Actuarial Valuation Date</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Entry Age Actuarial Liability</u>	<u>(b-a) Unfunded Accrued Liability (UAL)</u>	<u>(a/b) Funded Ratio</u>	<u>(c) Annual Covered Payroll</u>	<u>(b-a)/c UAL as a Percentage of Payroll</u>
9/30/12**	\$ 4,893,024	\$ 7,080,355	\$ 2,187,331	69.1%	\$ 2,137,254	102.3%

**Reflects changes in actuarial assumptions.

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF EVERGREEN, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

8. FUND BALANCES

As of September 30, 2012, fund balances consisted of the following:

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Nonspendable:					
Inventory	\$ 30,030	\$ -	\$ -	\$ -	\$ 30,030
Prepaid expenses	75,666	-	-	-	75,666
Restricted:					
Public safety	-	-	-	23,690	23,690
Public works	-	-	-	90,513	90,513
Capital projects	744,992	2,443,276	-	-	3,188,268
Debt service	-	-	1,097	-	1,097
Unassigned	<u>3,835,573</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,835,573</u>
	<u>\$ 4,686,261</u>	<u>\$ 2,443,276</u>	<u>\$ 1,097</u>	<u>\$ 114,203</u>	<u>\$ 7,244,837</u>

9. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City protects against risks of loss through the purchase of insurance from Alabama Municipal Insurance Corporation and the Municipal Worker's Compensation program.

10. CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits whose outcome is not presently determinable. In the opinion of the City's counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The City of Evergreen administers a single employer defined benefit healthcare plan for employees of the City. The plan provides 50% of the cost of the healthcare insurance premiums for qualified retirees who have a minimum of 25 creditable years of service with the City and have not reached the age of 65. The plan does not issue a publicly available financial report. At September 30, 2012, the plan had approximately 46 active participants and 3 retired members.

CITY OF EVERGREEN, ALABAMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Funding Policy

Based on the terms of the plan, the cost of healthcare insurance premiums for retired participants is paid at a rate of 50% of the rate currently paid for active full-time employees. Currently the City pays 70% for active full-time employees. Only retirees who have accumulated 25 creditable years of service with the City and have not reached the age of 65 are eligible. No benefits are allowed for dependents of the retiree.

The employer contributes the \$160 for active participants and requires monthly contributions of \$297 from active participants.

Total member contributions were \$151,167 for active participants and \$11,416 for retirees.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC). The City has elected to calculate the ARC and related information using the unit credit actuarial cost method. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the plan:

Annual required contribution	\$ 58,532
Interest on net OPEB obligation	<u>4,649</u>
Annual OPEB cost	63,181
Contributions made	<u>(6,147)</u>
Increase in net OPEB obligation	57,034
Net OPEB obligation – beginning of year	<u>95,770</u>
Net OPEB obligation – end of year	<u><u>\$ 152,804</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 and the previous two years is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
9/30/2010	\$ 50,892	7.5%	\$ 47,054
9/30/2011	52,814	7.5%	95,770
9/30/2012	63,181	7.5%	152,804

11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Funded Status and Funding Progress

As of October 1, 2011, the actuarial accrued liability for benefits was \$7,097,907 all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$2,137,254 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 103.2%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Retirement age for active employees – Active employees are assumed to retire at the age in which they have obtained 25 creditable years of service and have not reached the age of 65.

Marital status – The City of Evergreen provides medical insurance coverage for retirees but not for dependents.

Mortality – Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics Website. The calculation of postemployment health insurance coverage for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables.

Turnover – The probability that an employee will remain employed until the assumed retirement age was determined using nongroup-specific age-based turnover data.

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums is based on the most recent projections as of the calculation date made by the Office of the Actuary at the Centers for Medicare & Medicaid Services, as published in National Health Care Expenditure Projections: 2009-2019, published in January 2010 by the Health Care Financing Administration (www.cms.hhs.gov).

CITY OF EVERGREEN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Health insurance premiums – 2011 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Discount rate – 4% per annum, compounded annually, if unfunded.

The Unit Cost Actuarial Cost Method was utilized in computing actuarial liabilities and costs. The unfunded actuarial accrued liability is being amortized over the maximum permissible period under GASB Statement Number 45 which is 30 years. The remaining amortization period at September 30, 2011, was 28 years.

12. RELATED ORGANIZATIONS

The City Council is responsible for appointing the members of the boards of other organizations, but the City's accountability for these organizations do not extend beyond making appointments. The City Council appoints the members of the Evergreen Planning Commission, the Evergreen Board of Adjustments, the Evergreen Housing Authority, the Evergreen Industrial Development Board and the Evergreen and Conecuh County Library Board.

13. JOINT VENTURE

During the year ended September 30, 2006, the City along with the Conecuh County Commission (the County) entered into an agreement to form the Conecuh Region Capital Improvement Cooperative District (the District) for the purposes of developing, promoting and supporting economic development projects within Conecuh County, Alabama. This District has a Board of Directors comprised of a total of four members, with two members being appointed by the County and two members being appointed by the City.

The District issued special obligation bonds, series 2006-A in the amount of \$2,135,000 and series 2006-B, in the amount of \$2,145,000. The City entered into an agreement with the District which obligates the City to budget and appropriate sufficient funds each fiscal year to make all required debt service payments of the series 2006-A bonds. Therefore, the balance of the series-A bonds in the amount of \$1,685,000 has been recorded as a liability at September 30, 2012.

14. JOINTLY GOVERNED ORGANIZATIONS

The City in conjunction with the City of Monroeville, Alabama created the South Alabama Gas District, whose board is composed of two appointments from each municipality. In addition to these four members, a fifth member is appointed on a rotating basis from four municipalities participating in the gas district. South Alabama Gas District was incorporated under the provisions of the State of Alabama to provide natural gas and propane services in Conecuh, Monroe, Escambia, Clark, Butler, Covington, Wilcox, Washington, Mobile, Baldwin and Choctaw counties Alabama. During 2012, the City received \$164,464, from the South Alabama Gas District, in the form of a franchise tax and distribution of profits.

CITY OF EVERGREEN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

14. JOINTLY GOVERNED ORGANIZATIONS (Continued)

The Cities of Evergreen and Jackson, Alabama incorporated the Lower Alabama Gas District. The two cities formed the gas district in order to establish a public corporation that could acquire and secure reliable and adequate long-term supplies of gas for ultimate delivery to residential, commercial, institutional and industrial consumers in and around areas served by South Alabama Gas District

15. EFFECT OF NEW PRONOUNCEMENTS

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the City.

The GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, (GASB 61) in November 2010. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 61, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Also, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012.

The GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, (GASB 62) in December 2010. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB Statements and Interpretations, Accounting Principles Board Opinions and AICPA Accounting Research Bulletins issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. This Statement also supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.

15. EFFECT OF NEW PRONOUNCEMENTS (Continued)

The GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, (GASB 63) in June 2011. The objective of this Statement is to establish standards for reporting deferred outflow of resources, deferred inflows of resources, and net position. This Statement supersedes GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, paragraphs 32, 33, 36 and footnote 40. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.

The GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – An Amendment of GASB Statement No. 53* (GASB 64) in June 2011. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. The Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The Statement amends GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, paragraphs 22 and 82. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognized as outflows of resources or inflows of resources. Requirements of this Statement are effective for financial statements whose fiscal year begins after December 15, 2012.

GASB Statement No. 66, *Technical Corrections - 2012*. The objective of this Statement is to improve accounting and financial reporting for government reporting by resolving conflicting guidance that resulted from the issuance of Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Requirements of this Statement are effective for financial statements whose fiscal year begins after December 15, 2012.

Statement No. 67, *Financial Reporting of Pension Plans*. The objective of this Statement is to improve financial reporting of government pension plans. Requirements of this Statement are effective for financial statements whose fiscal year begins after June 15, 2013.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The objective of this Statement is to improve accounting and financial reporting of government pensions. Also, it improves information provided by government employers about financial support for pensions that is provided by other entities. Requirements of this Statement are effective for financial statements whose fiscal year begins after June 15, 2014.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement will improve accounting for mergers and acquisitions among state and local governments by providing guidance specific to the situations and circumstances encountered within the governmental environment. Requirements of this Statement are effective for financial statements whose fiscal year begins after December 15, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EVERGREEN, ALABAMA
EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA
SCHEDULE OF FUNDING PROGRESS

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date January 1	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
09/30/02	\$ 4,454,134	\$ 4,136,300	\$ (317,834)	107.7%	\$ 1,712,997	-18.6%
09/30/03	4,562,682	4,495,673	(67,009)	101.5%	1,781,211	-3.8%
09/30/04	4,681,207	4,589,428	(91,779)	102.0%	1,701,834	-5.4%
09/30/05	4,841,708	5,263,547	421,839	92.0%	1,747,346	24.1%
09/30/06	4,999,442	5,648,349	648,907	88.5%	1,920,050	33.8%
09/30/07	5,169,186	5,940,459	771,273	87.0%	1,827,767	42.2%
09/30/08	5,189,435	6,144,130	954,695	84.5%	1,914,163	49.9%
09/30/09	5,100,687	6,576,132	1,475,445	77.6%	1,833,653	80.5%
09/30/10*	5,030,481	6,866,277	1,835,796	73.3%	2,045,490	89.7%
09/30/11**	4,893,024	7,097,907	2,204,883	68.9%	2,137,254	103.2%

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

** Reflects changes in actuarial assumptions

See accompanying notes.

CITY OF EVERGREEN, ALABAMA

**EMPLOYEES' MEDICAL INSURANCE PLAN OF THE CITY OF EVERGREEN, ALABAMA
SCHEDULE OF FUNDING PROGRESS**

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
09/30/07	*	*	*	*	*	*
09/30/08	*	*	*	*	*	*
09/30/09	\$ -	\$ 408,934	\$ 408,934	0.0%	\$ 2,110,589	19.4%
09/30/10	-	408,934	408,934	0.0%	2,335,430	17.5%
09/30/11		394,985	394,985	0.0%	2,403,193	16.4%

* Information not available.

See accompanying notes.

SUPPLEMENTARY INFORMATION

CITY OF EVERGREEN, ALABAMA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL – GENERAL FUND FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,924,000	\$ 1,924,000	\$ 2,371,806	\$ 447,806
Licenses and permits	220,000	220,000	239,785	19,785
Intergovernmental	20,200	20,200	527,820	507,620
Fines and forfeitures	80,000	80,000	78,315	(1,685)
Other revenues	116,575	116,575	580,872	464,297
Interest	-	-	88,338	88,338
Total revenues	<u>2,360,775</u>	<u>2,360,775</u>	<u>3,886,936</u>	<u>1,526,161</u>
EXPENDITURES				
Current operations:				
General government	1,377,300	1,377,300	1,558,441	(181,141)
Public safety:				
Police	993,000	993,000	1,053,288	(60,288)
Fire	42,677	42,677	45,676	(2,999)
Court	60,000	60,000	74,126	(14,126)
Public works:				
Street and sanitation	635,000	635,000	1,081,962	(446,962)
Other	83,700	83,700	92,269	(8,569)
Civic improvement:				
Airport	80,000	80,000	119,924	(39,924)
Economic development	150,000	150,000	259,085	(109,085)
Cultural and recreation	300,900	300,900	315,955	(15,055)
Capital outlay	17,500	17,500	967,668	(950,168)
Debt service:				
Principal retirement	-	-	170,152	(170,152)
Interest charges	-	-	72,398	(72,398)
Debt issuance costs	-	-	-	-
Total expenditures	<u>3,740,077</u>	<u>3,740,077</u>	<u>5,810,944</u>	<u>(2,070,867)</u>
Deficiency of revenues under expenditures	<u>(1,379,302)</u>	<u>(1,379,302)</u>	<u>(1,924,008)</u>	<u>(544,706)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	2,020,000	2,020,000	1,815,000	(205,000)
Transfers out	(553,960)	(553,960)	(656,710)	(102,750)
Proceeds from issuance of bonds	-	-	674,524	674,524
Total other financing sources (uses)	<u>1,466,040</u>	<u>1,466,040</u>	<u>1,832,814</u>	<u>366,774</u>
Net change in fund balances	86,738	86,738	(91,194)	(177,932)
FUND BALANCES - BEGINNING	<u>4,854,883</u>	<u>4,854,883</u>	<u>4,768,145</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 4,941,621</u>	<u>\$ 4,941,621</u>	<u>\$ 4,676,951</u>	<u>\$ (177,932)</u>

See accompanying notes.

CITY OF EVERGREEN, ALABAMA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2012

	Special Revenue			Total Nonmajor Governmental Funds
	State Gas Tax Fund	Gas Tax Fund	Fire Department Tax Fund	
ASSETS				
Cash and cash equivalents	\$ 83,143	\$ 157,416	\$ 24,272	\$ 264,831
Receivables - taxes	6,678	5,171	-	11,849
TOTAL ASSETS	\$ 89,821	\$ 162,587	\$ 24,272	\$ 276,680
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ 161,895	\$ 582	\$ 162,477
FUND BALANCES				
Restricted for:				
Public safety	-	-	23,690	23,690
Public works	89,821	692	-	90,513
TOTAL FUND BALANCES	89,821	692	23,690	114,203
TOTAL LIABILITIES AND FUND BALANCES	\$ 89,821	\$ 162,587	\$ 24,272	\$ 276,680

See accompanying notes.

CITY OF EVERGREEN, ALABAMA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Special Revenue			Total Nonmajor Governmental Funds
	State Gas Tax Fund	Gas Tax Fund	Fire Department Tax Fund	
REVENUES				
Taxes	\$ 63,360	\$ 57,588	\$ 16,945	\$ 137,893
Licenses and permits	10,499	-	-	10,499
Total revenues	73,859	57,588	16,945	148,392
EXPENDITURES				
Current operations:				
Public safety	-	176,795	3,397	180,192
Public works	193,960	-	-	193,960
Total expenditures	193,960	176,795	3,397	374,152
Excess (deficiency) of revenues over (under) expenditures	(120,101)	(119,207)	13,548	(225,760)
Net change in fund balances	(120,101)	(119,207)	13,548	(225,760)
FUND BALANCES - BEGINNING	209,922	119,899	10,142	339,963
FUND BALANCES - ENDING	\$ 89,821	\$ 692	\$ 23,690	\$ 114,203

See accompanying notes.

CITY OF EVERGREEN, ALABAMA
COMPUTATION OF LEGAL DEBT MARGIN
SEPTEMBER 30, 2012

Assessed Value		<u>\$ 49,133,980</u>
Legal Debt Margin		
Debt Limitation - 20 Percent of Assessed Value		\$ 9,826,796
Debt Applicable to Limitation:		
Long-term Bonded Debt Including Capital Leases	\$ 14,956,346	
Less: Debt attributable to the improvement of electric systems and payable from the revenues of such systems	(2,680,000)	
Less: Debt associated with Amendment 772	<u>(4,850,000)</u>	
Total Debt Applicable to Limitation		<u>7,426,346</u>
Legal Debt Margin		<u>\$ 2,400,450</u>

Sources: Assessed value data provided by the Conecuh County Revenue Commission.

See accompanying notes.

CITY OF EVERGREEN, ALABAMA
 COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT
 SEPTEMBER 30, 2012

<u>Jurisdiction</u>	<u>Net General Obligation Bonded Debt Outstanding</u>	<u>Percentage Applicable to Government</u>	<u>Amount Applicable to Government</u>
Direct			
City of Evergreen:			
General obligations including capital leases	<u>\$ 14,956,346</u>	100.00%	<u>\$ 14,956,346</u>

See accompanying notes.