

2004 Financial Statements

City of Evergreen

Evergreen, Alabama



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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, 2004 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, 2004, 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.

As described in Note 13, the City implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and*

Management's Discussion and Analysis – for State and Local Governments, as of September 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 3, 2004, 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.

December 3, 2004

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

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, 2004.

Financial Highlights

- On a government-wide basis, the City's net assets grew by \$439,727 for the fiscal year, the majority of which was generated by governmental activities.
- The City's combined net assets total \$13,230,901 at September 30, 2004. Of this amount, \$4,782,227 is available (unrestricted) to finance ongoing governmental programs and \$4,513,232 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 \$13,230,901 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 \$13,230,901 up \$439,729 from the prior year. Governmental activities accounted for the increase. However business-type activities reflect decreases in net assets of \$824,495. This decrease is solely due to the transfer of funds of \$1,855,000 to governmental activities. 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, 2004:

Condensed Statement of Net Assets

City of Evergreen
Evergreen, Alabama
September 30, 2004

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Current and Other Assets	\$ 6,668,093	\$ 1,882,625	\$ 8,550,718
Capital Assets	4,945,316	3,421,943	8,367,259
Total Assets	<u>\$ 11,613,409</u>	<u>\$ 5,304,568</u>	<u>\$ 16,917,977</u>
Current and Other Liabilities	\$ 530,740	\$ 791,336	\$ 1,322,076
Long-term liabilities	2,365,000		2,365,000
Total Liabilities	<u>\$ 2,895,740</u>	<u>\$ 791,336</u>	<u>\$ 3,687,076</u>
Net Assets			
Invested in Capital Assets, net of related debt	\$ 2,375,316	\$ 4,513,232	\$ 2,375,316
Restricted	1,560,126		1,560,126
Unrestricted	4,782,227		9,295,459
Total Net Assets	<u>\$ 8,717,669</u>	<u>\$ 4,513,232</u>	<u>\$13,230,901</u>

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, 2004:

Condensed Statement of Activities

City of Evergreen
Evergreen, Alabama
For the year ended September 30, 2004

	Governmental Activities	Business-Type Activities	Total
Revenues			
Program Revenues:			
Charges for Services	\$ 186,259	\$ 4,935,388	\$ 5,121,647
Operating Grants and Contributions	27,646		27,646
Capital Grants and Contributions	521,092		521,092
General Revenues:			
Sales Taxes	990,212		990,212
Property Taxes	361,543		361,543
Other Taxes	194,699		194,699
Other Income	309,959	43,970	353,929
Transfers	1,855,000	(1,855,000)	-
Total Revenues	\$ 4,446,410	\$ 3,124,358	\$ 7,570,768
Program Activities:			
Governmental Activities:			
General Government	\$ 596,627		\$ 596,627
Public Safety	1,014,547		1,014,547
Public Works	863,853		863,853
Civic Improvement	162,300		162,300
Culture and Recreation	380,051		380,051
Interest Charges	90,532		90,532
Unallocated Depreciation	74,278		74,278
Business-type Activities			
Utility expenses		\$ 3,948,853	3,948,853
Total Expenses	\$ 3,182,188	\$ 3,948,853	\$ 7,131,041
Net Increase (Decrease)	\$ 1,264,222	\$ (824,495)	\$ 439,727

For the fiscal year, net assets increased \$439,727 with the increase primarily coming from the business-type activities as shown in the transfer of \$1,855,000 from the proprietary fund. The increase in assets in governmental activities is related in great part to construction of assets, rather than accumulation of cash or other liquid assets. The reader should remember that the basis of

Management's Discussion and Analysis (Continued)

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 \$2,591,412 for fiscal year 2004, with an increase of 16% from 2003. Local sales taxes, property taxes and business licenses are the largest revenue source for the City at 60%. Grants totaling 22% of the revenues are second. Charges for services, the third segment of governmental activities revenues, include charges for services, state shared revenues and solid waste fees. The charges for services category accounts for 18% of governmental revenues.

Expenses

Governmental expenses totaled \$4,100,874 for the fiscal year. Of the expenditures, 51% or \$2,064,856 is related to streets, civic improvements and capital outlay, while 23% or \$920,916 is related to public safety for police, fire and municipal court services. General government expenses were 12% or \$580,706 while parks, recreation and culture expenses amounted to \$354,648, or 9%. Principal and Interest on long-term debt accounted for 5% or \$179,748 of governmental expenses. Overall, governmental activities expenses rose 5%, or \$195,865, over 2003. The most notable increase among programs were costs incurred as a result of Hurricane Ivan totaling approximately \$95,000 as well as the additional capital expenses for the sewer and airport development projects.

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 \$4,935,388 in charges, \$4,096,929 or 83% comes from the City's electric operations, and \$588,863 or 12% comes from water and wastewater operation. The remaining charges \$249,596 or 5% are from the City's garbage operation.

Expenses

Electric services account for \$2,926,650 or 73% of the City's business-type activities while water and wastewater expenses totaled \$484,914 or 13%, depreciation costs were \$290,494 or 8%, garbage costs were \$121,453 or 3% and administrative costs were \$97,182 or 3% for a total of \$3,920,693.

Financial Analysis of the City's Funds

Governmental funds

The combined fund balances of governmental funds for the fiscal year ended September 30, 2004, is \$6,668,093. This represents a \$245,537 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 \$309,326 for the fiscal year.

Capital Projects

These funds decreased by \$70,000, which reflects less capital expenditures in 2004.

Management's Discussion and Analysis (Continued)

Debt Service

Debt Service Fund expenditures decreased by \$128,916 reflecting no loan cost or initial loan financing fees.

General Fund Budgetary Highlights

A detailed budgetary comparison schedule for the fiscal year ended September 30, 2004, 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, 2004

	Budget Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues				
Taxes	\$ 1,208,500	\$ 1,208,500	\$ 1,413,205	\$ 204,705
Licenses	125,000	125,000	108,779	(16,221)
Fines and Costs	85,000	85,000	67,805	(17,195)
Rental income	44,560	44,560	51,826	7,266
Grant revenue	25,000	25,000	27,645	2,645
Miscellaneous revenues	90,000	90,000	141,842	51,842
Total Revenues	\$ 1,578,060	\$ 1,578,060	\$ 1,811,102	\$ 233,042
Expenditures				
Current:				
General government	\$ 938,800	\$ 938,800	\$ 958,231	\$ (19,431)
Public safety:	791,240	791,240	746,326	44,914
Public works:	612,300	612,300	662,254	(49,954)
Civic Improvement:	98,700	98,700	112,257	(13,557)
Culture and recreation	277,300	277,300	293,784	(16,484)
Capital outlay	133,000	133,000	124,112	8,888
Debt service	201,798	201,798	202,125	(327)
Total Expenditures	\$ 3,053,138	\$ 3,053,138	\$ 3,099,089	\$ (45,951)
Excess of Revenues over (under) Expenditures	\$ (1,475,078)	\$ (1,475,078)	\$ (1,287,987)	\$ 187,091
Other Financing Sources				
Transfers in	\$ 1,510,000	\$ 1,510,000	\$ 1,855,000	\$ 345,000
Net Change in Fund Balance	\$ 34,922	\$ 34,922	\$ 567,013	\$ 532,091

Management's Discussion and Analysis (Continued)

General Fund tax revenues exceeded expectations due to the diversion of surplus from the South Alabama Gas District amounting to \$100,000 that was not included in the City's budget. Additionally, there was approximately \$50,000 in actual sales tax revenues over budgeted amounts.

Expenditures for the fund came in at \$35,244 over budget that is attributable in the majority to Hurricane Ivan expenses.

Proprietary Fund

The total revenue decreased \$154,623 primarily as a result of a decrease in the electric revenue of \$158,354. The electric revenue decrease is primarily due to the effects of Hurricane Ivan.

The total expenses went up \$205,902, 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.

Proprietary Fund Budgetary Highlights

A detailed budgetary comparison schedule for the fiscal year ended September 30, 2004, 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, 2004

	Budget Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
Operating revenues				
Charges for Utility Services	\$ 4,969,000	\$ 4,969,000	\$ 4,935,388	\$ (33,612)
Total operating revenues	\$ 4,969,000	\$ 4,969,000	\$ 4,935,388	\$ (33,612)
Operating expenses				
Personnel, operations and maintenance, utilities:	\$ 3,399,170	\$ 3,399,170	\$ 3,533,017	\$ (133,847)
Administrative costs	100,856	100,856	97,182	3,674
Total operating expenses	\$ 3,500,026	\$ 3,500,026	\$ 3,630,199	\$ (130,173)
Nonoperating revenue	\$ 42,160	\$ 42,160	\$ 43,970	\$ 1,810
Transfers out	(1,510,000)	(1,510,000)	(1,855,000)	(345,000)
Change in net assets	\$ 1,134	\$ 1,134	\$ (505,841)	\$ (506,975)

Management's Discussion and Analysis (Continued)

The propriety fund revenue did not meet budget expectations by \$75,772. The deficit was in the electric revenue due to the effects of Hurricane Ivan.

There was an unfavorable variance in expenditures totaling \$130,173 mainly attributable to the electric department that incurred increased costs for electric power purchases and power line maintenance.

Capital Assets

At September 30, 2004, the City of Evergreen's investment in capital assets in governmental and business-type activities amounted to \$8,367,259 net of accumulated depreciation. This includes land, buildings, equipment, and infrastructure (roadways and bridges). Capital assets for governmental activities increased by 15%. These changes included the ongoing construction of the sewer project and airport development project. In addition, a fire truck and police cars were purchased during the year.

Debt Administration

For the year ended September 30, 2004, 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 2005, 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, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash	\$ 2,675,794	\$ 739,091	\$ 3,414,885
Investments	2,000,000		2,000,000
Accounts receivable, net		500,217	500,217
Mortgage receivable	336,064		336,064
Interest receivable	2,411		2,411
Due from other governments	262,086		262,086
Prepaid items	67,052		67,052
Inventories	33,694	333,402	367,096
Other assets	36,121		36,121
Restricted assets:			
Cash	3,605	309,915	313,520
Investments	868,609		868,609
Funds held in escrow	382,657		382,657
Capital assets :			
Land and construction in progress	1,161,547	19,301	1,180,848
Buildings and improvements, net	1,348,662		1,348,662
Utility system and related equipment, net		3,402,642	3,402,642
Equipment and vehicles, net	645,298		645,298
Infrastructure, net	1,789,809		1,789,809
Total Assets	<u>\$ 11,613,409</u>	<u>\$ 5,304,568</u>	<u>\$ 16,917,977</u>
Liabilities			
Accounts payable	\$ 257,041	\$ 222,469	\$ 479,510
Accrued expenses	7,876	8,345	16,221
Customer deposits		310,065	310,065
Deferred revenue		231,691	231,691
Interest payable	15,784		15,784
Long-term liabilities			
Portion due within one year:			
Bonds and notes payable	205,000		205,000
Compensated absences	45,039	18,766	63,805
Portion due or payable after one year:			
Bonds and notes payable	2,365,000		2,365,000
Total Liabilities	<u>\$ 2,895,740</u>	<u>\$ 791,336</u>	<u>\$ 3,687,076</u>
Net Assets			
Invested in capital assets, net of debt	\$ 2,375,316		\$ 2,375,316
Restricted for:			
Capital projects	382,676		382,676
Debt service	872,214		872,214
Road projects	305,236		305,236
Unrestricted	4,782,227	\$ 4,513,232	9,295,459
Total Net Assets	<u>\$ 8,717,669</u>	<u>\$ 4,513,232</u>	<u>\$ 13,230,901</u>

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

Statement of Activities

City of Evergreen
Evergreen, Alabama
September 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities							
General government	\$ 596,627	\$ 108,779			\$ (487,848)		\$ (487,848)
Public safety:							
Police	918,569		\$ 2,438		(916,131)		(916,131)
Fire	35,432				(35,432)		(35,432)
Court	60,546	63,882			3,336		3,336
Public works:							
Streets and sanitation	808,282	13,598		\$ 139,941	(654,743)		(654,743)
Other	55,571				(55,571)		(55,571)
Civic Improvement:							
Airport	85,944			381,151	295,207		295,207
Economic development	76,356				(76,356)		(76,356)
Culture and recreation	380,051		25,208		(354,843)		(354,843)
Interest charges	90,532				(90,532)		(90,532)
Unallocated depreciation	74,278				(74,278)		(74,278)
Total government activities	\$ 3,182,188	\$ 186,259	\$ 27,646	\$ 521,092	\$ (2,447,191)		\$ (2,447,191)
Business-type activities							
Electric expenses	\$ 3,115,007	\$ 4,096,929				\$ 981,922	\$ 981,922
Garbage expenses	127,792	249,596				121,804	121,804
Sewer expenses	163,346	214,843				51,497	51,497
Water expenses	542,708	374,020				(168,688)	(168,688)
Total business-type activities	\$ 3,948,853	\$ 4,935,388				\$ 986,535	\$ 986,535
Total primary government	\$ 7,131,041	\$ 5,121,647	\$ 27,646	\$ 521,092	\$ (2,447,191)	\$ 986,535	\$ (1,460,656)
General revenues:							
Taxes:							
Property taxes					\$ 361,543		\$ 361,543
Sales taxes					990,212		990,212
Other taxes					194,699		194,699
Miscellaneous					126,144	\$ 38,751	164,895
Rental income					51,826		51,826
Earnings on investments					131,989	5,219	137,208
Transfers					1,855,000	(1,855,000)	-
Total general revenues and transfers					\$ 3,711,413	\$ (1,811,030)	\$ 1,900,383
Change in net assets					\$ 1,264,222	\$ (824,495)	\$ 439,727
Net assets, beginning as previously reported					\$ 7,453,447	\$ 5,609,274	\$ 13,062,721
Prior period adjustment						(271,547)	(271,547)
Net assets, as restated					\$ 7,453,447	\$ 5,337,727	\$ 12,791,174
Change in net assets					1,264,222	(824,495)	439,727
Net assets, ending					\$ 8,717,669	\$ 4,513,232	\$ 13,230,901

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

Balance Sheet - Governmental Funds

City of Evergreen
 Evergreen, Alabama
 September 30, 2004

	General Fund	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 2,360,556		\$ 10,002	\$ 305,236	\$ 2,675,794
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	252,086		10,000		262,086
Prepaid expenses and inventories	67,052				67,052
Inventories	33,694				33,694
Other assets	36,121				36,121
Internal balances	9,983		(9,983)		-
Restricted Assets:					
Cash		\$ 3,605			3,605
Investments		868,609			868,609
Funds held in escrow			382,657		382,657
Total Assets	\$ 5,097,967	\$ 872,214	\$ 392,676	\$ 305,236	\$ 6,668,093
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 247,041		\$ 10,000		\$ 257,041
Wages and benefits payable	7,876				7,876
Short term borrowings	100,000				100,000
Total Liabilities	\$ 354,917		\$ 10,000		\$ 364,917
Fund Balances					
Reserved for prepaids and inventories	\$ 100,746				\$ 100,746
Designated for capital improvements				\$ 268,934	268,934
Unreserved, reported in:					
General fund	4,642,304				4,642,304
Debt service fund		\$ 872,214			872,214
Capital projects fund			\$ 382,676		382,676
Unreserved & undesignated				36,302	36,302
Total Fund Balances	\$ 4,743,050	\$ 872,214	\$ 382,676	\$ 305,236	\$ 6,303,176
Total Liabilities and Fund Balances	\$ 5,097,967	\$ 872,214	\$ 392,676	\$ 305,236	\$ 6,668,093

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, 2004

Total fund balance - total governmental funds \$ 6,303,176

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

Capital assets of \$8,835,107 net of accumulated depreciation of \$(3,889,791), are not financial resources and therefore, are not reported in the funds. 4,945,316

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	\$ 45,039	
Accrued interest on debt	15,784	
Bonds and notes payable	<u>2,470,000</u>	
	<u>\$2,530,823</u>	<u>(2,530,823)</u>

Net assets of governmental activities \$ 8,717,669

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

City of Evergreen
 Evergreen, Alabama
 For the year ended September 30, 2004

	General Fund	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 1,413,206			\$ 133,250	\$ 1,546,456
Licenses	108,780				108,780
Fines and costs	63,882				63,882
Fees				13,598	13,598
Rental income	51,826				51,826
Investment income	128,778	\$ 3,211			131,989
Grant revenue	27,645		\$ 521,092		548,737
Miscellaneous revenues	126,144				126,144
Total Revenues	<u>\$ 1,920,261</u>	<u>\$ 3,211</u>	<u>\$ 521,092</u>	<u>\$ 146,848</u>	<u>\$ 2,591,412</u>
Expenditures					
Current:					
General government	\$ 580,663		\$ 43		\$ 580,706
Public safety:					
Police	833,672				833,672
Fire	19,822			\$ 6,876	26,698
Court	60,546				60,546
Public works:					
Streets and sanitation	723,255			24,798	748,053
Other	55,080				55,080
Civic improvement:					
Airport	76,194				76,194
Economic development	52,321				52,321
Culture and recreation	354,648				354,648
Capital outlay	407,609		725,599		1,133,208
Debt service:					
Principal		\$ 105,000			105,000
Interest		74,748			74,748
Total Expenditures	<u>\$ 3,163,810</u>	<u>\$ 179,748</u>	<u>\$ 725,642</u>	<u>\$ 31,674</u>	<u>\$ 4,100,874</u>
Excess of Revenues over (under) Expenditures	<u>\$ (1,243,549)</u>	<u>\$ (176,537)</u>	<u>\$ (204,550)</u>	<u>\$ 115,174</u>	<u>\$ (1,509,462)</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, 2004

	<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)	\$ 1,652,875	\$ 202,125			\$ 1,855,000
Total Other Financing Sources (Uses)	<u>1,652,875</u>	<u>202,125</u>			<u>1,855,000</u>
Net Changes in Fund Balance	<u>\$ 409,326</u>	<u>\$ 25,588</u>	<u>\$ (204,550)</u>	<u>\$ 115,174</u>	<u>\$ 345,538</u>
Fund Balances, Beginning, as previously reported	\$ 4,433,724	\$ 846,626	\$ 587,226	\$ 190,062	\$ 6,057,638
Prior period adjustment	(100,000)				(100,000)
Fund Balances, as restated	\$ 4,333,724	\$ 846,626	\$ 587,226	\$ 190,062	\$ 5,957,638
Net Changes in Fund Balance	<u>409,326</u>	<u>25,588</u>	<u>(204,550)</u>	<u>115,174</u>	<u>345,538</u>
Fund Balances, Ending	<u>\$ 4,743,050</u>	<u>\$ 872,214</u>	<u>\$ 382,676</u>	<u>\$ 305,236</u>	<u>\$ 6,303,176</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, 2004**

Net change in *fund balances* - total governmental funds \$ 345,538

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 (\$1,133,232) exceeded depreciation expense (\$258,725) in the current period. 874,507

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	\$ (45,039)	
Accrued interest on debt	(15,784)	
Combined adjustment	\$ (60,823)	(60,823)

Change in Net Assets of Governmental Activities \$ 1,264,222

Statement of Net Assets - Proprietary Fund

City of Evergreen
Evergreen, Alabama
September 30, 2004

Assets	
Cash and cash equivalents	\$ 739,091
Accounts receivable, net	500,217
Inventories, at cost	333,402
Restricted assets:	
Cash - customer deposits	309,915
Total current assets	<u>\$ 1,882,625</u>
Noncurrent assets	
Land	\$ 19,301
Office equipment	85,649
Utility system	8,927,248
Utility equipment	713,601
Less accumulated depreciation	(6,323,856)
Total noncurrent assets	<u>\$ 3,421,943</u>
Total Assets	<u>\$ 5,304,568</u>
Liabilities and Fund Balance	
Liabilities	
Accounts payable	\$ 222,469
Accrued liabilities	8,345
Customer deposits	310,065
Deferred revenue	231,691
Total current liabilities	<u>\$ 772,570</u>
Noncurrent liabilities	
Compensated absences	<u>\$ 18,766</u>
Total noncurrent liabilities	<u>\$ 18,766</u>
Total liabilities	<u>\$ 791,336</u>
Fund Balance	
Invested in capital assets, net	<u>\$ 4,513,232</u>
Total Fund Balance	<u>\$ 4,513,232</u>
Total Liabilities and Fund Balance	<u>\$ 5,304,568</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, 2004**

Operating revenue	
Charges for services:	
Electric revenues	\$ 4,096,929
Garbage revenues	249,596
Sewer revenues	214,843
Water revenues	374,020
Total operating revenue	<u>\$ 4,935,388</u>
Operating expenses	
Personnel, operations and maintenance, utilities:	
Electric expenses	\$ 2,926,650
Garbage expenses	121,453
Sewer expenses	69,488
Water expenses	415,426
Depreciation and amortization	290,494
Administrative Costs	97,182
Total operating expenses	<u>\$ 3,920,693</u>
Nonoperating revenue (expenses)	
Interest income	\$ 5,219
Bad debt expense	(28,160)
Miscellaneous revenue	38,751
Total nonoperating revenue (expenses)	<u>\$ 15,810</u>
Income before contributions, transfers & special items	<u>\$ (1,855,000)</u>
Transfers out	<u>\$ (824,495)</u>
Change in net assets	
Total net assets, beginning - as previously reported	\$ 5,609,274
Prior period adjustment	<u>(271,547)</u>
Total net assets, as restated	\$ 5,337,727
Change in net assets	<u>(824,495)</u>
Total net assets, ending	<u>\$ 4,513,232</u>
Unrestricted	

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

Statement of Cash Flows - Proprietary Fund

City of Evergreen
 Evergreen, Alabama
 For the year ended September 30, 2004

Operating activities	
Receipts from customers and users	\$ 4,888,449
Payments to suppliers	(3,079,516)
Payments to employees	(607,864)
Non-operating cash receipts	38,751
Non-operating cash payments	(52,029)
Net cash flow from operating activities	<u>\$ 1,187,791</u>
 Noncapital financing activities	
Transfers out	\$ (1,855,000)
Net cash flows from noncapital financing activities	<u>\$ (1,855,000)</u>
 Investing activities	
Interest received	\$ 5,219
Net cash from investing activities	<u>\$ 5,219</u>
Net increase (decrease) in cash and cash equivalents	\$ (661,990)
 Cash and cash equivalents, beginning	 <u>1,710,996</u>
 Cash and cash equivalents, ending	 <u>\$ 1,049,006</u>

Reconciliation of operating loss to net cash flow from operating activities

Operating loss	\$ (824,495)
 Adjustments to reconcile operating income to net cash from operating activities	
Depreciation and amortization	290,494
Decrease (increase) in operating assets and increase (decrease) in operating liabilities:	
Change in assets and liabilities:	
Receivables	(53,406)
Prepaid items	(50,349)
Inventories	(33,505)
Accounts payable	2,805
Accrued expenses	66,063
Deferred revenue	(59,597)
Net cash flow from operating activities	<u>\$ (661,990)</u>

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

Notes to Financial Statements

City of Evergreen
Evergreen, Alabama
September 30, 2004

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, 2004

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, 2004

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.
- The *Capital Projects Funds* account for the acquisition of capital assets or construction of major capital projects.

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, 2004

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, 2004, the allowance for uncollectible accounts was \$275,455.

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, 2004, 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, 2004

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, 2004 was \$872,214.

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, 2004 was \$382,651.

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, 2004

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, 2004

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 – 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.

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2004

Note 2 – Stewardship, Compliance and Accountability (Continued)

- 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.

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, 2004:

General government	\$	19,431
Public safety:		
Police	\$	4,822
Public works:		
Streets and sanitation	\$	82,761
Civic improvement:		
Economic development	\$	27,321
Culture and recreation	\$	16,483
Debt service	\$	327

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

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2004

Note 3 – 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 and its component unit 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.

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

Cash on hand	\$ 265
Carrying amount of cash in bank	3,728,139
Carrying amount of investments	<u>3,455,835</u>
Total	<u>\$ 7,184,239</u>

Restricted cash and investments included in the above amounts are:

Carrying amount of cash in bank	\$ 3,605
Carrying amount of investments	<u>1,455,835</u>
Total restricted cash and investments	<u>\$ 1,459,440</u>

Per Governmental Funds Balance Sheet- total governmental funds

Cash and investments	\$ 4,675,793
Restricted cash and investments	1,459,440

Per Proprietary Funds Statement of Net Assets

Cash and investments	739,091
Restricted cash and investments	<u>309,915</u>

Total \$ 7,184,239

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 2004.

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2004

Note 4 – Capital assets

Capital asset activity for the year ended September 30, 2004 was as follows:

Governmental activities:

Description	Beginning Balance	Additions	Deletions	Ending Balance
Fixed assets, not being depreciated				
Land	\$ 368,921	\$ 204		\$ 369,125
Construction in progress		792,422		792,422
Total capital assets, not being depreciated	\$ 368,921	\$ 792,626	\$ -	\$ 1,161,547
Fixed assets, being depreciated				
Buildings and improvements	\$ 2,851,028	\$ 13,876		\$ 2,864,904
Equipment and vehicles	1,307,786	326,731		1,634,517
Infrastruture	3,174,139			3,174,139
Total capital assets, being depreciated	\$ 7,332,953	\$ 340,607	\$ -	\$ 7,673,560
Less accumulated depreciation for:				
Buildings and improvements	\$ 1,433,424	\$ 82,818		\$ 1,516,242
Equipment and vehicles	887,590	101,629		989,219
Infrastruture	1,310,052	74,278		1,384,330
Total accumulated depreciation	\$ 3,631,066	\$ 258,725	\$ -	\$ 3,889,791
Total capital assets, being depreciated, net	\$ 3,701,887	\$ 81,882	\$ -	\$ 3,783,769
Governmental activities fixed assets, net	\$ 4,070,808	\$ 874,508	\$ -	\$ 4,945,316

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	\$ 9,726,497			\$ 9,726,497
Total capital assets, being depreciated	\$ 9,726,497	\$ -	\$ -	\$ 9,726,497
Less accumulated depreciation for:				
Utility systems and equipment	\$ 6,033,361	\$ 290,494		\$ 6,323,855
Total accumulated depreciation	\$ 6,033,361	\$ 290,494	\$ -	\$ 6,323,855
Total capital assets, being depreciated, net	\$ 3,693,136	\$ (290,494)	\$ -	\$ 3,402,642
Business-type activities fixed assets, net	\$ 3,712,437	\$ (290,494)	\$ -	\$ 3,421,943

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2004

Note 4 – Capital assets (Continued)

Depreciation expense of \$105,889 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	\$ 15,946
Public Safety:	
Police	39,859
Fire	8,734
Public Works:	
Streets and sanitation	60,229
Other	491
Civic Improvement:	
Airport	9,750
Economic development	24,035
Culture and recreation	<u>25,403</u>
Total allocable depreciation expense	\$ 184,447
Unallocated depreciation expense	<u>74,278</u>
Total depreciation expense	<u><u>\$ 258,725</u></u>

Note 5 – Interfund Receivables, Payables, and Transfers

There were no due to/from other funds as of September 30, 2004. The interfund transfers were as follows:

Transfers Out:

From General fund to	
Debt Service fund	\$ 202,125
From Water, Sewer, Electric fund to	
General fund	<u>1,855,000</u>
Total	<u><u>\$ 2,057,125</u></u>

Transfers In:

To Debt Service fund from	
General fund	\$ 202,125
To General fund from	
Water, Sewer, Electric fund	<u>1,855,000</u>
Total	<u><u>\$ 2,057,125</u></u>

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2004

Note 5 – 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 6 – 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, 2004

Note 6 – Long-term debt (Continued)

The book value of the building at September 30, 2004 is as follows:

Cost	\$ 100,000
Accumulated depreciation	(3,788)
Book value	<u>\$ 96,212</u>

Outstanding Debt

The amount of debt outstanding at September 30, 2004, 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	\$ 995,000	08/15/2020	3.85%	\$40,000 to \$70,000	\$ 850,000	\$ 40,000
Series 2002 SRF	\$ 780,000	08/15/2022	3.50%	\$30,000 to \$55,000	725,000	30,000
Series 2003 SRF	\$ 930,000	11/01/2022	2.25% to 5.00%	\$35,000 to \$75,000	895,000	35,000
Notes Payable -						
Bank of Evergreen	\$ 100,000	7/21/2005	6%		100,000	100,000
Total					<u>\$ 2,570,000</u>	<u>\$ 205,000</u>

Future Debt Service

	Series 2001 SRW		Series 2002 SRW		Series 2003 SRW	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 40,000	\$ 32,725	\$ 30,000	\$ 25,375	\$ 35,000	\$ 35,735
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>\$ 850,000</u>	<u>\$ 304,341</u>	<u>\$ 725,000</u>	<u>\$ 265,125</u>	<u>\$ 895,000</u>	<u>\$ 427,113</u>

Notes to Financial Statements (Continued)
 City of Evergreen
 Evergreen, Alabama
 September 30, 2004

Note 6 – Long-term debt (Continued)

Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Series 2001 SRW	\$ 890,000		\$ (40,000)	\$ 850,000	\$ 40,000
Series 2002 SRW	755,000		(30,000)	725,000	30,000
Series 2003 SRW	930,000		(35,000)	895,000	35,000
Notes payable - Bank of Evergreen	100,000			100,000	100,000
Total warrants and notes	\$ 2,675,000	\$ -	\$ (105,000)	\$ 2,570,000	\$ 205,000
Compensated absences	30,662	14,377		45,039	
Totals	\$ 2,705,662	\$ 14,377	\$ (105,000)	\$ 2,615,039	\$ 205,000

Note 7 – 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, 2004

Note 8 - 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, 2004, 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 9 - 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 10 - 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, 2004

Note 10 – 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, 2004, 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, 2003, actuarial valuation.

Actuarial Methods and Assumptions:

Valuation Date:	9/30/03
Actuarial Cost Method:	Entry Age
Amortization Method:	Level Percent Open
Remaining Amortization Period:	10 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%

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2004

Note 10 – Pension Plan (Continued)

Schedule of Funding Progress (latest available)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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)
9/30/1998	\$ 3,789,853	\$ 3,535,446	\$ (254,407)	107.2%	\$ 1,366,067	-18.6%
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%

Trend Information for the Retirement System (latest available)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)
9/30/2001	\$ 58,547	100.0%	\$ -
9/30/2002	\$ 52,561	100.0%	\$ -
9/30/2003	\$ 50,503	100.0%	\$ -

Note 11 – 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.

Note 12 – Prior Period Adjustments

An adjustment was necessary to correct the prior period fund balance in the City's General fund in the amount of \$100,000. The previously reported amounts reflected the \$100,000 as a receivable; however, it was actually an investment in a fixed asset. The effect of the \$100,000 prior period adjustment is reflected only on the Statement of Revenues, Expenditures and Changes in Fund Balance and not on the government-wide level statement.

Notes to Financial Statements (Continued)
City of Evergreen
Evergreen, Alabama
September 30, 2004

Note 12 – Prior Period Adjustments (Continued)

The effect is as follows:

General Fund

Fund Balance, as previously reported	\$ 4,433,724
Effect of the misclassification of assets	<u>(100,000)</u>
Fund Balance, restated	<u>\$ 4,333,724</u>

In addition, in the City's Proprietary fund, a correction was required to the beginning retained earnings (on the pre-GASB 34 presentation) for an error in the calculation of the allowance for bad debts. The total amount of the Proprietary fund's prior period adjustment is \$271,547. The effect is as follows:

Proprietary Fund

Retained earnings, as previously reported	\$ 5,609,274
Effect of the miscalculation of the allowance for bad debts	<u>(271,547)</u>
Retained earnings, restated	<u>\$ 5,337,727</u>

Note 13 – Change in Accounting Principle

The City adopted Governmental Accounting Standards Board Statement (GASB) No. 34 *Basic Financial Statements – and Management's Discussion and Analysis- for State and Local Governments* and GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* (hereinafter collectively referred to as the "Statement"). This Statement provides significant changes in financial reporting for governmental entities. Some of the significant changes include:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the City's activities, including reporting infrastructure assets (roads, bridges, etc.)
- A change in the fund financial statements to focus on major funds.

The City is required to prospectively report general infrastructure assets at the same time the Statement is implemented. Due to the implementation of the Statement, the historical cost of the infrastructure assets is included as part of the governmental capital assets reported in the government-wide statement. Thus, the depreciated value of construction costs for bridges, streets, and sidewalks, traffic signals and drainage systems is reported.

Required Supplementary Information

Budgetary Comparison Schedules - General Fund

City of Evergreen
 Evergreen, Alabama
 For the Year Ended September 30, 2004

	Budget Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues				
Taxes	\$ 1,208,500	\$ 1,208,500	\$ 1,413,205	\$ 204,705
Licenses	125,000	125,000	108,779	(16,221)
Fines and Costs	85,000	85,000	67,805	(17,195)
Rental income	44,560	44,560	51,826	7,266
Grant revenue	25,000	25,000	27,645	2,645
Miscellaneous revenues	90,000	90,000	141,842	51,842
Total Revenues	<u>\$ 1,578,060</u>	<u>\$ 1,578,060</u>	<u>\$ 1,811,102</u>	<u>\$ 233,042</u>
Expenditures				
Current:				
General government	\$ 938,800	\$ 938,800	\$ 958,231	\$ (19,431)
Public safety:				
Police	721,640	721,640	675,633	46,007
Fire	15,000	15,000	19,822	(4,822)
Court	54,600	54,600	50,871	3,729
Public works:				
Streets and sanitation	531,800	531,800	614,561	(82,761)
Other	80,500	80,500	47,693	32,807
Civic improvement:				
Airport	73,700	73,700	59,936	13,764
Economic development	25,000	25,000	52,321	(27,321)
Culture and recreation	277,300	277,300	293,784	(16,484)
Capital outlay	133,000	133,000	124,112	8,888
Debt service	201,798	201,798	202,125	(327)
Total Expenditures	<u>\$ 3,053,138</u>	<u>\$ 3,053,138</u>	<u>\$ 3,099,089</u>	<u>\$ (45,951)</u>
Excess of Revenues over (under) Expenditures	<u>\$ (1,475,078)</u>	<u>\$ (1,475,078)</u>	<u>\$ (1,287,987)</u>	<u>\$ 187,091</u>
Other Financing Sources (Uses)				
Transfers in	<u>\$ 1,510,000</u>	<u>\$ 1,510,000</u>	<u>\$ 1,855,000</u>	<u>\$ 345,000</u>
Net Change in Fund Balance	<u>\$ 34,922</u>	<u>\$ 34,922</u>	<u>\$ 567,013</u>	<u>\$ 532,091</u>

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

Budgetary Comparison Schedules- General Fund (Continued)

City of Evergreen
Evergreen, Alabama
For the Year Ended September 30, 2004

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	\$ 1,811,102
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.	(3,919)
The City does not budget for interest income earned on cash and investments.	<u>113,078</u>
Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Funds.	<u>\$ 1,920,261</u>

Uses of Resources:

Actual amounts (budgetary basis) from budgetary comparison schedule	\$ 3,099,089
Differences - Budget to GAAP:	
The City budgets other operating expenditures on the cash basis, rather than on the modified accrual basis.	<u>64,721</u>
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Funds.	<u>\$ 3,163,810</u>

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

Budgetary Comparison Schedules - Proprietary Fund

City of Evergreen
 Evergreen, Alabama
 For the Year Ended September 30, 2004

	Budget Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Charges for services:				
Electric revenues	\$ 4,145,000	\$ 4,145,000	\$ 4,096,929	\$ (48,071)
Garbage revenues	250,000	250,000	249,596	(404)
Sewer revenues	204,000	204,000	214,843	10,843
Water revenues	370,000	370,000	374,020	4,020
Total operating revenue	\$ 4,969,000	\$ 4,969,000	\$ 4,935,388	\$ (33,612)
Operating expenses				
Personnel, operations and maintenance, utilities:				
Electric expenses	\$ 2,708,270	\$ 2,708,270	\$ 2,926,650	\$ (218,380)
Garbage expenses	128,300	128,300	121,453	6,847
Sewer expenses	95,000	95,000	69,488	25,512
Water expenses	467,600	467,600	415,426	52,174
Administrative costs	100,856	100,856	97,182	3,674
Total operating expenses	\$ 3,500,026	\$ 3,500,026	\$ 3,630,199	\$ (130,173)
Nonoperating revenue (expenses)				
Interest income	\$ 9,150	\$ 9,150	\$ 5,219	\$ (3,931)
Miscellaneous revenue	33,010	33,010	38,751	5,741
Total nonoperating revenue (expenses)	\$ 42,160	\$ 42,160	\$ 43,970	\$ 1,810
Income before contributions, transfers & special items				
Transfers out	\$ (1,510,000)	\$(1,510,000)	\$ (1,855,000)	\$ (345,000)
Change in net assets	\$ 1,134	\$ 1,134	\$ (505,841)	\$ (506,975)

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	\$ 3,630,199
Differences - Budget to GAAP:	
The City does not budget for bad debt expense and depreciation expense	318,654
Total expenses as reported on the Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund.	\$ 3,948,853

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

Supplemental Information

Combining Balance Sheet - Nonmajor Governmental Funds

City of Evergreen
 Evergreen, Alabama
 September 30, 2004

	Special Revenue Funds			Total Nonmajor Governmental Funds
	State Gas Tax Fund	Gas Tax Fund	Fire Department Tax Fund	
Assets				
Cash and cash equivalents	\$ 188,295	\$ 80,639	\$ 36,302	\$ 305,236
Total Assets	<u>\$ 188,295</u>	<u>\$ 80,639</u>	<u>\$ 36,302</u>	<u>\$ 305,236</u>
Fund Balances				
Designated for:				
Capital improvements	\$ 188,295	\$ 80,639		\$ 268,934
Unreserved & undesignated			\$ 36,302	36,302
Total Fund Balances	<u>\$ 188,295</u>	<u>\$ 80,639</u>	<u>\$ 36,302</u>	<u>\$ 305,236</u>
Total Liabilities and Fund Balances	<u>\$ 188,295</u>	<u>\$ 80,639</u>	<u>\$ 36,302</u>	<u>\$ 305,236</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, 2004

	Special Revenue Funds			Total Nonmajor Governmental Funds
	State Gas Tax Fund	Gas Tax Fund	Fire Department Tax Fund	
Revenues				
Taxes	\$ 65,171	\$ 56,587	\$ 11,492	\$ 133,250
Petroleum inspection fee	13,598			13,598
Total Revenues	<u>\$ 78,769</u>	<u>\$ 56,587</u>	<u>\$ 11,492</u>	<u>\$ 146,848</u>
Expenditures				
Current:				
Public safety:				
Fire			\$ 6,876	\$ 6,876
Public works:				
Streets and sanitation		\$ 24,798		24,798
Total Expenditures		<u>\$ 24,798</u>	<u>\$ 6,876</u>	<u>\$ 31,674</u>
Excess of Revenues over (under) Expenditures - Net Changes in Fund Balance	\$ 78,769	\$ 31,789	\$ 4,616	\$ 115,174
Fund Balances, Beginning	<u>109,526</u>	<u>48,849</u>	<u>31,687</u>	<u>190,062</u>
Fund Balances, Ending	<u>\$ 188,295</u>	<u>\$ 80,638</u>	<u>\$ 36,303</u>	<u>\$ 305,236</u>

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

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

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 on Compliance And On Internal Control Over
Financial Reporting Based On An Audit Of Financial Statements Performed In
Accordance With *Government Auditing Standards*

Board of Directors
City of Evergreen
Evergreen, Alabama

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining aggregate fund information of the City of Evergreen as of and for the year ended September 30, 2004, which collectively comprise the City of Evergreen, Evergreen, Alabama basic financial statements and have issued our report thereon, dated December 3, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 control components does not reduce to a relatively low level the risk that misstatements 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.

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

Albridge, Borden and Company, P.C.

December 3, 2004

