

**CITY OF EVERGREEN, ALABAMA
FINANCIAL STATEMENTS**

SEPTEMBER 30, 2019

CITY OF EVERGREEN, ALABAMA
SEPTEMBER 30, 2019

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SEPTEMBER 30, 2019

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SmithDukes

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Evergreen, Alabama (the City), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Evergreen, as of September 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on pages 39-42 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual non-major fund financial statements included in other Supplementary Information on pages 43-46 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Computation of Legal Debt Margin and Computation of Direct and Overlapping and Bonded Debt included in other Supplementary Information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Smith, Duke and Huchalew, LLP

FINANCIAL STATEMENTS

CITY OF EVERGREEN, ALABAMA
STATEMENT OF NET POSITION
September 30, 2019

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,049,835	\$ 113,523	\$ 2,163,358
Receivables, net	573,575	1,001,169	1,574,744
Inventory	53,887	521,466	575,353
Prepaid items	88,303	-	88,303
Note receivable	1,385,146	-	1,385,146
Restricted assets:			
Cash and cash equivalents	180,266	508,862	689,128
Cash held by fiscal agent	9	4,038,931	4,038,940
Capital assets not being depreciated:			
Land	2,914,727	19,301	2,934,028
Construction in progress	1,253,974	441,236	1,695,210
Capital assets net of accumulated depreciation:			
Buildings	8,125,623	-	8,125,623
Machinery and equipment	1,290,074	1,098,957	2,389,031
Utility system	-	3,953,851	3,953,851
Infrastructure	8,214,432	-	8,214,432
TOTAL ASSETS	26,129,851	11,697,296	37,827,147
DEFERRED OUTFLOWS OF RESOURCES			
Deferred employer retirement contributions	339,294	221,060	560,354
LIABILITIES			
Bank overdraft	84,275	22,539	106,814
Accounts payable	462,968	635,626	1,098,594
Accrued interest payable	96,813	11,125	107,938
Other current liabilities	83,639	25,774	109,413
Deposits payable	10,942	489,178	500,120
Long-term liabilities:			
Due within one year	924,422	775,663	1,700,085
Due in more than one year	11,649,324	6,082,324	17,731,648
TOTAL LIABILITIES	13,312,383	8,042,229	21,354,612
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension	271,501	133,368	404,869
NET POSITION			
Net investment in capital assets	11,079,991	3,514,921	14,594,912
Restricted for:			
Public safety	222,565	-	222,565
Public works	65,021	-	65,021
Debt service	10	-	10
Unrestricted	1,517,674	227,838	1,745,512
TOTAL NET POSITION	\$ 12,885,261	\$ 3,742,759	\$ 16,628,020

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

CITY OF EVERGREEN, ALABAMA
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2019

<u>Function/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government				
Governmental activities:				
General government	\$ 1,253,450	\$ 186,555	\$ 120,708	\$ -
Public safety	2,014,290	93,283	-	-
Public works	1,432,999	11,030	-	-
Civic improvement	692,103	63,562	-	151,018
Cultural and recreation	687,012	-	-	18,540
Interest and fiscal charges on long-term debt	372,352	-	-	-
Total governmental activities	<u>6,452,206</u>	<u>354,430</u>	<u>120,708</u>	<u>169,558</u>
Business-type activities:				
Utility Fund	<u>5,887,933</u>	<u>7,402,334</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 12,340,139</u>	<u>\$ 7,756,764</u>	<u>\$ 120,708</u>	<u>\$ 169,558</u>
General Revenues				
Property taxes				
Sales taxes				
Motor fuel taxes				
Alcoholic beverage taxes				
Lodging tax				
Interest income				
Principal forgiveness-Series 2018				
Miscellaneous revenue				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position - beginning				
Net position - ending				

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

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

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (946,187)	\$ -	\$ (946,187)
(1,921,007)	-	(1,921,007)
(1,421,969)	-	(1,421,969)
(477,523)	-	(477,523)
(668,472)	-	(668,472)
(372,352)	-	(372,352)
<u>(5,807,510)</u>	<u>-</u>	<u>(5,807,510)</u>
-	1,514,401	1,514,401
<u>(5,807,510)</u>	<u>1,514,401</u>	<u>(4,293,109)</u>
395,190	-	395,190
1,990,069	-	1,990,069
1,547,373	-	1,547,373
52,422	-	52,422
31,297	-	31,297
24,243	448	24,691
-	500,000	500,000
41,857	-	41,857
<u>1,901,160</u>	<u>(1,901,160)</u>	<u>-</u>
<u>5,983,611</u>	<u>(1,400,712)</u>	<u>4,582,899</u>
176,101	113,689	289,790
<u>12,709,160</u>	<u>3,629,070</u>	<u>16,338,230</u>
<u>\$ 12,885,261</u>	<u>\$ 3,742,759</u>	<u>\$ 16,628,020</u>

CITY OF EVERGREEN, ALABAMA
BALANCE SHEET – GOVERNMENTAL FUNDS
September 30, 2019

	General Fund	Nonmajor Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,931,673	\$ 118,162	\$ 2,049,835
Receivables - taxes	544,288	13,085	557,373
Receivables - other	16,202	-	16,202
Prepaid items	88,303	-	88,303
Inventory	53,887	-	53,887
Note receivable	1,385,146	-	1,385,146
Restricted assets:			
Cash and cash equivalents	180,266	-	180,266
Cash held by fiscal agent	-	9	9
TOTAL ASSETS	4,199,765	131,256	4,331,021
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Bank overdraft	84,275	-	84,275
Accounts payable	456,147	6,821	462,968
Other current liabilities	83,639	-	83,639
Deposits payable	10,942	-	10,942
TOTAL LIABILITIES	635,003	6,821	641,824
FUND BALANCES			
Nonspendable:			
Inventories	53,887	-	53,887
Prepaid items	88,303	-	88,303
Note receivable	1,385,146	-	1,385,146
Restricted:			
Public safety	180,266	42,298	222,564
Public works	-	82,127	82,127
Debt service	-	9	9
Unassigned	1,857,160	-	1,857,160
TOTAL FUND BALANCES	3,564,762	124,434	3,689,196
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,199,765	\$ 131,255	\$ 4,331,020

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

CITY OF EVERGREEN, ALABAMA

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION**

For the Year Ended September 30, 2019

Differences in amounts reported for governmental activities in the Statement of Net Position:

Total fund balances - governmental funds		\$ 3,689,197
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		21,798,830
Long-term liabilities, including bonds payable, and accrued interest are not due and payable in the current period and, therefore, are not reported in the governmental funds. Balances at September 30, 2019, were:		
Bonds, leases, and notes payable	\$ (10,775,943)	
Unamortized net discounts	57,103	
Accrued interest	(96,813)	
Compensated absences	(116,743)	
Postemployment benefits other than pensions	(432,156)	
Net pension liability	(1,306,007)	
Deferred outflows - employer retirement contribution	339,294	
Deferred inflows related to net pension liability	(271,501)	
Total long-term liabilities		<u>(12,602,766)</u>
Net position of governmental activities		<u>\$ 12,885,261</u>

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

CITY OF EVERGREEN, ALABAMA**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2019

	General Fund	Nonmajor Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 3,482,318	\$ 152,040	\$ 3,634,358
Licenses and permits	459,939	11,030	470,969
Intergovernmental	290,266	-	290,266
Fines and forfeitures	93,283	-	93,283
Other revenues	192,665	21,361	214,026
Interest	24,236	8	24,244
Total revenues	<u>4,542,707</u>	<u>184,439</u>	<u>4,727,146</u>
EXPENDITURES			
Current operations:			
General government	1,273,775	-	1,273,775
Public safety	1,757,565	15,595	1,773,160
Public works	939,013	7,402	946,415
Civic improvement	657,697	-	657,697
Cultural and recreation	590,411	-	590,411
Capital outlay	885,183	528,253	1,413,436
Debt service:			
Principal retirement	295,431	435,000	730,431
Interest charges	127,473	238,024	365,497
Total expenditures	<u>6,526,548</u>	<u>1,224,274</u>	<u>7,750,822</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,983,841)</u>	<u>(1,039,835)</u>	<u>(3,023,676)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	2,004,160	673,023	2,677,183
Transfers out	(673,023)	-	(673,023)
Capital lease	490,672	-	490,672
Proceeds from notes payable	133,561	-	133,561
Total other financing sources (uses)	<u>1,955,370</u>	<u>673,023</u>	<u>2,628,393</u>
Net change in fund balances	<u>(28,471)</u>	<u>(366,812)</u>	<u>(395,283)</u>
FUND BALANCES - BEGINNING	<u>3,593,233</u>	<u>491,247</u>	<u>4,084,480</u>
FUND BALANCES - ENDING	<u>\$ 3,564,762</u>	<u>\$ 124,435</u>	<u>\$ 3,689,197</u>

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

CITY OF EVERGREEN, ALABAMA**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2019

Differences in amounts reported for governmental activities in the Statement of Activities:

Net change in fund balances - total governmental funds		\$	(395,283)
Accounts payable utilizing current financial resources, current year included in governmental activities in the Statement of Activities, prior year			203,548
Capital outlays, reported as expenditures in governmental funds, is shown as capital assets in the Statement of Net Position.			1,430,542
Capital transfer			(103,000)
Depreciation expense on governmental capital assets included in the governmental activities in the Statement of Activities.			(945,181)
Loan proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Position.			
Proceeds from issuance of notes payable	(133,561)		
Proceeds from capital leases	(490,672)		(624,233)
Repayment of long-term debt is reported as an expenditure in governmental funds, but a reduction of long-term liabilities in the Statement of Net Position.			
General obligation bonds and warrants	461,280		
Notes payable	127,992		
Capital leases	141,159		
Total repayments			730,431
Governmental funds report the effect of premiums and discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.			
Amortization			(5,424)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.			
Compensated absences	(11,641)		
Accrued interest	(1,432)		
Postemployment benefits other than pensions	(48,706)		
Net pension obligation	(53,520)		
Additional expenses			(115,299)
Change in net position of governmental activities		\$	<u>176,101</u>

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

CITY OF EVERGREEN, ALABAMA
STATEMENT OF FUND NET POSITION - PROPRIETARY FUND
For the Year Ended September 30, 2019

	<u>Utility Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 113,523
Receivables, net	1,001,169
Inventory	521,466
Restricted assets:	
Cash and cash equivalents	508,862
Cash held by fiscal agent	4,038,931
Total current assets	<u>6,183,951</u>
CAPITAL ASSETS	
Land	19,301
Construction in progress	441,236
Machinery and equipment	2,655,462
Utility system	13,375,123
Less accumulated depreciation	<u>(10,977,777)</u>
Total capital assets, net of accumulated depreciation	<u>5,513,345</u>
TOTAL ASSETS	<u>11,697,296</u>
DEFERRED OUTFLOW OF RESOURCES	
Deferred employer retirement contribution	<u>221,060</u>
LIABILITIES	
CURRENT LIABILITIES	
Bank overdraft	22,539
Accounts payable	635,626
Other liabilities	25,774
Accrued interest payable	11,125
Compensated absences	57,892
Bonds, notes and leases payable	717,771
Deposits payable	489,178
Total current liabilities	<u>1,959,905</u>
NONCURRENT LIABILITIES	
Bonds, notes and leases payable	5,319,584
Net pension liability	<u>762,739</u>
Total noncurrent liabilities	<u>6,082,323</u>
TOTAL LIABILITIES	<u>8,042,228</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pension	<u>133,368</u>
NET POSITION	
Net investment in capital assets	3,514,921
Unassigned	227,838
TOTAL NET POSITION	<u>\$ 3,742,759</u>

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

CITY OF EVERGREEN, ALABAMA**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUND**

For the Year Ended September 30, 2019

	Utility Fund
OPERATING REVENUES	
Charges for services:	
Electric revenues	\$ 5,622,410
Garbage revenues	268,652
Sewer revenues	637,858
Water revenues	848,482
Miscellaneous revenue	24,932
Total operating revenues	<u>7,402,334</u>
OPERATING EXPENSES	
Personnel, operations and maintenance, utilities:	
Electric expenses	3,541,347
Garbage expenses	279,106
Sewer expenses	389,112
Water expenses	636,250
Depreciation and amortization	475,804
Administrative costs	311,749
Total operating expenses	<u>5,633,368</u>
OPERATING INCOME	<u>1,768,966</u>
NONOPERATING REVENUES (EXPENSE)	
Interest income	448
Interest expense	(244,565)
Bond issuance expense	(10,000)
Principal forgiveness on bond payable	500,000
Total nonoperating revenues (expense)	<u>245,883</u>
Income before contributions and transfers	2,014,849
Capital contributions	103,000
Transfers out	(2,004,160)
Change in net position	<u>113,689</u>
TOTAL NET POSITION - BEGINNING	<u>3,629,070</u>
TOTAL NET POSITION - ENDING	<u><u>\$ 3,742,759</u></u>

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

CITY OF EVERGREEN, ALABAMA
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For the Year Ended September 30, 2019

	<u>Utility Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 7,881,205
Payments to suppliers for goods and services	(4,384,155)
Payments to employees for services	<u>(1,055,732)</u>
Net cash provided by operating activities	<u>2,441,318</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash payments to other funds	<u>(2,004,160)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(538,793)
Proceeds from long term capital debt	4,137,035
Debt issuance costs	(10,000)
Principal payments on capital debt	(539,584)
Interest paid on capital debt	<u>(244,127)</u>
Net cash provided by capital and related financing activities	<u>2,804,531</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>450</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,242,139
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>\$ 1,396,638</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 4,638,777</u></u>
DISPLAYED ON THE STATEMENT OF NET POSITION AS:	
Cash and cash equivalents	\$ 113,523
Bank overdraft	(22,539)
Restricted assets:	
Cash and cash equivalents	508,862
Cash held by fiscal agent	<u>4,038,931</u>
	<u><u>\$ 4,638,777</u></u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Transfer of capital assets from governmental activities	<u><u>\$ 103,000</u></u>

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

CITY OF EVERGREEN, ALABAMA
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
September 30, 2019

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

	Utility Fund
Operating income	\$ 1,768,966
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	475,804
Decrease in accounts receivable	422,108
Decrease in inventory	5,131
Decrease in accounts payable	(312,564)
Increase in customer deposits	56,763
Increase in net pension liability	18,066
Increase in other liabilities	7,044
Net cash provided by operating activities	<u>\$ 2,441,318</u>

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues are classified into three categories: charges for services, operating grants and contributions, and capital grants and contributions. Charges for services refer to direct recovery from customers for services rendered. Grants and contributions refer to revenues restricted for specific programs whose use may be restricted further to operational or capital items. The general revenues section displays revenue collected that help support all functions of government and contribute to the change in the net position for the fiscal year.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Property taxes are recognized as revenues in the year received or when an enforceable legal claim exists, whichever comes first. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

The City reports the following major governmental fund:

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

The City reports the following major enterprise fund:

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stewardship, Compliance, and Accountability

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

Management Estimates and Assumptions

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

Budgetary Comparison

Under GASB Statement No. 34, budgetary comparison information is required to be presented for the general fund and each major special revenue fund with a legally adopted budget. The City is not legally required to adopt a budget for the general fund. Therefore, budget comparison information is not included in the City's financial statements.

Assets, Liabilities, and Equity

Cash and Cash Equivalents

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

Receivables and Payables

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

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

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Equity (continued)

Receivables and Payables (continued)

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% for different taxes.

Inventories and Prepaid Items

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

Inventories are summarized as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Fuel	\$ 34,656	\$ 7,225	\$ 41,881
Materials and supplies	19,231	514,241	533,472
Totals	<u>\$ 53,887</u>	<u>\$ 521,466</u>	<u>\$ 575,353</u>

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

Restricted Assets

Certain proceeds from the City's Series 2007 Electrical Revenue Warrants, the Series 2013 Water and Sewer Warrants, and the Series 2012-A and 2012-B General Obligation Warrants, as well as certain resources set aside for their repayment, are classified as restricted on the statement of net position because their use is limited by applicable bond covenants. Other restricted assets include utility customer deposits and cash bonds and other judicial funds held related to court procedures, because their use is limited to their designated purpose

Capital Assets

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Equity (continued)

Capital Assets (continued)

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

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

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

Compensated Absences

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

Pension

The City participates in an agent multiple-employer plan administered by the Retirement Systems of Alabama. The Employees' Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the Plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

Net pension liability represents the portion of the present value of projected benefit payments attributed to past periods of service to be provided through the Plan to current active and inactive employees less the fiduciary net position of the Plan. It represents the City's total pension liability minus the fiduciary net position available to pay that liability. Investments that comprise the fiduciary net position are reported at fair value. The City is required to measure and disclose amounts relating to net pension liability, deferred outflows of resources and deferred inflows of resources, pension expense, and the fiduciary net position of the Plan. Actuarially determined periodic contributions are made by the City in order to maintain sufficient assets to pay benefits when due.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Equity (continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. Deferred outflows of resources include pension-related deferred outflows, which result from the City's Employees' Pension Plan (Pension Plan). Pension-related deferred outflows represent differences between expected and actual experience, changes in assumptions and amounts resulting from timing differences of contributions made subsequent to the Pension Plan measurement dates but as of the date of the basic financial statements, and are recognized over a closed period and are amortized over the remaining average service life of all participating active and inactive employees.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items, which arise only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable grant revenue, is reported only in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Deferred inflows of resources also include pension-related deferred inflows, which represent the difference between projected and actual earnings on investments within the Pension Plan, are recognized over a closed period and are amortized over a 5-year period.

Long -Term Obligations

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

Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Equity (continued)

Long -Term Obligations (continued)

The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

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

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

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

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

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

Unassigned – This classification includes all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first.

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

NOTE 2 - CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of September 30, 2019, none of the City's bank balance of \$7,163,787 was exposed to custodial credit risk. All of the City's bank balances are insured by the Federal Deposit Insurance Corporation (FDIC) and the Security for Alabama Funds Enhancement (SAFE) Program. The SAFE Program is a multiple financial collateral pool administered by the State Treasurer according to State of Alabama statute.

NOTE 3 - RECEIVABLES

Receivables as of September 30, 2019, for the government's individual major and nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Nonmajor Governmental Funds	Utility Fund	Total
Taxes	\$ 544,288	\$ 13,085	\$ -	\$ 557,373
Accounts	8,701	-	1,682,909	1,691,610
Intergovernmental	6,810	-	-	6,810
Interest	691	-	-	691
	<u>560,490</u>	<u>13,085</u>	<u>1,682,909</u>	<u>2,256,484</u>
Less allowance for uncollectible accounts	-	-	(681,740)	(681,740)
Total receivables	<u>\$ 560,490</u>	<u>\$ 13,085</u>	<u>\$ 1,001,169</u>	<u>\$ 1,574,744</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2019, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 2,914,727	\$ -	\$ -	\$ -	\$ 2,914,727
Construction in progress	1,901,565	360,030	(103,000)	(904,621)	1,253,974
Total capital assets, not being depreciated	<u>4,816,291</u>	<u>360,030</u>	<u>(103,000)</u>	<u>(904,621)</u>	<u>4,168,701</u>
Capital assets, being depreciated:					
Buildings	11,751,822	14,285	-	895,857	12,661,964
Machinery and equipment	4,465,075	510,867	-	8,764	4,984,706
Infrastructure	12,112,889	545,359	-	-	12,658,248
Total capital assets, being depreciated	<u>28,329,786</u>	<u>1,070,511</u>	<u>-</u>	<u>904,621</u>	<u>30,304,918</u>
Less accumulated depreciation for:					
Buildings	4,223,254	313,087	-	-	4,536,341
Machinery and equipment	3,408,502	286,130	-	-	3,694,632
Infrastructure	4,097,850	345,966	-	-	4,443,816
Total accumulated depreciation	<u>11,729,606</u>	<u>945,183</u>	<u>-</u>	<u>-</u>	<u>12,674,789</u>
Total capital assets, being depreciated, net	<u>16,600,180</u>	<u>125,328</u>	<u>-</u>	<u>904,621</u>	<u>17,630,129</u>
Governmental activities capital assets, net	<u>\$ 21,416,471</u>	<u>\$ 485,358</u>	<u>\$ (103,000)</u>	<u>\$ -</u>	<u>\$ 21,798,830</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 19,301	\$ -	\$ -	\$ -	\$ 19,301
Construction in progress	98,256	441,236	-	(98,256)	441,236
Total capital assets, not being depreciated	<u>117,557</u>	<u>441,236</u>	<u>-</u>	<u>(98,256)</u>	<u>460,537</u>
Capital assets, being depreciated:					
Machinery and equipment	2,454,907	200,555	-	-	2,655,462
Infrastructure	13,276,866	-	-	98,256	13,375,122
Total capital assets, being depreciated	<u>15,731,772</u>	<u>200,555</u>	<u>-</u>	<u>98,256</u>	<u>16,030,584</u>
Less accumulated depreciation for:					
Machinery and equipment	1,340,136	216,369	-	-	1,556,505
Infrastructure	9,161,836	259,435	-	-	9,421,271
Total accumulated depreciation	<u>10,501,972</u>	<u>475,804</u>	<u>-</u>	<u>-</u>	<u>10,977,776</u>
Total capital assets, being depreciated, net	<u>5,229,800</u>	<u>(275,249)</u>	<u>-</u>	<u>98,256</u>	<u>5,052,808</u>
Business-type activities capital assets, net	<u>\$ 5,347,357</u>	<u>\$ 165,987</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,513,345</u>

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

Governmental Activities:	
General government	\$ 74,563
Public safety	177,508
Public works	464,689
Civic improvement	146,399
Cultural and recreation	82,022
Total depreciation expense - governmental activities	<u>\$ 945,181</u>
Business-type Activities	<u>\$ 475,804</u>

NOTE 5 - INTERFUND BALANCES

Interfund balances are generally used to meet cash demands necessary to pay operating expenditures. The amounts reported as due to/from should be repaid during the next fiscal year. The composition of interfund balances as of September 30, 2019, is shown below:

<u>Transfer Out</u>	<u>Transfer In</u>		<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	
General Fund	\$ -	\$ 673,023	\$ 673,023
Utility Fund	2,004,160	-	\$ 2,004,160
Totals	\$ 2,004,160	\$ 673,023	\$ 2,677,183

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

NOTE 6 - LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
General obligation bonds and warrants	\$ 7,310,686	\$ -	\$ (461,280)	\$ 6,849,406	\$ 492,377
Less deferred amounts:					
For issuance discounts	(62,527)	-	5,424	(57,103)	-
Total general obligation bonds and warrants payable	7,248,159	-	(455,856)	6,792,303	492,377
Notes payable	3,229,902	133,561	(127,992)	3,235,471	130,264
Capital leases	341,553	490,672	(141,159)	691,066	185,038
Compensated absences	105,103	116,743	(105,103)	116,743	116,743
Net pension liability	1,347,047	110,024	(151,064)	1,306,007	-
Postemployment benefits other than pensions	383,451	57,748	(9,043)	432,156	-
Governmental activity long-term liabilities	12,655,215	908,748	(990,217)	12,573,746	924,422

NOTE 6 - LONG-TERM DEBT (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities:					
Revenue warrants	2,835,000	3,445,000	(485,000)	5,795,000	635,000
Less deferred amounts:					
Original issue discount	(9,922)	-	661	(9,261)	-
Total revenue warrants	<u>2,825,078</u>	<u>3,445,000</u>	<u>(484,339)</u>	<u>5,785,739</u>	<u>635,000</u>
Capital leases	114,165	192,035	(54,584)	251,616	82,771
Compensated absences	57,287	57,892	(57,287)	57,892	57,892
Net pension liability	782,052	58,898	(78,211)	762,739	-
Business-type activity long-term liabilities	<u>3,778,582</u>	<u>3,753,825</u>	<u>(674,421)</u>	<u>6,857,986</u>	<u>775,663</u>
Total long-term debt	<u>\$ 16,433,797</u>	<u>\$ 4,662,573</u>	<u>\$ (1,664,638)</u>	<u>\$ 19,431,732</u>	<u>\$ 1,700,085</u>

Long-term debt payable at September 30, 2019, is comprised of the following:

General City Bonds and Warrants

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

Series 2009 General Obligation Warrants, interest at 2.00% to 4.62%	\$ 635,000
Series 2009-A USDA General Obligation Warrants, interest at 4.125%	540,938
Series 2009-B USDA General Obligation Warrants, interest at 4.25%	258,468
Series 2012-A General Obligation Warrants, interest at 1.25%	1,310,000
Series 2012-B General Obligation Warrants, interest at 1.25%	3,155,000
Series 2015-A Revenue Bonds, interest at 2.00% to 2.80%	<u>950,000</u>
Total bonds and warrants	<u>\$ 6,849,406</u>

The annual debt service requirements to maturity, including principal and interest, for General City bonds and warrants as of September 30, 2019, are as follows:

Year Ending September 30:	<u>Principal</u>	<u>Interest</u>
2020	\$ 492,377	\$ 256,523
2021	539,519	237,192
2022	359,706	224,453
2023	420,945	213,392
2024	437,234	199,947
2025-2029	2,477,482	750,126
2030-2034	1,878,820	213,671
2035-2039	243,323	35,199
	<u>\$ 6,849,406</u>	<u>\$ 2,130,503</u>

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Revenue Warrants

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

Series 2007 Electrical Revenue Warrants, interest at 4.125% to 5.00%, secured by a pledge of the City's electrical distribution system revenue	\$ 920,000
Series 2013 Water and Sewer Revenue Warrants, interest at 2.00% to 4.35%, secured by a pledge of the net system revenue of the City's utility system.	1,430,000
Series 2018-CWSRF-DL Special Authority Loan with the Alabama Water Pollution Control Authority and Alabama Department of Environmental Management, interest at 2.20% and secured by a pledge of the net system revenue of the City's utility system	3,445,000
	<u>\$ 5,795,000</u>

The annual debt service requirements to maturity, including principal and interest, for revenue warrants as of September 30, 2019, are as follows:

Year Ending September 30:	<u>Principal</u>	<u>Interest</u>
2020	\$ 635,000	\$ 92,391
2021	575,000	144,974
2022	590,000	125,219
2023	225,000	105,330
2024	225,000	99,405
2025-2029	1,230,000	402,475
2030-2034	1,310,000	215,728
2035-2039	1,005,000	67,210
	<u>\$ 5,795,000</u>	<u>\$ 1,252,732</u>

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Notes Payable

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

Governmental Activities

Note payable with BB&T used to fund costs related to a fire truck. The note has an interest rate of 3.03% and matures February 14, 2022.	\$ 37,112
Note payable with Bank of Evergreen used to fund costs related to the City projects. The note has an interest rate of 5.00% and matures in February 2020. This note was refinanced in 2020 as part of the 2020 Taxable General Obligation Warrants with a final maturity of May 2027.	1,332,800
Note payable with Bank of Evergreen used to fund costs related to the City projects. The note has an interest rate of 3.50% and matures in February 2020. This note was refinanced in 2020 as part of the 2020 Taxable General Obligation Warrants with a final maturity of May 2027.	197,021
Note payable with Bank of Evergreen used to fund costs related to the Liberty Hill Project. The note has an interest rate of 2.30% and matures in February 2020. This note was refinanced in 2020 as part of the 2020 Taxable General Obligation Warrants with a final maturity of May 2027.	794,447
Note payable with Bank of Evergreen used to fund costs related to the Liberty Hill Project. The note has an interest rate of 5.00% and matures in February 2020. This note was refinanced in 2020 as part of the 2020 Taxable General Obligation Warrants with a final maturity of May 2027.	590,130
Note payable with Bank of Evergreen used to fund costs related to the City projects. The note has an interest rate of 6.50% and matures in February 2020. This note was refinanced in 2020 as part of the 2020 Taxable General Obligation Warrants with a final maturity of May 2027.	283,961
	<u>\$ 3,235,471</u>

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Notes Payable (continued)

The annual debt service requirements to maturity, including principal and interest, for notes payable as of September 30, 2019, are as follows:

Governmental Activities

Year Ending September 30:	<u>Principal</u>	<u>Interest</u>
2020	\$ 130,264	\$ 95,169
2021	299,388	146,045
2022	428,474	129,338
2023	492,750	107,250
2024	516,435	83,585
2025-2027	1,368,160	98,383
	<u>\$ 3,235,471</u>	<u>\$ 659,770</u>

Capital Leases

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

Governmental Activities

Machinery and Equipment	\$ 940,779
Less accumulated depreciation	196,028
Total	<u>\$ 744,751</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2019, were as follows:

Year Ending September 30:	
2020	\$ 212,870
2021	285,941
2022	116,559
2023	108,552
2024	29,363
Total minimum lease payments	<u>753,285</u>
Less amount representing interest	62,219
Present value of minimum lease payments	<u>\$ 691,066</u>

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Capital Leases (continued)

Business-Type Activities

Machinery and Equipment	\$ 375,959
Less accumulated depreciation	90,045
Total	<u><u>\$ 285,914</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2019, were as follows:

Year Ending September 30:	
2020	\$ 92,961
2021	84,288
2022	62,993
2023	31,934
Total minimum lease payments	<u>272,176</u>
Less amount representing interest	20,559
Present value of minimum lease payments	<u><u>\$ 251,617</u></u>

NOTE 7 - EMPLOYEES' RETIREMENT PLAN

Plan Description

The Employees' Retirement System of Alabama (ERS), an agency multiple-employer plan, was established October 1, 1945 under the provisions of Act 515 of the Legislature of 1945 for the purpose of providing retirement allowances and other specified benefits for state employees, State Police, and on an elective basis, to all cities, counties, towns, and quasi-public organizations. The responsibility for the general administration and operation of ERS is vested in its Board of Control. The ERS Board of Control consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). Title 36-Chapter 27 of the Code of Alabama grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

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

- 1) The Governor, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Personnel Director, ex officio.
- 4) The State Director of Finance, ex officio.
- 5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.

NOTE 7 - EMPLOYEES' RETIREMENT PLAN (CONTINUED)

Plan Description (continued)

- 6) Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
 - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency, each of whom is an active beneficiary of ERS.
 - b. Two vested active state employees.
 - c. Two vested active employees of an employer participating in ERS pursuant to § 36-27-6.

Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life.

Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of State Police service in computing the formula method.

Members are eligible for disability retirement if they have 10 years of creditable service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status, and eligibility for retirement. The ERS serves approximately 909 local participating employers. These participating employers include cities, counties, and other public entities.

NOTE 7 - EMPLOYEES' RETIREMENT PLAN (CONTINUED)

Benefits Provided (continued)

The ERS membership includes approximately 90,999 participants. As of September 30, 2019, membership consisted of:

	<u>ERS</u>	<u>City</u>
Retirees and beneficiaries currently receiving benefits	24,818	31
Terminated employees entitled to but not yet receiving benefits	1,426	2
Non-vested inactive members who have not contributed for more than 5 years	7,854	18
Active members	56,760	75
Post-DROP retired members still in active service	141	-
	<u>90,999</u>	<u>126</u>

Contributions

Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation.

Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011.

From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation.

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. Tier 2 State Police members of the ERS contribute 10% of earnable compensation. These contribution rates are the same for Tier 2 covered members of ERS local participating employers.

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit, and administrative expenses of the Plan. For the year ended September 30, 2019, the City's active employee contribution rate was 5% of covered payroll for Tier 1 employees and 6% of covered employee payroll for Tier 2 employees, and the City's average contribution rate to fund the normal and accrued liability costs was 9.55% of covered employee payroll.

NOTE 7 - EMPLOYEES' RETIREMENT PLAN (CONTINUED)

Contributions (continued)

The City's contractually required contribution rate for the year ended September 30, 2019 was 8.9% of pensionable pay for Tier 1 employees, and 5.94% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2016, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the City were \$300,861 for the year ended September 30, 2019.

The City's net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017 rolled forward to September 30, 2018 using the standard roll forward technique in the following table:

	<u>Expected</u>	<u>Actual</u>	<u>Actual</u>
(a) Total pension liability for September 30, 2017	\$ 9,103,497	\$ 9,054,080	\$ 9,054,080
(b) Discount rate	7.75%	7.75%	7.70%
(c) Entry age normal cost for the period October 1, 2017 to September 30, 2018	250,163	250,163	252,329
(d) Transfers among employees	-	(26,791)	(26,791)
(e) Actual benefit payments and refunds for October 1, 2017 to September 30, 2018	<u>(584,849)</u>	<u>(584,849)</u>	<u>(584,849)</u>
(f) Total pension liability as of September 30, 2018 [(a) x (1+(b))] + (c) + (d) + [(e) x (1+0.5*(b))]	<u>\$ 9,451,669</u>	<u>\$ 9,371,631</u>	<u>\$ 9,419,398</u>
(g) Difference between expected and actual		\$ (80,038)	
(h) Less liability transferred for immediate recognition		<u>(26,791)</u>	
(i) Experience (gain)/loss		<u>\$ (53,247)</u>	
(j) Difference between actual at 7.70% and Actual at 7.75% [Assumption change (Gain)/Loss]=			<u>\$ 47,767</u>

NOTE 7 - EMPLOYEES' RETIREMENT PLAN (CONTINUED)

Net Pension Liability

The City's net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017 rolled forward to September 30, 2018 using standard roll-forward techniques as shown in the following table:

Total pension liability as of September 30, 2017	\$	9,103,497
Entry age normal costs for October 1, 2017- September 3, 2018	\$	252,339
Actual benefits and refunds for October 1, 2017-September 30, 2018	\$	(584,849)
Total pension liability as of September 30, 2018	\$	9,419,398

Actuarial Assumptions

The total pension liability as of the September 30, 2018 was determined based on the annual actuarial funding valuation report prepared as of September 30, 2017. The key actuarial assumptions are summarized below:

Inflation	2.875%
Salary increases	3.375-5.125%
Investment rate of return*	7.875%

*Net of pension plan investment expense

Mortality rates for ERS were based on the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females at ages on and after age 78. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Project with Scale BB to 2020 with an adjustment of 13% at all ages for females.

The actuarial assumptions used in the September 30, 2017 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

NOTE 7 - EMPLOYEES' RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions (continued)

The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long-term Expected Rate of Return*
Fixed Income	17.00%	4.40%
U.S. Large Stocks	32.00%	8.00%
U.S. Mid Stocks	9.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash	3.00%	1.50%
	<u>100.00%</u>	

* Includes assumed rate of inflation of 2.5%

Discount Rate

The discount rate used to measure the total pension liability was the long-term rate of return, 7.70%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 7 - EMPLOYEES' RETIREMENT PLAN (CONTINUED)

Changes in Net Pension Liability

	Total Pension Liability (a)	Long-term Expected Rate (b)	Net Pension Liability (a)-(b)
Balance at September 30, 2017	\$ 9,103,497	\$ 6,974,399	\$ 2,129,098
Changes for the year:			
Service cost	250,163	-	250,163
Interest	682,859	-	682,859
Change in assumptions	47,767	-	47,767
Difference between expected and actual experience	(53,247)	-	(53,247)
Contributions - employer	-	202,646	(202,646)
Contributions - employee	-	151,693	(151,693)
Investment income	-	633,555	(633,555)
Benefit payments, including refunds of employee contributions	(584,849)	(584,849)	-
Transfers among employers	(26,791)	(26,791)	-
Net changes	315,902	376,254	(60,352)
Balance at September 30, 2018	\$ 9,419,399	\$ 7,350,653	\$ 2,068,746

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the City's net pension liability calculated using the discount rate of 7.70%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.70%) or one percentage point higher (8.70%) than the current rate:

	1% Decrease (6.70%)	Current Discount Rate (7.70%)	1% Increase (8.70%)
Plan's net pension liability	\$ 3,118,838	\$ 2,068,746	\$ 1,175,328

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2017. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2017. The auditor's report dated May 30, 2019 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

NOTE 7 - EMPLOYEES' RETIREMENT PLAN (CONTINUED)

Pension Plan Fiduciary Net Position (continued)

For the year ended September 30, 2019, the City recognized pension expense of \$300,861. At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Difference between expected and actual experience on pension plan investments	\$ 136,556	\$ 161,441
Changes in assumptions	194,523	-
Net difference between projected and actual earnings on pension plan investments	-	243,428
Employer contributions subsequent to measurement date	<u>229,275</u>	<u>-</u>
	<u><u>\$ 560,354</u></u>	<u><u>\$ 404,869</u></u>

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

Year ending September 30,	
2020	\$ 7,967
2021	(70,421)
2022	(47,401)
2023	9,915
2024	8,228
Thereafter	-
	<u><u>\$ (91,712)</u></u>

NOTE 8 - RISK MANAGEMENT

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

NOTE 9 - CONTINGENT LIABILITIES

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

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

NOTE 10 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Administration

The City of Evergreen administers a single employer defined benefit post-employment healthcare plan for employees of the City. The plan does not include the pension benefits discussed in Note 7. The City Clerk is responsible for administration of the plan in accordance with City Ordinance and oversight by the Mayor. The plan is funded on a pay-as-you-go basis and there is no irrevocable trust established for the plan. Therefore, there are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. The plan does not issue a publicly available financial report.

Plan Membership

As of September 30, 2019 the plan membership data is as follows:

Active employees	82
Retirees	<u>3</u>
Total	<u>85</u>

Benefits Provided

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

Benefit Changes After Measurement Date

The OPEB liability was computed as of September 30, 2018, and therefore, there are no benefit changes occurring subsequent to the measurement date.

**NOTE 10 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
(CONTINUED)**

Contributions

Employees do not contribute to the plan during their active service. As of September 30, 2019 the City contributes \$128 for active participants and requires monthly contributions of \$248 from retired participants. Total member contributions were \$9,043 for retirees.

Actuarial Assumptions

The OPEB calculation was determined by the alternative measurement method as allowed by GASB for plans with less than 100 members rather than an actuarial valuation. The valuation was calculated at September 30, 2019. Thus, the City's year end was their measurement date. The following assumptions applied to all periods in the measurement, unless otherwise specified.

Actuarial cost method - The Unit Cost Actuarial Cost Method was utilized in computing actuarial liabilities and costs.

The unfunded actuarial accrued liability is being amortized over the maximum permissible period, which is 30 years. The remaining amortization period at September 30, 2019, was 21 years.

Salary increases – Not applicable.

Inflation – 2.44%

Municipal bond rate – 4.18% based on the Bond Buyer General Obligation 20-Bond Municipal Index

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

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums is based on the most recent projections as of the calculation date made by the Office of the Actuary at the Centers for Medicare and Medicaid Services, as published in National Health Care Expenditure Projections: 2019-2027, published in September 2018 by the Health Care Financing Administration (www.cms.hhs.gov). 4.4% to 5.9% in 2023, declining to 5.5% for the remaining years.

NOTE 10 -POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

The following changes in assumptions have been made since the prior measurement date:

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums for the prior measurement date, September 30, 2016, was based on the projections as of the calculation date made by the Office of the Actuary at the Centers for Medicare and Medicaid Services, as published in National Health Care Expenditure Projections: 2017-2026, published in September 2016 by the Health Care Financing Administration (www.cms.hhs.gov). 5.1% down to 4.9% in 2022, declining to 4.6% for the remaining years.

Employee attrition – Certain employees terminated prior to meeting the requirements for benefits as well as those who continued to work past the age of 65 and therefore, became ineligible.

The following table illustrates the changes in OPEB liability for the year ended September 30, 2019.

Balance at September 30, 2018	\$ 383,451
Changes for the year:	
Service cost	37,189
Interest on net OPEB liability	20,559
Benefit payments	(9,043)
	<u>48,705</u>
Net Change	<u>48,705</u>
Balance at September 30, 2019	<u>\$ 432,156</u>

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

The following presents the total OPEB liability of the City calculated using the discount rate of 4.18%, as well as what the City’s total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.18%) and one percentage point higher (5.18%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount</u>	<u>1% Increase</u>
Total OPEB liability	\$ 464,324	\$ 432,156	\$ 394,485

NOTE 10- POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

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

The following presents the total OPEB liability of the City, calculated using the current healthcare cost trend rates as well as what the City’s total OPEB liability would be if it were calculated using trend rates that are one percentage point lower or one percentage point higher than the current rates:

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Total OPEB liability	\$ 398,997	\$ 432,156	\$ 472,213

NOTE 11 - 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 does not extend beyond making appointments. The City Council appoints the members of the Evergreen Planning Commission, the Evergreen Board of Adjustments, the Evergreen Housing Authority, the Evergreen Industrial Development Board and three of the five members of the Evergreen-Conecuh County Library Board.

NOTE 12 - JOINT VENTURE

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

The CR District issued special obligation bonds, series 2006-A and 2006-B, which were refunded in 2015, replaced by Series 2015-A and 2015-B in the amounts of \$1,460,000 and \$1,850,000 respectively. The City entered into an agreement with the CR District which obligates the City to budget and appropriate sufficient funds each fiscal year to make all required debt service payments of the series 2006-A bonds (replaced by series 2015-A bonds). Therefore, the balance of the series 2015-A bonds in the amount of \$950,000 has been recorded as a liability at September 30, 2019.

NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS

The City in conjunction with the City of Monroeville, Alabama created the South Alabama Gas District, whose board is composed of two appointments from each municipality. In addition to these four members, a fifth member is appointed on a rotating basis from four municipalities participating in the gas district.

NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS (CONTINUED)

South Alabama Gas District was incorporated under the provisions of the State of Alabama to provide natural gas and propane services in Conecuh, Monroe, Escambia, Clark, Butler, Covington, Wilcox, Washington, Mobile, Baldwin, and Choctaw counties, Alabama. During 2019, the City received \$245,404, from the South Alabama Gas District, in the form of a franchise tax and distribution of profits.

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

NOTE 14 - RELATED PARTY TRANSACTIONS

In November 2012, the City purchased land which was the future site of the economic development project known as Liberty Hill. Subsequently, the City entered into an agreement with the Evergreen Conecuh Capital Improvement Cooperative District (EC District) where the City would sell the Liberty Hill land, at the original purchase price of \$2,312,241. The EC District would also reimburse the City for any costs related to the Liberty Hill project that were incurred. During fiscal year 2019, the City incurred costs of \$180,118, related to the Liberty Hill project. In prior years, the City received title to lots 2, 3 and 4 from the EC District with a cost of \$813,508. As of September 30, 2019, the balance of the note receivable totaled \$1,385,146.

NOTE 15 - FUNDING AGREEMENT

On June 1, 2013, the EC District, a public corporation, issued the Series 2013-A Revenue Bonds and the Series 2013-B Revenue Bonds (Federally Taxable) in the amount of \$5,300,000 and \$3,700,000, respectively.

In February 2017, the EC District issued Series 2017A in the amount of \$3,400,000 and Series 2017B in the amount of \$600,000. The proceeds of these bonds were to be used to acquire the Liberty Hill land from the City (See Note 14), and fund capital improvements on such property.

The EC District entered into separate funding agreements with Conecuh County (the County) and the City. The funding agreement with the County states that the County will pledge sales tax equaling 1% on all sales within the EC District. The agreement also states that the County will pay the lesser of one half the debt service on the above mentioned bonds or the pledged portion of the County sales tax proceeds. The funding agreement with the City stated that the City will pay the difference between the total debt services on the above mentioned bonds and the amount paid by the County.

The City also entered into a separate agreement with the EC District pledging sales tax equaling 2% on all sales within the EC District. These funds are for the purpose of funding the operations of the EC District and future economic development projects.

NOTE 16 - EFFECT OF NEW PRONOUNCEMENTS

In fiscal year 2019, the City adopted GASB 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. The adoption of the GASB announcement resulted in the recognition by the Utility Fund of \$132,632 in capitalized interest expense on construction projects during 2019.

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

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement establishes guidance for determining the timing and patter of recognition for liabilities and corresponding deferred outflow of resources related to such obligations. Requirements for this Statement are effective for financial statements whose fiscal year begins after June 15, 2019.

GASB Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments and clarifies whether and how business-type activities should report their fiduciary activities. Requirements for this Statement are effective for financial statements whose fiscal year begins after December 15, 2019.

GASB Statement No. 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Requirements for this Statement are effective for financial statements whose fiscal year begins after June 15, 2021.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placement*. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. For notes to financial statements related to debt, this statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2019.

GASB Statement No. 90, *Majority Equity Interests*. This Statement defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

NOTE 16 - EFFECT OF NEW PRONOUNCEMENTS (CONTINUED)

Additionally, this Statement requires that governments use acquisition value to measure the assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of acquisition of a component unit in which the primary government acquired a 100 percent equity interest. Requirements for this Statement are effective for reporting periods beginning after December 15, 2019.

NOTE 17 - SUBSEQUENT EVENTS

In February 2020, the City issued \$3,326,861 taxable general obligation warrants with an interest rate of 4.7%. The proceeds of these warrants were utilized to pay off certain notes payable in the same amount. The terms of the warrants require 12 monthly payments, beginning March 2020, of principal and interest in the amount of \$30,000. Beginning March 2021, payments of interest and principal increase to \$40,000 and in March 2022 monthly payments of principal and interest increase to \$50,000 thereafter until April 2027. The warrants mature in May 2027.

In January 2020, a novel strain of coronavirus was reported to have spread from other countries to the United States. The spread of this virus began to cause some business disruptions through the reductions of certain revenues, such as sales tax, gas taxes, lodging taxes and charges to customers for utility sales and services. While disruption is currently expected to be temporary, there is considerable uncertainty around the duration. Therefore, the City expects this matter to negatively impact its operating results beginning with the 2020 fiscal year. However, the related financial impact and duration cannot be reasonably estimated at this time.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EVERGREEN, ALABAMA
SCHEDULE OF CHANGE IN NET PENSION LIABILITY
Last 10 Fiscal Years Ending September 30*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability					
Service cost	\$ 250,163	\$ 247,587	\$ 211,271	\$ 230,707	\$ 205,753
Interest	682,859	644,082	631,504	603,190	580,795
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience	(53,247)	190,347	(227,112)	18,181	-
Changes of assumptions	47,767	-	265,303	-	-
Benefit payments, including refunds of employee contributions	(584,849)	(521,837)	(468,905)	(527,391)	(485,845)
Transfers among employers	(26,791)	(28,342)	31,343	-	-
Net change in total pension liability	<u>315,902</u>	<u>531,837</u>	<u>443,404</u>	<u>324,687</u>	<u>300,703</u>
Total pension liability - beginning	<u>9,103,497</u>	<u>8,571,660</u>	<u>8,128,256</u>	<u>7,803,569</u>	<u>7,502,866</u>
Total pension liability - ending (a)	<u>9,419,399</u>	<u>9,103,497</u>	<u>8,571,660</u>	<u>8,128,256</u>	<u>7,803,569</u>
Plan fiduciary net position					
Contributions - employer	202,646	242,731	276,043	225,450	231,756
Contributions - member	151,693	170,622	153,413	130,579	133,831
Net investment income	633,555	799,409	583,765	68,243	630,954
Benefit payments, including refunds of employee contributions	(584,849)	(521,837)	(468,905)	(527,391)	(485,845)
Transfers among employers	(26,791)	(28,342)	31,343	2,864	14,065
Net change in plan fiduciary net position	<u>376,254</u>	<u>662,583</u>	<u>575,659</u>	<u>(100,255)</u>	<u>524,761</u>
Plan net position - beginning	<u>6,974,399</u>	<u>6,311,816</u>	<u>5,736,157</u>	<u>5,836,412</u>	<u>5,311,651</u>
Plan net position - ending (b)	<u>7,350,653</u>	<u>6,974,399</u>	<u>6,311,816</u>	<u>5,736,157</u>	<u>5,836,412</u>
Net pension liability (asset) - ending (a) - (b)	<u>\$ 2,068,746</u>	<u>\$ 2,129,098</u>	<u>\$ 2,259,844</u>	<u>\$ 2,392,099</u>	<u>\$ 1,967,157</u>
Plan fiduciary net position as a percentage the total pension liability	78.04%	76.61%	73.64%	70.57%	74.79%
Covered payroll	\$ 3,256,899	\$ 3,002,870	\$ 3,300,259	\$ 3,105,176	\$ 2,753,659
Net position liability (asset) as a percentage of covered payroll	63.52%	70.90%	68.47%	77.04%	71.44%

CITY OF EVERGREEN, ALABAMA
SCHEDULE OF EMPLOYER CONTRIBUTIONS TO THE CITY’S EMPLOYEE PENSION PLAN
Last 10 Fiscal Years Ending September 30*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 202,646	\$ 242,731	\$ 276,043	\$ 225,450	\$ 231,756
Contributions in relation to the actuarially determined contribution	<u>229,275</u>	<u>286,811</u>	<u>258,566</u>	<u>281,393</u>	<u>263,473</u>
Contribution deficiency (excess)	\$ 26,629	\$ 44,080	\$ (17,477)	\$ 55,943	\$ 31,717
Covered payroll	\$ 3,256,899	\$ 3,002,870	\$ 3,300,259	\$ 3,105,176	\$ 2,753,659
Contributions as a percentage of covered payroll	7.04%	9.55%	7.83%	9.06%	9.57%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2019 were based on the September 30, 2016 actuarial valuation.

Methods and Assumptions Used to Determine Contribution Rates

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period.....	23.9 years
Asset valuation method.....	Five year smoothed market
Inflation.....	2.875%
Salary increases.....	3.375% - 5.125%
Investment rate of return.....	7.875%, net of pension plan investment expense, including inflation

CITY OF EVERGREEN, ALABAMA
SCHEDULES OF CHANGES IN TOTAL OPEB LIABILITY
 Last 10 Fiscal Years Ending September 30*

	<u>2019</u>	<u>2018</u>
Total OPEB Liability		
Service cost	\$ 37,189	\$ 37,189
Expected interest growth	20,559	20,559
Unexpected interest growth	-	-
Demographic experience	-	-
Contributions - employer	-	-
Contributions - employee	-	-
Benefit payments, including refunds of employee contributions	(9,043)	(4,587)
Administrative expenses	-	-
Changes in benefit terms	-	-
Assumption changes	-	(71,694)
Net change in total OPEB liability	<u>\$ 48,705</u>	<u>\$ (18,533)</u>
Total pension liability - beginning	\$ 383,451	\$ 401,984
Total pension liability - ending	\$ 432,156	\$ 383,451
Covered payroll	\$ 3,256,899	\$ 3,002,870
Net OPEB liability as a percentage of covered payroll	13%	13%

*Until a full 10-year trend is compiled, the City will present information for those years for which the information is available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

OPEB Plan

The total OPEB liability amount presented for the 2018 fiscal year was determined as of the fiscal year end. No assets have been accumulated in a trust that meets the criteria in GASBN No.75, paragraph 4, to pay benefits.

Actuarial Assumptions

The OPEB calculation was determined by the alternative measurement method as allowed by GASB for plans with less than 100 members rather than an actuarial valuation. The valuation was as of September 30, 2018, the measurement date.

Actuarial cost method - The Unit Cost Actuarial Cost Method was utilized in computing actuarial liabilities and costs. The unfunded actuarial accrued liability is being amortized over the maximum permissible period, which is 30 years. The remaining amortization period at September 30, 2018, was 22years

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

Salary increases – Not applicable.

Inflation – 2.44%

Municipal bond rate – 4.18% based on the Bond Buyer General Obligation 20-Bond Municipal Index

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

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums is based on the most recent projections as of the calculation date made by the Office of the Actuary at the Centers for Medicare and Medicaid Services, as published in National Health Care Expenditure Projections: 2019-2027, published in September 2018 by the Health Care Financing Administration (www.cms.hhs.gov). 4.4% to 5.9% in 2023, declining to 5.5% for the remaining years.

The following changes in assumptions have been made since the prior measurement date:

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums for the prior measurement date, September 30, 2016, was based on the projections as of the calculation date made by the Office of the Actuary at the Centers for Medicare and Medicaid Services, as published in National Health Care Expenditure Projections: 2017-2026, published in September 2016 by the Health Care Financing Administration (www.cms.hhs.gov). 5.1% down to 4.9% in 2022, declining to 4.6% for the remaining years.

Employee attrition – Certain employees terminated prior to meeting the requirements for benefits as well as those who continued to work past the age of 65 and therefore, became ineligible.

SUPPLEMENTARY INFORMATION

CITY OF EVERGREEN, ALABAMA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
For the year ended September 30, 2019

	Special Revenue			Debt Service Fund	Total Nonmajor Governmental Funds
	State Gas Tax Fund	Gas Tax Fund	Fire Department Tax Fund		
ASSETS					
Cash and cash equivalents	\$ 66,778	\$ 9,085	\$ 42,299	\$ -	\$ 118,162
Receivables - taxes	7,331	5,754	-	-	13,085
Restricted assets:					
Cash held by fiscal agent	-	-	-	9	9
TOTAL ASSETS	<u>74,109</u>	<u>14,839</u>	<u>42,299</u>	<u>9</u>	<u>131,256</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	-	6,821	-	-	6,821
FUND BALANCES					
Restricted for:					
Public safety	-	-	42,298	-	42,298
Public works	74,109	8,018	-	-	82,127
Debt service	-	-	-	9	9
	<u>74,109</u>	<u>8,018</u>	<u>42,298</u>	<u>9</u>	<u>124,434</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 74,109</u>	<u>\$ 14,839</u>	<u>\$ 42,298</u>	<u>\$ 9</u>	<u>\$ 131,255</u>

CITY OF EVERGREEN, ALABAMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES- NONMAJOR GOVERNMENTAL FUNDS
For the year ended September 30, 2019

	Special Revenue			Debt Service Fund	Total Nonmajor Governmental Funds
	State Gas Tax Fund	Gas Tax Fund	Fire Department Tax Fund		
REVENUES					
Taxes	\$ 69,258	\$ 63,105	\$ 19,677	\$ -	\$ 152,040
Licenses and permits	11,030	-	-	-	11,030
Other revenue	-	-	21,361	-	21,361
Interest	-	-	-	8	8
Total revenues	80,288	63,105	41,038	8	184,439
EXPENDITURES					
Current operations:					
Public safety	-	-	15,595	-	15,595
Public works	287	7,115	-	-	7,402
Capital outlay	250,723	277,530	-	-	528,253
Debt service:					
Principal retirement	-	-	-	435,000	435,000
Interest charges	-	-	-	238,024	238,024
Total expenditures	251,010	284,645	15,595	673,024	1,224,274
Excess of revenues over expenditures	(170,722)	(221,540)	25,443	(673,016)	(1,039,835)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	673,023	673,023
Total other financing sources	-	-	-	673,023	673,023
Net change in fund balances	(170,722)	(221,540)	25,443	7	(366,812)
FUND BALANCES - BEGINNING	244,831	229,558	16,855	2	491,246
FUND BALANCES - ENDING	\$ 74,109	\$ 8,018	\$ 42,298	\$ 9	\$ 124,434

CITY OF EVERGREEN, ALABAMA
COMPUTATION OF LEGAL DEBT MARGIN
September 30, 2019

Assessed value		<u><u>\$ 37,697,180</u></u>
Legal debt margin		
Debt limitation - 20% of Assessed Value		\$ 7,539,436
Debt applicable to limitation:		
Long-term bonded debt including capital leases	\$ 28,232,560	
Less: debt attributable to the improvement of electric systems and payable from the revenues of such systems	(6,750,000)	
Less: debt associated with amendment 772	<u>(17,150,000)</u>	
Total debt applicable to limitation		<u>4,332,560</u>
Legal debt margin		<u><u>\$ 3,206,876</u></u>

CITY OF EVERGREEN, ALABAMA
COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT
September 30, 2019

<u>Jurisdiction</u>	<u>Net General Obligation Bonded Debt Outstanding</u>	<u>Percentage Applicable to Government</u>	<u>Amount Applicable to Government</u>
Direct			
City of Evergreen:			
General obligations including capital leases	<u>\$ 28,232,560</u>	100.00%	<u>\$ 28,232,560</u>