

2006 Financial Statements

City of Evergreen

Evergreen, Alabama

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Independent Accountants' Report

Mayor and City Council
City of Evergreen
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, as of and for the year ended September 30, 2006, 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 of Evergreen'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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Evergreen, Alabama, as of September 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 5, 2006, on our consideration of the City of Evergreen, Alabama's internal control over financial reporting and our tests of its compliance with certain provisions of laws,

regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Managements' Discussion and Analysis, Budgetary Comparison and Schedule of Pension Funding information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Albridge, Borden and Company, P.C.

December 5, 2006

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**Report on Internal Control over Financial Reporting and on
Compliance and Other Matter Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing
Standards***

Schedule of Findings and Responses

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the City of Evergreen, we offer readers of the City of Evergreen's financial statements this narrative overview and analysis of the financial activities of the City of Evergreen for the fiscal year ended September 30, 2006.

Financial Highlights

- On a government-wide basis, the City's net assets grew by \$253,216 for the fiscal year, the majority of which was generated by profitable electrical operations.
- The City's combined net assets total \$13,839,481 at September 30, 2006. Of this amount, \$4,984,034 is available (unrestricted) to finance ongoing governmental programs and \$930,299 is available in business-type activities.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Evergreen's basic financial statements. The City of Evergreen's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements. The following schedule summarizes the major features of the City's financial statements, including the portion of the city government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each statement.

	<u>Government-wide Statements</u>	<u>Proprietary Fund Statements</u>	<u>Fund Statements</u>
Scope	Entire City government and the City's component units	Activities the Board operates similar to private businesses: the water and sewer system.	The activities of the City, such as police, fire, and parks
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses, and changes in net assets • Statement of Cash Flows 	<ul style="list-style-type: none"> • Balance Sheet • Statement of revenues, expenditures, and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both financial and capital, and short-term and long-term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter

Management's Discussion and Analysis (Continued)

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Evergreen's finances, in a manner similar to a private-sector business.

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. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (uncollected taxes and earned but unused vacation leave are two examples).

Both of the government-wide financial statements distinguish functions of the City of Evergreen that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include the following:

The government-wide financial statements of the city are as follows:

- *Governmental activities* – Most of the City's basic services are included here, such as the police, fire, public works, parks department, airport facility, library, general administration, and other civic operations. Property and sales taxes, state and federal grants, and transfers from the proprietary fund finance most of these activities.
- *Business-type activities* - the City's utility operations are included here, such as water, sewer, garbage and electric.

The government-wide financial statements can be found on pages 1 and 2 of this report.

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

Governmental fund

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the 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 a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Management's Discussion and Analysis (Continued)

Moreover, these latter statements provide a ready comparison to similar financial statements produced prior to the City's implementation of Governmental Accounting Standards Board (GASB) Statement No. 34.

The City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the four funds considered major funds and the nonmajor governmental fund is presented in a columnar fashion. Individual fund data for each of these nonmajor funds is provided in the format of combining statements beginning on page 34.

Major Governmental Funds:

General
Capital Projects
Debt Service

Special Revenue:

State Gas Tax
Gas Tax
Fire Department Tax

The City adopts annual appropriated budgets for all of its governmental funds. Budgetary comparison schedules have been provided to demonstrate compliance with these budgets. The basic governmental fund financial statements can be found starting on page 3 of this report.

Proprietary Fund. The Proprietary fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Evergreen uses the proprietary fund to account for its water, sewer, garbage and electric operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The City adopts annual appropriated budgets for its proprietary fund. Budgetary comparison statements for the proprietary fund are included within the report to demonstrate compliance with these budgets.

The basic proprietary fund financial statements can be found on pages 8 & 9 of this report.

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 beginning on page 11 of this report. Included in the notes is the City of Evergreen's progress in funding its obligation to provide pension benefits to its employees.

Government-Wide Financial Analysis

Statement of Net Assets.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Evergreen, assets exceeded liabilities by \$13,839,481 at the close of the fiscal year.

Management's Discussion and Analysis (Continued)

The largest portion of the City of Evergreen's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and utility system); less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its 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 pay these liabilities. The remaining balance of unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report a positive balance in net assets for the City as a whole, as well as for its separate governmental and business-type activities. The same held true for the previous fiscal year. Net assets for Governmental activities rose to \$9,931,784 up \$508,663 from the prior year. Business activities accounted for the increase, earning approximately \$1,120,523 prior to the transfer of \$1,375,970 to governmental activities. As a result, business-type activities reflect decreases in net assets of \$255,447. The increases/decreases of revenues over/under operating expenses are reported in the statement of activities on page 2. Unrestricted net assets are those assets available to finance programs in the upcoming fiscal year and would increase when the portion of taxes and other revenues exceed operating expenses but are not invested in capital assets.

The following tables present condensed statements of the City's net assets at September 30, 2006 and 2005:

Condensed Statement of Net Assets

City of Evergreen
Evergreen, Alabama
September 30, 2006

	Governmental Business-Type		
	Activities	Activities	Total
Assets			
Current and Other Assets	\$ 6,556,678	\$ 1,938,164	\$ 8,494,842
Capital Assets	7,254,909	2,977,398	10,232,307
Total Assets	\$ 13,811,587	\$ 4,915,562	\$ 18,727,149
Current and Other			
Liabilities	\$ 267,919	\$ 981,722	\$ 1,249,641
Long-term liabilities	3,611,884	\$ 26,143	3,638,027
Total Liabilities	\$ 3,879,803	\$ 1,007,865	\$ 4,887,668
Net Assets			
Invested in Capital Assets, net of related debt	\$ 3,538,025	\$ 2,977,398	\$ 6,515,423
Restricted	1,409,725		1,409,725
Unrestricted	4,984,034	\$ 930,299	5,914,333
Total Net Assets	\$ 9,931,784	\$ 3,907,697	\$ 13,839,481

Management's Discussion and Analysis (Continued)

Condensed Statement of Net Assets

City of Evergreen
 Evergreen, Alabama
 September 30, 2005

	Governmental Business-Type		
	Activities	Activities	Total
Assets			
Current and Other Assets	\$ 6,980,248	\$ 2,008,125	\$ 8,988,373
Capital Assets	5,034,908	3,134,727	8,169,635
Total Assets	\$ 12,015,156	\$ 5,142,852	\$ 17,158,008
Current and Other			
Liabilities	\$ 80,212	\$ 951,864	\$ 1,032,076
Long-term liabilities	2,511,823	\$ 27,844	2,539,667
Total Liabilities	\$ 2,592,035	\$ 979,708	\$ 3,571,743
Net Assets			
Invested in Capital Assets, net of related debt	\$ 2,569,908	\$ 3,134,727	\$ 5,704,635
Restricted	1,755,805		1,755,805
Unrestricted	5,097,408	\$ 1,028,417	6,125,825
Total Net Assets	\$ 9,423,121	\$ 4,163,144	\$ 13,586,265

Management's Discussion and Analysis (Continued)

Statement of Activities

Already noted was the statement of activities' purpose in presenting information in how the government's net assets changed during the most recent fiscal year. The following tables present condensed statements of the City's activities for the years ended September 30, 2006 and 2005:

Condensed Statement of Activities

City of Evergreen
 Evergreen, Alabama
 For the year ended September 30, 2006

	Governmental Activities	Business-Type Activities	Total
Revenues			
Program Revenues:			
Charges for services	\$ 228,975	\$ 5,357,481	\$ 5,586,456
Operating grants and contributions	164,382		164,382
Capital grants and contributions	160,976		160,976
General Revenues:			
Sales taxes	868,854		868,854
Property taxes	277,112		277,112
Unrestricted grants and contributions	469,719		469,719
Other Income	304,397	34,717	339,114
Transfers	1,375,970	(1,375,970)	
Total Revenues	\$ 3,850,385	\$ 4,016,228	\$ 7,866,613
Program Activities:			
Governmental Activities:			
General government	\$ 640,360		\$ 640,360
Public safety	1,064,991		1,064,991
Public works	793,703		793,703
Civic improvement	321,860		321,860
Culture and recreation	359,006		359,006
Interest charges	86,557		86,557
Unallocated depreciation	75,245		75,245
Business-type Activities			
Utility expenses		4,271,675	4,271,675
Total Expenses	\$ 3,341,722	\$ 4,271,675	\$ 7,613,397
Net Increase (Decrease)	\$ 508,663	\$ (255,447)	\$ 253,216

Management's Discussion and Analysis (Continued)

Condensed Statement of Activities

City of Evergreen
 Evergreen, Alabama
 For the year ended September 30, 2005

	Governmental Activities	Business-Type Activities	Total
Revenues			
Program Revenues:			
Charges for services	\$ 76,290	\$ 4,806,228	\$ 4,882,518
Operating grants and contributions	551,410		551,410
Capital grants and contributions	71,645		71,645
General Revenues			
Sales taxes	1,141,423		1,141,423
Property taxes	333,346		333,346
Unrestricted grants and contributions	165,468		165,468
Other Income	551,653	30,892	582,545
Transfers	1,200,000	(1,200,000)	
Total Revenues	\$ 4,091,235	\$ 3,637,120	\$ 7,728,355
Program Activities:			
Governmental Activities:			
General government	\$ 718,912		\$ 718,912
Public safety	1,028,547		1,028,547
Public works	853,269		853,269
Civic improvement	225,602		225,602
Culture and recreation	383,481		383,481
Interest charges	99,588		99,588
Unallocated depreciation	76,384		76,384
Business-type Activities			
Utility expenses		3,987,208	3,987,208
Total Expenses	\$ 3,385,783	\$ 3,987,208	\$ 7,372,991
Net Increase (Decrease)	\$ 705,452	\$ (350,088)	\$ 355,364

For the fiscal year ended September 30, 2006, net assets for governmental activities increased \$508,663 with the increase primarily coming from the business-type activities as shown in the transfer of \$1,375,970 from the proprietary fund.

The increase in assets in governmental activities is related in great part to construction of assets, rather than accumulation of cash or other liquid assets.

The decrease in assets in business-type activities is due to a electrical rate increase passed on from power suppliers.

Management's Discussion and Analysis (Continued)

The basis of accounting used in the government-wide statement of activities excludes capital expenditures while its revenues include general taxes whose primary purpose is for the construction of those very assets or their related debt service (i.e., public safety or road sales taxes).

Governmental Activities

Revenues

Governmental activities revenues totaled \$3,850,385 for fiscal year 2006, a decrease of 6% from 2005. The decrease is attributable to grants received in 2005 from the Federal Emergency Management Association to aid in hurricane clean-up costs. With the exception of transfers from business-type activities, sales taxes represent the largest revenue source for the City. Charges for services include charges for services and solid waste fees. The charges for services category accounts for 6% of governmental revenues.

Expenses

Governmental expenses totaled \$3,341,722 for the fiscal year. Of the expenditures, 32% or \$1,115,563 is related to streets and civic improvements, while 32% or \$1,064,991 is related to public safety for police, fire and municipal court services. General government expenses were 19% or \$640,360 while parks, recreation and culture expenses amounted to \$359,006 or 11%. Interest on long-term debt accounted for 3% or \$86,557 of governmental expenses. Overall, governmental activities expenses decreased 1%, or \$44,061 from 2005.

Business-type Activities

Revenues

General revenues do not support the City's business-type activities; thus, the largest source of revenues comes from charges for services. Of the \$5,357,481 in charges, \$4,469,305 or 83% comes from the City's electric operations, and \$475,881 or 9% comes from water and wastewater operation. The remaining charges \$412,295 or 8% are from the City's garbage operation.

Expenses

Electric services account for \$3,373,182 or 79% of the City's business-type activities while water and wastewater expenses totaled \$400,518 or 9%, depreciation costs were \$285,578 or 7%, garbage costs were \$122,091 or 3% and administrative costs were \$90,306 or 2% for a total of \$4,270,686.

Financial Analysis of the City's Funds

Governmental funds

The combined fund balances of governmental funds for the fiscal year ended September 30, 2006, is \$6,486,637. This represents a \$334,937 decrease in fund balances, primarily due to expenditures associated with the City's investment in the Conecuh Region Capital Improvement Cooperative District. A review of some of the more significant funds follows.

General Fund

The fund balance of the General Fund increased by \$11,144 for the fiscal year due primarily to transfers from the Proprietary Fund and the Debt Service Fund.

Management's Discussion and Analysis (Continued)

Capital Projects

These funds decreased by \$50,911, which reflects more capital expenditures in 2006.

Debt Service

Debt Service Fund expenditures exceeded revenues by \$416,807 due to an increase in the interest portion of payments on long-term bonds payable and transfers to the General Fund for reimbursement of expenses associated with the I-65/US-84 sewer project.

General Fund Budgetary Highlights

A detailed budgetary comparison schedule for the fiscal year ended September 30, 2006, can be found starting on page 28. A summarized schedule is presented below:

Condensed Budgetary Comparison Schedules - General Fund

City of Evergreen

Evergreen, Alabama

For the Year Ended September 30, 2006

	Budget Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues				
Taxes	\$ 1,394,000	\$ 1,394,000	\$ 1,460,449	\$ 66,449
Licenses	111,000	111,000	152,433	41,433
Fines and costs	60,000	60,000	61,194	1,194
Rental income	62,860	62,860	50,469	(12,391)
Grant revenue	25,000	25,000	25,237	237
Miscellaneous revenues	89,900	89,900	376,452	286,552
Total Revenues	\$ 1,742,760	\$ 1,742,760	\$ 2,126,234	\$ 383,474
Expenditures				
Current:				
General government	\$ 1,036,000	\$ 1,036,000	\$ 996,404	\$ 39,596
Public safety	828,988	828,988	786,521	42,467
Public works	678,704	678,704	578,475	100,229
Civic improvement	148,881	148,881	265,385	(116,504)
Culture and recreation	279,300	279,300	261,438	17,862
Capital outlay	339,547	339,547	834,510	(494,963)
Debt service	195,545	195,545	195,473	72
Total Expenditures	\$ 3,506,965	\$ 3,506,965	\$ 3,918,206	\$ (411,241)
Excess of Revenues over (under) Expenditures	\$ (1,764,205)	\$ (1,764,205)	\$ (1,791,972)	\$ (27,767)
Other Financing Sources				
Transfers in	\$ 1,764,205	\$ 1,764,205	\$ 1,822,953	\$ 58,748
Net Change in Fund Balance			\$ 30,981	\$ 30,981

Management's Discussion and Analysis (Continued)

Proprietary Fund

The total revenue increased \$545,791 from 2005 primarily as a result of a combined increase in electric and water revenues of \$539,862. The increase in electric and water revenue is primarily due to warmer and drier weather during the current fiscal year along with an electrical rate adjustment which was passed on to our citizens.

The total expenses went up \$283,012, which is an increase in electric power purchases primarily due to rising electric rates and fuel costs from power suppliers.

Proprietary Fund Budgetary Highlights

A detailed budgetary comparison schedule for the fiscal year ended September 30, 2006, can be found starting on page 30. A summarized schedule is presented below:

Condensed Budgetary Comparison Schedules - Proprietary Fund

City of Evergreen
Evergreen, Alabama
For the Year Ended September 30, 2006

	Budget Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
Operating revenues				
Charges for utility services	\$ 5,277,510	\$ 5,277,510	\$ 5,357,481	\$ 79,971
Total operating revenues	\$ 5,277,510	\$ 5,277,510	\$ 5,357,481	\$ 79,971
Operating expenses				
Personnel, operations and maintenance, utilities:	\$ 3,822,000	\$ 3,822,000	\$ 4,257,229	\$ (435,229)
Administrative costs	93,500	93,500	89,568	3,932
Total operating expenses	\$ 3,915,500	\$ 3,915,500	\$ 4,346,797	\$ (431,297)
Nonoperating revenue	\$ 25,600	\$ 25,600	\$ 34,241	\$ 8,641
Transfers out	(1,618,610)	(1,618,610)	(1,375,970)	242,640
Change in net assets	\$ (231,000)	\$ (231,000)	\$ (331,045)	\$ (100,045)

The propriety fund revenue exceeded expectations by \$79,971. The excess in revenues was due to an unanticipated increase in sales due to warmer and drier weather in the current fiscal year.

There was an unfavorable variance in expenditures totaling \$431,297, primarily due to the unexpected need to purchase electrical power due to the warmer and drier weather in the current fiscal year.

Management's Discussion and Analysis (Continued)

Capital Assets

At September 30, 2006, the City of Evergreen's investment in capital assets in governmental and business-type activities amounted to \$10,232,307 net of accumulated depreciation. This includes land, buildings, equipment, and infrastructure (roadways and bridges). New additions to capital assets included the ongoing construction of the sewer project and airport development project as well as the City's investment in the Conecuh Region Capital Improvement Cooperative District. In addition, vehicles and equipment were purchased during the year.

Debt Administration

For the year ended September 30, 2006, the City's long-term debt decreased by an amount of \$105,000. The decrease in debt for the fiscal year was due to debt service payments.

In each case, payments were made on the contracts during the fiscal year.

Economic Factors

The City of Evergreen's population of 3,630 represents just fewer than 26% of the county's population according to the most recent statistics available. The City's economy is based on a triad of healthcare, agriculture and industry.

The City's primary sources of revenue continue to arise from sales, real and personal property taxes as well as income from electric, water, wastewater and garbage services.

During the current fiscal year, the City entered into an agreement with Conecuh County to form the Conecuh Region Capital Improvement Cooperative District. The purpose of the District is to develop, promote, and support economic development projects within Conecuh County. The District has secured a commitment from an automobile parts supplier to begin construction on a manufacturing plant in Conecuh County. The City has invested over \$1,400,000 in this project. The City believes this investment will bring high-quality jobs and economic growth to Conecuh County.

Contacting the City's Financial Management

This financial report is designed to familiarize our citizens, taxpayers and customers with the City's finances and to demonstrate the City's fiscal accountability for its operations. Questions concerning this report, or requests for additional financial information, should be directed to Larry W. Fluker, Mayor or Peggy Howell, City Clerk/Treasurer at 210 East Front Street, Evergreen, Alabama 36401 – (251) 578-1574.

Basic Financial Statements

Statement of Net Assets

City of Evergreen
 Evergreen, Alabama
 September 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash	\$ 3,302,882	\$ 677,769	\$ 3,980,651
Certificates of deposit	2,000,000		2,000,000
Accounts receivable, net		589,431	589,431
Mortgage receivable	336,064		336,064
Prepaid expenses	86,434		86,434
Inventories	19,473	342,095	361,568
Other assets	36,121		36,121
Restricted assets:			
Cash	27	328,869	328,896
Investments	467,111		467,111
Funds held in escrow	308,566		308,566
Capital assets:			
Land and construction in progress	3,363,175	19,301	3,382,476
Buildings and improvements, net	1,213,551		1,213,551
Utility system and related equipment, net		2,958,097	2,958,097
Equipment and vehicles, net	1,031,705		1,031,705
Infrastructure, net	1,646,478		1,646,478
Total Assets	<u>13,811,587</u>	<u>4,915,562</u>	<u>18,727,149</u>
Liabilities			
Accounts payable	46,915	409,410	456,325
Accrued expenses	23,126	11,436	34,562
Customer deposits		329,185	329,185
Deferred revenue		231,691	231,691
Interest payable	46,055		46,055
Long-term liabilities			
Portion due within one year:			
Bonds and notes payable	105,000		105,000
Compensated absences	46,823	26,143	72,966
Portion due or payable after one year:			
Short-term debt expected to be refinanced	1,456,884		1,456,884
Bonds and notes payable	2,155,000		2,155,000
Total Liabilities	<u>3,879,803</u>	<u>1,007,865</u>	<u>4,887,668</u>
Net Assets			
Invested in capital assets, net of debt	3,538,025	2,977,398	6,515,423
Restricted for:			
Capital projects	373,077		373,077
Debt service	467,138		467,138
Road projects	569,510		569,510
Unrestricted	4,984,034	930,299	5,914,333
Total Net Assets	<u>\$ 9,931,784</u>	<u>\$ 3,907,697</u>	<u>\$ 13,839,481</u>

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

Statement of Activities

City of Evergreen
 Evergreen, Alabama
 September 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities							
General government	\$ 640,360	228,975			\$ (411,385)		\$ (411,385)
Public safety:							
Police	899,195				(899,195)		(899,195)
Fire	87,102		14,175		(72,927)		(72,927)
Court	78,694				(78,694)		(78,694)
Public works:							
Streets and sanitation	702,626		124,970	127,691	(449,965)		(449,965)
Other	91,077				(91,077)		(91,077)
Civic Improvement:							
Airport	178,019	50,469		33,285	(94,265)		(94,265)
Economic development	143,841				(143,841)		(143,841)
Culture and recreation	359,006		25,237		(333,769)		(333,769)
Interest charges	86,557				(86,557)		(86,557)
Unallocated depreciation	75,245				(75,245)		(75,245)
Total government activities	\$ 3,341,722	\$ 279,444	\$ 164,382	\$ 160,976	\$ (2,736,920)		\$ (2,736,920)
Business-type activities							
Electric operations	\$ 3,531,399	\$ 4,469,305				\$ 937,906	\$ 937,906
Garbage operations	129,042	249,811				120,769	120,769
Sewer operations	214,902	226,070				11,168	11,168
Water operations	396,332	412,295				15,963	15,963
Total business-type activities	4,271,675	5,357,481				1,085,806	1,085,806
Total primary government	\$ 7,613,397	\$ 5,636,925	\$ 164,382	\$ 160,976	\$ (2,736,920)	\$ 1,085,806	\$ (1,651,114)
General revenues:							
Sales taxes					\$ 868,854		868,854
Property taxes					277,112		277,112
Grants and contributions not restricted to specific programs					469,719		469,719
Other income					103,142	22,569	125,711
Earnings on investments					150,786	12,148	162,934
Transfers					1,375,970	(1,375,970)	
Total general revenues and transfers					3,245,583	(1,341,253)	1,904,330
Change in net assets					508,663	(255,447)	253,216
Net assets, beginning					9,423,121	4,163,144	13,586,265
Net assets, ending					\$ 9,931,784	\$ 3,907,697	\$ 13,839,481

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

Balance Sheet - Governmental Funds

City of Evergreen
 Evergreen, Alabama
 September 30, 2006

	General Fund	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 2,658,878		\$ 74,494	\$ 569,510	\$ 3,302,882
Certificates of deposit	2,000,000				2,000,000
Mortgage receivable	336,064				336,064
Prepaid expenses	86,434				86,434
Inventories	19,473				19,473
Other assets	36,121				36,121
Due from other funds	9,983				9,983
Restricted assets:					27
Cash		\$ 27			467,111
Investments		467,111			308,566
Funds held in escrow			308,566		308,566
Total Assets	<u>\$ 5,146,953</u>	<u>\$ 467,138</u>	<u>\$ 383,060</u>	<u>\$ 569,510</u>	<u>\$ 6,566,661</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 46,915				\$ 46,915
Due to other funds			\$ 9,983		9,983
Wages and benefits payable	23,126				23,126
Total Liabilities	<u>\$ 70,041</u>		<u>\$ 9,983</u>		<u>\$ 80,024</u>
Fund Balances					
Reserved for prepaids and inventories	\$ 105,907				\$ 105,907
Designated for capital improvements				\$ 533,908	533,908
Unreserved, reported in:					467,138
Debt service fund		\$ 467,138			373,077
Capital projects fund			\$ 373,077		5,006,607
Unreserved & undesignated	4,971,005			35,602	4,971,005
Total Fund Balances	<u>\$ 5,076,912</u>	<u>\$ 467,138</u>	<u>\$ 373,077</u>	<u>\$ 569,510</u>	<u>\$ 6,486,637</u>
Total Liabilities and Fund Balances	<u>\$ 5,146,953</u>	<u>\$ 467,138</u>	<u>\$ 383,060</u>	<u>\$ 569,510</u>	<u>\$ 6,566,661</u>

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

*Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets*

**City of Evergreen
Evergreen, Alabama
September 30, 2006**

Total fund balance - total governmental funds \$ 6,486,637

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

Capital assets of \$11,765,362 net of accumulated depreciation of \$4,510,453, are not financial resources and therefore, are not reported in the funds. 7,254,909

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities-both current and long-term-are reported in the Statement of Net Assets. Balances are as follows:

Compensated absences	\$ 46,823	
Accrued interest on debt	46,055	
Bonds and notes payable	<u>3,716,884</u>	
	<u>\$3,809,762</u>	<u>(3,809,762)</u>

Net assets of governmental activities \$ 9,931,784

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds

**City of Evergreen
Evergreen, Alabama
For the year ended September 30, 2006**

	General Fund	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 1,460,449			\$ 139,145	\$ 1,599,594
Licenses	152,433				152,433
Fines and costs	65,650				65,650
Fees				10,892	10,892
Rental income	50,469				50,469
Investment income	120,538	\$ 30,176			150,714
Grant revenue	25,237		\$ 160,976		186,213
Intergovernmental	29,627				29,627
Miscellaneous revenues	226,287				226,287
Total Revenues	<u>2,130,690</u>	<u>30,176</u>	<u>160,976</u>	<u>150,037</u>	<u>2,471,879</u>
Expenditures					
Current:					
General government	605,929				605,929
Public safety:					
Police	875,767				875,767
Fire	30,200			21,499	51,699
Court	78,694				78,694
Public works:					
Streets and sanitation	588,218				588,218
Other	90,585			6,901	97,486
Civic improvement:					
Airport	168,871				168,871
Economic development	125,664				125,664
Culture and recreation	330,088				330,088
Capital outlay	853,010		1,668,771		2,521,781
Debt service:					
Principal		105,000			105,000
Interest		90,545			90,545
Total Expenditures	<u>3,747,026</u>	<u>195,545</u>	<u>1,668,771</u>	<u>28,400</u>	<u>5,639,742</u>
Excess of Revenues over (under) Expenditures	<u>\$ (1,616,336)</u>	<u>\$ (165,369)</u>	<u>\$ (1,507,795)</u>	<u>\$ 121,637</u>	<u>\$ (3,167,863)</u>

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

*Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds (Continued)*

City of Evergreen
Evergreen, Alabama
For the year ended September 30, 2006

	<u>General Fund</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other Financing Sources (Uses)					
Transfers in (out)	\$ 1,627,480	\$ (251,438)			\$ 1,376,042
Proceeds from issuance of long-term debt			\$ 1,456,884		1,456,884
Total Other Financing Sources (Uses)	<u>1,627,480</u>	<u>(251,438)</u>	<u>1,456,884</u>		<u>2,832,926</u>
Net Changes in Fund Balance	11,144	(416,807)	(50,911)	121,637	(334,937)
Fund Balances, Beginning	<u>5,065,768</u>	<u>883,945</u>	<u>423,988</u>	<u>447,873</u>	<u>6,821,574</u>
Fund Balances, Ending	<u>\$ 5,076,912</u>	<u>\$ 467,138</u>	<u>\$ 373,077</u>	<u>\$ 569,510</u>	<u>\$ 6,486,637</u>

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

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

**City of Evergreen
Evergreen, Alabama
For the year ended September 30, 2006**

Net change in *fund balances* - total governmental funds \$ (334,937)

The change in *net assets* reported for governmental activities in the Statement of Activities is different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which net capital outlays (\$1,053,389) exceeded depreciation expense (\$318,778) in the current period. 734,611

The repayment of principal of long term debt is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets. 105,000

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. The adjustment combines the net change of the following item:

Accrued interest on debt 3,989

Change in net assets of governmental activities \$ 508,663

Statement of Net Assets - Proprietary Fund

City of Evergreen
 Evergreen, Alabama
 September 30, 2006

Assets	
Cash and cash equivalents	\$ 677,769
Accounts receivable, net	589,431
Inventories, at cost	<u>342,095</u>
Total current assets	<u>1,609,295</u>
Restricted assets	
Cash	328,869
Noncurrent assets	
Land	19,301
Office equipment	85,649
Utility system	8,952,617
Utility equipment	816,481
Less accumulated depreciation	<u>(6,896,650)</u>
Total noncurrent assets	<u>2,977,398</u>
Total Assets	<u><u>4,915,562</u></u>
Liabilities and Fund Balance	
Liabilities	
Accounts payable	409,410
Accrued liabilities	11,436
Deferred revenue	<u>231,691</u>
Total current liabilities	<u>652,537</u>
Payable from restricted assets	
Customer deposits	329,185
Noncurrent liabilities	
Compensated absences	<u>26,143</u>
Total noncurrent liabilities	<u>26,143</u>
Total liabilities	<u>1,007,865</u>
Fund Balance	
Invested in capital assets, net	2,977,398
Unrestricted	<u>930,299</u>
Total Fund Balance	<u>3,907,697</u>
Total Liabilities and Fund Balance	<u><u>\$ 4,915,562</u></u>

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

*Statement of Revenues, Expenses and Changes in Fund Net Assets-
Proprietary Fund*

**City of Evergreen
Evergreen, Alabama
For the year ended September 30, 2006**

Operating revenues	
Electric revenues	\$ 4,469,305
Garbage revenues	249,811
Sewer revenues	226,070
Water revenues	412,295
Miscellaneous revenue	22,569
Total operating revenues	<u>5,380,050</u>
Operating expenses	
Personnel, operations and maintenance, utilities:	
Electric expenses	3,373,182
Garbage expenses	122,091
Sewer expenses	124,185
Water expenses	276,333
Depreciation	285,578
Administrative Costs	90,306
Total operating expenses	<u>4,271,675</u>
Operating income	1,108,375
Nonoperating revenue	
Interest income	12,148
Total nonoperating revenue	<u>12,148</u>
Income before contributions, transfers & special items	1,120,523
Transfers in	76,030
Transfers out	(1,452,000)
Change in net assets	<u>(255,447)</u>
Total net assets, beginning	4,163,144
Change in net assets	<u>(255,447)</u>
Total net assets, ending	
Unrestricted	<u>\$ 3,907,697</u>

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

Statement of Cash Flows - Proprietary Fund

City of Evergreen
 Evergreen, Alabama
 September 30, 2006

Operating activities	
Receipts from customers and users	\$ 5,302,771
Payments to suppliers	(3,367,440)
Payments to employees	(607,169)
Net cash flow from operating activities	<u>1,328,162</u>
Capital financing activities	
Purchase of fixed assets	(128,249)
Net cash flows from noncapital financing activities	<u>(128,249)</u>
Noncapital financing activities	
Transfers in	76,030
Transfers out	(1,452,000)
Net cash flows from noncapital financing activities	<u>(1,375,970)</u>
Investing activities	
Interest received	12,148
Net cash from investing activities	<u>12,148</u>
Net change in cash and cash equivalents	(163,909)
Cash and cash equivalents, beginning	<u>1,170,547</u>
Cash and cash equivalents, ending	<u><u>1,006,638</u></u>
Displayed on the Statement of Net Assets as:	
Cash and cash equivalents	677,769
Restricted assets: cash - customer deposits	328,869
	<u>1,006,638</u>
Operating income	\$ 1,108,375
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	285,578
Decrease (increase) in operating assets and increase (decrease) in operating liabilities:	
Change in assets and liabilities:	
Receivables	(82,991)
Inventories	(10,957)
Accounts payable	24,497
Accrued expenses	5,361
Compensated absences	(1,701)
Net cash provided by operating activities	<u><u>\$ 1,328,162</u></u>

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

Notes to Financial Statements

City of Evergreen
Evergreen, Alabama
September 30, 2006

Note 1- Summary of Significant Accounting Policies

A. Reporting Entity

The City of Evergreen, Alabama (the "City") operates under a mayor-council form of government. Its purpose is to provide services for the citizens of the City of Evergreen, Alabama, such as police and fire protection and public works. As required by accounting principles generally accepted in the United States of America, these financial statements present the City. 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. (See Note 8)

B. Government-wide and Fund Financial Statements

Financial information of the City, the primary government is presented as follows:

- *Management's Discussion and Analysis* introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- *Basic Financial Statements:* Government-wide financial statements consist of a Statement of Net Assets and a Statement of Activities.

These statements report all of the non-fiduciary activities of the primary government. Governmental activities are reported separately from business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues whereas business-type activities are normally supported by fees and charges from services and are usually intended by management to be self-sustaining.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are clearly identifiable with a specific program or function. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program and (b) grants and contributions restricted to meeting the operational or capital requirements of a particular function or program. Revenues that are not classified as program revenues, including taxes and other items, are presented as general revenues.

- *Fund financial statements* consist of a series of statements focusing on information about the City's major governmental funds.

C. Measurement Focus, Basis of Accounting and Basis of 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 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 for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2006

Note 1- Summary of Significant Accounting Policies (Continued)

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. For this purpose, the government considers revenues to be available if they are collected within 60 days of the current fiscal period. 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. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financial sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, they are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

Property taxes (if levied), city-levied other taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

- The *General Fund* is the City's primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.
- The *Debt Service Fund* of the city accounts for the servicing of most long-term debt not being financed by the Proprietary fund. Sources of funds for the servicing of the debt include general fund revenues.
- The *Capital Projects Fund* of the City accounts for the cost of constructing a variety of public works projects and related debt service, and the cost of various City departments' capital spending activities. Principal sources of revenue are municipal long-term debt proceeds and interest income.

The City reports the following major enterprise fund:

- The *Water, Sewer, and Electric Fund* accounts for water, sanitary sewer and electric services provided to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service.

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2006

Note 1- Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following fund types:

Governmental Funds:

- The *Special Revenue Funds*, a fund type to be distinguished from, but which includes the Special Revenue Fund described above, account for revenue sources that are legally restricted to expenditures for specific purposes and generally pertain to the operating activities of various City departments. Such funds are established when required by statute, charter provision, local ordinance, or executive decision to finance particular functions or activities.

All governmental funds of the City follow Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, Accounting Principle Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with Government Accounting Standards Board (GASB) pronouncements.

Proprietary Funds

- *Enterprise Funds* are used to account for those operations that are financed and operated in a manner similar to private business or where the City has decided the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The City applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989 in accounting and reporting for its proprietary operations.

As a general rule, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between various functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include taxes not restricted to specific programs.

Proprietary funds distinguish operating revenues and expense from nonoperating items. Operating revenues and expense 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 Water, Sewer and Electric enterprise fund are charges to customers for services and benefit fees. Operating expenses for enterprise funds include the cost of the services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2006

D. Assets, Liabilities, and Net Assets

Cash and Investments - The City's cash and cash equivalents are considered to be cash on hand, demand deposit accounts as well as short-term investments with a maturity date three months from the date acquired by the government. State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements. Investments are stated at cost or amortized cost, which approximates fair value.

Receivables and Payables - All outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

The City reports trade receivables at net realizable value. Management determines the allowance for doubtful accounts based on historical losses and current economic conditions. On a continuing basis, management analyzes delinquent receivables and, once these receivables are determined to be uncollectible, they are written off through a charge against the allowance account. Customers' receivables are considered delinquent when they have not paid their bill within twenty (20) days of the bill being mailed. All trade receivables are shown net of an allowance for uncollectible accounts. At September 30, 2006, the allowance for uncollectible accounts was \$271,145.

Amounts receivable from federal, state, county, and local governments are classified as "due from other governmental entities."

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 the 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. The General Fund contains inventory for the Public Works Department. 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. Inventory for the Proprietary Fund consists of items to maintain and repair electrical, water, and sewer delivery systems.

Restricted Assets - In the City's Debt Service Fund, certain funds were established to provide for the payment of principal and interest related to the General Obligation Warrants Series 2003 in accordance with the mortgage and trust indentures. These funds are held by Regions Bank in its first priority treasury money market fund. The total amount of these restricted funds at September 30, 2006 was \$467,111.

In the City's Special Revenue Fund, the 7 cent and 4 cent gasoline taxes are restricted by law for various road maintenance and paving purposes.

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2006

D. Assets, Liabilities, and Net Assets (Continued)

In accordance with the trust indentures related to the general obligation water system warrants, Series 2001 SRF (State Revolving Fund), certain funds are held in escrow and are accounted for in the Capital Projects Fund. These funds are restricted for the payment of improvements to the water distribution system in accordance with the provisions of the special conditions agreement. The amount of the funds held in escrow by the Alabama Drinking Finance Authority at September 30, 2006 was \$308,566.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., sidewalks and similar items), are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the government as assets tangible in nature, with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

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.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation of all exhaustible capital assets except infrastructure is charged as an expense against their operations or functions whereas the infrastructure depreciation is unallocated. Property, plant, and equipment of the primary government are depreciated using the straight-line method over the estimated useful lives as follows:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	10-20
Automobiles	5
Office equipment	10
Computer equipment	5
Machinery	10
Utility systems	35
Utility equipment	10

Annual leave - All classified and nonclassified employees in the city are eligible to earn vacation leave with pay in accordance with the following leave policy. Eligible employees earn vacation leave for continuous service according to the following schedule:

<u>Completed Service</u>	<u>Earned Leave per Year</u>
Zero through five years	Five days
Over five through fifteen years	Ten days
Over fifteen years	Fifteen days

The vacation leave for employees runs from January to December of each year. Eligible employees are credited one-twelfth of the vacation leave earned at the above rates for each calendar month in which he/she qualifies for vacation leave. Vacation leave must be earned before it is taken.

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2006

Note 1- Summary of Significant Accounting Policies (Continued)

Persons hired on or before the 15th of the month earn vacation time for that month; and those hired after the 15th of the month begin earning vacation on the first day of the following month. A new employee will work and accrue vacation leave for six (6) months before he/she is eligible to take paid vacation. Normally, each employee is required to take his/her earned vacation in the year that it is earned. However, a total of twenty (20) days of unused vacation leave may be accumulated. Accumulated leave at the end of each calendar year that is in excess of twenty (20) days shall be forfeited by the employee. Vacation leave will be approved at the discretion of each department head, taking into consideration the needs of the city, the department, and the employee. Upon separation from city service, an individual will be paid for all unused accrued vacation leave at his/her current rate of pay.

Sick leave - All classified and unclassified employees earn credit for paid sick leave at the rate of eight (8) hours for each calendar month worked in which he/she qualified for leave for a total of twelve (12) days per year. Employees need not use their accrued sick leave within a specified year and may accumulate sick leave up to a maximum of seventy-five (75) working days. Sick leave days will not be earned during any month an employee is in a nonpay status for more than ten (10) working days during the month. Employees who resign or retire are not entitled to payment for accrued, unused sick leave.

Deferred Revenue - Deferred revenues represent funds set aside by the City due to an agreement reached with Alabama Power Company. Under the agreement, Alabama Power will levy a minimum charge against a corporate customer based on a percentage of the maximum electricity use during the prior year. The City entered into an agreement with Evergreen Technologies for a billing surcharge and revenue collected from these surcharges has been deferred and will be recognized as revenue in the event Evergreen Technologies ceases operations in the City of Evergreen.

Long-term Obligations - In the government-wide financial statements, and the 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.

Fund Equity - The reserved fund balances in the fund financial statements represent the amount that has been legally identified for specific purposes or is otherwise not available for appropriation or expenditure. Designations of fund balances represent tentative management plans that are subject to change. Net assets in the proprietary fund Statement of Net Assets are classified into two components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt*.

Economic Dependency - The City receives a substantial amount of revenue in the form of sales tax. A significant reduction in the level of this support would have an adverse effect on the City's activities.

Use of Estimates - Preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates made by management. Actual results could differ from those estimates.

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2006

Note 2 – Certificates of Deposit

At September 30, 2006, the City's certificates of deposits are carried at cost, which approximates fair market value. The certificates of deposits bear interest at 5.50% and have a maturity date of October 2006. The certificates of deposit were renewed at maturity.

Note 3 – Capital assets

Capital asset activity for the year ended September 30, 2006 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 369,126			\$ 369,126
Construction in progress	915,898	2,078,151		2,994,049
Buildings and improvements	2,882,566	13,950		2,896,516
Equipment and vehicles	1,886,785	454,529	(19,291)	2,322,023
Infrastructure	3,174,139	9,509		3,183,648
Total capital assets	\$ 9,228,514	2,556,139	(19,291)	\$ 11,765,362
Less accumulated depreciation for:				
Buildings and improvements	\$ 1,599,370	83,595		\$ 1,682,965
Equipment and vehicles	1,132,991	159,256	(1,929)	1,290,318
Infrastructure	1,461,245	75,925		1,537,170
Total accumulated depreciation	\$ 4,193,606	318,776	(1,929)	\$ 4,510,453
Governmental activities fixed assets, net	\$ 5,034,908	2,237,363	(17,362)	\$ 7,254,909
Business-type activities:				
Land	\$ 19,301			\$ 19,301
Utility system and equipment	9,726,498	128,249		9,854,747
Total capital assets	9,745,799	128,249		9,874,048
Less accumulated depreciation for:				
Utility system and related equipment	\$ 6,611,072	285,578		\$ 6,896,650
Total accumulated depreciation	\$ 6,611,072	285,578		\$ 6,896,650
Business-type activities fixed assets, net	\$ 3,134,727	(157,329)		\$ 2,977,398

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2006

Note 3 – Capital assets (Continued)

Construction in progress at September 30, 2006 consists of construction of sewer lines along Interstate 65/U.S. Highway 84 as well as site preparation for manufacturing facilities of an automobile parts manufacturer as part of the City's investment in the Conecuh Region Capital Improvement Cooperative District (See Note 8).

Depreciation expense of \$75,245 of the Governmental activities infrastructure assets is not allocated to the functions. The depreciation expense for all other depreciable assets is charged to functions/programs of the primary government as follows:

General government	\$ 14,602
Public Safety:	
Police	23,428
Fire	35,403
Public Works:	
Streets and sanitation	107,507
Other	492
Civic Improvement:	
Airport	9,148
Economic development	24,035
Culture and recreation	28,918
Total allocable depreciation expense	<u>\$ 243,533</u>
Unallocated depreciation expense	<u>75,245</u>
Total depreciation expense	<u><u>\$ 318,778</u></u>

Depreciation expense of \$285,278 and administrative costs of \$90,306 of the Water, Sewer, and Electric Fund have been allocated on the government-wide financial statements as follows:

	<u>Depreciation Expense</u>	<u>Adminstrative Costs</u>	<u>Totals</u>
Electric operations	\$ 82,881	\$ 75,336	\$ 158,217
Garbage operations		4,210	4,210
Sewer operations	86,907	3,811	90,718
Water operations	<u>115,790</u>	<u>6,949</u>	<u>122,739</u>
	<u><u>\$ 285,578</u></u>	<u><u>\$ 90,306</u></u>	<u><u>\$ 375,884</u></u>

Notes to Financial Statements (Continued)
 City of Evergreen
 Evergreen, Alabama
 September 30, 2006

Note 4 - Interfund Receivables, Payables, and Transfers

Transfers Out:

From General fund to Debt Service fund	\$ 195,473
From General fund to Debt Service fund	446,983
From General fund to Water, Sewer, and Electric fund	76,030
From Water, Sewer, Electric fund to General fund	<u>1,452,000</u>
Total	<u>\$ 2,170,486</u>

Transfers In:

To Debt Service fund from General fund	\$ 195,473
To General fund from Debt Service fund	446,983
To Water, Sewer, and Electric fund from General fund	76,030
To General Fund from Water, Sewer, and Electric fund	<u>1,452,000</u>
Total	<u>\$ 2,170,486</u>

The interfund payables were as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Capital Projects Fund	<u>\$ 9,983</u>

In general, transfers are used to (1) move revenues from the fund that collects the money to the fund that expends the money, (2) move receipts restricted or earmarked for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in a fund to provide operating advances to other funds in accordance with budgetary authorizations. The due to/from balances resulted from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2006

Note 5 – Long-term debt

General Obligation Warrants

In 2001, the City of Evergreen issued General Obligation Water System Warrants, Series 2001-SRF, in the amount of \$995,000 bearing an interest rate of 3.85% per annum. The SRF (State Revolving Fund) is administered jointly by the Alabama Drinking Water Finance Authority and the Alabama Department of Environmental Management to provide funds to pay for the costs of acquiring, constructing and improving water works and related facilities in connection with the water works plant and distribution system. These warrants are a direct obligation and pledge of the full faith and credit of the City

Similarly, in 2002, the City of Evergreen issued a General Obligation Sewer Warrant, Series 2002-SRF in the amount of \$780,000 bearing an interest rate of 3.50% per annum. This warrant is administered in similar fashion as the 2001-SRF previously mentioned. The purpose of this warrant is to pay costs of constructing or improving waste water treatment and collection facilities in connection with the waste water collection and treatment system.

In 2003, The City of Evergreen issued a General Obligation Warrant, Series, 2003, in the amount of \$930,000 for the purposes of (a) providing funds for the improvement of the City's sewer system, (b) currently refunding the City's Series 1995 General Obligation Warrants, and (c) paying the estimated costs of issuing the Series 2003 Warrants.

The aforementioned warrants are a direct obligation and pledge of the full faith and credit of the City.

Notes Payable

In the City's General Fund, the City has pledged its certificates of deposit as collateral to secure notes payable to the Bank of Evergreen and Colonial Bank. As of September 30, 2006, the amount pledged as collateral totaled \$2,000,000.

Outstanding Debt

The amount of debt outstanding at September 30, 2006, and information related to it was as follows:

Description	Face Amount	Final Maturity	Interest Rates (%)	Principal Maturities	Ending Balance	Within One Year
Series 2001 SRF	\$ 810,000	08/15/2020	3.85%	\$40,000 to \$70,000	\$ 770,000	\$ 40,000
Series 2002 SRF	\$ 695,000	08/15/2022	3.50%	\$30,000 to \$55,000	665,000	30,000
Series 2003 SRF	\$ 860,000	11/01/2022	2.25% to 5.00%	\$35,000 to \$75,000	825,000	35,000
Short-term debt expected to be refinanced						
Bank of Evergreen	\$ 979,606	2/22/2007	6%		979,606	979,606
Colonial Bank	\$ 477,278	10/28/2006	4.84%		477,278	477,278
Total					\$ 3,716,884	\$ 1,561,884

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2006

Note 5 – Long-term debt (Continued)

Future Debt Service

	Series 2001 SRF		Series 2002 SRF		Series 2003 General Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	40,000	29,645	30,000	23,275	35,000	34,178
2008	45,000	28,105	35,000	22,225	35,000	33,162
2009	45,000	26,372	35,000	21,000	35,000	32,148
2010-2014	260,000	103,757	185,000	86,450	210,000	139,390
2015-2019	310,000	49,857	225,000	51,450	255,000	91,737
2020-2023	70,000	2,695	155,000	11,025	255,000	25,728
Totals	\$ 770,000	\$ 240,431	\$ 665,000	\$ 215,425	\$ 825,000	\$ 356,343

Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Series 2001 SRW	\$ 810,000		\$ (40,000)	\$ 770,000
Series 2002 SRW	695,000		(30,000)	665,000
Series 2003 SRW	860,000		(35,000)	825,000
Short-term debt expected to be refinanced				
Bank of Evergreen	100,000	979,606	(100,000)	979,606
Colonial Bank		477,278		477,278
Total warrants and notes	\$ 2,465,000	\$ 1,456,884	\$ (205,000)	\$ 3,716,884
Compensated absences	46,823			46,823
Totals	\$ 2,511,823	\$ 1,456,884	\$ (205,000)	\$ 3,763,707

Note 6 – Fund Equity Reserves and Designations

All Funds

Reserved for debt service – funds restricted for making debt service payments.
Reserved for capital improvements – monies restricted by law for capital improvements.
Reserved for other – other funds restricted by state or federal law for specific purposes.

General Fund

Reserved for inventory and prepaids – amount equal to inventory and prepaid expenditures which do not represent “available spendable resources” of the fund.

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2006

Note 6 – Fund Equity Reserves and Designations (Continued)

Special Revenue Fund

Reserved for streets – funds restricted by the State of Alabama for the specific purpose to repave roads of the City of Evergreen, Alabama.

Capital Projects Fund

Reserved for capital improvements – amounts that are restricted for capital outlay in accordance with the debt agreements.

Note 7 – Contingent Liabilities and Commitments

Grants

The City participates in a number of federal, state, and county programs that are fully or partially funded by grants received from other governmental units.

As of September 30, 2006, significant amounts of grant expenditures have not been audited by the grantor agencies but the City believes that future disallowed expenditures related to the unaudited grant programs, if any, will not have a material effect on any of the individual funds or the overall financial position of the City.

Litigation

The City is involved in various legal proceedings that normally occur in government operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the City.

Note 8 – 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 Board, the Evergreen Industrial Development Board, the Evergreen and Conecuh County Library Board and the Conecuh-Monroe Gas District. These activities have not been consolidated in the financial statements of the City.

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. The District has a Board of Directors comprised of a total of four members, with two members being appointed by the Conecuh County Commission and two members being appointed by the City.

Under the agreement, the City is authorized for the expenditure of up to \$2,000,000, with all expenditures subject to reimbursement from the District. These expenditures were primarily financed by short-term borrowings totaling \$1,456,884 as of September 30, 2006. Subsequent to year end, the City entered into a funding agreement with the District for the issuance of \$2,135,000 Special Obligation Bonds, Series 2006-A, which will be used to provide funds for projects as directed by the City and the County, including refinancing of the balance of short-term borrowings.

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2006

Note 8 – Related Organizations (Continued)

The agreement also obligates the City to budget and appropriate sufficient funds each fiscal year to make all payments required under this agreement. Debt issued during the year to fund the City's investment in the District has been classified in the Statement of Net Assets as *short term debt, expected to be refinanced*. Under the agreement, the City's annual debt service requirement on the Series 2006A bonds will range from approximately \$153,927 to \$158,798.

Note 9 – Pension Plan

Plan Description

The City of Evergreen's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City's pension plan is affiliated with Employees' Retirement System of Alabama (ERS), an agent multiple-employer pension plan administered by the Retirement Systems of Alabama.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for ERS. That report may be obtained by writing to Retirement Systems of Alabama, P.O. Box 302150, Montgomery, AL 36130-2150 or by calling (334) 832-4140.

Substantially all employees are members of the ERS. Membership is mandatory for covered employees of the City of Evergreen. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the highest monthly benefit. These methods are (1) Minimum Guaranteed and, (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method retirees are allowed 2.0125% of their average final salary (best of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

The Employees' Retirement System was established as of 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 the State employees, State police, and on an elective basis to all cities, counties, towns, and quasi public organizations. The responsibility for general administration and operation of the ERS is vested in the Board of Control. Benefit provisions are established by the Code of Alabama, 1975, Sections 36-27-1 through 36-27-103, as amended, Sections 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Commission authority to accept or reject various Cost of Living Adjustments granted to retirees.

Funding Policy

The City's pension plan members are required to contribute 5% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 0.33%, which is 0.066 times the employee rate. The contribution requirements of pension plan members are established by the Code of Alabama, and the contribution requirements of the City are established and may be amended by the ERS.

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2006

Note 9 – Pension Plan (Continued)

Annual Pension Cost

For the year ended September 30, 2006, the City's annual pension cost of \$87,214 was equal to the City's required and actual contributions. The required contribution was determined as part of the September 30, 2005, actuarial valuation.

Actuarial Methods and Assumptions:

Valuation Date:	9/30/05
Actuarial Cost Method:	Entry Age
Amortization Method:	Level Percent Open
Remaining Amortization Period:	20 years
Asset Valuation Method:	5-yr Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return:	8.00%*
Projected Salary Increases:	4.61% - 7.75%*
Cost of Living Adjustments:	None

*Includes inflation at 4.50%

Trend Information for the Retirement System (latest available)

	Cost		Obligation
Ending	(APC)	Contributed	(NPO)
9/30/2001	\$ 58,547	100%	\$ -
9/30/2002	52,561	100%	-
9/30/2003	50,503	100%	-
9/30/2004	69,932	100%	-
9/30/2005	80,027	100%	-

Note 10 – Risk Management

The City is exposed to various risks of loss in the performance of its governmental functions. The City protects against risks of loss through the purchase of insurance from Alabama Municipal Insurance Corporation and the Municipal Worker's Compensation program. Insurance expenditures are allocated within various departments of the General Fund and to other funds of the City based on payroll and other experience factors. No changes in insurance coverages occurred compared to the previous year nor has the City experienced any insurance settlements in excess of insurance coverages over the past three years.

Required Supplementary Information

Required Supplementary Information
Budgetary Comparison Schedules - General Fund

City of Evergreen
 Evergreen, Alabama
 For the Year Ended September 30, 2006

	Budget Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues				
Taxes	\$ 1,394,000	\$ 1,394,000	\$ 1,460,449	\$ 66,449
Licenses	111,000	111,000	152,433	41,433
Fines and Costs	60,000	60,000	61,194	1,194
Rental income	62,860	62,860	50,469	(12,391)
Grant revenue	25,000	25,000	25,237	237
Miscellaneous revenues	89,900	89,900	376,452	286,552
Total Revenues	\$ 1,742,760	\$ 1,742,760	\$ 2,126,234	\$ 383,474
Expenditures				
Current:				
General government	\$ 1,036,000	\$ 1,036,000	\$ 996,404	\$ 39,596
Public safety:				
Police	754,000	754,000	695,317	58,683
Fire	22,500	22,500	30,050	(7,550)
Court	52,488	52,488	61,154	(8,666)
Public works:				
Streets and sanitation	603,954	603,954	505,353	98,601
Other	74,750	74,750	73,122	1,628
Civic improvement:				
Airport	68,500	68,500	161,334	(92,834)
Economic development	80,381	80,381	104,051	(23,670)
Culture and recreation	279,300	279,300	261,438	17,862
Capital outlay	339,547	339,547	834,510	(494,963)
Debt service	195,545	195,545	195,473	72
Total Expenditures	\$ 3,506,965	\$ 3,506,965	\$ 3,918,206	\$ (411,241)
Excess of Revenues over (under) Expenditures	\$ (1,764,205)	\$ (1,764,205)	\$ (1,791,972)	\$ (27,767)
Other Financing Sources				
Transfers in	\$ 1,434,658	\$ 1,434,658	\$ 1,822,953	\$ 388,295
Net Change in Fund Balance	\$ (329,547)	\$ (329,547)	\$ 30,981	\$ 360,528

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

Required Supplementary Information
Budgetary Comparison Schedules- General Fund (Continued)

City of Evergreen
Evergreen, Alabama
For the Year Ended September 30, 2006

The explanation of differences between budgetary revenues and expenditures and GAAP revenues and expenditures are as follows:

Sources of Resources:

Actual amounts (budgetary basis) from budgetary comparison schedule	\$ 2,126,234
Differences - Budget to GAAP:	
The City budgets on the cash basis of accounting instead of modified accrual basis of accounting. Revenues that are both measurable and available are considered revenues for GAAP statements but is not a current resource for budgetary purposes.	(98,682)
The City does not budget for interest income earned on cash and investments.	<u>103,138</u>
Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Funds.	<u>\$ 2,130,690</u>

Uses of Resources:

Actual amounts (budgetary basis) from budgetary comparison schedule	\$ 3,918,206
Differences - Budget to GAAP:	
The City budgets other operating expenditures on the cash basis, rather than on the modified accrual basis.	<u>(171,180)</u>
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Funds.	<u>\$ 3,747,026</u>

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

Required Supplementary Information
Budgetary Comparison Schedules - Proprietary Fund

City of Evergreen
 Evergreen, Alabama
 For the Year Ended September 30, 2006

	Budget Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Charges for services:				
Electric revenues	\$ 4,447,010	4,447,010	\$ 4,469,305	\$ 22,295
Garbage revenues	250,000	250,000	249,811	(189)
Sewer revenues	207,500	207,500	226,070	18,570
Water revenues	373,000	373,000	412,295	39,295
Total operating revenue	<u>\$ 5,277,510</u>	<u>\$ 5,277,510</u>	<u>\$ 5,357,481</u>	<u>\$ 79,971</u>
Operating expenses				
Personnel, operations and maintenance, utilities:				
Electric expenses	\$ 3,099,000	\$ 3,099,000	\$ 3,519,835	\$ (420,835)
Garbage expenses	133,000	133,000	129,041	3,959
Sewer expenses	187,000	187,000	212,523	(25,523)
Water expenses	403,000	403,000	395,830	7,170
Administrative costs	93,500	93,500	89,568	3,932
Total operating expenses	<u>\$ 3,915,500</u>	<u>\$ 3,915,500</u>	<u>\$ 4,346,797</u>	<u>\$ (431,297)</u>
Nonoperating revenue (expenses)				
Interest income	\$ 2,600	\$ 2,600	\$ 11,672	\$ 9,072
Miscellaneous revenue	23,000	23,000	22,569	(431)
Total nonoperating revenue (expenses)	<u>\$ 25,600</u>	<u>\$ 25,600</u>	<u>\$ 34,241</u>	<u>\$ 8,641</u>
Income before contributions, transfers & special items				
Transfers out	<u>\$ (1,618,610)</u>	<u>\$(1,618,610)</u>	<u>\$ (1,375,970)</u>	<u>\$ 242,640</u>
Change in net assets	<u>\$ (231,000)</u>	<u>\$ (231,000)</u>	<u>\$ (331,045)</u>	<u>\$ (100,045)</u>

The explanation of differences between budgetary revenues and expenses and GAAP revenues and expenses are as follows:

Operating expenses:

Actual amounts (budgetary basis) from budgetary comparison schedule	\$ 4,346,797
Differences - Budget to GAAP:	
Add (deduct) other reconciling items to adjust from budgetary basis to accrual basis:	
Change in accounts payable	(360,700)
The City does not budget for bad debt expense and depreciation expense	<u>285,578</u>
Total expenses as reported on the Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund.	<u>\$ 4,271,675</u>

Required Supplementary Information
Schedule of Funding Progress - Pension Plan

City of Evergreen
Evergreen, Alabama
For the Year Ended September 30, 2006

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)
9/30/1999	\$ 4,045,971	\$ 3,527,936	(518,035)	114.7%	\$ 1,487,001	-34.8%
9/30/2000	4,347,612	3,646,303	(701,309)	119.2%	1,726,343	-40.6%
9/30/2001	4,407,016	4,013,404	(393,612)	109.8%	1,637,636	-24.0%
9/30/2002	4,454,134	4,136,300	(317,834)	107.7%	1,712,997	-18.6%
9/30/2003	4,562,682	4,495,673	(67,009)	101.5%	1,781,211	-3.8%
9/30/2004	4,681,207	4,589,428	(91,779)	102.0%	1,701,834	-5.4%
9/30/2005	4,841,708	5,263,547	421,839	92.0%	1,747,346	24.1%

Notes to Required Supplementary Information

City of Evergreen
Evergreen, Alabama
September 30, 2006

Note 1- Stewardship, Compliance and Accountability

A. Budgetary Information

An annual budget is adopted for the General fund and the Water, Sewer, and Electric fund on the cash basis that is not consistent with accounting principles generally accepted in the United States of America (GAAP). All budgeting comparisons presented in this report are on a non-GAAP budgetary basis (see below). Annual budgets are not adopted for the Special Revenue fund, Debt Service fund, and Capital Projects fund.

The City follows these procedures in establishing the budgetary data reflected in the financial statements of the annually budgeted funds:

1. Around July 1, instructions and budget workpapers are distributed to departments and a revenue estimate for the following fiscal year is prepared.
2. Between August 1 and September 1, the following steps occur:
 - Departments return copies of completed budget request forms to the City Administrator.
 - The Mayor and budget staff begin independent departmental reviews and prepare recommended changes to departmental budgets.
 - The Mayor submits recommended departmental changes to individual departments affected.
 - Departments incorporate recommended budget changes and update budget schedules.
 - The Mayor's recommended budget is finalized for submission to the City Council.
3. Between September 1 and September 30 these final steps occur:
 - The Mayor presents the proposed budget to the City Council.
 - The City Council takes final action for approval of the operating budget by the beginning date of the fiscal year.

The annual budget is prepared by department. For the General fund that includes operating City departments, the Mayor, or appointed City staff, is authorized to make budget transfers by objects within the activity categories of each department: personal services, operating expenses and capital outlay. The legal level of budgetary control is by activity for General fund departments. No budget amendments were made and/or approved by the City Council during the year. The budget amounts are reflected in these financial statements.

Notes to Required Supplementary Information (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2006

Note 1- Stewardship, Compliance and Accountability (Continued)

B. Excess of Expenditures Over Appropriations

The General fund incurred expenditures in excess of appropriations of the following amounts for the year ended September 30, 2006:

Public safety:		
Fire	\$	7,550
Court	\$	8,666
Civic improvement:		
Airport	\$	92,834
Economic development	\$	23,670
Capital outlay	\$	494,963

The excess expenditures were provided by available fund balance in the General fund.

The Proprietary fund incurred expenditures in excess of appropriations of the following amounts for the year ended September 30, 2006:

Electric expenses	\$	420,835
Sewer expenses	\$	25,523

The excess expenditures were provided by available fund balance in the Proprietary fund.

Note 2- Pension Plan

The City of Evergreen's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A schedule of funding progress is presented herein.

Supplemental Information

Combining Balance Sheet - Nonmajor Governmental Funds

City of Evergreen
 Evergreen, Alabama
 September 30, 2006

	Special Revenue Funds			Total Nonmajor Governmental Funds
	State Gas Tax Fund	Gas Tax Fund	Fire Department Tax Fund	
Assets				
Cash and cash equivalents	\$ 341,400	\$ 192,508	\$ 35,602	\$ 569,510
Total Assets	<u>341,400</u>	<u>192,508</u>	<u>35,602</u>	<u>569,510</u>
Fund Balances				
Designated for:				
Capital improvements	341,400	192,508		533,908
Unreserved & undesignated			35,602	35,602
Total Fund Balances	<u>341,400</u>	<u>192,508</u>	<u>35,602</u>	<u>569,510</u>
Total Liabilities and Fund Balances	<u>\$ 341,400</u>	<u>\$ 192,508</u>	<u>\$ 35,602</u>	<u>\$ 569,510</u>

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

*Combining Statement of Revenues, Expenditures and Changes in Fund Balances -
Nonmajor Governmental Funds*

City of Evergreen
Evergreen, Alabama
For the year ended September 30, 2006

	Special Revenue Funds			Total Nonmajor Governmental Funds
	State Gas Tax Fund	Gas Tax Fund	Fire Department Tax Fund	
Revenues				
Taxes	\$ 65,346	\$ 59,624	\$ 14,175	\$ 139,145
Petroleum inspection fee	10,892			10,892
Total Revenues	<u>76,238</u>	<u>59,624</u>	<u>14,175</u>	<u>150,037</u>
Expenditures				
Current:				
Public safety:				
Fire			21,499	21,499
Public works:				
Streets and sanitation		6,901		6,901
Total Expenditures		<u>6,901</u>	<u>21,499</u>	<u>28,400</u>
Excess of Revenues over (under) Expenditures - Net Changes in Fund Balance	76,238	52,723	(7,324)	121,637
Fund Balances, Beginning	<u>265,162</u>	<u>139,785</u>	<u>42,926</u>	<u>447,873</u>
Fund Balances, Ending	<u>\$ 341,400</u>	<u>\$ 192,508</u>	<u>\$ 35,602</u>	<u>\$ 569,510</u>

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

Mayer W. Aldridge, CPA (1883-1970)
John R. Borden, CPA (1916-1994)

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with *Government
Auditing Standards*

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

We have audited the basic financial statements of the City of Evergreen as of and for the year ended September 30, 2006, and have issued our report thereon dated December 5, 2006. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Evergreen's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Evergreen's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Responses as items 06-01 and 06-02.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider all items to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Evergreen's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Albridge, Borden and Company, P.C.

December 5, 2006

Schedule of Findings and Responses

City of Evergreen
Evergreen, Alabama
For the year ended September 30, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: **UNQUALIFIED**

Internal control over financial reporting:

Any material weakness(es) identified? Yes No

Any reportable condition(s) identified not considered to be material weaknesses? Yes No

Any noncompliance material to financial statements noted? Yes No

Section II - Financial Statement Findings

Condition Number: 06-01

Condition: During our audit we noted the City did not record interest income earned from certificates of deposits nor any of the activity in the bond fund accounts. Additionally, the books and records for internal purposes are maintained on the cash basis.

Criteria: Generally accepted accounting principles requires that all cash/financial investment accounts be recorded from financial institution balances to the general ledger balances on an accrual basis.

Cause: This has been the policy for internal reporting purposes for many years.

Effect: The internal financial statements of the City could be inaccurate and materially misstated by not recording these transactions on the accrual basis.

Recommendation: The City should evaluate the risks relative to management decision making and controls using their current system.

Response: Management will evaluate this and make a decision before the next fiscal year.

Schedule of Findings and Responses (Continued)

City of Evergreen

Evergreen, Alabama

For the year ended September 30, 2006

Section II - Financial Statement Findings (Continued)

Condition Number: 06-02

- Condition:** The City is currently unable to produce documentation in regards to a mortgage note receivable with the Industrial Development Board of the City of Evergreen. The balance of this note has not been repaid.
- Criteria:** Management of the City should ensure accurate loan documentation is maintained in the City's records and determine the collectibility of this note.
- Cause:** The document has been misplaced.
- Effect:** There is some question as to whether this balance is a receivable or appropriation.
- Recommendation:** The City should research the minutes and execute an updated note agreement. Additionally, the matter of making this an appropriation should be considered. However, such action could evidence that the Industrial Development Board should be consolidated.
- Response:** Management agrees and will initiate discussions with the Industrial Development Board to resolve the matter.