

Report on the

Lee County Commission

Lee County, Alabama

October 1, 2016 through September 30, 2017

Filed: September 28, 2018



Department of Examiners of Public Accounts

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Rachel Laurie Riddle, Chief Examiner



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Rachel Laurie Riddle
Chief Examiner

Honorable Rachel Laurie Riddle
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Madam:

Under the authority of the *Code of Alabama 1975*, Section 41-5A-19, as added by Act Number 2018-129, we submit this report on the results of the audit of the Lee County Commission, Lee County, Alabama, for the period October 1, 2016 through September 30, 2017.

Sworn to and subscribed before me this
the 13th day of September, 20 18.

Glenn McCall
Notary Public

Sworn to and subscribed before me this
the 17th day of September, 20 18.

Jan E. Hall
Notary Public

rb

Respectfully submitted,

David J. Lane, Sr.

David J. Lane, Sr.
Examiner of Public Accounts

Latoshia Williams

Latoshia Williams
Examiner of Public Accounts

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Department of
Examiners of Public Accounts

SUMMARY

**Lee County Commission
October 1, 2016 through September 30, 2017**

The Lee County Commission (the "Commission") is governed by a six- member body elected by the citizens of Lee County. The members and administrative personnel in charge of governance of the Commission are listed on Exhibit 15. The Commission is the governmental agency that provides general administration, public safety, construction and maintenance of county roads and bridges, sanitation services, health and welfare services and educational services to the citizens of Lee County.

This report presents the results of an audit the objectives of which were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the Commission complied with applicable laws and regulations. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States as well as the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5A-12, as added by Act Number 2018-129.

An unmodified opinion was issued on the basic financial statements, which means that the Commission's financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2017.

Tests performed during the audit did not disclose any significant instances of noncompliance with applicable state and local laws and regulations.

Commission members and administrative personnel, as reflected on Exhibit 15, were invited to discuss the results of this report at an exit conference held at the offices of the County Commission. Individuals in attendance were: Roger Rendleman, County Administrator; Commission Chairman: Bill English; County Commissioners: Johnny Lawrence, Gary D. Long, Robert Ham, and Shelia H. Eckman. Also in attendance were representatives from the Department of Examiners of Public Accounts: Tammy D. Shelley, Audit Manager; David J. Lane, Sr., Examiner; and Latoshia Williams, Examiner.

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Independent Auditor's Report

Independent Auditor's Report

Members of the Lee County Commission and County Administrator
Opelika, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lee County Commission, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Lee County Commission's basic financial statements as listed in the table of contents as Exhibits 1 through 8.

Management's Responsibility for the Financial Statements

The management of the Lee County Commission 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.

Auditor's 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 and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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, each major fund, and the aggregate remaining fund information of the Lee County Commission, as of September 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

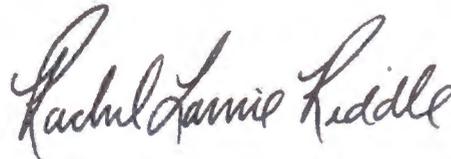
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual, (Exhibits 9 through 11), and the Schedule of Changes in the Net Pension Liability, the Schedule of the Employer's Contributions and the Schedule of Funding Progress – Other Postemployment Benefits (Exhibits 12 through 14), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2018, on our consideration of the Lee County Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lee County Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lee County Commission's internal control over financial reporting and compliance.



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

September 7, 2018

Management's Discussion and Analysis
(Required Supplementary Information)

Lee County Commission
Management's Discussion and Analysis
Fiscal Year October 1, 2016 through September 30, 2017

The Lee County Commission's discussion and analysis is a narrative overview that is designed to assist the reader in reviewing significant financial issues and activities of the County. The reader should also be able to identify the changes in the County's financial position and analyze the ability of the County to meet future challenges.

The Management's Discussion and Analysis (MD&A) focuses on the activities of the Lee County Commission for the fiscal year ended September 30, 2017. Please consider the information contained in this MD&A in conjunction with the County's financial statements for the same period.

Financial Highlights

- The County Commission's cash position and long-term debt had the most significant change on this year's financials as the County issued a fifteen-year bank loan in the amount of \$6.5 Million to finance a \$9.9 Million Courthouse Annex construction project. The remainder of the project, \$3.4 Million, will be paid with unreserved, undesignated fund balance.
- Current Assets increased \$8,641,440 (20.95%) primarily with the remaining loan proceeds on hand for the Courthouse Annex project and an approximate \$1.98 Million increase associated with the property tax receivable at year end. The increase in property tax receivable is a good indicator of the anticipated increase in revenues associated with a growing local economy to be received in the upcoming fiscal year.
- Capital Grants and Contributions decreased \$1,156,061 (43.44%) as there were less projects completed or started under the Alabama Transportation Rehabilitation Program (ATRIP) during the 2017 Fiscal Year compared to the previous year.
- Overall expenses decreased \$535,388 (1.38%). Most activities had small increases associated with cost of living increases, merit raises and other associated personnel costs. The decrease is primarily associated with \$1.6 Million less spent in the Highway Department's resurfacing program for Fiscal Year 2017 compared to the previous year. This program can fluctuate by large amounts from year to year as factors such as weather, project timing and additional allocations cross over each fiscal year.

Overview of the Financial Statements

This Management's Discussion and Analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are made up of the following components:

- Government-wide financial statements
- Fund financial statements
- Fiduciary funds statements
- Notes to the financial statements

This report also contains additional information that is relevant to the County's financial position.

Lee County Commission
Management's Discussion and Analysis
Fiscal Year October 1, 2016 through September 30, 2017

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with an overview of the County's finances, in a manner similar to those used by private-sector businesses. The statement of net position includes all the County's assets and liabilities. Current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The statement of net position presents information on all the County's assets and liabilities, with the difference between the two reported as net position. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term debt. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating. To properly evaluate the overall health of the County you may need to consider other non-financial factors such as changes in the County's property tax base and the condition of the County's infrastructure, buildings and other facilities.

The statement of activities presents information focused on both gross and net costs and shows how the County's net position changed during the current fiscal year. This statement is intended to summarize and simplify the reader's analysis of cost of various governmental services and/or subsidy to various business-type activities. The governmental activities include most of the County's basic services including general government, public safety, highways and roads, sanitation, health and welfare, cultural and recreational, and education. The funding of these activities comes primarily from property taxes, charges for services, state shared revenues (i.e. gasoline taxes) and other miscellaneous revenues.

Fund Financial Statements

Fund financial statements provide more detailed information about the County's funds, focusing on its Major funds rather than the County. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Lee County like other state and local governments uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Governmental and fiduciary are the two categories of fund types used to keep track of specific sources of funding and spending on particular County programs. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. In doing so readers may better understand the long-term impact of the County's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to aide in this comparison between governmental funds and governmental activities.

Lee County Commission
Management's Discussion and Analysis
Fiscal Year October 1, 2016 through September 30, 2017

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the County's basic services are included in governmental funds. Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows, outflows and balances of spendable resources. The governmental fund statements provide a detailed short-term view of the County's operations and the basic services it provides. Governmental funds statements assist the reader in determining the short-term financial resources available to finance future programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information in Exhibits 4 and 6 to reconcile the differences between them.

Lee County maintains several funds that are governmental funds. Separate information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund; the Gasoline Tax Fund; the Reappraisal Fund; and the Capital Projects Fund. These funds are deemed to be major funds. Data from the remaining funds are combined into a single aggregated presentation.

Fiduciary Funds Statements

Fiduciary funds are funds in which the County is the trustee, or fiduciary, for assets that belong to others. The County is responsible for ensuring that those to whom the assets belong use them only for their intended purpose. All the County's fiduciary activities are reported in a separate statement of fiduciary net position (Exhibit 7) and a statement of changes in fiduciary net position (Exhibit 8). The activities of these funds are excluded from the government-wide financial statements because their assets are not available for use by the County to finance its operations.

Notes to the Financial Statements

The notes provided in this report offer additional essential information to achieve a full understanding of the data provided in the government-wide and fund financial statements. The notes follow the exhibits contained in this report.

Required Supplementary Information

Required supplementary information is expressed in Exhibits 9 thru 11 which are Annual Budget to Actual comparisons of the major governmental funds of the County. Lee County adopts an annual appropriated budget for its General, Gasoline Tax and Reappraisal funds; of which the comparison schedules are presented to demonstrate compliance with the fund budgets. The Capital Projects Fund isn't presented in this comparison as this fund is for the courthouse annex project spanning multiple years and not appropriated annually. In addition, the Schedule of Changes in the Net Pension Liability (Exhibit 12), the Schedule of County Contributions (Exhibit 13) and the Schedule of Funding Progress Other Postemployment Benefits (Exhibit 14) are reported in this section.

Lee County Commission
Management's Discussion and Analysis
Fiscal Year October 1, 2016 through September 30, 2017

Government-wide Financial Analysis

The County governmental net position has increased by \$2,003,674 (3.73%) during the current fiscal year. Management monitors net position because the variance is a useful indicator of the County's financial position. Lee County's total assets exceeded total liabilities by \$55,782,072 as of the fiscal year ending September 30, 2017.

The following table shows the condensed Statement of Net Position comparing this fiscal year to last fiscal year.

Statement of Net Position as of September 30:

| | Governmental Activities 2017 | Governmental Activities 2016 | Difference | Percentage |
|----------------------------------|------------------------------------|------------------------------------|-------------|------------|
| Current Assets | 49,885,502 | 41,244,062 | 8,641,440 | 20.95% |
| Non-current/non-capital Assets | 158,993 | 166,524 | (7,531) | -4.52% |
| Capital Assets, Net Deprecation | 68,986,143 | 67,955,961 | 1,030,182 | 1.52% |
| Deferred Outflows of Resources | 3,366,707 | 2,312,005 | 1,054,702 | 45.62% |
| Total Assets | 122,397,345 | 111,678,552 | 10,718,793 | 9.60% |
| Current Liabilities | 5,455,392 | 4,446,635 | 1,008,757 | 22.69% |
| Long-term Liabilities | 42,860,846 | 37,141,175 | 5,719,671 | 15.40% |
| Deferred Inflows of Resources | 18,299,035 | 16,312,344 | 1,986,691 | 12.18% |
| Total Liabilities | 66,615,273 | 57,900,154 | 8,715,119 | 15.05% |
| Net Position: | | | | |
| Net Investment in Capital Assets | 43,422,682 | 47,210,322 | (3,787,640) | -8.02% |
| Restricted | 7,604,883 | 514,926 | 7,089,957 | 1376.89% |
| Unrestricted | 4,754,507 | 6,053,150 | (1,298,643) | -21.45% |
| Total Net Position | 55,782,072 | 53,778,398 | 2,003,674 | 3.73% |

The increase in net position is basically attributed to continued investment into capital assets.

Current Assets increased \$8,641,440 (20.95%) primarily with the remaining loan proceeds on hand for the Courthouse Annex project and an approximate \$1.98 Million increase associated with the property tax receivable at year end.

Deferred Outflows of Resources increased \$1,054,702 (45.62%) mostly from a \$1,376,945 change in assumptions with the pension plan.

Overall Liabilities increased \$8,715,119 (15.05%) with the addition of \$6.5 Million fifteen-year loan associated the Courthouse Annex Project. In addition, Current Liabilities were higher by \$1,008,757 (22.69%) with a couple of high dollar capital project invoices outstanding at year-end and Deferred Inflows of Resources also increased \$1,986,691 (12.18%) with an increase of property taxes to be received but not available at year-end.

Lee County Commission
Management's Discussion and Analysis
Fiscal Year October 1, 2016 through September 30, 2017

A significant portion of Lee County's net position \$43,422,682 (77.84%) are in its capital assets (i.e., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. These assets are not available for future spending. The County uses these capital assets to provide services to citizens. While the County's capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves can't be used to pay for or to liquidate these liabilities. The remaining net position, \$7,604,883 in restricted and \$4,754,507 in unrestricted, may be used to meet the County's ongoing obligations to citizens and creditors. Restricted net position is already designated for specific purposes where as unrestricted assets have not been specifically designated for a particular use. The significant shift from unrestricted to restrictive is attributed to the County's commitment to improving and expanding facilities.

Statement of Activities

The following schedule compares the revenues and expenses for the current year. Government activities increased the County's net position by \$2,003,674.

Changes in Net Position as of September 30, 2017:

| | Governmental Activities 2017 | Governmental Activities 2016 | Difference | Percentage |
|---|---|---|-------------------|-------------------|
| <u>Program Revenues:</u> | | | | |
| Charges for Services | 10,178,072 | 10,091,564 | 86,508 | 0.86% |
| Operating Grants & Contributions | 6,593,993 | 6,918,174 | (324,181) | -4.69% |
| Capital Grants & Contributions | 1,505,401 | 2,661,462 | (1,156,061) | -43.44% |
| <u>General Revenues:</u> | | | | |
| Property Taxes – General Purposes | 11,096,579 | 10,823,049 | 273,530 | 2.53% |
| Property Taxes – Specific Purposes | 6,294,030 | 6,064,704 | 229,326 | 3.78% |
| Sales Tax - Specific Purpose | 1,510,304 | 1,386,625 | 123,679 | 8.92% |
| Misc. Taxes | 1,110,475 | 1,091,268 | 19,207 | 1.76% |
| Grants & contributions not restricted to Special Programs | 720,947 | 645,234 | 75,713 | 11.73% |
| Interest Revenue | 61,064 | 100,782 | (39,718) | -39.41% |
| Miscellaneous | <u>1,071,668</u> | <u>1,160,761</u> | (89,093) | -7.68% |
| Total Revenues | 40,142,533 | 40,943,623 | (801,090) | -1.96% |
| EXPENSES | | | | |
| <u>Program Activities:</u> | | | | |
| General Government | 10,421,932 | 10,231,928 | 190,004 | 1.86% |
| Public Safety | 15,473,102 | 14,892,105 | 580,997 | 3.90% |
| Highways & Roads | 7,464,170 | 9,067,490 | (1,603,320) | -17.68% |
| Sanitation | 3,401,223 | 3,162,236 | 238,987 | 7.56% |
| Health & Welfare | 254,017 | 223,181 | 30,836 | 13.82% |
| Culture & Recreation | 71,676 | 35,338 | 36,338 | 102.83% |
| Education | 28,031 | 38,596 | (10,565) | -27.37% |
| Interest and Fiscal Charges | 1,024,708 | 1,023,373 | 1,335 | 0.13% |
| Total Expenses | 38,138,859 | 38,674,247 | (535,388) | -1.38% |
| Net Position, Increase in | <u>2,003,674</u> | <u>2,269,376</u> | (265,702) | -11.71% |

Lee County Commission
Management's Discussion and Analysis
Fiscal Year October 1, 2016 through September 30, 2017

Of the County's total \$40,142,533 revenues, property taxes account for 43.32% or \$17,390,609. Taxes represent 49.85% of the total revenue collected by the County for fiscal year ended September 30, 2017.

Overall revenues decreased \$801,090 (1.96%) from the previous year mainly due to the decrease in Capital Grants and Contributions.

Property Taxes experienced a 2.98% increase. These revenues for the 2017 fiscal year were based on assessments and values established from activity (i.e., sales and change in use) that occurred from October 2014 through September 2015 in Lee County. There continues to be growth to the tax base with new construction in commercial and residential property.

Capital Grants and Contributions decreased \$1,156,061 (43.44%) as there were less projects completed or started under the Alabama Transportation Rehabilitation Program (ATRIP) during the 2017 Fiscal Year compared to the previous year.

The remaining revenue categories had minor increases or decreases over the previous year.

Expenses for all services of the County were \$38,138,859 which is a decrease of \$535,388 (1.38%). Of the total expenses 27.33% was spent for general government, 40.57% for public safety, 19.57% for highways & roads, 8.92% for sanitation and 3.61% on the remaining categories listed above.

Overall expenses decreased \$535,388 (1.38%). Most activities had small increases associated with cost of living increases, merit raises and other associated personnel costs.

The decrease is primarily associated with \$1.6 Million less spent in the Highway Department's resurfacing program for Fiscal Year 2017 compared to the previous year. This program can fluctuate by large amounts from year to year as factors such as weather, project timing and additional allocations cross over each fiscal year.

Net Cost of Services

The net cost of services is a comparison of the total cost for government functions and programs and the net cost remaining after reducing that total by the revenue generated from the specific function or program. For the current year total cost of services were \$38,138,858 and the combined charges for services plus operating and capital grants received were \$18,277,465 leaving a net cost to the County of \$19,861,393. This was an increase of \$858,347 in expenditures required to be funded from general revenues. The general revenues covered these expenditures leaving a \$2,003,674 increase in Net Position for Fiscal Year 2017.

Lee County Commission
Management's Discussion and Analysis
Fiscal Year October 1, 2016 through September 30, 2017

| Function/Programs | 2017 Net Cost of Services | 2016 Net Cost of Services | Net Cost (Increase)/Decrease |
|----------------------------------|------------------------------|------------------------------|---------------------------------|
| General Government | (3,461,194.99) | (3,402,434.52) | (58,760) |
| Public Safety | (13,663,187.06) | (12,956,610.05) | (706,577) |
| Highways and Roads | (1,418,278.55) | (1,659,471.39) | 241,193 |
| Sanitation | (313,452.51) | 59,142.36 | (372,595) |
| Health | (194,742.03) | (205,199.50) | 10,457 |
| Welfare | (5,908.17) | (4,615.06) | (1,293) |
| Culture and Recreation | 1,591.48 | (35,338.11) | 36,930 |
| Education | (28,031.18) | (38,595.70) | 10,565 |
| Interest and Fiscal | (778,190.09) | (759,924.50) | (18,266) |
| Total Governmental Activities | (19,861,393) | (19,003,046) | (858,347) |

The reasons for a majority of the increases in net costs are discussed in the previous section (Statement of Activities).

Financial Analysis of Operational Fund Balances

The financial position of the County to address immediate needs as a whole is reflected in its governmental funds. A majority of Lee County Commission's governmental funds are used for the day-to-day operations. The total governmental operational funds balances at the end of the fiscal year basically remained the same as last year's ending balances.

Exhibit 5 gives a full breakdown of revenues, expenditures, and changes in fund balances of all governmental funds.

The following table provides a summary of the changes in fund balances of the County's major operational funds and the combined Other Governmental Funds. The capital type funds are excluded since the fund is for capital projects and not annual operations and/or routine capital maintenance. Also, the Reappraisal Fund is excluded as revenues are only recognized as they are earned; therefore, there is no fund balance associated with this fund.

| | Beginning Fund Balance | Net Increase or (Decrease) | Ending Fund Balance | % of Annual Expenditures |
|---|------------------------------|-------------------------------|------------------------|-----------------------------|
| General Fund | 10,838,931 | (1,270,395) | 9,568,536 | 34.66% |
| Gasoline Fund | 2,749,303 | 617,012 | 3,366,315 | 74.19% |
| Other Governmental Funds (<i>less Capital Funds</i>) | <u>5,392,516</u> | <u>(264,125)</u> | <u>5,128,391</u> | <u>78.23%</u> |
| Totals | 18,980,750 | (917,508) | 18,063,242 | 46.67% |

The General Fund is the main operational fund for the County. The fund experienced a \$1,270,395 (11.72%) decrease. See Budgetary Highlights for the General Fund for an explanation in the decrease.

Lee County Commission
Management's Discussion and Analysis
Fiscal Year October 1, 2016 through September 30, 2017

The Gasoline Tax Fund, which is the main operational fund for the Highway Department, experienced a \$617,012 (22.44%) increase. See Budgetary Highlights for the Gasoline Fund for an explanation in the increase.

Budgetary Highlights - Major Funds

General Fund

Exhibit 9 shows that a few changes were made in the original General Fund budget for fiscal year ended September 30, 2017.

Budgeted revenues were increased \$308,000 over the original budget specifically to recognize the revised projections for revenues based on mid-year actual numbers. The County Commission postponed a 3.35% pay range adjustment until mid-year to verify there would be enough on-going revenues to support such a decision. Once the projections proved to be correct the Commission recognized the revenue and increased the budgeted expenditures to grant the pay range adjustment.

In addition to the adjustment of budgeted expenditures for the pay range adjustment, the Commission also increased budgeted expenditures and budgeted transfers for a combined \$2,594,446 for capital purchases and other significant facility maintenance items.

Actual Revenues were \$423,842 (1.4%) higher than the final budgeted revenues and actual expenditures were \$1,226,570 (4.25%) lower than the final budgeted amounts. The County's objective is to conservatively budget revenue and continually encourage departments to perform well within their annual budgets.

The County Commission is committed to making necessary expansions to the facilities to meet the needs of a rapidly growing community along with investing in the maintenance of the existing facilities. The County Commission is also committed to keeping borrowing cost to a minimum in achieving such a goal; therefore, fund balance available in excess restrictions, designations, and the policy targeted fifteen percent of ongoing operational expenditures will be fully utilized each year for capital investment as such accumulates.

Gasoline Tax Fund

Exhibit 10 shows that no changes were made to revenues in the original Gasoline Tax Fund budget for fiscal year ended September 30, 2017.

Budgeted expenditures were increased for \$50,000 to assist in the mid-year 3.35% pay range adjustment, which was covered by a \$50,000 budget increase in Transfer in from the General Fund. In addition, budgeted expenditures were increased for \$195,000 sale of surplus equipment which was placed in additional capital outlay for equipment replacement.

Actual Revenues were \$209,838 (9.57%) higher than the final budgeted revenues.

Actual Expenditures were \$1,164,060 (20.42%) lower than the final budgeted expenditures.

Lee County Commission
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Again, the County's objective is to conservatively budget revenue and continually encourage departments to perform well within their annual budgets. This practice creates surplus funds which can be used for capital equipment purchases and/or one-time projects.

Reappraisal Fund

Exhibit 11 shows that a change was made to revenues and expenditures in the original Reappraisal Fund budget for fiscal year ended September 30, 2017.

Budgeted revenues and budgeted expenditures were both increased \$299,000 when the Alabama Department of Revenue approved the withholding of the additional funds out of tax collections for the purchase of a new property software system to be used in the appraisal process.

Actual Revenues and Expenditures were \$634,194 (35.09%) lower than the final budget. The purchase of the software mainly happens in the following fiscal year. In addition, the appraisal department didn't need as much funding as planned along with a couple of funded vacant positions. Revenues in the Reappraisal Fund are only recognized when earned, so the budget variance would be the same amount and reasons.

Capital Asset and Debt Administration

Capital Assets - Depreciation of assets other than land and construction in progress projects are recorded on an annual basis on the straight-line method of depreciation.

The following table shows a reconciliation of capital assets for the year ended September 30, 2017.

| | |
|--|---------------------|
| Total Capital Assets at October 1, 2016 | \$67,955,962 |
| Additions | 5,935,974 |
| Retirements | (678,948) |
| Annual Depreciation | (4,905,792) |
| Accumulated Depreciation of Retired Assets | <u>678,948</u> |
| Total Capital Assets at September 30, 2017 | \$68,986,144 |

The following table shows total assets before and after depreciation.

| | | |
|----------------------------|----------------------|---------------------|
| Land | \$2,781,737 | \$2,781,737 |
| Construction in Progress | 3,764,727 | 3,764,727 |
| Infrastructure | 30,027,467 | 20,074,739 |
| Buildings and Improvements | 54,972,006 | 34,537,937 |
| Equipment and Furniture | <u>27,099,620</u> | <u>7,827,004</u> |
| | \$118,645,557 | \$68,986,144 |

Lee County Commission
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Fiscal Year October 1, 2016 through September 30, 2017

Debt Outstanding

For Fiscal Year 2017, the County began the year with a \$10,348,887 net pension liability as of the September 30, 2015 measurement date. At year end, the net pension liability increased \$1,467,948 (14.18%) to \$11,816,835 as of the latest available measurement date of September 30, 2016.

At the end of September 2016, the County's long-term bonded debt was \$23,865,000. By the end of the current year the long-term bond debt had increased \$4,775,415 (20%) to \$28,640,415. This is the net result of issuing a \$6.5 Million fifteen-year bank loan in June 2017 for the Courthouse Annex project less the scheduled annual debt service on all long-term debt.

The liability for compensated absences as of the end of the current year was \$1,227,306 which was a \$289,451 decrease (19.08%) from last fiscal year's \$1,516,757.

The Lee County Commission provides health insurance to retirees under certain conditions as disclosed in the notes to the financial statements. The estimated liability at the beginning of the fiscal year was \$2,599,617. For the 2017 Fiscal Year, the difference between the annual required contribution as determined by an actuarial valuation and the actual contribution was \$214,053. This increase has been recognized in the Noncurrent section of the Liabilities on the Statement of Net Position for a total long-term liability of \$2,813,670.

See the notes to the financial statements for a full breakdown of outstanding long-term debt.

Economic Factors

Lee County benefits from the stable presence of Auburn University, with approximately 23,000 students and from the presence of a highly respected regional hospital (East Alabama Medical Center). In addition, the three K through 12 school systems within the County are solidly supported by the local community which has made Lee County a very attractive area for growth. The Auburn-Opelika area continually is recognized as an excellent place for business and place to live.

Lee County is continuing to see encouraging signs in the local economy with commercial construction in the two largest cities of Auburn and Opelika. Both cities are having success in recruiting new industry to the area along with the expansion of existing industries. We are seeing the local housing market continue to strengthen in the year-to-year numbers with new home starts and re-sales of existing homes. In addition, the commercial market has continued significant growth over the last year.

Based on the 2017 U.S. Census Bureau estimates, Lee County continues to grow at 2.23% per year. From 2010 to 2016, Lee County has grown from 140,247 to 158,991 in population.

Lee County Commission
Management's Discussion and Analysis
Fiscal Year October 1, 2016 through September 30, 2017

Financial Information Contact

The County's financial statements are designed to provide our citizens, taxpayers, customers, creditors and readers with a general overview of the County's finances and to demonstrate the County's accountability. If you have questions about the report or need additional financial information, contact the County Administrator at 215 South Ninth Street, Opelika, Alabama, (334) 745-3660. The office is located on the second floor of the historic courthouse in downtown Opelika.

Basic Financial Statements

Statement of Net Position
September 30, 2017

**Governmental
Activities**

Assets

Current Assets

| | |
|----------------------------|------------------|
| Cash and Cash Equivalents | \$ 28,494,429.95 |
| Investments | 2,472,220.85 |
| Accounts Receivable | 189,399.36 |
| Interest Receivable | 8,955.30 |
| Due from Other Governments | 1,089,362.91 |
| Property Tax Receivable | 17,552,747.19 |
| Inventories | 70,108.19 |
| Prepaid Items | 8,277.78 |
| Total Current Assets | 49,885,501.53 |

Noncurrent Assets

| | |
|--------------------------------|-----------------|
| Cash with Fiscal Agent | 158,993.06 |
| Capital Assets: | |
| Nondepreciable: | |
| Land | 2,781,736.70 |
| Construction in Progress | 3,764,726.96 |
| Depreciable: | |
| Buildings | 54,972,005.40 |
| Equipment and Furniture | 27,099,620.20 |
| Infrastructure | 30,027,466.92 |
| Less: Accumulated Depreciation | (49,659,412.56) |
| Total Noncurrent Assets | 69,145,136.68 |

| | |
|--------------|----------------|
| Total Assets | 119,030,638.21 |
|--------------|----------------|

Deferred Outflows of Resources

| | |
|--------------------------------------|--------------|
| Related to Pensions | 3,366,707.00 |
| Total Deferred Outflows of Resources | 3,366,707.00 |

Liabilities

Current Liabilities

| | |
|--|-----------------|
| Accounts Payable | 1,043,999.20 |
| Wages and Fringes Payable | 1,362,148.02 |
| Unearned Revenue | 543,717.12 |
| Accrued Interest Payable | 274,928.13 |
| Due to Other Governments | 80,688.98 |
| Long-Term Liabilities - Portion Due Within One Year: | |
| Warrants Payable | 2,053,987.10 |
| Premium on Warrants | 52,933.45 |
| Compensated Absences | 42,989.86 |
| Total Current Liabilities | \$ 5,455,391.86 |

The accompanying Notes to the Financial Statements are an integral part of this statement.

| | Governmental Activities |
|--|------------------------------------|
| <u>Noncurrent Liabilities</u> | |
| Long-Term Liabilities - Portion Payable After One Year: | |
| Warrants Payable | \$ 26,586,427.62 |
| Premium on Warrants | 459,597.46 |
| Estimated Liability for Retiree Health Plan | 2,813,670.00 |
| Net Pension Liability | 11,816,835.00 |
| Compensated Absences | 1,184,315.80 |
| Total Noncurrent Liabilities | <u>42,860,845.88</u> |
| Total Liabilities | <u>48,316,237.74</u> |
| <u>Deferred Inflows of Resources</u> | |
| Unavailable Revenues - Property Taxes | 17,319,631.89 |
| Revenue Received in Advance - Motor Vehicle Taxes Related to Pensions | 893,215.33 |
| | 86,188.00 |
| Total Deferred Inflows of Resources | <u>18,299,035.22</u> |
| <u>Net Position</u> | |
| Net Investment in Capital Assets | 43,422,682.43 |
| Restricted for: | |
| Debt Service | 158,993.06 |
| Other Purposes | 7,445,889.42 |
| Unrestricted | 4,754,507.34 |
| Total Net Position | <u>\$ 55,782,072.25</u> |

Statement of Activities
For the Year Ended September 30, 2017

| Functions/Programs | Expenses | Program Revenues | |
|--------------------------------|---------------------------|-------------------------|---------------------------------------|
| | | Charges for Services | Operating Grants and Contributions |
| Primary Government | | | |
| Governmental Activities | | | |
| General Government | \$ (10,421,932.05) | \$ 6,229,769.50 | \$ 154,738.59 |
| Public Safety | (15,473,101.58) | 802,117.66 | 1,007,796.86 |
| Highways and Roads | (7,464,170.43) | 58,413.50 | 5,131,573.70 |
| Sanitation | (3,401,223.45) | 3,087,770.94 | |
| Health | (248,108.55) | | 53,366.52 |
| Welfare | (5,908.17) | | |
| Culture and Recreation | (71,675.52) | | |
| Education | (28,031.18) | | |
| Interest and Fiscal Fees | (1,024,707.69) | | 246,517.60 |
| Total Governmental Activities | <u>\$ (38,138,858.62)</u> | <u>\$ 10,178,071.60</u> | <u>\$ 6,593,993.27</u> |

General Revenues:

Taxes:

Sales Tax - Specific Purposes

Property Taxes for General Purposes

Property Taxes for Specific Purposes

Miscellaneous Taxes

Grants and Contributions Not Restricted for
Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Changes in Net Position

Net Position - Beginning of Year

Net Position - End of Year

The accompanying Notes to the Financial Statements are an integral part of this statement.

| <u>Capital Grants and Contributions</u> | <u>Net (Expenses) Revenues and Changes in Net Position Primary Government Total Governmental Activities</u> |
|---|---|
| \$ 576,228.97 | \$ (3,461,194.99) |
| | (13,663,187.06) |
| 855,904.68 | (1,418,278.55) |
| | (313,452.51) |
| | (194,742.03) |
| | (5,908.17) |
| 73,267.00 | 1,591.48 |
| | (28,031.18) |
| | (778,190.09) |
| <u>\$ 1,505,400.65</u> | <u>(19,861,393.10)</u> |

| |
|-------------------------|
| 1,510,304.26 |
| 11,096,579.01 |
| 6,294,029.97 |
| 1,110,474.61 |
| 720,947.41 |
| 61,064.30 |
| 1,071,667.72 |
| <u>21,865,067.28</u> |
| 2,003,674.18 |
| <u>53,778,398.07</u> |
| <u>\$ 55,782,072.25</u> |

Balance Sheet
Governmental Funds
September 30, 2017

| | General Fund | Gasoline Tax Fund |
|--|-------------------------|------------------------------|
| <u>Assets</u> | | |
| Cash and Cash Equivalents | \$ 9,180,748.48 | \$ 3,419,915.24 |
| Cash with Fiscal Agent | | |
| Investments | 2,022,578.72 | |
| Accounts Receivable | 181,938.80 | |
| Interest Receivable | 6,329.76 | 247.56 |
| Due from Other Governments | 587,920.73 | 199,069.79 |
| Property Tax Receivable | 15,674,327.39 | |
| Inventories | 57,410.03 | 12,698.16 |
| Prepaid Items | 8,277.78 | |
| Total Assets | <u>27,719,531.69</u> | <u>3,631,930.75</u> |
| <u>Liabilities, Deferred Inflows of Resources and Fund Balances</u> | | |
| <u>Liabilities</u> | | |
| Accounts Payable | 561,617.32 | 101,256.01 |
| Wages and Fringes Payable | 1,137,207.67 | 161,384.45 |
| Unearned Revenue | | |
| Due to Other Governments | 80,688.98 | |
| Estimated Liability for Compensated Absences | 37,054.04 | 2,975.59 |
| Total Liabilities | <u>1,816,568.01</u> | <u>265,616.05</u> |
| <u>Deferred Inflows of Resources</u> | | |
| Unavailable Revenue Property Taxes | 15,441,212.00 | |
| Revenue Received in Advance - Motor Vehicles Taxes | 893,215.33 | |
| Total Deferred Inflows of Resources | <u>16,334,427.33</u> | |
| <u>Fund Balances</u> | | |
| Nonspendable | 65,687.81 | 12,698.16 |
| Restricted | 1,542,688.14 | |
| Committed | 1,066,837.13 | |
| Assigned | 2,188,235.00 | 3,353,616.54 |
| Unassigned | 4,705,088.27 | |
| Total Fund Balances | <u>9,568,536.35</u> | <u>3,366,314.70</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 27,719,531.69</u> | <u>\$ 3,631,930.75</u> |

The accompanying Notes to the Financial Statements are an integral part of this statement.

| Reappraisal Fund | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|------------------------|------------------------|--------------------------|--------------------------|
| \$ 423,187.41 | \$ 7,457,043.01 | \$ 8,013,535.81 | \$ 28,494,429.95 |
| | | 158,993.06 | 158,993.06 |
| | | 449,642.13 | 2,472,220.85 |
| | | 7,460.56 | 189,399.36 |
| 79.10 | 907.38 | 1,391.50 | 8,955.30 |
| | | 302,372.39 | 1,089,362.91 |
| 1,878,419.80 | | | 17,552,747.19 |
| | | | 70,108.19 |
| | | | 8,277.78 |
| <u>2,301,686.31</u> | <u>7,457,950.39</u> | <u>8,933,395.45</u> | <u>50,044,494.59</u> |
| 3,378.82 | 352,572.34 | 25,174.71 | 1,043,999.20 |
| 35,999.97 | | 27,555.93 | 1,362,148.02 |
| 381,714.22 | | 162,002.90 | 543,717.12 |
| | | | 80,688.98 |
| 2,173.41 | | 786.82 | 42,989.86 |
| <u>423,266.42</u> | <u>352,572.34</u> | <u>215,520.36</u> | <u>3,073,543.18</u> |
| 1,878,419.89 | | | 17,319,631.89 |
| | | | 893,215.33 |
| <u>1,878,419.89</u> | | | <u>18,212,847.22</u> |
| | | | 78,385.97 |
| | 7,105,378.05 | 8,717,875.09 | 17,365,941.28 |
| | | | 1,066,837.13 |
| | | | 5,541,851.54 |
| | | | 4,705,088.27 |
| | <u>7,105,378.05</u> | <u>8,717,875.09</u> | <u>28,758,104.19</u> |
| <u>\$ 2,301,686.31</u> | <u>\$ 7,457,950.39</u> | <u>\$ 8,933,395.45</u> | <u>\$ 50,044,494.59</u> |

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***Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
September 30, 2017***

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 28,758,104.19

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. These assets consist of:

| | | |
|--------------------------------|------------------------|---------------|
| Land | \$ 2,781,736.70 | |
| Infrastructure | 30,027,466.92 | |
| Buildings | 54,972,005.40 | |
| Equipment and Furniture | 27,099,620.20 | |
| Construction in Progress | 3,764,726.96 | |
| Less: Accumulated Depreciation | <u>(49,659,412.56)</u> | |
| Total Capital Assets | | 68,986,143.62 |

Deferred outflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.

Deferred Outflows of Resources for Pension Related Costs 3,366,707.00

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. These liabilities at year-end consist of:

| | Liabilities | | |
|--|------------------------|-------------------------|-----------------|
| | Current | Noncurrent | |
| Warrants Payable | \$ 2,053,987.10 | \$ 26,586,427.62 | |
| Premium on Warrants | 52,933.45 | 459,597.46 | |
| Accrued Interest Payable | 274,928.13 | | |
| Estimated Liability for Compensated Absences | | 1,184,315.80 | |
| Estimated Liability for Retiree Health Plan | | 2,813,670.00 | |
| Net Pension Liability | | <u>11,816,835.00</u> | |
| Total Long-Term Liabilities | <u>\$ 2,381,848.68</u> | <u>\$ 42,860,845.88</u> | (45,242,694.56) |

Deferred inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.

Deferred Inflows of Resources from Pension Related Activities (86,188.00)

Total Net Position - Governmental Activities (Exhibit 1) \$ 55,782,072.25

The accompanying Notes to the Financial Statements are an integral part of this statement.

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2017

| | General Fund | Gasoline Tax Fund |
|---|-------------------------|------------------------------|
| <u>Revenues</u> | | |
| Taxes | \$ 19,252,891.74 | \$ |
| Licenses and Fees | 743,021.33 | |
| Intergovernmental | 1,854,418.71 | 2,338,552.99 |
| Fees and Charges for Services | 8,247,258.28 | 58,413.50 |
| Miscellaneous | 590,682.76 | 6,481.42 |
| Total Revenues | <u>30,688,272.82</u> | <u>2,403,447.91</u> |
| <u>Expenditures</u> | | |
| Current: | | |
| General Government | 7,778,673.86 | |
| Public Safety | 13,756,095.06 | |
| Road and Bridge | | 3,769,739.69 |
| Sanitation | 3,033,129.86 | |
| Health | 245,636.28 | |
| Welfare | 3,461.92 | |
| Culture and Recreation | 67,466.13 | |
| Education | 25,465.38 | |
| Capital Outlay | 2,698,634.04 | 767,810.52 |
| Debt Service: | | |
| Principal Retirement | | |
| Interest and Fiscal Agent Fees | | |
| Total Expenditures | <u>27,608,562.53</u> | <u>4,537,550.21</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>3,079,710.29</u> | <u>(2,134,102.30)</u> |
| <u>Other Financing Sources (Uses)</u> | | |
| Sale from Capital Assets | 2,976.00 | 195,114.00 |
| Transfer In | | 2,556,000.00 |
| Debt Issuance | | |
| Transfer Out | (4,279,102.37) | |
| Unrealized Gain/(Loss) on Investments | (73,978.66) | |
| Total Other Financing Sources (Uses) | <u>(4,350,105.03)</u> | <u>2,751,114.00</u> |
| Net Change in Fund Balances | (1,270,394.74) | 617,011.70 |
| Fund Balances - Beginning of Year | <u>10,838,931.09</u> | <u>2,749,303.00</u> |
| Fund Balances - End of Year | <u>\$ 9,568,536.35</u> | <u>\$ 3,366,314.70</u> |

The accompanying Notes to the Financial Statements are an integral part of this statement.

| Reappraisal Fund | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|------------------|-----------------------|--------------------------|--------------------------|
| \$ 1,169,651.04 | \$ | \$ 120,877.43 | \$ 20,543,420.21 |
| | | | 743,021.33 |
| | | 5,055,670.34 | 9,248,642.04 |
| | | 491,213.60 | 8,796,885.38 |
| 3,277.24 | 12,736.79 | 27,030.60 | 640,208.81 |
| 1,172,928.28 | 12,736.79 | 5,694,791.97 | 39,972,177.77 |
| 1,045,428.28 | | 376,555.24 | 9,200,657.38 |
| | | 8,205.66 | 13,764,300.72 |
| | | 1,753,381.32 | 5,523,121.01 |
| | | | 3,033,129.86 |
| | | | 245,636.28 |
| | | | 3,461.92 |
| | | | 67,466.13 |
| | | | 25,465.38 |
| 127,500.00 | 1,007,357.03 | 1,334,673.01 | 5,935,974.60 |
| | | 1,724,582.28 | 1,724,582.28 |
| | | 1,024,707.69 | 1,024,707.69 |
| 1,172,928.28 | 1,007,357.03 | 6,222,105.20 | 40,548,503.25 |
| | (994,620.24) | (527,313.23) | (576,325.48) |
| | | | 198,090.00 |
| | 1,601,150.34 | 2,197,172.56 | 6,354,322.90 |
| | 6,500,000.00 | | 6,500,000.00 |
| | (54,070.19) | (2,021,150.34) | (6,354,322.90) |
| | | (8,175.31) | (82,153.97) |
| | 8,047,080.15 | 167,846.91 | 6,615,936.03 |
| | 7,052,459.91 | (359,466.32) | 6,039,610.55 |
| | 52,918.14 | 9,077,341.41 | 22,718,493.64 |
| \$ | \$ 7,105,378.05 | \$ 8,717,875.09 | \$ 28,758,104.19 |

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, 2017

Net Change in Fund Balances - Total Governmental Funds (Exhibit 5) \$ 6,039,610.55

Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:

Governmental funds report capital outlay as an expenditure. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$5,935,974.60) exceeds depreciation (\$4,905,792.22). 1,030,182.38

Repayment of principal on debt that is reflected as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 1,724,585.28

Proceeds from the issuance of debt are reported as financing sources in governmental funds and, thus, contribute to the change in fund balance. Issuing long-term debt increases liabilities in the Statement of Net Position but does not affect the Statement of Activities.

Debt issuance for Courthouse Annex Construction (6,500,000.00)

Some items reported in the Statement of Activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental funds. These consist of:

| | | | |
|--|----|--------------|-----------|
| Net Decrease in Long-Term Compensated Absences | \$ | 265,823.83 | |
| Net Increase in Long-Term Retiree Health Plan Benefits | | (214,053.00) | |
| Net Decrease in Accrued Interest Payable | | 248.70 | 52,019.53 |

Amortization of Premium on Bond Issue 52,933.44

Recognition of annual pension expense as of measurement date September 30, 2016. (1,467,948.00)

Increase in Deferred Outflows of Resources related to Pensions for contributions subsequent to measurement date September 30, 2016. 1,054,702.00

Decrease in Deferred Inflows of Resources related to Pensions subsequent to measurement date September 30, 2016. 17,589.00

Total Change in Net Position - Governmental Activities (Exhibit 2) \$ 2,003,674.18

The accompanying Notes to the Financial Statements are an integral part of this statement.

Statement of Fiduciary Net Position
September 30, 2017

| | Private-Purpose Trust Funds |
|-----------------------------------|--|
| <u>Assets</u> | |
| <u>Current Assets</u> | |
| Cash and Cash Equivalents | \$ 2,115,712.11 |
| Total Assets | <u>2,115,712.11</u> |
| <u>Liabilities</u> | |
| <u>Current Liabilities</u> | |
| Payable to External Parties | 1,849,512.78 |
| Total Liabilities | <u>1,849,512.78</u> |
| <u>Net Position</u> | |
| Held in Trust for Other Purposes | <u>\$ 266,199.33</u> |

The accompanying Notes to the Financial Statements are an integral part of this statement.

***Statement of Changes in Fiduciary Net Position
For the Year Ended September 30, 2017***

| | Private-Purpose Trust Funds |
|----------------------------------|--|
| <u>Additions</u> | |
| Contributions: | |
| Probate Court | \$ 219,964.76 |
| Total Additions | <u>219,964.76</u> |
| <u>Deductions</u> | |
| Payment to Beneficiaries | 173,907.91 |
| Total Deductions | <u>173,907.91</u> |
| Changes in Net Position | 46,056.85 |
| Net Position - Beginning of Year | <u>220,142.48</u> |
| Net Position - End of Year | <u><u>\$ 266,199.33</u></u> |

The accompanying Notes to the Financial Statements are an integral part of this statement.

Notes to the Financial Statements

For the Year Ended September 30, 2017

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Lee County Commission (the “Commission”), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The Commission is a general purpose local government governed by separately elected commissioners. Generally Accepted Accounting Principles (GAAP) requires that the financial statements present the Commission (the primary government) and its component units. Component units generally are legally separate entities for which a primary government is financially accountable or other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on the application of the above criteria, the following entity is a component unit that has been included in the accompanying financial statements as blended presented component unit.

Blended Presentation Unit – Act Number 2009-330, Acts of Alabama, created the Lee County Alternative Sentencing Board, a legally separate entity to oversee and operate all programs related to alternative sentencing as specified in the Act. The Board is comprised of seven members with five as permanent members. The five permanent members are the presiding circuit judge for the 37th Judicial Circuit, a district judge appointed by the presiding circuit judge, the Lee County Sheriff, the District Attorney for the 37th Judicial Circuit, and the Lee County Circuit Clerk. The two non-permanent members are appointed by the Lee County Commission and serve four year terms.

The Board has the authority over its personnel; sets fees for its programs; buy, sell, lease personal and real property; enters contracts; and exercises incidental powers to carry out the intent and purposes of Act Number 2009-330, Acts of Alabama. Currently, the Commission provides about 20% of the funding for the Board. The Commission is also closely related to the Board by providing participation of the Board's employees in retirement, health insurance and worker's compensation programs of the Commission. In addition, the Commission provides office space, administrative services and general liability insurance coverage to the Board and its employees. The Board's programs provide benefits to the Commission by diverting certain non-violent individuals from occupying space in the county's jail. For these reasons, the Lee County Alternative Sentencing Board financial information has been blended into the Commission's financial statements and is included as a special revenue fund in the Other Governmental Funds' column.

Notes to the Financial Statements

For the Year Ended September 30, 2017

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the Commission. These statements include the financial activities of the primary government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

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

Fund Financial Statements

The fund financial statements provide information about the Commission's funds, including fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds in the Other Governmental Funds' column.

The Commission reports the following major governmental funds:

- ◆ **General Fund** – The General Fund is the primary operating fund of the Commission. It is used to account for all financial resources except those required to be accounted for in another fund. The Commission primarily receives revenues from collections of property taxes and revenues collected by the State of Alabama and shared with the Commission. Also, the fund is used to account for the expenditure of special county property taxes for building and maintaining public buildings, roads and bridges as well as the expenditure of solid waste disposal fees for environmental services provided to the citizens of the county.

- ◆ **Gasoline Tax Fund** – This fund is used to account for the expenditures of Commission's share of the 7-cent gasoline tax restricted to roads.

Notes to the Financial Statements
For the Year Ended September 30, 2017

- ◆ **Reappraisal Fund** – This fund is used to account for the expenditure of property taxes and the other revenues required to be expended for the costs of the property reappraisal program.
- ◆ **Capital Projects Fund** – This fund is used to account for financial resources that are restricted, committed, or assigned for capital expenditures in the construction of a courthouse expansion.

The Commission reports the following governmental fund types in the Other Governmental Funds' column:

Governmental Fund Types

- ◆ **Special Revenue Funds** – These funds are used to account for financial resources that are restricted or committed to specific purposes other than capital outlay, debt service, and private-purpose trusts. The restricted or committed resources are expected to comprise a substantial portion of the financial inflows of the fund. Lee County Commission has defined a substantial portion as at least forty-percent within three consecutive fiscal years. Any funds failing to meet this definition, whether legally required or established by resolution of the County Commission, are combined with the General Fund for reporting purposes.
- ◆ **Capital Projects Funds** – These funds are used to account for financial resources that are restricted, committed, or assigned for capital expenditures in the acquisition and/or construction of capital facilities and other capital assets.
- ◆ **Debt Service Funds** – These funds are used to account for financial resources that are restricted, committed, or assigned for current and future principal and interest payments on debt.

The Commission reports the following fiduciary fund type:

Fiduciary Fund Type

- ◆ **Private-Purpose Trust Funds** – These funds are used to report all trust agreements under which principal and income benefit individuals, private organizations, or other governments.

Notes to the Financial Statements
For the Year Ended September 30, 2017

C. 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 fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the Commission gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within thirty (30) days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. General long-term debt issued and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balances

1. Deposits and Investments

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

Notes to the Financial Statements

For the Year Ended September 30, 2017

State statutes authorize the County Commission to invest in obligations of the U. S. Treasury, securities of federal agencies, obligations of certain governmental units of Alabama and certificates of deposit.

Investments are reported at fair value, based on quoted market prices, except for money market investments and repurchase agreements, which are reported at amortized cost. The Commission reports all money market investments – U. S. Treasury bills and bankers' acceptances having a remaining maturity at time of purchase of one year or less – at amortized cost.

2. Receivables

All ad valorem tax and sales tax receivables are shown net of an allowance for uncollectibles. Sales tax receivables are based on the amounts collected within 30 days after year-end. The allowance for uncollectibles for ad valorem taxes is based on past collection experience.

Sales tax receivables consist of taxes that have been paid by consumers in September. This tax is normally remitted to the Commission within the next 30 days.

Millage rates for property taxes are levied at the first regular meeting of the Commission in February of each year. Property is assessed for taxation as of October 1 of the preceding year based on the millage rates established by the County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31. Amounts receivable, net of estimated refunds and estimated uncollectible amounts, are recorded for the property taxes levied in the current year. However, since the amounts are not available to fund current year operations, the revenue is deferred and recognized in the subsequent fiscal year when the taxes are both due and collectible and available to fund operations. Property tax revenue deferred is reported as a deferred inflow of resources.

Receivables due from other governments include amounts due from grantors for grants issued for specific programs and capital projects. There are amounts due from State shared tax and fee revenues like gasoline taxes and motor vehicle fees. In addition, there are amounts due from local cities for consolidated services like the detention center.

3. Inventories

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

4. Prepaid Items

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.

Notes to the Financial Statements
For the Year Ended September 30, 2017

5. Restricted Assets

Certain general obligation warrants proceeds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable warrant covenants. The Alternative Sentencing Board's cash is restricted by local law.

6. Capital Assets

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, bridges, water and sewer systems, and similar items), are reported in the government-wide financial statements. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical record exists. Donated fixed assets are valued at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Major outlays of capital assets and improvements are capitalized as projects are constructed.

Depreciation on all assets is provided on the straight-line basis over the assets' estimated useful life. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the government-wide statements are as follows:

| | Capitalization Threshold | Estimated Useful Life |
|-------------------------|-----------------------------|--------------------------|
| Buildings | \$ 800 | 40 Years |
| Equipment and Furniture | \$ 800 | 5 – 7 Years |
| Roads | \$250,000 | 15 Years |
| Bridges | \$ 50,000 | 50 Years |

The majority of governmental activities infrastructure assets are roads and bridges. The Association of County Engineers has determined that due to the climate and materials used in road construction, the base of the roads in the county will not deteriorate and therefore should not be depreciated. The remaining part of the road, the surface, will deteriorate and will be depreciated. The entire costs of bridges in the county will be depreciated.

7. Deferred Outflows of Resources

Deferred outflows of resources are reported in the Statement of Net Position. Deferred outflows of resources are defined as a consumption of net position by the government that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets.

Notes to the Financial Statements
For the Year Ended September 30, 2017

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond/Warrant premiums and discounts are deferred and amortized over the life of the debt. Bonds/Warrants payable are reported gross, with a separate line for the applicable bond/warrant premium or discount. Bond/Warrant issuance costs are reported as an expense in the period incurred.

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

9. Compensated Absences

The Commission has a standard leave policy for its full-time employees as to sick leave, annual leave, and compensatory leave time.

Annual Leave

Annual (vacation) leave accrues to permanent full-time employees at the following rates:

| Continuous Years of Service | Per Year |
|--------------------------------|----------|
| Less than six years | 10 days |
| Six to ten years | 12 days |
| Eleven to fifteen years | 15 days |
| Sixteen years and over | 18 days |

Earned leave will be for each full month worked. No more than two hundred eighty-eight hours (36 days) of annual leave may be accrued and carried forward into the next year; however, the first sixty hours over the maximum carryover is paid to the employee at some point in February. Upon separation from County service, employees may be paid for all unused annual leave at the employee's current rate of pay or required to take his/her leave, at the discretion of the department head and the Lee County Commission.

Notes to the Financial Statements

For the Year Ended September 30, 2017

Sick Leave

Sick leave is earned at the rate of one day per full month worked. No employee may accumulate more than 130 days total sick leave. Sick days shall not be accrued while an employee is in a non-pay status. Upon separation from County service, an employee's accrued sick leave shall not be paid; however, all individuals who are separated in good standing shall receive up to 120 days credit for unused sick leave accrued from their prior Lee County employment, if they are reinstated within twelve calendar months from the effective date of their separation.

Based on the fact that payments for sick leave are not made upon termination or retirement, no accruals for sick leave are reflected in the accompanying financial statements.

Compensatory Time

Compensatory Time is granted in lieu of overtime at the discretion of the employee. This time may be taken by the employee at a later date in the same manner as annual leave. Employees are also paid for all unused compensatory leave time at the employee's current rate of pay or required to take his/her leave, at the discretion of the department head and the Lee County Commission. Non-exempted employees are allowed to accumulate a maximum of 240 hours (earned at time and a half). Public safety employees are allowed to accumulate a maximum of 480 hours (earned at time and a half). Exempted employees are allowed to accumulate a maximum of 160 hours (earned hour for hour).

10. Deferred Inflows of Resources

Deferred inflows of resources are reported in the government-wide and governmental fund financial statements. Deferred inflows of resources are defined as an acquisition of net position/fund balances by the government that is applicable to a future reporting period. Deferred inflows of resources decrease net position/fund balances, similar to liabilities.

11. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, 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.

Notes to the Financial Statements

For the Year Ended September 30, 2017

12. Net Position/Fund Balances

Net position is reported on the government-wide financial statements and are required to be classified for accounting and reporting purposes into the following net position categories:

- ◆ **Net Investment in Capital Assets** – Capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources attributable to acquisition, construction and improvement of those assets should also be included in this component. Any significant unspent related debt proceeds, or deferred inflows of resources attributable to the unspent amount at year-end related to capital assets are not included in this calculation.

- ◆ **Restricted** – Constraints imposed on net position by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.

- ◆ **Unrestricted** – Is the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position. Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the Commission.

Fund balance is reported in governmental funds on the fund financial statements and is required to be classified for accounting and reporting purposes into the following fund balance categories:

- A. Nonspendable fund balances include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Examples of nonspendable fund balance reserves for which fund balance shall not be available for financing general operating expenditures include: inventories, prepaid items, and long-term receivables.

- B. Restricted fund balances consist of amounts that are subject to externally enforceable legal restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.

- C. Committed fund balances consist of amounts that are subject to a purpose constraint imposed by formal resolution of the County Commission, which is the highest level of decision making authority, before the end of the fiscal year and that require the same level of formal resolution to remove or modify the constraint.

Notes to the Financial Statements
For the Year Ended September 30, 2017

- D. Assigned fund balances consist of amounts that are intended to be used by the County Commission for specific purposes. The County Commission adopted a policy on September 26, 2011, to authorize the County Administrator to make a determination of the assigned amounts of fund balance. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Assigned fund balances require the same level of authority to remove the constraint.
- E. Unassigned fund balances include all spendable amounts not contained in one of the other classifications. This portion of the total fund balance in the General Fund is available to finance operating expenditures.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended are as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly unassigned fund balance.

13. Minimum Fund Balance Policy

The Commission adopted a fund balance policy in order to establish financial reserves for its operating funds, funds from which personnel and operational costs are expended for day to day operations. The policy requires each operational fund to maintain, in addition to all other required reserves or designations of fund balances, a minimum of 15% committed fund balance for the current year expenditure budget less capital outlay.

Note 2 – Stewardship, Compliance, and Accountability

Budgets

Annual budgets are adopted on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP) for all governmental funds except the capital projects funds, which adopt project-length budgets. All annual appropriations lapse at fiscal year-end.

The present statutory basis for county budgeting operations is the County Financial Control Act of 1935, as amended by Act Number 2007-488, Acts of Alabama. According to the terms of the law, at some meeting in September of each year, but in any event not later than October 1, the Commission must estimate the anticipated revenues, estimated expenditures and appropriations for the respective amounts that are to be used for each of such purposes. The appropriations must not exceed the total revenues available for appropriation plus any balances on hand. Expenditures may not legally exceed appropriations.

Budgets may be adjusted during the fiscal year when approved by the County Commission. Any changes must be within the revenues and reserves estimated to be available.

Notes to the Financial Statements
For the Year Ended September 30, 2017

Note 3 – Deposits and Investments

Deposits

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Commission will not be able to cover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Commission's deposits at year-end were entirely covered by federal depository insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

Cash with Fiscal Agent

The Commission has deposits totaling \$158,993 in the debt service funds (other governmental funds) which is shown as cash with fiscal agents on the fund financial statements and as restricted assets on the government-wide financial statements. These funds are invested in Federated Treasury Obligations Funds. This money market fund invests primarily in U. S. Treasury securities maturing in 397 days or less. These investments include repurchase agreements collateralized fully by U. S. Treasury obligations. Federated Treasury Obligations Funds are rated AAAM by Standard & Poor's with a dollar-weighted average portfolio maturity of 51 days or less.

Investments

The *Code of Alabama 1975*, Section 11-8-11, Section 11-81-19, Section 11-81-20 and Section 11-81-21, authorize the Commission to invest in obligations, including any common trust fund or other collective investment fund, of the U. S. Treasury and federal agency securities along with certain pre-refunded public obligation such as bonds or other obligations of any state of the United States of America or any agency, instrumentality or local government unit of any such state.

Notes to the Financial Statements

For the Year Ended September 30, 2017

At September 30, 2017, the Commission had the following investments on the government-wide financial statements and on the fund financial statements:

| Mutual Fund Investments | Cost | Fair Value |
|--|-------------|-------------|
| Franklin U. S. Government Securities Class A | \$1,700,000 | \$1,557,596 |
| Franklin Alabama Tax-Free Income Fund Class A | 500,000 | 464,983 |
| Franklin Adjusted U. S. Government Securities Class A1 | 500,000 | 449,642 |
| Total | \$2,700,000 | \$2,472,221 |

All three mutual funds balances are reported on an end of the month statement from Edwards Jones and all three securities in this account are all Level 1 securities and are priced by a third party (Independent Directors Council). These securities are traded in multiple active markets; so, the quoted price represents the fair value.

Overall, the Commission has recognized an unrealized loss on investments of \$227,779 as of September 30, 2017. The funds used for these investments are funds that are not anticipated to be utilized in the future. These investments were purchased for income production and not speculation.

The Franklin U. S. Government Securities fund invests substantially in Government National Mortgage Association securities or other securities backed by the full faith and credit of the U. S. government.

The Franklin Alabama Tax-Free Income Fund invests in Alabama municipal securities rated in one of the top four rating categories by one or more U. S. nationally recognized rating services.

The Franklin Adjusted U. S. Government Securities fund investment seeks a high level of current income, while providing lower volatility of principal than a fund that invests in fixed-rate securities. The fund normally invests at least 80% of its net assets in “adjustable-rate U. S. government mortgage securities.” “Adjustable-rate U. S. government mortgage securities” include adjustable-rate mortgage securities (ARMS) and other mortgage-backed securities with interest rates that adjust periodically to reflect prevailing market interest rates.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increased interest rates.

Custodial Credit Risk – The shares of the mutual funds are held in the name of the Commission. The actual securities, which are bought and sold based on the objectives of the fund by the fund managers, are held by the mutual fund.

Notes to the Financial Statements
For the Year Ended September 30, 2017

Concentrations of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Commission does not have an investment policy that limits an investment in any one issuer that is in excess of five percent of the Commission's total investments.

Note 4 – Unearned Revenues

Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At September 30, 2017, the various components of unearned revenue reported in the governmental funds were as follows:

| | Unearned |
|--|-----------|
| Build American Bonds Subsidy | \$ 51,774 |
| Grants Received but Unearned at September 30, 2017 | 110,229 |
| Reappraisal Fund Balance | 381,714 |
| Total Unearned Revenue for Governmental Funds | \$543,717 |

Note 5 – Capital Assets

Capital asset activity for the year ended September 30, 2017, was as follows:

| | Balance 10/01/2016 | Additions/ Reclassifications (*) | Retirements/ Reclassifications (*) | Balance 09/30/2017 |
|---|-----------------------|-------------------------------------|---------------------------------------|-----------------------|
| Governmental Activities: | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Land | \$ 2,781,737 | \$ | \$ | \$ 2,781,737 |
| Construction in Progress | 1,931,288 | 3,539,121 | (1,705,682) | 3,764,727 |
| Total Capital Assets Not Being Depreciated | 4,713,025 | 3,539,121 | (1,705,682) | 6,546,464 |
| Capital Assets Being Depreciated: | | | | |
| Infrastructure | 27,965,626 | 2,061,841 | | 30,027,467 |
| Buildings | 55,001,636 | 8,827 | (38,457) | 54,972,006 |
| Equipment and Furniture | 25,708,243 | 2,070,325 | (678,948) | 27,099,620 |
| Total Capital Assets Being Depreciated | 108,675,505 | 4,140,993 | (717,405) | 112,099,093 |
| Less Accumulated Depreciation for: | | | | |
| Buildings | (18,040,591) | (2,393,478) | | (20,434,069) |
| Infrastructure | (8,584,152) | (1,368,576) | | (9,952,728) |
| Equipment and Furniture | (18,807,825) | (1,974,202) | 1,509,411 | (19,272,616) |
| Total Accumulated Depreciation | (45,432,568) | (5,736,256) | 1,509,411 | (49,659,413) |
| Total Capital Assets, Being Depreciated, Net | 63,242,937 | (1,595,263) | 792,006 | 62,439,680 |
| Total Governmental Activities Capital Assets, Net | \$ 67,955,962 | \$ 1,943,858 | \$ (913,676) | \$ 68,986,144 |
| (*) Upon their completion, construction projects were reclassified as Infrastructure. Other reclassifications were required to correctly state ending balances. | | | | |

Notes to the Financial Statements
For the Year Ended September 30, 2017

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

| | Current Year Depreciation Expense |
|--|---|
| <u>Governmental Activities:</u> | |
| General Government | \$1,041,980 |
| Public Safety | 1,585,607 |
| Highway and Roads | 1,892,336 |
| Sanitation | 376,221 |
| Health | 426 |
| Recreation | 6,656 |
| Education | 2,566 |
| Total Depreciation Expense – Governmental Activities | \$4,905,792 |

Note 6 – Defined Benefit Pension Plan

A. General Information about the Pension Plan

Plan Description

The Employees’ Retirement System of Alabama (ERS), an agency multiple-employer plan (the “Plan”), was established October 1, 1945 under the provisions of Act Number 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for State employees, State Police, and on an elective basis, 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). The *Code of Alabama 1975*, Section 36-27-2, 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.

Notes to the Financial Statements

For the Year Ended September 30, 2017

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.
- 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 the *Code of Alabama 1975*, Section 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 Number 2012-377, Acts of Alabama, 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.

Notes to the Financial Statements
For the Year Ended September 30, 2017

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 on the member's age, service credit, employment status and eligibility for retirement.

The ERS serves approximately 906 local participating employers. These participating employers include cities, counties, and other public entities. The ERS membership includes approximately 85,874 participants. As of September 30, 2016, membership consisted of:

| | |
|---|---------------|
| Retirees and beneficiaries currently receiving benefits | 23,007 |
| Terminated employees entitled to but not yet receiving benefits | 1,155 |
| Terminated employees not entitled to a benefit | 6,654 |
| Active Members | <u>55,058</u> |
| Total | <u>85,874</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. State Police of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members. Lee County Commission opted to not increase the contribution rates for their members.

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 contributions rates are the same for Tier 2 covered members of ERS local participating employers.

Notes to the Financial Statements

For the Year Ended September 30, 2017

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, 2017, the Commission's active employee contribution rate was 5.38% of covered employee payroll, and the Commission's average contribution rate to fund the normal and accrued liability costs was 7.28% of covered employee payroll.

The Commission's contractually required contribution rate for the year ended September 30, 2017 was 7.88% of pensionable pay for Tier 1 employees, and 5.35% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2014, 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 Commission were \$1,177,181.46 for the year ended September 30, 2017.

B. Net Pension Liability

The Commission's net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015 rolled forward to September 30, 2016 using standard roll-forward techniques as shown in the following table:

| | Expected | Actual – 2015 Valuation Assumptions | Actual – 2016 Valuation Assumptions |
|---|---------------------|---|---|
| (a) Total Pension Liability as of September 30, 2015 | \$42,843,994 | \$43,410,960 | \$45,005,257 |
| (b) Discount Rate | 8.00% | 8.00% | 7.75% |
| (c) Entry Age Normal Cost for the period October 1, 2015 - September 30, 2016 | 1,276,095 | 1,276,095 | 1,263,090 |
| (d) Transfers Among Employers | | 194,103 | 194,103 |
| (e) Actual Benefit Payments and Refunds for the period October 1, 2015 - September 30, 2016 | (2,167,961) | (2,167,961) | (2,167,961) |
| (f) Total Pension Liability as of September 30, 2016 = [(a) x (1+(b))] + (c) + (d) + [(e) x (1 + 0.5*(b))] | <u>\$45,292,929</u> | <u>\$46,099,355</u> | <u>\$47,698,388</u> |
| (g) Difference Between Expected and Actual | | \$ 806,426 | |
| (h) Less Liability Transferred for Immediate Recognition | | <u>194,103</u> | |
| (i) Experience (Gain)/Loss = (g) - (h) | | <u>\$ 612,323</u> | |
| (j) Difference Between Actual (2015 Assumptions) and Actual (2016 Assumptions): Assumption Change (Gain)/Loss | | | <u>\$ 1,599,033</u> |

Notes to the Financial Statements
For the Year Ended September 30, 2017

Actuarial Assumptions

The total pension liability as of September 30, 2016 was determined based on the annual actuarial funding valuation report prepared as of September 30, 2015. The key actuarial assumptions are summarized below:

| | |
|---|-------------|
| Inflation | 2.75% |
| Salary Increases (Including Inflation) | 3.25%-5.00% |
| Investment Rate of Return (Including Inflation) (*) | 7.75% |
| (*) Net of pension plan investment expense | |

Mortality rates 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 Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

The actuarial assumptions used in the September 30, 2015 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, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

Notes to the Financial Statements
For the Year Ended September 30, 2017

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. 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 Equivalents | 3.00% | 1.50% |
| Total | 100.00% | |

(*) Includes assumed rate of inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was the long-term rate of return, 7.75%. 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.

Notes to the Financial Statements
For the Year Ended September 30, 2017

C. Changes in Net Pension Liability

| | Increase (Decrease) | | |
|---|--------------------------------------|--|--|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a)-(b) |
| Balances at September 30, 2015 | \$42,843,994 | \$32,495,107 | \$ 10,348,887 |
| Changes for the Year: | | | |
| Service Cost | 1,276,095 | | 1,276,095 |
| Interest | 3,340,801 | | 3,340,801 |
| Changes in Assumptions Differences Between Expected and Actual Experience | 1,599,033 | | 1,599,033 |
| Contributions – Employer | | 1,214,557 | (1,214,557) |
| Contributions – Employee | | 832,666 | (832,666) |
| Net Investment Income | | 3,313,081 | (3,313,081) |
| Benefit Payments, including Refunds of Employee Contributions | (2,167,961) | (2,167,961) | |
| Transfers among Employers | 194,103 | 194,103 | |
| Net Changes | 4,854,394 | 3,386,446 | 1,467,948 |
| Balances at September 30, 2016 | \$47,698,388 | \$35,881,553 | \$11,816,835 |

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

The following table presents the Commission’s net pension liability calculated using the discount rate of 7.75%, as well as what the Commission’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current rate:

| | 1% Decrease (6.75%) | Current Rate (7.75%) | 1% Increase (8.75%) |
|--------------------------------------|------------------------|-------------------------|------------------------|
| Plan’s net pension liability (asset) | \$17,729,189 | \$11,816,835 | \$6,852,910 |

Notes to the Financial Statements
For the Year Ended September 30, 2017

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, 2016. The supporting actuarial information is included in the GASB Statement Number 68 Report for the ERS prepared as of September 30, 2016. The auditor's report dated September 18, 2017 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.

D. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the Commission recognized pension expense of \$1,535,767. At September 30, 2017, the Commission 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 |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 527,278 | \$86,188 |
| Changes of assumptions | 1,376,945 | |
| Net difference between projected and actual earnings on pension plan investments | 285,303 | |
| Employer contributions subsequent to the measurement date | 1,177,181 | |
| Total | <u>\$3,366,707</u> | <u>\$86,188</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, 2018 | \$354,080 |
| 2019 | \$354,081 |
| 2020 | \$587,880 |
| 2021 | \$147,438 |
| 2022 | \$291,301 |
| Thereafter | \$368,558 |

Notes to the Financial Statements
For the Year Ended September 30, 2017

Note 7 – Other Postemployment Benefits (OPEB)

A. Plan Description

The Lee County Commission’s medical benefits are provided through a self-insured medical plan and are made available to employees upon actual retirement.

The earliest retirement eligibility provisions are as follows: 25 years of service at any age; or, age 60 and 10 years of service (called “Tier I” members). Employees hired on and after January 1, 2013 (called “Tier II” members) are eligible to retire only after attainment of age 62 or later with completion of 10 years of service. It is necessary to have 25 years of service with Lee County Commission for a retiree to have medical coverage paid by the employer.

Contribution Rates

Employees do not contribute to their post-employment benefits costs until they become retirees and begin receiving those benefits. The plan provisions and contribution rates are contained in the official plan documents.

B. Fund Policy

Until 2009, the Lee County Commission recognized the cost of providing post-employment medical benefits (the Lee County Commission’s portion of the retiree medical benefit premiums) as an expense when the benefit premiums were due and thus financed the cost of the post-employment benefits on a pay-as-you-go basis. In 2017 and 2016, the Lee County Commission’s portion of health care funding cost for retired employees totaled \$219,840 and \$166,073, respectively.

Effective October 1, 2009, the Lee County Commission implemented Government Accounting Standards Board Codification Section P50, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions* (GASB Codification Section P50). This amount was applied toward the Net OPEB Benefit Obligation as shown in the table under Net Post-Employment Benefit Obligation (Asset).

Notes to the Financial Statements
For the Year Ended September 30, 2017

C. Annual Required Contribution

The Lee County Commission's Annual Required Contribution (ARC) is an amount actuarially determined in accordance with GASB Codification Section P50. The ARC is the sum of the Normal Cost plus the contribution to amortize the Unfunded Actuarial Accrued Liability (UAAL). A level dollar, open amortization period of 30 years (the maximum amortization period allowed by GASB Codification Section P50) has been used for the post-employment benefits. The actuarially computed ARC is as follows:

| | 2017 | 2016 |
|------------------------------------|------------------|------------------|
| Normal cost | \$200,473 | \$208,161 |
| 30-year UAL amortization amount | 279,771 | 265,928 |
| Annual required contribution (ARC) | <u>\$480,244</u> | <u>\$474,089</u> |

Net Post-Employment Benefit Obligation (Asset)

The table below shows the Lee County Commission's Net Other Post-employment Benefit (OPEB) Obligation for fiscal years ending September 30:

| | 2017 | 2016 |
|-----------------------------------|--------------------|--------------------|
| Beginning Net OPEB Obligation | \$2,599,617 | \$2,328,107 |
| Annual required contribution | 480,244 | 474,089 |
| Interest on Net OPEB Obligation | 103,985 | 81,896 |
| ARC Adjustment | (150,336) | (118,401) |
| OPEB Cost | <u>433,893</u> | <u>437,583</u> |
| Contribution to Irrevocable Trust | | |
| Current year retiree premium | (219,840) | (166,073) |
| Change in Net OPEB Obligation | <u>214,053</u> | <u>271,510</u> |
| Ending Net OPEB Obligation | <u>\$2,813,670</u> | <u>\$2,599,617</u> |

Notes to the Financial Statements
For the Year Ended September 30, 2017

The following table shows the Lee County Commission's annual other post-employment benefits (OPEB) cost, percentage of the cost contributed, and the net other post-employment benefits (OPEB) liability:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual Cost Contributed | Net OPEB Liability (Asset) |
|-------------------|------------------|---------------------------------------|----------------------------|
| 9/30/2017 | \$433,893 | 50.67% | \$2,813,670 |
| 9/30/2016 | \$437,583 | 37.95% | \$2,599,617 |

D. Funded Status and Funding Progress

In 2017 and 2016, the Lee County Commission made no contributions to its post-employment benefits plan. The plan is not funded, has no assets, and hence has a funded ratio of zero. Based on the October 1, 2017 actuarial valuation, the most recent valuation, the Actuarial Accrued Liability (AAL) at the end of the year September 30, 2017 was \$5,031,232 which is defined as that portion, as determined by an actuarial cost method (the Lee County Commission uses the Projected Unit Credit Cost Method), of the actuarial present value of post-employment plan benefits and expenses which is not provided by normal cost.

| | 2017 | 2016 |
|---|---------------------|---------------------|
| Actuarial Accrued Liability (AAL) | \$ 5,031,232 | \$ 4,782,451 |
| Actuarial Value of Plan Assets | \$0 | \$0 |
| Unfunded Actuarial Accrued Liability (UAAL) | <u>\$ 5,031,232</u> | <u>\$ 4,782,451</u> |
| Funded Ratio (AVP/AAL) | 0.00% | 0.00% |
| Covered Payroll (Active Plan Members) | \$16,286,706 | \$15,427,668 |
| UAAL as a Percentage of Covered Payroll | 30.89% | 31.00% |

E. Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The actuarial valuation for post-employment benefits includes estimates and assumptions regarding (1) turnover rate; (2) retirement rate; (3) health care cost trend rate; (4) mortality rate; (5) discount rate (investment return assumption); and (6) the period to which the costs apply (past, current, or future years of service by employees). Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Notes to the Financial Statements

For the Year Ended September 30, 2017

The actuarial calculations are based on the types of benefits provided under the terms of the substantive plan (the plan as understood by the Lee County Commission and its employee plan members) at the time of the valuation and on the pattern of sharing costs between the Lee County Commission and its plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the Lee County Commission and plan members in the future. Consistent with the long-term perspective of actuarial calculations, the actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial liabilities and the actuarial value of assets.

Actuarial Cost Method

The ARC is determined using the Projected Unit Credit Cost Method. The employer portion of the cost for retiree medical care in each future year is determined by projecting the current cost levels using the healthcare cost trend rate and discounting this projected amount to the valuation date using the other described pertinent actuarial assumptions, including the investment return assumption (discount rate), mortality and turnover.

Actuarial Value of Plan Assets

There are not any plan assets. It is anticipated that in future valuations, should funding take place, a smoothed market value consistent with Actuarial Standards Board ASOP 6, as provided in paragraph number 125 of GASB Codification Section P50.

Turnover Rate

An age-related turnover scale based on actual experience has been used. The rates, when applied to the active employee census, produce a composite average annual turnover of approximately 12%.

Post-Employment Benefit Plan Eligibility Requirements

Based on experience and because of the requirement of 25 years of service for a retiree to receive medical coverage, it has been assumed that entitlement to benefits will commence at actual retirement after the earliest of the following: attainment of age 50 and completion of 30 years of service; attainment of age 55 and completion of 28 years of service; and, attainment of age 60 and completion of 25 years of service. Medical benefits are provided to employees upon actual retirement.

Notes to the Financial Statements

For the Year Ended September 30, 2017

Investment Return Assumption (Discount Rate)

GASB Codification Section P50 states that the investment return assumption should be the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits (that is, for a plan which is funded). Based on the assumption that the ARC will not be funded, a 4% annual investment return has been used in this valuation.

Health Care Cost Trend Rate

The expected rate of increase in medical cost is based on a graded schedule beginning with 8% annually, down to an ultimate annual rate of 5.0% for ten years out and later.

Mortality Rate

The 1994 Group Annuity Reserving (94GAR) table, projected to 2002, based on a fixed blend of 50% of the unloaded male mortality rates and 50% of the unloaded female mortality rates, is used. This is a recently published mortality table which has been used in determining the value of accrued benefits in defined benefit pension plans. Projected future mortality improvement has not been used since it is our opinion that this table contains sufficiently conservative margin for the population involved in this valuation.

Method of Determining Value of Benefits

The "value of benefits" has been assumed to be the portion of the premium after retirement date expected to be paid by the employer for each retiree and has been used as the basis for calculating the actuarial present value of OPEB benefits to be paid. The employer pays 100% of the cost of the medical insurance for the retiree, but does not pay for dependents. The rates provided are "unblended" rates as required by GASB 45. Retiree health coverage ceases upon Medicare eligibility.

Inflation Rate

Included in both the Investment Return Assumption and the Healthcare Cost Trend rates above is an implicit inflation assumption of 2.50% annually.

Projected Salary Increases

This assumption is not applicable since neither the benefit structure nor the valuation methodology involves salary.

Notes to the Financial Statements
For the Year Ended September 30, 2017

Post-Retirement Benefit Increases

The plan benefit provisions in effect for retirees as of the valuation date have been used and it has been assumed for valuation purposes that there will not be any changes in the future.

Below is a summary of OPEB cost and contributions for the last three fiscal calendar years.

| | OPEB Costs and Contributions | | |
|--|------------------------------|-------------|-------------|
| | Fiscal Year | Fiscal Year | Fiscal Year |
| | 2015 | 2016 | 2017 |
| OPEB Cost | \$437,583 | \$437,583 | \$433,893 |
| Contribution | | | |
| Retiree premium | 156,864 | 166,073 | 219,840 |
| Total contribution and premium | 156,864 | 166,073 | 219,840 |
| Change in net OPEB obligation | \$280,719 | \$271,510 | \$214,053 |
| | | | |
| % of contribution to cost | 0.00% | 0.00% | 0.00% |
| % of contribution plus premium to cost | 35.85% | 37.95% | 50.67% |

Note 8 – Long-Term Debt

Outstanding long-term debt as of September 30, 2017, was as follows:

During fiscal year 2017, the Commission issued a \$6,500,000 fifteen year note to Regions Capital Advantage, Inc. for construction of a 36,215-square foot courthouse expansion for \$9,900,000 with the County providing cash for the remaining project funds.

In 2015, the Commission issued a \$2,185,000 three year note to the Compass Mortgage Corporation for refunding the remaining \$2,150,000 on the General Obligation Warrants Series 2004, which were called at 100% of par value. The refunding decreased the total debt service over the next three years by \$72,107 resulting in an economic gain of \$70,645 based on the net present value of the future savings. This obligation was complete during the current fiscal year.

On August 28, 2013, the Commission issued an \$8 Million General Obligation Warrants Series 2013 for (i) constructing a 40,871-square foot addition for the T. K. Davis Justice Center to house the circuit clerk, district attorney and a future courtroom, and (ii) paying the costs of issuing the Series 2013 Warrants.

Notes to the Financial Statements

For the Year Ended September 30, 2017

The Commission issued \$10 million in General Obligation Warrants Series 2012 with an average interest rate of 2.3809% to advance refund \$9.345 million of the \$13.835 million outstanding warrants in a partial refunding of the General Obligation Warrants Series 2004 with an outstanding average interest rate of 4.7833%. The \$9,345 million was called on August 1, 2015 and is no longer outstanding.

The Commission issued an \$8.12 Million General Obligation Warrants Series 2010 for (i) replacing fourteen to sixteen bridge structures throughout the County, and (ii) paying the costs of issuing the Series 2010 Warrants.

Long-term liabilities associated with employees' benefits are associated with:

Accrued obligations for future payment of unpaid annual leave and unpaid compensatory time as outlined in Note 1.

Accrued obligations for future payment of the County Commission's Net Pension Liability as disclosed in Note 6.

Accrued obligations for future payment of County Commission provided retiree insurance as disclosed in Note 7.

The following is a summary of long-term debt transactions for the Commission for the year ended September 30, 2017:

| | Debt Outstanding 10/01/2016 | Issued/ Increased | Repaid/ Decreased | Debt Outstanding 09/30/2017 | Amounts Due Within One Year |
|--|-----------------------------------|----------------------|----------------------|-----------------------------------|-----------------------------------|
| General Obligation Note Regions – 2017 | \$ | \$ 6,500,000 | \$ 89,585 | \$ 6,410,415 | \$ 363,987 |
| General Obligation Note Compass – 2014 | 450,000 | | 450,000 | | |
| General Obligation – Series 2013 | 7,695,000 | | 315,000 | 7,380,000 | 325,000 |
| General Obligation – Series 2012 Refunding | 9,575,000 | | 515,000 | 9,060,000 | 1,005,000 |
| General Obligation – Series 2010 | 6,145,000 | | 355,000 | 5,790,000 | 360,000 |
| Unamortized Premium | 565,464 | | 52,933 | 512,531 | 52,933 |
| Estimated Liability for Retiree | | | | | |
| Health Insurance (See Note 7) | 2,599,617 | 433,893 | 219,840 | 2,813,670 | |
| Net Pension Liability (See Note 6) | 10,348,887 | 6,828,252 | 5,360,304 | 11,816,835 | |
| Estimated Liability for | | | | | |
| Compensated Absences | 1,516,757 | | 289,451 | 1,227,306 | 42,990 |
| Totals | <u>\$38,895,725</u> | <u>\$13,762,145</u> | <u>\$7,647,113</u> | <u>\$45,010,757</u> | <u>\$2,149,910</u> |

Payments on the fifteen year note to the Regions Capital Advantage, Inc. are made by the Capital Improvement Fund from the County's share of the Oil & Gas Tax Trust Fund investment earnings.

Notes to the Financial Statements
For the Year Ended September 30, 2017

Payments on the three year note to the Compass Mortgage Corporation are made by the General Fund. This obligation was complete during the current fiscal year.

Payments on the warrants payable that pertains to the General Obligation Warrants Series 2013 are made with a local court fee designated for such a purpose; however, the debt service will be serviced by the General Fund if such court fee is inadequate at any-time during the outstanding debt.

Payments on the warrants payable that pertains to the General Obligation Refunding Warrants Series 2012 are made by the General Fund and the Debt Service Fund, which both the municipalities of Auburn and Opelika are contributing an annual appropriation for the debt service on \$10 Million of the \$17.98 Million principal.

Payments on the warrants payable that pertains to the General Obligation Warrants Series 2010 are made by the General Fund.

The retiree health insurance liability attributable to the governmental activities will be liquidated by several of the Commission's governmental funds on a pay-as-you-go basis.

The net pension liability attributable to governmental activities will be liquidated by the annual employer contribution rate on covered payroll as determined by actuarial assumptions provided by the Employees' Retirement System of Alabama.

The compensated absences liability attributable to the governmental activities will be liquidated by several of the Commission's governmental funds on a pay-as-you-go basis.

Notes to the Financial Statements
For the Year Ended September 30, 2017

The following is a schedule of debt service requirements to maturity:

| Fiscal Year Ending | Governmental Activities | | | |
|--------------------|-------------------------------------|--------------------|---|--------------------|
| | 2017 General Obligation Warrants | | 2012 General Obligation Refunding Warrants | |
| | Principal | Interest | Principal | Interest |
| September 30, 2018 | \$ 363,987 | \$ 156,108 | \$1,005,000 | \$ 288,225 |
| 2019 | 373,192 | 146,904 | 1,025,000 | 273,150 |
| 2020 | 382,629 | 137,466 | 1,060,000 | 232,150 |
| 2021 | 392,305 | 127,790 | 1,115,000 | 179,150 |
| 2022 | 402,226 | 117,870 | 1,175,000 | 123,400 |
| 2023-2027 | 2,168,949 | 431,529 | 3,680,000 | 197,525 |
| 2028-2032 2033 | 2,327,127 | 143,328 | | |
| Total | \$6,410,415 | \$1,260,995 | \$9,060,000 | \$1,293,600 |

Bond (Warrant) Premiums

The Commission has bond premiums relating to the issuance of its 2013 General Obligation Warrants. The bond premium is being amortized using the straight-line method. The premium for the 2013 Warrants will be amortized over the life of the issue which will be through August 1, 2033.

The Commission has bond premiums relating to the issuance of its 2004 General Obligation Warrants and the related 2012 General Obligation Refunding Warrants. The bond premium is being amortized using the straight-line method. The 2004 Warrants have been adjusted for the amount defeased as of September 30, 2017 with the balance of the premium to be amortized over the remaining debt service of the un-refunding warrants. The premium for the 2012 Warrants will be amortized over the life of the issue which will be through August 1, 2025.

| | 2013-A General Obligation Warrants – Justice Center | 2012-A General Obligation Refunding Warrants |
|--|--|---|
| Total Issuance Premium | \$233,689 | \$ 549,985 |
| Amount Amortized Prior Years | (36,029) | (182,183) |
| Balance Issuance Premium | 197,660 | 367,802 |
| Current Amount Amortized | (11,685) | (41,249) |
| Amount Associated with Refunded Debt Balance Issuance Premium | \$185,975 | \$ 326,553 |

Notes to the Financial Statements
For the Year Ended September 30, 2017

| Governmental Activities | | | | | |
|-------------------------------------|--------------------|--------------------------|--------------------|---------------------|--------------------|
| 2013 General Obligation Warrants | | 2010 General Warrants | | Total Principal | Total Interest |
| Principal | Interest | Principal | Interest | | |
| \$ 325,000 | \$ 332,425 | \$ 360,000 | \$ 317,780 | \$ 2,053,987 | \$1,094,538 |
| 335,000 | 319,425 | 375,000 | 301,220 | 2,108,192 | 1,040,699 |
| 355,000 | 304,350 | 385,000 | 283,220 | 2,182,629 | 957,186 |
| 370,000 | 286,600 | 400,000 | 263,777 | 2,277,305 | 857,317 |
| 390,000 | 268,100 | 410,000 | 243,177 | 2,377,226 | 752,547 |
| 2,230,000 | 1,055,200 | 2,280,000 | 866,883 | 10,358,949 | 2,551,137 |
| 2,750,000 | 538,103 | 1,580,000 | 190,666 | 6,657,127 | 872,097 |
| 625,000 | 29,687 | | | 625,000 | 29,687 |
| \$7,380,000 | \$3,133,890 | \$5,790,000 | \$2,466,723 | \$28,640,415 | \$8,155,208 |

Note 9 – Conduit Debt Obligations

The Commission has issued Series 2009 Limited Obligation School Warrants to provide financial assistance to the Lee County Board of Education for the construction and improvements of the Board's facilities. These warrants are limited obligations of the Commission and are payable solely from the funding agreement with payments made by the Lee County Board of Education. The warrants do not constitute a debt pledge of the faith and credit of the Commission and accordingly, have not been reported in the accompanying financial statements. Upon repayment of the warrants, ownership of the acquired property transfers to the Lee County School Board.

As of September 30, 2017, the aggregate principal amount payable for the Series 2009 Limited Obligation Warrants was \$9,105,000.

Note 10 – Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission has general liability insurance through the Association of County Commissions of Alabama (ACCA) Liability Self Insurance Fund, a public entity risk pool. The Fund is self-sustaining through member contributions. The Commission pays an annual premium based on the Commission's individual claims experience and the experience of the Fund as a whole. Coverage is provided up to \$500,000 per claim for a maximum total coverage of \$2,000,000 and unlimited defense costs. Employment-related practices damage protection is limited to \$100,000 per incident with a \$5,000 deductible and unlimited defense costs. County specific coverages and limits can be added by endorsement.

Notes to the Financial Statements

For the Year Ended September 30, 2017

The Commission has workers' compensation insurance through the Association of County Commissions of Alabama (ACCA) Workers' Compensation Self Insurance Fund, a public entity risk pool. The premium level for the fund is calculated to adequately cover the anticipated losses and expenses of the Fund. Fund rates are calculated for each job class based on the current NCCI Alabama loss costs and a loss cost modifier to meet the required premiums of the Fund. Member premiums are then calculated on a rate per \$100 of estimated remuneration for each job class, which is adjusted by an experience modifier for the individual county. The Commission may qualify for additional discounts based on losses and premium size. Pool participants are eligible to receive refunds of unused premiums and the related investment earnings.

The Commission purchases commercial insurance for its other risks of loss, including property and casualty insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Commission has employee health insurance coverage through the Local Government Health Insurance Program, administered by the State Employee's Health Insurance Board (SEHIB). The program functions as a public entity risk pool. This program is self-sustaining through member premiums. Monthly premiums are determined annually by the program's actuary and are based on the pool's claims experience, considering any remaining fund balance on hand available for claims.

Note 11 – Interfund Transactions

Interfund Transfers

The amounts of interfund transfers during the fiscal year ended September 30, 2017, were as follows:

| | Transfers Out | | | Totals |
|--------------------------|-----------------------|-----------------------|--------------------------|-----------------------|
| | General Fund | Capital Projects Fund | Other Governmental Funds | |
| Transfers In: | | | | |
| Gasoline Tax Fund | \$2,556,000.00 | \$ | \$ | \$2,556,000.00 |
| Capital Projects Fund | | | 1,601,150.34 | 1,601,150.34 |
| Other Governmental Funds | 1,723,102.37 | 54,070.19 | 420,000.00 | 2,197,172.56 |
| Totals | \$4,279,102.37 | \$54,070.19 | \$2,021,150.34 | \$6,354,322.90 |

The Commission typically used transfers to fund ongoing operating subsidies and to transfer the portion from operational funds to the Debt Service Funds to service current-year debt requirements.

Notes to the Financial Statements
For the Year Ended September 30, 2017

Note 12 – Aggregated Fund Balance Amounts and Classification

The components of nonspendable, restricted, committed, and assigned fund balances aggregated on the face of the financial statements are as follows:

| Fund Balance Classification Detail from Exhibit 3 as of September 30, 2017 | | | | | | |
|---|-----------------|----------------------|---------------------|-----------------------------|--------------------------------|--------------|
| | General Fund | Gasoline Tax Fund | Reappraisal Fund | Capital Projects Fund | Other Governmental Funds | Totals |
| <u>Nonspendable:</u> | | | | | | |
| Inventory | \$ 57,410 | \$ 12,698 | \$ | \$ | \$ | \$ 70,108 |
| Prepaid Expenses | 8,278 | | | | | 8,278 |
| Total Nonspendable | 65,688 | 12,698 | | | | 78,386 |
| <u>Restricted for:</u> | | | | | | |
| Sherriff Office – School Resource | 193,005 | | | | | 193,005 |
| Bridge Bond Program | | | | | 3,589,485 | 3,589,485 |
| Recreational Programs | 1,349,683 | | | | | 1,349,683 |
| Road and Bridge Resurface, Repair and Rehabilitation | | | | | 4,203,984 | 4,203,984 |
| County Facilities, Repair and Construction | | | | 7,105,378 | 424,902 | 7,530,280 |
| Debt Service Trustee Account | | | | | 158,993 | 158,993 |
| Alternative Sentencing Board | | | | | 234,373 | 234,373 |
| Revenue Commission Office Funds | | | | | 106,138 | 106,138 |
| Total Restricted | 1,542,688 | | | 7,105,378 | 8,717,875 | 17,365,941 |
| <u>Committed to:</u> | | | | | | |
| Airport FAA Projects Match | 59,696 | | | | | 59,696 |
| Beulah Senior Center Project | 283,586 | | | | | 283,586 |
| Joint Road Project with the City of Opelika | 250,000 | | | | | 250,000 |
| Recreational Programs | 473,555 | | | | | 473,555 |
| Total Committed | 1,066,837 | | | | | 1,066,837 |
| <u>Assigned to:</u> | | | | | | |
| Annex Project | 700,000 | | | | | 700,000 |
| Procurement Program | 88,905 | | | | | 88,905 |
| Road and Bridge Maintenance | | 883,617 | | | | 883,617 |
| Facilities Improvement Program | | 1,500,000 | | | | 1,500,000 |
| Building Inspection (Use for Capital) | 51,603 | | | | | 51,603 |
| Chairman Expense Issue | 39,600 | | | | | 39,600 |
| Capital Expenditures for Fiscal Year 2018 | 1,308,127 | 970,000 | | | | 2,278,127 |
| Total Assigned | 2,188,235 | 3,353,617 | | | | 5,541,852 |
| Unassigned | 4,705,088 | | | | | 4,705,088 |
| Total Fund Balances | \$9,568,536 | \$3,366,315 | \$ | \$7,105,378 | \$8,717,875 | \$28,758,104 |

Notes to the Financial Statements
For the Year Ended September 30, 2017

Note 13 – Tax Abatements

Granted Active Abatements

The Lee County Commission only has three active abatements all granted under the authority of the Tax Reform Act of 1992, which all three are being disclosed in this note. All properties are appraised and fully assessed. The Commission by a duly adopted resolution abates the levy of non-educational taxes on the property.

V2 Composites, Inc. was granted an extension on tax abatements July 31, 2006. The abatement is associated with the expansion of an existing facility for the manufacturing of composite reinforcement solutions. The abatement was granted for a period of ten years. The property taxes for the State General Fund, State Solider Fund, and the County General Fund are abated. For fiscal year 2017, these taxes were reduced by \$2,307.

A & E Metal Roofing L.L.C. was granted tax abatements April 26, 2010. The abatement is associated with the construction of a facility for the manufacturing of metal roofing. The abatement was granted for a period of ten years. The property taxes for the State General Fund, State Solider Fund, and the County General Fund are abated. For fiscal year 2017, these taxes were reduced by \$928.

Dudley Lumber Co, Inc. was granted tax abatements February 11, 2013. The abatement is associated with the construction and equipping of a new sawmill facility. The abatement was granted for a period of ten years. The property taxes for the State General Fund, State Solider Fund, and the County General Fund are abated. For fiscal year 2017, these taxes were reduced by \$17,479.

Granted Active Abatements by Other Entities

Lee County Commission property tax revenues for fiscal year 2017 were reduced by \$562,293 through tax abatement agreements executed by the City of Auburn.

Lee County Commission property tax revenues for fiscal year 2017 were reduced by \$398,665 through tax abatement agreements executed by the City of Opelika.

Notes to the Financial Statements
For the Year Ended September 30, 2017

Note 14 – Related Organizations

Several agencies are considered related organizations of the Lee County Commission. For each agency, a majority of the members are appointed by the Lee County Commission. The Commission, however, is not financially accountable because it does not impose its will and does not have a financial benefit or burden relationship; therefore, they are not considered part of the Commission's financial reporting entity. The following is a list of the related organizations:

- ◆ Southwest Lee County Fire Protection Authority
- ◆ Beulah Utilities District
- ◆ E-911 Communications District
- ◆ Lee County Cemetery Preservation Committee
- ◆ Lee County Public Building Authority
- ◆ Industrial Development Board
- ◆ Loachapoka Water Authority
- ◆ East Alabama Health Care Authority
- ◆ Beauregard Water Authority
- ◆ Smiths Water Authority

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Required Supplementary Information

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2017

| | Budgetary Amount | |
|---|-------------------------|------------------|
| | Original | Final |
| <u>Revenues</u> | | |
| Taxes | \$ 18,689,915.00 | \$ 18,922,915.00 |
| Licenses and Fees | 741,000.00 | 741,000.00 |
| Intergovernmental | 1,692,216.00 | 1,692,216.00 |
| Fees and Charges for Services | 8,406,000.00 | 8,481,000.00 |
| Miscellaneous | 427,300.00 | 427,300.00 |
| Total Revenues | 29,956,431.00 | 30,264,431.00 |
| <u>Expenditures</u> | | |
| Current: | | |
| General Government | 8,408,308.00 | 8,372,058.00 |
| Public Safety | 13,711,170.00 | 13,863,220.00 |
| Sanitation | 3,203,464.00 | 3,210,664.00 |
| Health | 303,635.00 | 303,635.00 |
| Welfare | 6,350.00 | 6,350.00 |
| Culture and Recreation | 130,000.00 | 139,500.00 |
| Education | 33,000.00 | 33,000.00 |
| Capital Outlay | 441,691.76 | 2,906,705.15 |
| Total Expenditures | 26,237,618.76 | 28,835,132.15 |
| Excess (Deficiency) of Revenues Over Expenditures | 3,718,812.24 | 1,429,298.85 |
| <u>Other Financing Sources (Uses)</u> | | |
| Sale of Fixed Assets | | 2,976.00 |
| Transfer In | 17,500.00 | |
| Transfer Out | (3,985,095.24) | (4,290,028.24) |
| Unrealized Loss on Investments | | |
| Total Other Financing Sources (Uses) | (3,967,595.24) | (4,287,052.24) |
| Net Changes in Fund Balances | (248,783.00) | (2,857,753.39) |
| Fund Balances - Beginning of Year | 10,838,931.09 | 10,838,931.09 |
| Fund Balances - End of Year | \$ 10,590,148.09 | \$ 7,981,177.70 |

| Actual Amounts | Excess/ Deficit |
|------------------------|------------------------|
| \$ 19,252,891.74 | \$ 329,976.74 |
| 743,021.33 | 2,021.33 |
| 1,854,418.71 | 162,202.71 |
| 8,247,258.28 | (233,741.72) |
| 590,682.76 | 163,382.76 |
| <u>30,688,272.82</u> | <u>423,841.82</u> |
| 7,778,673.86 | 593,384.14 |
| 13,756,095.06 | 107,124.94 |
| 3,033,129.86 | 177,534.14 |
| 245,636.28 | 57,998.72 |
| 3,461.92 | 2,888.08 |
| 67,466.13 | 72,033.87 |
| 25,465.38 | 7,534.62 |
| 2,698,634.04 | 208,071.11 |
| <u>27,608,562.53</u> | <u>1,226,569.62</u> |
| <u>3,079,710.29</u> | <u>1,650,411.44</u> |
| 2,976.00 | |
| (4,279,102.37) | 10,925.87 |
| (73,978.66) | (73,978.66) |
| <u>(4,350,105.03)</u> | <u>(63,052.79)</u> |
| (1,270,394.74) | 1,587,358.65 |
| <u>10,838,931.09</u> | |
| <u>\$ 9,568,536.35</u> | <u>\$ 1,587,358.65</u> |

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Gasoline Tax Fund
For the Year Ended September 30, 2017***

| | Budgetary Amount | |
|---|-------------------------|------------------------|
| | Original | Final |
| Revenues | | |
| Intergovernmental | \$ 2,186,610.00 | \$ 2,186,610.00 |
| Fees and Charges for Services | 5,000.00 | 5,000.00 |
| Miscellaneous | 2,000.00 | 2,000.00 |
| Total Revenues | <u>2,193,610.00</u> | <u>2,193,610.00</u> |
| Expenditures | | |
| Current: | | |
| Road and Bridge | 4,699,610.00 | 4,749,610.00 |
| Capital Outlay | 757,000.00 | 952,000.00 |
| Total Expenditures | <u>5,456,610.00</u> | <u>5,701,610.00</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(3,263,000.00)</u> | <u>(3,508,000.00)</u> |
| Other Financing Sources (Uses) | | |
| Sale of Fixed Assets | | 195,000.00 |
| Transfer In | 2,506,000.00 | 2,556,000.00 |
| Total Other Financing Sources (Uses) | <u>2,506,000.00</u> | <u>2,751,000.00</u> |
| Net Changes in Fund Balances | (757,000.00) | (757,000.00) |
| Fund Balances - Beginning of Year | <u>2,749,303.00</u> | <u>2,749,303.00</u> |
| Fund Balances - End of Year | <u>\$ 1,992,303.00</u> | <u>\$ 1,992,303.00</u> |

| Actual Amounts | Excess/ Deficit |
|------------------------|------------------------|
| \$ 2,338,552.99 | \$ 151,942.99 |
| 58,413.50 | 53,413.50 |
| 6,481.42 | 4,481.42 |
| <u>2,403,447.91</u> | <u>209,837.91</u> |
| 3,769,739.69 | 979,870.31 |
| 767,810.52 | 184,189.48 |
| <u>4,537,550.21</u> | <u>1,164,059.79</u> |
| <u>(2,134,102.30)</u> | <u>1,373,897.70</u> |
| 195,114.00 | 114.00 |
| 2,556,000.00 | |
| <u>2,751,114.00</u> | <u>114.00</u> |
| 617,011.70 | 1,374,011.70 |
| <u>2,749,303.00</u> | |
| <u>\$ 3,366,314.70</u> | <u>\$ 1,374,011.70</u> |

***Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Reappraisal Fund
For the Year Ended September 30, 2017***

| | Budgetary Amount | |
|---|-------------------------|-----------------|
| | Original | Final |
| <u>Revenues</u> | | |
| Intergovernmental | \$ 1,508,122.34 | \$ 1,807,122.34 |
| Miscellaneous | | |
| Total Revenues | 1,508,122.34 | 1,807,122.34 |
| <u>Expenditures</u> | | |
| Current: | | |
| General Government | 1,479,122.34 | 1,778,122.34 |
| Capital Outlay | 29,000.00 | 29,000.00 |
| Total Expenditures | 1,508,122.34 | 1,807,122.34 |
| Excess (Deficiency) of Revenues Over Expenditures | | |
| Net Changes in Fund Balances | | |
| Fund Balances - Beginning of Year | | |
| Fund Balances - End of Year | \$ | \$ |



| <u>Actual</u> <u>Amounts</u> | <u>Excess/</u> <u>Deficit</u> |
|---------------------------------|----------------------------------|
| \$ 1,169,651.04 | \$ (637,471.30) |
| 3,277.24 | 3,277.24 |
| <u>1,172,928.28</u> | <u>(634,194.06)</u> |
| 1,045,428.28 | 732,694.06 |
| 127,500.00 | (98,500.00) |
| <u>1,172,928.28</u> | <u>634,194.06</u> |
| <hr/> | |
| <u>\$</u> | <u>\$</u> |

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Schedule of Changes in the Net Pension Liability
Defined Benefit Pension Plan
For the Year Ended September 30, 2017

| | 2017 | 2016 | 2015 |
|--|----------------------|----------------------|----------------------|
| <u>Total pension liability</u> | | | |
| Service cost | \$ 1,276,095 | \$ 1,176,947 | \$ 1,135,547 |
| Interest | 3,340,801 | 3,179,907 | 3,031,378 |
| Differences between expected and actual experience | 612,323 | (121,366) | |
| Changes of assumptions | 1,599,033 | | |
| Benefit payments, including refunds of employee contributions | (2,167,961) | (2,280,653) | (2,339,994) |
| Transfers among employees | 194,103 | | |
| Net change in total pension liability | 4,854,394 | 1,954,835 | 1,826,931 |
| Total pension liability - beginning | 42,843,994 | 40,889,159 | 39,062,228 |
| Total pension liability - ending (a) | <u>\$ 47,698,388</u> | <u>\$ 42,843,994</u> | <u>\$ 40,889,159</u> |
| <u>Plan fiduciary net position</u> | | | |
| Contributions - employer | \$ 1,214,557 | \$ 1,094,045 | \$ 1,032,249 |
| Contributions - employee | 832,666 | 787,510 | 780,522 |
| Net investment income | 3,313,081 | 383,446 | 3,507,792 |
| Benefit payments, including refunds of employee contributions | (2,167,961) | (2,280,653) | (2,339,994) |
| Other (Transfers among employers) | 194,103 | (19,040) | 101,166 |
| Net change in plan fiduciary net position | 3,386,446 | (34,692) | 3,081,735 |
| Plan fiduciary net position - beginning | 32,495,107 | 32,529,799 | 29,448,064 |
| Plan fiduciary net position - ending (b) | <u>\$ 35,881,553</u> | <u>\$ 32,495,107</u> | <u>\$ 32,529,800</u> |
| County's net pension liability - ending (a) - (b) | \$ 11,816,835 | \$ 10,348,887 | \$ 8,359,359 |
| Plan fiduciary net position as a percentage of the total pension liability | 75.23% | 75.85% | 79.56% |
| Covered payroll (*) | \$ 15,380,908 | \$ 13,973,098 | \$ 12,955,392 |
| County's net pension liability as a percentage of covered payroll | 76.83% | 74.06% | 64.52% |

(*) Employer's covered payroll during the measurement period is the total covered payroll. For the fiscal year 2017, the measurement period is October 1, 2015 through September 30, 2016. GASB issued a statement "Pension Issues" in March 2016 to redefine covered payroll for the fiscal year 2017.

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

***Schedule of the Employer's Contributions
For the Year Ended September 30, 2017***

| | 2017 | 2016 |
|--|------------------|------------------|
| Actuarially determined contribution | \$ 1,124,208 | \$ 1,214,557 |
| Contributions in relation to the actuarially determined contribution | <u>1,124,208</u> | <u>1,214,557</u> |
| Contribution deficiency (excess) | <u>\$</u> | <u>\$</u> |
| Covered payroll | \$ 15,204,343 | \$ 15,380,908 |
| Contributions as a percentage of covered payroll | 7.39% | 7.90% |

Notes to Schedule

Valuation date:

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 2017 were based on the September 30, 2014 actuarial valuation.

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|--|
| Actuarial cost method | Entry Age |
| Amortization method | Level percent closed |
| Remaining amortization period | 27 years |
| Asset valuation method | Five year smoothed market |
| Inflation | 3.00% |
| Salary increases | 3.75 - 7.25%, including inflation |
| Investment rate of return | 8.00%, net of pension plan investment expense, including inflation |

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.



| <u>2015</u> | | <u>2014</u> | |
|-------------|------------------|-------------|------------------|
| \$ | 1,094,045 | \$ | 1,032,249 |
| | <u>1,094,045</u> | | <u>1,032,249</u> |
| <u>\$</u> | | <u>\$</u> | |
| \$ | 13,973,098 | \$ | 12,955,392 |
| | 7.83% | | 7.97% |

***Schedule of Funding Progress
Other Postemployment Benefits
For the Year Ended September 30, 2017***

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 09/30/2016 | \$0 | \$5,031,232 | \$5,031,232 | 0.00% | \$16,286,706 | 30.89% |
| 09/30/2014 | \$0 | \$4,782,451 | \$4,782,451 | 0.00% | \$15,427,668 | 31.00% |
| 09/30/2012 | \$0 | \$4,110,642 | \$4,110,642 | 0.00% | \$12,352,344 | 33.28% |
| 09/30/2010 | \$0 | \$3,952,540 | \$3,952,540 | 0.00% | \$12,492,616 | 31.64% |
| 09/30/2008 | \$0 | \$5,221,566 | \$5,221,566 | 0.00% | \$12,610,905 | 41.40% |

Actuarial Valuation required every two years for the Lee County Commission.

Additional Information

Commission Members and Administrative Personnel
October 1, 2016 through September 30, 2017

| Commission Members | Position | Term Expires |
|---------------------------|-----------------|---------------------|
| Hon. Bill English | Chairman | 2019 |
| Hon. Johnny Lawrence | Member | 2018 |
| Hon. Gary D. Long | Member | 2020 |
| Hon. Robert Ham | Member | 2018 |
| Hon. John Andrew Harris | Member | 2018 |
| Hon. Sheila H. Eckman | Member | 2020 |

Administrative Personnel

| | |
|-----------------|---------------|
| Roger Rendleman | Administrator |
|-----------------|---------------|

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

Independent Auditor's Report

Members of the Lee County Commission and County Administrator
Opelika, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards*** issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lee County Commission, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Lee County Commission's basic financial statements, and have issued our report thereon dated September 7, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lee County Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lee County Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lee County Commission's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lee County Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** in considering the Lee County Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

September 7, 2018