

2005 Financial Statements

City of Evergreen

Evergreen, Alabama

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

Dave G. Borden, CPA, ABV
Robert P. Saunders, CPA
James E. Blake, CPA
Thomas R. Borden, CPA, CVA
William L. Cox, CPA, CVA

Richard N. Yon, CPA
John D. Adams, CPA
Rhonda L. Sibley, CPA
W. Dane Floyd, CPA, CVA
Jeffrey T. Windham, CPA, CVA

Independent Accountants' Report

Board of Directors
City of Evergreen
Evergreen, Alabama

We have audited the accompanying financial statements of the governmental activities and 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, 2005 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 opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2005, 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 November 22, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and Budgetary Comparison 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.

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

Albridge, Borden and Company, P.C.

November 22, 2005

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**City of Evergreen
Evergreen, Alabama
September 30, 2005**

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Requirements Applicable to Each Major Program and
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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, 2005.

Financial Highlights

- On a government-wide basis, the City's net assets grew by \$355,364 for the fiscal year, the majority of which was generated by governmental activities.
- The City's combined net assets total \$13,586,265 at September 30, 2005. Of this amount, \$5,097,408 is available (unrestricted) to finance ongoing governmental programs and \$1,028,417 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. Moreover, these

Management's Discussion and Analysis (Continued)

latter statements provide a ready comparison to similar financial statements produced prior to the City's implementation of GASB Statement No. 34.

The City maintains four 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 three funds considered to be 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

Nonmajor Governmental Fund:

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.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found starting on page 34.

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 \$13,586,265 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 rose to \$13,586,265 up \$355,364 from the prior year. Business activities accounted for the increase, earning approximately \$850,000 prior to the transfer of \$1,200,000 to governmental activities. As a result, business-type activities reflect decreases in net assets of \$350,088. 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 table presents a condensed statement of the City's net assets at September 30, 2005:

Condensed Statement of Net Assets

City of Evergreen
Evergreen, Alabama
September 30, 2005

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
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 table presents a condensed statement of the City's activities for the year ended September 30, 2005:

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
Other Taxes	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, net assets increased \$355,364 with the increase primarily coming from the business-type activities as shown in the transfer of \$1,200,000 from the proprietary fund. The

Management's Discussion and Analysis (Continued)

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 reader should remember that 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 \$2,891,236 for fiscal year 2005, with an increase of 12% from 2004. Local sales taxes, property taxes and business licenses are the largest revenue source for the City at 57%. Grants totaling 22% of the revenues are second. Charges for services, the third segment of governmental activities revenues, include charges for services and solid waste fees. The charges for services category accounts for 21% of governmental revenues.

Expenses

Governmental expenses totaled \$3,572,389 for the fiscal year. Of the expenditures, 38% or \$1,367,378 is related to streets, civic improvements and capital outlay, while 27% or \$956,629 is related to public safety for police, fire and municipal court services. General government expenses were 19% or \$695,817 while parks, recreation and culture expenses amounted to \$354,180, or 10%. Principal and Interest on long-term debt accounted for 6% or \$198,835 of governmental expenses. Overall, governmental activities expenses decreased 13%, or \$528,035 over 2004.

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 \$4,806,228 in charges, \$3,960,411 or 82% comes from the City's electric operations, and \$597,490 or 12% comes from water and wastewater operation. The remaining charges \$248,327 or 6% are from the City's garbage operation.

Expenses

Electric services account for \$2,958,104 or 74% of the City's business-type activities while water and wastewater expenses totaled \$525,950 or 14%, depreciation costs were \$287,217 or 7%, garbage costs were \$127,507 or 3% and administrative costs were \$88,896 or 2% for a total of \$3,987,674.

Financial Analysis of the City's Funds

Governmental funds

The combined fund balances of governmental funds for the fiscal year ended September 30, 2005, is \$6,821,573. This represents a \$518,397 increase in fund balances, due to transfers from the Proprietary Fund. A review of some of the more significant funds follows.

General Fund

The fund balance of the General Fund increased by \$322,718 for the fiscal year.

Capital Projects

These funds decreased by \$695,309, which reflects less capital expenditures in 2005.

Management's Discussion and Analysis (Continued)

Debt Service

Debt Service Fund expenditures increased by \$19,087 reflecting an increase in the interest portion of payments on long-term bonds payable.

General Fund Budgetary Highlights

A detailed budgetary comparison schedule for the fiscal year ended September 30, 2005, can be found starting on page 30. A summarized schedule is presented below:

Condensed Budgetary Comparison Schedules - General Fund

City of Evergreen
Evergreen, Alabama
For the Year Ended September 30, 2005

	Budget Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues				
Taxes	\$ 1,307,500	\$ 1,307,500	\$ 1,507,097	\$ 199,597
Licenses	\$ 103,000	\$ 103,000	\$ 134,525	31,525
Fines and Costs	\$ 70,000	\$ 70,000	\$ 59,995	(10,005)
Rental income	\$ 44,600	\$ 44,600	\$ 49,987	5,387
Grant revenue	\$ 25,000	\$ 25,000	\$ 551,410	526,410
Miscellaneous revenues	\$ 101,600	\$ 101,600	\$ 218,888	117,288
Total Revenues	\$ 1,651,700	\$ 1,651,700	\$ 2,521,902	\$ 117,288
Expenditures				
Current:				
General government	\$ 968,450	\$ 968,450	\$ 942,729	\$ 25,721
Public safety:	823,413	823,413	762,680	60,733
Public works	652,604	652,604	696,337	(43,733)
Civic Improvement	145,580	145,580	172,874	(27,294)
Culture and recreation	281,564	281,564	283,362	(1,798)
Capital outlay	399,000	399,000	390,897	8,103
Debt service	198,835	198,835	195,225	3,610
Total Expenditures	\$ 3,469,446	\$ 3,469,446	\$ 3,444,104	\$ 25,342
Excess of Revenues over (under) Expenditures	\$ (1,817,746)	\$ (1,817,746)	\$ (922,202)	\$ 895,544
Other Financing Sources				
Transfers in	\$ 1,815,000	\$ 1,815,000	\$ 1,200,000	\$ (615,000)
Net Change in Fund Balance	\$ (2,746)	\$ (2,746)	\$ 277,798	\$ 280,544

Management's Discussion and Analysis (Continued)

Proprietary Fund

The total revenue decreased \$101,129 primarily as a result of a decrease in the electric revenue of \$136,518. The electric revenue decrease is primarily due to less sales of electricity. We purchased less electricity from Alabama Power and our sales reflected less revenue because we sold less power.

The total expenses went up \$66,981, which is an increase in the electric power purchase primarily due to rising fuel cost passed on by Alabama Power Company but not passed on to our citizens and significant costs incurred due to major repair work on the city's water infrastructure.

Proprietary Fund Budgetary Highlights

A detailed budgetary comparison schedule for the fiscal year ended September 30, 2005, can be found starting on page 32. A summarized schedule is presented below

Condensed Budgetary Comparison Schedules - Proprietary Fund

City of Evergreen
Evergreen, Alabama
For the Year Ended September 30, 2005

	Budget Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
Operating revenues				
Charges for Utility Services	\$ 4,975,500	\$ 4,975,500	\$ 5,074,755	\$ 99,255
Total operating revenues	\$ 4,975,500	\$ 4,975,500	\$ 5,074,755	\$ 99,255
Operating expenses				
Personnel, operations and maintenance, utilities:	\$ 3,613,470	\$ 3,613,470	\$ 3,467,542	145,928
Administrative costs	86,400	86,400	95,578	(9,178)
Total operating expenses	\$ 3,699,870	\$ 3,699,870	\$ 3,563,120	\$ 136,750
Nonoperating revenue	\$ 30,610	\$ 30,610	\$ 26,958	\$ (3,652)
Transfers out	(1,754,000)	(1,754,000)	(1,200,000)	554,000
Change in net assets	\$ (447,760)	\$ (447,760)	\$ 338,593	\$ 786,353

The propriety fund revenue exceeded expectations by \$99,255. The excess in revenues was due to an unanticipated increase in sales.

There was a favorable variance in expenditures totaling \$136,750 mainly attributable to a milder storm season than anticipated so salaries and expenses were less than projected.

Management's Discussion and Analysis (Continued)

Capital Assets

At September 30, 2005, the City of Evergreen's investment in capital assets in governmental and business-type activities amounted to \$8,169,635 net of accumulated depreciation. This includes land, buildings, equipment, and infrastructure (roadways and bridges). Capital assets for governmental activities increased by 2%. These changes included the ongoing construction of the sewer project and airport development project. In addition, police cars and street and sanitation vehicles and equipment were purchased during the year.

Debt Administration

For the year ended September 30, 2005, 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 represents just fewer than 26% of the county's population. Since 2000, the most recent numbers available; the City's population has decreased by 281 to 3,630. The City's economy is based on a triad of healthcare, agriculture and industry.

The City's primary sources of revenue are sales tax, real and personal property, and utility income from electric, water, wastewater and garbage. These sources of general revenues, posted a 39% increase this year. For fiscal year 2006, revenues were projected using a conservative 5% growth in sales taxes.

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, 2005

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash	\$ 3,113,224	\$ 847,362	\$ 3,960,586
Investments	2,000,000		2,000,000
Accounts receivable, net		506,440	506,440
Mortgage receivable	336,064		336,064
Interest receivable	2,411		2,411
Due from other governments	119,863		119,863
Prepaid items	86,490		86,490
Inventories	19,473	331,138	350,611
Other assets	36,120		36,120
Restricted assets:			
Cash	7	323,185	323,192
Investments	883,938		883,938
Funds held in escrow	382,658		382,658
Capital assets:			
Land and construction in progress	1,285,024	19,301	1,304,325
Buildings and improvements, net	1,283,196		1,283,196
Utility system and related equipment, net		3,115,426	3,115,426
Equipment and vehicles, net	753,794		753,794
Infrastructure, net	1,712,894		1,712,894
Total Assets	\$ 12,015,156	\$ 5,142,852	\$ 17,158,008
Liabilities			
Accounts payable	\$ 56,735	\$ 384,913	\$ 441,648
Accrued expenses	1,940	11,787	13,727
Customer deposits		323,473	323,473
Deferred revenue		231,691	231,691
Interest payable	21,537		21,537
Long-term liabilities			
Portion due within one year:			
Bonds and notes payable	205,000		205,000
Compensated absences	46,823	27,844	74,667
Portion due or payable after one year:			
Bonds and notes payable	2,260,000		2,260,000
Total Liabilities	\$ 2,592,035	\$ 979,708	\$ 3,571,743
Net Assets			
Invested in capital assets, net of debt	\$ 2,569,908	\$ 3,134,727	\$ 5,704,635
Restricted for:			
Capital projects	423,988		423,988
Debt service	883,945		883,945
Road projects	447,872		447,872
Unrestricted	5,097,408	\$ 1,028,417	6,125,825
Total Net Assets	\$ 9,423,121	\$ 4,163,144	\$ 13,586,265

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

Statement of Activities

City of Evergreen
Evergreen, Alabama
September 30, 2005

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
Governmental Activities						
General government	\$ 718,912		\$ 526,238		\$ (192,674)	\$ (192,674)
Public safety:						
Police	902,561				(902,561)	(902,561)
Fire	62,571				(62,571)	(62,571)
Court	63,415	\$ 59,462			(3,953)	(3,953)
Public works:						
Streets and sanitation	775,240	16,828			(758,412)	(758,412)
Other	78,029				(78,029)	(78,029)
Civic Improvement:						
Airport	105,309			\$ 71,645	(33,664)	(33,664)
Economic development	120,293				(120,293)	(120,293)
Culture and recreation	383,481		\$ 25,172		(358,309)	(358,309)
Interest charges	99,588				(99,588)	(99,588)
Unallocated depreciation	76,384				(76,384)	(76,384)
Total government activities	\$ 3,385,783	\$ 76,290	\$ 551,410	\$ 71,645	\$ (2,686,438)	\$ (2,686,438)
Business-type activities						
Electric operations	\$ 3,114,490	\$ 3,960,411				\$ 845,921
Garbage operations	132,086	248,327				116,241
Sewer operations	151,669	216,163				64,494
Water operations	588,963	381,327				(207,636)
Total business-type activities	\$ 3,987,208	\$ 4,806,228				\$ 819,020
Total primary government	\$ 7,372,991	\$ 4,882,518	\$ 551,410	\$ 71,645	\$ (2,686,438)	\$ (1,867,418)
General revenues:						
Taxes:						
Property taxes					\$ 333,346	\$ 333,346
Sales taxes					1,141,423	1,141,423
Other taxes					165,468	165,468
Licenses					134,525	134,525
Miscellaneous					218,886	\$ 28,031
Rental income					49,987	49,987
Earnings on investments					148,255	2,861
Transfers					1,200,000	(1,200,000)
Total general revenues and transfers					\$ 3,391,890	\$ (1,169,108)
Change in net assets					\$ 705,452	\$ (350,088)
Net assets, beginning					\$ 8,717,669	\$ 4,513,232
Net assets, ending					\$ 9,423,121	\$ 4,163,144

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

Balance Sheet - Governmental Funds

City of Evergreen
 Evergreen, Alabama
 September 30, 2005

	<u>General Fund</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 2,614,039		\$ 51,313	\$ 447,872	\$ 3,113,224
Certificates of deposit	2,000,000				2,000,000
Mortgage receivable	336,064				336,064
Interest receivable	2,411				2,411
Due from other governments	119,863				119,863
Prepaid expenses and inventories	86,490				86,490
Inventories	19,473				19,473
Other assets	36,120				36,120
Due from other funds	9,983				9,983
Restricted assets:					
Cash		\$ 7			7
Investments		883,938			883,938
Funds held in escrow			382,658		382,658
Total Assets	<u>\$ 5,224,443</u>	<u>\$ 883,945</u>	<u>\$ 433,971</u>	<u>\$ 447,872</u>	<u>\$ 6,990,231</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 56,735				\$ 56,735
Due to other funds			\$ 9,983		9,983
Wages and benefits payable	1,940				1,940
Short term borrowings	100,000				100,000
Total Liabilities	<u>\$ 158,675</u>		<u>\$ 9,983</u>		<u>\$ 168,658</u>
Fund Balances					
Reserved for prepaids and inventories	\$ 105,963				\$ 105,963
Designated for capital improvements				\$ 404,947	404,947
Unreserved, reported in:					
General fund	4,959,805				4,959,805
Debt service fund		\$ 883,945			883,945
Capital projects fund			\$ 423,988		423,988
Unreserved & undesignated				42,925	42,925
Total Fund Balances	<u>\$ 5,065,768</u>	<u>\$ 883,945</u>	<u>\$ 423,988</u>	<u>\$ 447,872</u>	<u>\$ 6,821,573</u>
Total Liabilities and Fund Balances	<u>\$ 5,224,443</u>	<u>\$ 883,945</u>	<u>\$ 433,971</u>	<u>\$ 447,872</u>	<u>\$ 6,990,231</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, 2005**

Total fund balance - total governmental funds \$ 6,821,573

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

Capital assets of \$9,228,512 net of accumulated depreciation of \$(4,193,604), are not financial resources and therefore, are not reported in the funds. 5,034,908

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	21,537	
Bonds and notes payable	<u>2,365,000</u>	
	<u><u>\$2,433,360</u></u>	<u>(2,433,360)</u>

Net assets of governmental activities \$ 9,423,121

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

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

	<u>General Fund</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes	\$ 1,507,097			\$ 133,139	\$ 1,640,236
Licenses	134,525				134,525
Fines and costs	59,462				59,462
Fees				16,828	16,828
Rental income	49,987				49,987
Investment income	132,914	\$ 15,341			148,255
Grant revenue	25,172		\$ 71,645		96,817
Intergovernmental	526,238				526,238
Miscellaneous revenues	218,888				218,888
Total Revenues	<u>\$ 2,654,283</u>	<u>\$ 15,341</u>	<u>\$ 71,645</u>	<u>\$ 149,967</u>	<u>\$ 2,891,236</u>
Expenditures					
Current:					
General government	\$ 695,817				\$ 695,817
Public safety:					
Police	866,046				866,046
Fire	19,837			\$ 7,331	27,168
Court	63,415				63,415
Public works:					
Streets and sanitation	691,828				691,828
Other	77,537				77,537
Civic improvement:					
Airport	95,675				95,675
Economic development	96,259				96,259
Culture and recreation	354,180				354,180
Capital outlay	375,746		\$ 30,333		406,079
Debt service:					
Principal		\$ 105,000			105,000
Interest		93,835			93,835
Total Expenditures	<u>\$ 3,336,340</u>	<u>\$ 198,835</u>	<u>\$ 30,333</u>	<u>\$ 7,331</u>	<u>\$ 3,572,839</u>
Excess of Revenues over (under) Expenditures	<u>\$ (682,057)</u>	<u>\$ (183,494)</u>	<u>\$ 41,312</u>	<u>\$ 142,636</u>	<u>\$ (681,603)</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, 2005

	<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)	\$ 1,004,775	\$ 195,225			\$ 1,200,000
Total Other Financing Sources (Uses)	<u>1,004,775</u>	<u>195,225</u>			<u>1,200,000</u>
Net Changes in Fund Balance	<u>\$ 322,718</u>	<u>\$ 11,731</u>	<u>\$ 41,312</u>	<u>\$ 142,636</u>	<u>\$ 518,397</u>
Fund Balances, Beginning	\$ 4,743,050	\$ 872,214	\$ 382,676	\$ 305,236	\$ 6,303,176
Fund Balances, Ending	<u>\$ 5,065,768</u>	<u>\$ 883,945</u>	<u>\$ 423,988</u>	<u>\$ 447,872</u>	<u>\$ 6,821,573</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, 2005**

Net change in *fund balances* - total governmental funds \$ 518,397

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 capital outlays (\$393,407) exceeded depreciation expense (\$303,815) in the current period. 89,592

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 changes of the following two items:

Compensated absences	\$ (1,784)	
Accrued interest on debt	(5,753)	
Combined adjustment	<u>\$ (7,537)</u>	<u>(7,537)</u>

Change in net assets of governmental activities \$ 705,452

Statement of Net Assets - Proprietary Fund

City of Evergreen
Evergreen, Alabama
September 30, 2005

Assets	
Cash and cash equivalents	\$ 847,362
Accounts receivable, net	506,440
Inventories, at cost	331,138
Restricted assets:	
Cash - customer deposits	323,185
Total current assets	<u>\$ 2,008,125</u>
Noncurrent assets	
Land	\$ 19,301
Office equipment	85,649
Utility system	8,927,248
Utility equipment	713,601
Less accumulated depreciation	(6,611,072)
Total noncurrent assets	<u>\$ 3,134,727</u>
Total Assets	<u>\$ 5,142,852</u>
Liabilities and Fund Balance	
Liabilities	
Accounts payable	\$ 384,913
Accrued liabilities	11,787
Customer deposits	323,473
Deferred revenue	231,691
Total current liabilities	<u>\$ 951,864</u>
Noncurrent liabilities	
Compensated absences	\$ 27,844
Total noncurrent liabilities	<u>\$ 27,844</u>
Total liabilities	<u>\$ 979,708</u>
Fund Balance	
Invested in capital assets, net	\$ 3,134,727
Unrestricted	1,028,417
Total Fund Balance	<u>\$ 4,163,144</u>
Total Liabilities and Fund Balance	<u>\$ 5,142,852</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, 2005**

Operating revenues	
Electric revenues	\$ 3,960,411
Garbage revenues	248,327
Sewer revenues	216,163
Water revenues	381,327
Miscellaneous revenue	28,031
Total operating revenues	<u>\$ 4,834,259</u>
Operating expenses	
Personnel, operations and maintenance, utilities:	
Electric expenses	\$ 2,958,104
Garbage expenses	127,507
Sewer expenses	60,325
Water expenses	465,625
Depreciation and amortization	287,217
Administrative Costs	88,896
Total operating expenses	<u>\$ 3,987,674</u>
Operating Income	\$ 846,585
Nonoperating revenue (expenses)	
Interest income	<u>\$ 3,327</u>
Total nonoperating revenue (expenses)	<u>\$ 3,327</u>
Income before contributions, transfers & special items	\$ (1,200,000)
Transfers out	<u>\$ (350,088)</u>
Change in net assets	<u>\$ (350,088)</u>
Total net assets, beginning	\$ 4,513,232
Change in net assets	<u>(350,088)</u>
Total net assets, ending	\$ 4,163,144
Unrestricted	<u>\$ 4,163,144</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, 2005

Operating activities	
Receipts from customers and users	\$ 4,841,444
Payments to suppliers	(2,818,122)
Payments to employees	(705,108)
Net cash flow from operating activities	<u>\$ 1,318,214</u>
Noncapital financing activities	
Transfers out	\$ (1,200,000)
Net cash flows from noncapital financing activities	<u>\$ (1,200,000)</u>
Investing activities	
Interest received	\$ 3,327
Net cash from investing activities	<u>\$ 3,327</u>
Net increase (decrease) in cash and cash equivalents	\$ 121,541
Cash and cash equivalents, beginning	<u>1,049,006</u>
Cash and cash equivalents, ending	<u>\$ 1,170,547</u>
Operating income	\$ 846,585
Adjustments to reconcile operating income to net cash from operating activities	
Depreciation and amortization	287,217
Decrease (increase) in operating assets and increase (decrease) in operating liabilities:	
Change in assets and liabilities:	
Receivables	(6,223)
Inventories	2,263
Accounts payable	162,444
Accrued expenses	12,520
Other items	13,408
Net cash provided by operating activities	<u>\$ 1,318,214</u>

Notes to Financial Statements

Notes to Financial Statements

City of Evergreen
Evergreen, Alabama
September 30, 2005

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.

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 all 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, 2005

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 Project 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, 2005

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 not 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 all taxes.

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, 2005

Note 1- Summary of Significant Accounting Policies (Continued)

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."

All trade receivables are shown net of an allowance for uncollectible accounts. At September 30, 2005, 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.

Restricted Assets

In the City's General Fund, the City has pledged a portion of its investments as collateral to secure a note payable. As of September 30, 2005, the amount pledged as collateral totaled \$100,000.

In the City's Special Revenue Funds 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, 2005

Note 1- Summary of Significant Accounting Policies (Continued)

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, 2005 was \$883,938.

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, 2005 was \$382,657.

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 as 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

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2005

Note 1- Summary of Significant Accounting Policies (Continued)

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 (0) through five (5) years	Five (5) days
Over five (5) through fifteen (15) years	Ten (10) days
Over fifteen (15) years	Fifteen (15) 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. 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.

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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2005

Note 1- Summary of Significant Accounting Policies (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received are reported as debt service expenditures.

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.

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.

Note 2 - Deposits and Investments

The following information is provided to give an indication of the steps the City takes to protect its cash deposits and the level of risk assumed for certain investments.

At fiscal year end, the entire bank balances of the City were covered by the Federal Deposit Insurance Corporation (FDIC) and insured by the Security for Alabama Funds Enhancement, or SAFE Program. The SAFE Program is administered by the State Treasurer according to State of Alabama statute. Effective January 1, 2001, any bank or financial institution in the State of Alabama accepting deposits of public funds is required to insure those funds by pledging eligible collateral to the State Treasurer for the SAFE collateral pool. The entire pool stands behind each deposit. Eligible collateral are those securities currently designated as acceptable collateral for state deposits as defined by State law.

Notes to Financial Statements (Continued)
 City of Evergreen
 Evergreen, Alabama
 September 30, 2005

Note 2 – Deposits and Investments (Continued)

A reconciliation of cash and investments as shown on the Balance Sheet of the primary government is as follows:

Cash on hand	\$ 500
Carrying amount of cash in bank	4,283,278
Carrying amount of investments	<u>3,266,596</u>
Total	<u>\$ 7,550,374</u>

Restricted cash and investments included in the above amounts are:

Carrying amount of cash in bank	\$ 323,192
	<u>1,266,596</u>
Total restricted cash and investments	<u>\$ 1,589,788</u>

Per Governmental Funds Balance sheet - total governmental funds

Cash and investments	\$ 5,113,224
Restricted cash and investments	1,266,603
Per Proprietary Funds Statements of Net Assets	
Cash and investments	847,362
Restricted cash and investments	<u>323,185</u>
Total	<u>\$ 7,550,374</u>

At year end, the City's investment balances, reported at fair value, were certificates of deposits with interest rates of 5.50% and a maturity date of October 2005.

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2005

Note 3 – Capital assets

Capital asset activity for the year ended September 30, 2005 was as follows:

Governmental activities:

Description	Beginning Balance	Additions	Deletions	Ending Balance
Fixed assets, not being depreciated				
Land	\$ 369,125			\$ 369,126
Construction in progress	\$ 792,422	123,476		915,898
Total capital assets, not being depreciated	\$ 1,161,547	\$ 123,476	\$ -	\$ 1,285,024
Fixed assets, being depreciated				
Buildings and improvements	\$ 2,864,904	\$ 17,662		\$ 2,882,566
Equipment and vehicles	1,634,517	252,268		1,886,785
Infrastructure	3,174,139			3,174,139
Total capital assets, being depreciated	\$ 7,673,560	\$ 269,930	\$ -	\$ 7,943,490
Less accumulated depreciation for:				
Buildings and improvements	\$ 1,516,242	\$ 83,128		\$ 1,599,370
Equipment and vehicles	989,219	143,772		1,132,991
Infrastructure	1,384,330	76,915		1,461,245
Total accumulated depreciation	\$ 3,889,791	\$ 303,815	\$ -	\$ 4,193,606
Total capital assets, being depreciated, net	\$ 3,783,769	\$ (33,885)	\$ -	\$ 3,749,884
Governmental activities fixed assets, net	\$ 4,945,316	\$ 89,591	\$ -	\$ 5,034,908

Business-type activities:

Description	Beginning Balance	Additions	Deletions	Ending Balance
Fixed assets, not being depreciated				
Land	\$ 19,301			\$ 19,301
Total capital assets, not being depreciated	\$ 19,301	\$ -	\$ -	\$ 19,301
Fixed assets, being depreciated				
Utility systems and equipment	\$ 9,726,498			\$ 9,726,498
Total capital assets, being depreciated	\$ 9,726,498	\$ -	\$ -	\$ 9,726,498
Less accumulated depreciation for:				
Utility systems and equipment	\$ 6,323,855	\$ 287,217		\$ 6,611,072
Total accumulated depreciation	\$ 6,323,855	\$ 287,217	\$ -	\$ 6,611,072
Total capital assets, being depreciated, net	\$ 3,402,643	\$ (287,217)	\$ -	\$ 3,115,426
Business-type activities fixed assets, net	\$ 3,421,944	\$ (287,217)	\$ -	\$ 3,134,727

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2005

Note 3 – Capital assets (Continued)

Depreciation expense of \$76,834 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	\$ 15,023
Public Safety:	
Police	33,131
Fire	35,403
Public Works:	
Streets and sanitation	83,412
Other	491
Civic Improvement:	
Airport	9,634
Economic development	24,035
Culture and recreation	<u>26,302</u>
Total allocable depreciation expense	\$ 227,431
Unallocated depreciation expense	<u>76,384</u>
Total depreciation expense	<u>\$ 303,815</u>

Note 4 – Interfund Receivables, Payables, and Transfers

The interfund transfers were as follows:

Transfers Out:

From General fund to	
Debt Service fund	\$ 195,225
From Water, Sewer, Electric fund to	
General fund	<u>1,200,000</u>
Total	<u>\$ 1,395,225</u>

Transfers In:

To Debt Service fund from	
General fund	\$ 195,225
To General fund from	
Water, Sewer, Electric fund	<u>1,200,000</u>
Total	<u>\$ 1,395,225</u>

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2005

Note 4 – Interfund Receivables, Payables, and Transfers (Continued)

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
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.

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 Series 2003 Warrants on November 1 in the years 2005, 2008, 2011, 2014, 2016, 2018, 2020, 2022 with a principal maturity ranging from \$105,000 to \$135,000 and bear an interest rate ranging from 2.25% to 5.00%.

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

Notes Payable

The City has a note payable to the Bank of Evergreen, Alabama, which is a direct obligation and pledge of the full faith and credit of the City for the purpose of financing the acquisition of a speculative building.

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2005

Note 5 – Long-term debt (Continued)

The book value of the building at September 30, 2005 is as follows:

Cost	\$ 100,000
Accumulated depreciation	(6,818)
Book value	<u>\$ 93,182</u>

Outstanding Debt

The amount of debt outstanding at September 30, 2005, 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	\$ 850,000	08/15/2020	3.85%	\$40,000 to \$70,000	\$ 810,000	\$ 40,000
Series 2002 SRF	\$ 725,000	08/15/2022	3.50%	\$30,000 to \$55,000	695,000	30,000
Series 2003 SRF	\$ 895,000	11/01/2022	2.25% to 5.00%	\$35,000 to \$75,000	860,000	35,000
Notes Payable -						
Bank of Evergreen	\$ 100,000	7/21/2005	6%		100,000	100,000
Total					<u>\$ 2,465,000</u>	<u>\$ 205,000</u>

Future Debt Service

	Series 2001 SRW		Series 2002 SRW		Series 2003 SRW	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	40,000	31,185	30,000	24,325	35,000	35,035
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	<u>\$ 810,000</u>	<u>\$ 271,616</u>	<u>\$ 695,000</u>	<u>\$ 239,750</u>	<u>\$ 860,000</u>	<u>\$ 391,378</u>

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2005

Note 5 – Long-term debt (Continued)

Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Series 2001 SRW	\$ 850,000		\$ (40,000)	\$ 810,000	\$ 40,000
Series 2002 SRW	725,000		(30,000)	695,000	30,000
Series 2003 SRW	895,000		(35,000)	860,000	35,000
Notes payable - Bank of Evergreen	100,000			100,000	100,000
Total warrants and notes	\$ 2,570,000	\$ -	\$ (105,000)	\$ 2,465,000	\$ 205,000
Compensated absences	45,039	1,783		46,822	
Totals	\$ 2,615,039	\$ 1,783	\$ (105,000)	\$ 2,511,822	\$ 205,000

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.

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.

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2005

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, 2005, 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.

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.

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2005

Note 9 – Pension Plan (Continued)

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.

Annual Pension Cost

For the year ended September 30, 2005, the City's annual pension cost of \$68,541 was equal to the City's required and actual contributions. The required contribution was determined as part of the September 30, 2004, actuarial valuation.

Actuarial Methods and Assumptions:

Valuation Date:	9/30/04
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)

Ending	Cost (APC)	Contributed	Obligation (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%	\$ -

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2005

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 not 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, 2005

	Budget Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues				
Taxes	\$ 1,307,500	\$ 1,307,500	\$ 1,507,097	\$ 199,597
Licenses	103,000	103,000	134,525	31,525
Fines and Costs	70,000	70,000	59,995	(10,005)
Rental income	44,600	44,600	49,987	5,387
Grant revenue	25,000	25,000	551,410	526,410
Miscellaneous revenues	101,600	101,600	218,888	117,288
Total Revenues	<u>\$ 1,651,700</u>	<u>\$ 1,651,700</u>	<u>\$ 2,521,902</u>	<u>\$ 870,202</u>
Expenditures				
Current:				
General government	\$ 968,450	\$ 968,450	\$ 942,729	\$ 25,721
Public safety:				
Police	748,813	748,813	690,543	58,270
Fire	20,000	20,000	19,836	164
Court	54,600	54,600	52,301	2,299
Public works:				
Streets and sanitation	576,124	576,124	626,991	(50,867)
Other	76,480	76,480	69,346	7,134
Civic improvement:				
Airport	79,580	79,580	91,878	(12,298)
Economic development	66,000	66,000	80,996	(14,996)
Culture and recreation	281,564	281,564	283,362	(1,798)
Capital outlay	399,000	399,000	390,897	8,103
Debt service	198,835	198,835	195,225	3,610
Total Expenditures	<u>\$ 3,469,446</u>	<u>\$ 3,469,446</u>	<u>\$ 3,444,104</u>	<u>\$ 25,342</u>
Excess of Revenues over (under) Expenditures	<u>\$ (1,817,746)</u>	<u>\$ (1,817,746)</u>	<u>\$ (922,202)</u>	<u>\$ 895,544</u>
Other Financing Sources (Uses)				
Transfers in	\$ 1,815,000	\$ 1,815,000	\$ 1,200,000	\$ (615,000)
Net Change in Fund Balance	<u>\$ (2,746)</u>	<u>\$ (2,746)</u>	<u>\$ 277,798</u>	<u>\$ 280,544</u>

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

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

City of Evergreen
 Evergreen, Alabama
 For the Year Ended September 30, 2005

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	\$ 2,521,902
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.	(533)
The City does not budget for interest income earned on cash and investments.	<u>132,914</u>
Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Funds.	<u>\$ 2,654,283</u>

Uses of Resources:

Actual amounts (budgetary basis) from budgetary comparison schedule	\$ 3,444,104
Differences - Budget to GAAP:	
The City budgets other operating expenditures on the cash basis, rather than on the modified accrual basis.	<u>(107,764)</u>
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Funds.	<u>\$ 3,336,340</u>

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

Required Supplementary Information
Budgetary Comparison Schedules - Proprietary Fund

City of Evergreen
 Evergreen, Alabama
 For the Year Ended September 30, 2005

	Budget Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
Charges for services:				
Electric revenues	\$ 4,146,000	\$ 4,146,000	\$ 4,183,318	\$ 37,318
Garbage revenues	250,000	250,000	261,907	11,907
Sewer revenues	206,500	206,500	227,852	21,352
Water revenues	373,000	373,000	401,678	28,678
Total operating revenue	<u>\$ 4,975,500</u>	<u>\$ 4,975,500</u>	<u>\$ 5,074,755</u>	<u>\$ 99,255</u>
Operating expenses				
Personnel, operations and maintenance, utilities:				
Electric expenses	\$ 2,947,333	\$ 2,947,333	\$ 2,772,397	\$ 174,936
Garbage expenses	126,000	126,000	135,857	(9,857)
Sewer expenses	45,000	45,000	65,102	(20,102)
Water expenses	495,137	495,137	494,186	951
Administrative costs	86,400	86,400	95,578	(9,178)
Total operating expenses	<u>\$ 3,699,870</u>	<u>\$ 3,699,870</u>	<u>\$ 3,563,120</u>	<u>\$ 136,750</u>
Nonoperating revenue (expenses)				
Interest income	\$ 5,100	\$ 5,100	\$ 3,238	\$ (1,862)
Miscellaneous revenue	25,510	25,510	23,720	(1,790)
Total nonoperating revenue (expenses)	<u>\$ 30,610</u>	<u>\$ 30,610</u>	<u>\$ 26,958</u>	<u>\$ (3,652)</u>
Income before contributions, transfers & special items				
Transfers out	\$ (1,754,000)	\$(1,754,000)	\$ (1,200,000)	\$ 554,000
Change in net assets	<u>\$ (447,760)</u>	<u>\$ (447,760)</u>	<u>\$ 338,593</u>	<u>\$ 786,353</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	\$ 3,563,120
Differences - Budget to GAAP:	
The City does not budget for bad debt expense and depreciation expense	<u>424,554</u>
Total expenses as reported on the Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund.	<u>\$ 3,987,674</u>

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

Required Supplementary Information
Schedule of Funding Progress - Pension Plan

City of Evergreen
Evergreen, Alabama
For the Year Ended September 30, 2005

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%

Notes to Required Supplementary Information

City of Evergreen
Evergreen, Alabama
September 30, 2005

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 Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2005

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, 2005:

Public works:	
Streets and sanitation	\$ 50,867
Civic improvement:	
Airport	\$ 12,298
Economic development	\$ 14,996
Culture and recreation	\$ 1,798

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

Note 1- 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, 2005

	Special Revenue Funds			Total Nonmajor Governmental Funds
	State Gas Tax Fund	Gas Tax Fund	Fire Department Tax Fund	
Assets				
Cash and cash equivalents	\$ 265,162	\$ 139,785	\$ 42,925	\$ 447,872
Total Assets	<u>\$ 265,162</u>	<u>\$ 139,785</u>	<u>\$ 42,925</u>	<u>\$ 447,872</u>
Fund Balances				
Designated for:				
Capital improvements	\$ 265,162	\$ 139,785		\$ 404,947
Unreserved & undesignated			\$ 42,925	42,925
Total Fund Balances	<u>\$ 265,162</u>	<u>\$ 139,785</u>	<u>\$ 42,925</u>	<u>\$ 447,872</u>
Total Liabilities and Fund Balances	<u>\$ 265,162</u>	<u>\$ 139,785</u>	<u>\$ 42,925</u>	<u>\$ 447,872</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, 2005

	Special Revenue Funds			Total Nonmajor Governmental Funds
	State Gas Tax Fund	Gas Tax Fund	Fire Department Tax Fund	
Revenues				
Taxes	\$ 60,038	\$ 59,146	\$ 13,955	\$ 133,139
Petroleum inspection fee	16,828			16,828
Total Revenues	<u>\$ 76,866</u>	<u>\$ 59,146</u>	<u>\$ 13,955</u>	<u>\$ 149,967</u>
Expenditures				
Current:				
Public safety:				
Fire			\$ 7,331	\$ 7,331
Public works:				
Streets and sanitation				
Total Expenditures			<u>\$ 7,331</u>	<u>\$ 7,331</u>
Excess of Revenues over (under) Expenditures - Net Changes in Fund Balance	\$ 76,866	\$ 59,146	\$ 6,624	\$ 142,636
Fund Balances, Beginning	<u>188,295</u>	<u>80,638</u>	<u>36,303</u>	<u>305,236</u>
Fund Balances, Ending	<u>\$ 265,161</u>	<u>\$ 139,784</u>	<u>\$ 42,927</u>	<u>\$ 447,872</u>

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

Schedule of Expenditures of Federal Awards

City of Evergreen
 Evergreen, Alabama
 As of September 30, 2005

Federal Grantor/ Pass-Through Grantor Program	Program Title	CFDA Number	Grant Number	Expenditures
United States Department of Labor				
Passed through National Senior Citizen Education and Research Center and Alabama Tombigbee Regional Planning Commission				
	Senior Community Service Employment Program	17.235	04-05-18	\$ 25,172
United States Department of Transportation				
Passed through State of Alabama Department of Transportation				
	Airport Improvement Program	20.106	100045709	59,162
Passed through State of Alabama Department of Transportation				
	Airport Improvement Program	20.106	100044235	10,352
United States Department of Homeland Security				
Passed through State of Alabama Emergency Management Agency				
	Public Assistance Grant	97.036	PA035-24808-00	526,238
TOTAL FEDERAL FINANCIAL ASSISTANCE				\$ 620,924

Notes to Schedule:

1. The City follows the modified accrual basis of accounting in preparing this schedule. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*.

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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
The City of Evergreen
Evergreen, Alabama

We have audited financial statements of the governmental 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, 2005, which collectively comprise the City of Evergreen's basic financial statements and have issued our report thereon dated November 22, 2005. We have 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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A *material weakness* is a condition in which the design or operation of one or more of the internal 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. We noted no matters involving the internal control over financial reporting and its operation that we consider 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 solely for the information and use of the City council, 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.

November 22, 2005

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Independent Accountants' Report on Compliance with Requirements Applicable to Each
Major Federal Program and Internal Control over Compliance in Accordance with OMB
Circular A-133

Board of Directors
City of Evergreen
Evergreen, Alabama

We have audited the compliance of the City of Evergreen with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended November 30, 2005. City of Evergreen's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Evergreen's management. Our responsibility is to express an opinion on the City of Evergreen's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, 27 issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Evergreen's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Evergreen's compliance with those requirements.

In our opinion, City of Evergreen complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended November 30, 2005.

Internal Control over Compliance

The management of the City of Evergreen is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Evergreen's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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, Sorden and Company, P.C.

November 22, 2005

Schedule of Findings and Questioned Costs

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

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 None reported

Any noncompliance material to financial statements noted? Yes No

Federal Awards

Internal Control over major programs:

Any material weakness(es) identified? Yes No

Any reportable condition(s) identified not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs: **UNQUALIFIED**

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? Yes No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
97.036	Public Assistance Grant

Dollar threshold used to distinguish between Type A and Type B programs: **\$ 300,000**

Auditee qualified as low-risk auditee? Yes No

Section II - Financial Statement Findings

No matters reported

Section III - Federal Award Findings and Questioned Costs

No matters reported