Report on the

Lee County Commission

Lee County, Alabama

October 1, 2010 through September 30, 2011

Filed: November 23, 2012

Department of Examiners of Public Accounts

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Ronald L. Jones, Chief Examiner

12-401

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Ronald L. Jones
Chief Examiner

Honorable Ronald L. Jones
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Sir:

Under the authority of the ***Code of Alabama 1975***, Section 41-5-21, we submit this report on the results of the audit of the Lee County Commission, Lee County, Alabama, for the period October 1, 2010 through September 30, 2011.

Sworn to and subscribed before me this the 30 day of October, 20 12.

Cathy Hancock
Notary Public

Sworn to and subscribed before me this the 2nd day of November, 20 12.

Ann Hutcheson
Notary Public

rb

My Commission Expires on 3/2/2015

Respectfully submitted,

David J. Lane
David J. Lane, Sr.
Examiner of Public Accounts

Matthew Robinson
Matthew Robinson
Examiner of Public Accounts

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Department of

Examiners of Public Accounts

SUMMARY

Lee County Commission
October 1, 2010 through September 30, 2011

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 13. 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 41-5-14.

An unqualified opinion was issued on the 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, 2011.

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

The following officials/employees were invited to an exit conference to discuss the audit report: County Administrator: Roger Rendleman; Deputy County Administrator, Alice M. Fitzgerald; Commission Chairman: Bill English; and County Commissioners: Johnny Lawrence, Gary D. Long, Annell M. Smith, Robert Ham, John Andrew Harris, and J. Mathan Holt. The following individuals attended the exit conference, held at the offices of the County Commission: Roger Rendleman, County Administrator; Alice M. Fitzgerald, Deputy County Administrator; Commission Chairman: Bill English; County Commissioners: Johnny Lawrence, Gary D. Long, Robert Ham, John Andrew Harris, and J. Mathan Holt; and representatives from the Department of Examiners of Public Accounts: Tammy D. Shelley, Audit Manager; David J. Lane, Sr., Examiner and Matthew Robinson, Examiner. The results of the audit were discussed via telephone with Commissioner Annell M. Smith.

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Independent Auditor's Report

<u>Independent Auditor's Report</u>

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, 2011, which collectively comprise the basic financial statements of the Lee County Commission as listed in the table of contents as Exhibits 1 through 8. These financial statements are the responsibility of the Lee County Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Lee County Commission implemented GASB Statement Number 54, ***Fund Balance Reporting and Governmental Fund Type Definitions***, during the fiscal year ended September 30, 2011. This resulted in a change in the format and method of reporting fund balance in the basic financial statements.

In accordance with ***Government Auditing Standards***, we have also issued our report dated October 25, 2012 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** and should be considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis (MD&A), the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Exhibits 9 and 10), and the Schedules of Funding Progress (Exhibits 11 and 12) are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ronald L. Jones
Chief Examiner
Department of Examiners of Public Accounts

October 25, 2012

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Management's Discussion and Analysis

(Required Supplementary Information)

Lee County Commission
Management's Discussion and Analysis
Fiscal Year October 1, 2010 through September 30, 2011

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, 2011. Please consider the information contained in this MD&A in conjunction with the County's financial statements for the same period.

Financial Highlights

- Lee County's entity-wide assets exceeded its liabilities at the close of the fiscal year ended September 30, 2011 by $49,698,764. The County's total net assets increased by $1,146,465 or 2.36%.

- Two factors contributed the most to the continued increase in net assets in spite of the current economic challenges. First, the County Commission continues to invest in infrastructure with the bridge replacement programs. Second, the departments and offices continue to make reasonable reductions in operational costs by implementing technology and improved business practices.

- The County Commission and the City of Auburn evenly partnered in the cost of the replacement of a jointly owned bridge. The City of Auburn took full possession and responsibility of the bridge including approximately a mile and half past the city limits of the remaining road as a part of the agreement.

- Overall revenues increased $1,379,318 (4.2%) from the previous year. More than half of the increase resulted from a garbage fee increase.

- The operational funds for the County Commission completed the fiscal year with fund balances equal to 31.15% of their annual expenditures, which remains just above the annual targeted range of 15 to 30%.

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.

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 assets includes all of 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 assets presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. 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 assets 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 assets 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 share 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 as a whole. 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.

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 Fund, and the 2010 Bridge Bond Program 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 assets (Exhibit 7) and a statement of changes in fiduciary net assets (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 10 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 and the Gasoline Tax funds; the comparison schedules are presented to demonstrate compliance with the fund budgets. The 2010 Bridge Bond Program Fund isn't presented in this comparison as this fund is for projects spanning multiple years and not appropriated annually.

Government-wide Financial Analysis

The County governmental net assets increased by $1,146,465 (2.36%) during the current fiscal year. Management monitors net assets because the variance is a useful indicator of the County's financial position. Lee County's total assets exceeded total liabilities by $49,698,764 as of the fiscal year ending September 30, 2011.

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

Statement of Net Assets as of September 30:

	Governmental Activities 2011	**Governmental Activities 2010**	**Difference**	**Percentage**
Current Assets	33,770,412	34,281,772	(511,360)	-1.49%
Non-current/non-capital Assets	194,785	167,620	27,165	16.21%
Capital Assets, Net	57,342,009	56,746,751	595,258	1.05%
Total Assets	**91,307,206**	**91,196,143**	111,063	0.12%
Current Liabilities	18,601,985	18,500,375	101,610	0.55%
Long-term Liabilities	23,006,457	24,143,470	(1,137,013)	-4.71%
Total Liabilities	**41,608,442**	**42,643,845**	(1,035,403)	-2.43%
Net Assets:				
Invested in Capital Assets, Net of Related Debt	41,350,534	41,063,176	287,358	0.70%
Restricted	593,150	5,199,589	(4,606,439)	-88.59%
Unrestricted	7,755,080	2,289,533	5,465,547	238.72%
Total Net Assets	**49,698,764**	**48,552,298**	1,146,466	2.36%

Two factors contributed the most to the continued increase in Net Assets for the Lee County Commission in spite of the current economic challenges. First, the County Commission continues to invest in infrastructure with the bridge replacement programs. Second, the departments and offices continue to make reasonable reductions in operational costs by implementing technology and improved business practices. Both changes in Total Assets and Total Liabilities can be attributed to these activities.

A portion of the $4,606,439 (88.59%) decrease in Restricted under Net Assets can be primarily associated with the expenditure of proceeds from the County Commission's Bridge Bond Program. Capital Assets increase for the year wasn't proportional to the use of the proceeds. The County Commission and the City of Auburn partnered in a replacement of a jointly owned bridge and the City of Auburn took full possession and responsibility of the bridge including approximately a mile and half past the city limits of the remaining road as a part of the agreement; therefore, the $1.3 Million expenditure for the bridge wasn't capitalized.

A significant portion of Lee County's net assets $41,350,534 (83.2%) 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 liquidate these liabilities. The remaining net assets, $593,150 in restricted and $7,755,080 in unrestricted, may be used to meet the County's ongoing obligations to citizens and creditors. Restricted net assets are already designated for specific purposes where as unrestricted assets have not been specifically designated for a particular use.

Statement of Activities

The following schedule compares the revenues and expenses for the current year. Government activities increased the County's net assets by $1,146,465.39.

Changes in Net Assets as of September 30, 2011:

	Governmental Activities 2011	Governmental Activities 2010	Difference	Percentage
REVENUES				
Program Revenues:				
Charges for Services	9,680,042	8,886,614	793,428	8.93%
Operating Grants & Contributions	5,862,853	5,736,504	126,349	2.20%
Capital Grants & Contributions	962,066	490,620	471,446	96.09%
General Revenues:				
Property Taxes – General Purposes	10,111,425	10,126,369	(14,944)	-0.15%
Property Taxes – Specific Purposes	5,750,692	5,660,538	90,154	1.59%
Misc. Taxes	778,758	835,798	(57,040)	-6.82%
Grants & contributions not restricted to Special Programs	489,352	372,402	116,950	31.40%
Interest Revenue	137,783	107,927	29,856	27.66%
Miscellaneous	429,873	606,754	(176,881)	-29.15%
Total Revenues	**34,202,844**	**32,823,526**	1,379,318	4.20%
EXPENSES				
Program Activities:				
General Government	8,592,997	9,021,952	(428,955)	-4.75%
Public Safety	12,031,011	12,217,130	(186,119)	-1.52%
Highways & Roads	8,181,448	6,343,506	1,837,942	28.97%
Sanitation	2,854,585	2,632,414	222,171	8.44%
Health & Welfare	241,778	244,195	(2,417)	-0.99%
Culture & Recreation	89,562	87,357	2,205	2.52%
Education	41,651	81,168	(39,517)	-48.69%
Interest and Fiscal Charges	1,023,346	690,636	332,710	48.17%
Total Expenses	**33,056,378**	**31,318,358**	1,738,020	5.55%
Net Assets, Increase in	**1,146,466**	**1,505,168**	(358,702)	-23.83%

Of the County's total $34,202,844 revenues, property taxes account for 46.38% with $15,862,117. Taxes as a whole represent 48.65% of the total revenue collected by the County for fiscal year ended September 30, 2011.

Property Taxes experienced only a 0.48% increase. These revenues for the 2011 fiscal year were based on assessments and values established from activity (i.e., sales and change in use) that occurred from October 2008 through September 2009 in Lee County. These revenues continue to remain stagnate from the effects of the nationwide real estate collapse.

Overall revenues increased $1,379,318 (4.2%) from the previous year. More than half the increase resulted from a garbage fee increase as evident in the Charges for Services.

Capital Grants & Contributions increased $471,446 (96.09%). The increase is primarily attributed to large fluctuations that occur from year to year relating to the Federal Aid Road and Bridge Projects. In Fiscal Year 2011, the County had $354,519 more for bridge replacement with these funds compared to projects performed in Fiscal Year 2010. Also, the County received and completed a $139,000 Federal grant for a solar thermal hot water system for our justice center complex.

Grants & Contributions not Restricted to Special Programs increased $116,950 (31.4%) because of the return of the County's share of State Franchise Financial Excess Tax in the amount of $107,638, which was only $2,538 last year.

Miscellaneous Taxes continues to decrease; however, at much slower rate than the previous few years. Mortgage and Deed Tax, Cable Franchise and Video Tax Rental make up almost all of this category; therefore, we expect this area to continue to experience declines for at least the next couple of years.

Expenses for all services of the County were $33,056,378. Of this amount 25.99% was spent for general government, 36.4% for public safety, 24.75% for highways and roads, 8.64% for sanitation and 4.22% on the remaining categories listed above.

General Government decreased overall by 4.75% ($428,955) which is primarily attributed to a decrease in operational costs and personnel costs. The decreases were across all areas of operations including reduction in personnel through attrition.

Public Safety decreased slightly by 1.52% ($186,119) which is primarily attributed to a decrease in medical costs with the addition of a doctor on staff to manage the medical services in the detention center.

Highways and Roads had an increase of 28.97% ($1,837,942). Over $1.3 Million of this amount was for an appropriation from the Bridge Bond Program. As noted earlier, the County Commission and the City of Auburn partnered in a replacement of a jointly owned bridge and the City of Auburn took full possession and responsibility of the bridge including approximately a mile and half of the remaining road as a part of the agreement.

Sanitation had an increase 8.44% ($222,171). Mostly these increases are associated with increased operational costs like landfill fees, fuel and equipment repairs that had been delayed until the garbage fee increase took effect.

Interest Costs increased 48.17% (332,710) with the first full year of debt service from the 2010 Bridge Bond debt issuance.

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 $33,056,378 and the combined charges for services plus operating and capital grants received were $16,504,961 leaving a net cost to the County of $16,551,417. This is an increase of $346,797 in expenditures required to be funded from general revenues; however, if you take into consideration the bridge replacement allocation to the City of Auburn, ongoing operations actually had a net cost decrease of almost a million dollars.

Function/Programs	**2011 Net Cost of Services**	**2010 Net Cost of Services**	**Net Cost (Increase)/Decrease**
General Government	(2,647,398.88)	(3,045,262.07)	397,863
Public Safety	(9,763,395.34)	(9,811,891.25)	48,496
Highways and Roads	(3,368,811.01)	(1,978,743.63)	(1,390,067)
Sanitation	263,244.53	(298,001.22)	561,246
Health	(220,621.15)	(219,821.31)	(800)
Welfare	(13,281.04)	(12,049.06)	(1,232)
Culture and Recreation	(83,417.87)	(68,496.52)	(14,921)
Education	(41,650.64)	(79,718.23)	38,068
Interest and Fiscal	(676,085.79)	(690,636.42)	14,551
Total Governmental Activities	**(16,551,417)**	**(16,204,620)**	(346,797)

Charges for services amounted to $9,680,042 and combined grants and contributions totaled $6,824,919. The charges for services are payments made by those that received the services while grants and contributions are monies that were received from other governments and organizations that subsidized these functions or programs.

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 increased from $9,527,568 to $10,691,146. This was an increase of $1,163,578 (12.21%).

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 2010 Bridge Bond Program is excluded since the fund is for capital projects and not annual operations and/or routine capital maintenance.

Fund	**Beginning Fund Balance**	**Net Increase or (Decrease)**	**Ending Fund Balance**	**% of Annual Expenditures**
General Fund	4,379,240	2,024,380	6,403,620	29.92%
Gasoline Fund	2,055,190	(526,269)	1,528,921	29.89%
Other Governmental Funds *(less Capital Fund)*	3,093,138	(334,533)	2,758,605	35.36%
Totals	**9,527,568**	**1,163,578**	**10,691,146**	**31.15%**

For Lee County a target fund balance for most operational funds is a floor of fifteen percent, 15%, of annual expenditures to a preferred target of thirty percent, 30%, of annual expenditures. This is a very acceptable range due to the county's dependability on property taxes, a reliable and predictable revenue source.

The General Fund is the main operational fund for the County. The fund experienced a $2,024,380 (46.23%) increase. With the combination of stabilizing of revenues, increased garbage fee, reduction of fund transfers to other funds and efforts to reduce ongoing costs, we were able to basically reach the preferred target of thirty percent especially considering the ongoing uncertainty of the economy.

The Gasoline Tax Fund, the main operational fund for the Highway Department, experienced a 25.6% decrease in fund balance. The use of fund balance in the Gasoline Tax Fund was intentional in order for less resources to be transferred from the General Fund to allow for improvement in the General Fund's fund balance. Even with the decrease, the ending fund balance was right at the preferred target of thirty percent with 29.89% of the annual expenditures for Fiscal Year 2011.

The Other Governmental Funds decreased $334,533 (10.82%); however, the combined funds remained above the thirty percent target at 35.36%.

Budgetary Highlights - Major Funds

General Fund

Exhibit 9 shows that a few changes were made in the original General Fund budgets for fiscal year ended September 30, 2011.

Budgeted revenues were increased $58,350 for funds from the Sheriff's Office to assist in purchasing vehicles.

Budgeted expenditures were increased $471,137 with available unallocated funds for the following: $186,787 for the early retirement of a couple of three year bank loans for equipment, $108,350 for the vehicles in the Sheriff's Office, and $176,000 for an employee longevity program.

Budgeted Transfer Out was reduced $1,150,000 to assist in increasing the General Fund's fund balance to the upper end of the fund balance target range to strengthen the fund's financial position to endure the current economic conditions.

Actual Revenues were $946,745 higher than the final budgeted revenues and actual expenditures were $255,660 lower than the final budgeted amounts.

The net change in the general fund balance for the current fiscal year was a $2,024,380 increase or (46.23%), which is a $1,184,110 additional increase from the planned $840,270 increase in the final budget. This allowed the General Fund to end with a fund balance equal to 29.92% of its annual expenditures.

Gasoline Tax Fund

Exhibit 10 shows that a couple of changes were made in the original Gasoline Tax Fund budgets for fiscal year ended September 30, 2011.

Budgeted Expenditures were increased $44,000 for an employee longevity program.

Transfer In was decreased $806,000 to assist increasing the General Fund's fund balance to the upper end of the fund balance target range to strengthen the financial position during the current economic conditions.

Actual Revenues were $419,813 higher than the budgeted revenues. The difference is attributed to funds relating to the Federal Aid Road and Bridge Projects which are usually not budgeted due the manner the projects are handled by the State.

Actual Expenditures were slightly over budget by $96,081 for the same reason as the actual revenues compared to budgeted. Without the Federal Aid Road and Bridge Projects, the Highway Department would have finished approximately $324,000 below budgeted expenditures.

The net change in the Gasoline Tax fund balance for the current fiscal year was a $526,269 decrease or (25.6%), which is a $323,731 improvement from the planned $850,000 decrease in the final budget. This allowed the Gasoline Tax Fund to end with a fund balance equal to 29.89% of its annual expenditures.

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, 2011.

Total Capital Assets at October 1, 2010	$56,746,751
Additions	3,897,567
Retirements	(218,007)
Annual Depreciation	(3,302,309)
Accumulated Depreciation of Retired Assets	218,007
Total Capital Assets at September 30,2011	**$57,342,009**

The following table shows total assets before and after depreciation.

Governmental Activities	**Assets Original Cost**	**Value at 9/30/11 After Depreciation**
Land	2,460,453	2,460,453
Construction in Progress	4,954,089	4,954,089
Infrastructure	19,013,690	14,650,622
Buildings and Improvements	42,445,490	30,822,196
Equipment and Furniture	20,551,223	4,454,649
Total Capital Assets	**$89,424,945**	**$57,342,009**

Debt Outstanding

At the end of September 2010 the County's general obligation long-term debt was $25,684,653. By the end of the current year the general obligation long-term debt had decreased $1,399,178 (5.45%) to $24,285,475.

The County paid-down $1,060,000 of existing general obligation warrants through annual debt service.

Early in fiscal year 2011, the County issued a general obligation notes of $1,100,000 and of $255,000 with maturities of five and three years. The $1,100,000 note is for a central plant expansion and remodel for the T.K. Davis Justice Center to replace and modernize major facility equipment. The $255,000 note is for a couple of garbage truck replacements for Environmental Services. After determining sufficient funds were available and examining the rate of return on allowable investment, the County retired both these issues and $37,673 remaining on a 2008 four year note. The County paid $612,348 on the other notes and the remaining general obligation notes with maturities of two years or less.

The liability for compensated absences as of the end of the current year was $1,199,490, which was a $23,466 increase (1.99%) from last fiscal year's $1,176,024.

Lee County Commission
Management's Discussion and Analysis
Fiscal Year October 1, 2010 through September 30, 2011

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 $794,907. For the 2011 Fiscal Year, the difference between the annual required contribution as determined by an actuarial valuation and the actual contribution was $301,733. This increase has been recognized in the Noncurrent section of the Liabilities on the Statement of Net Assets for a total long-term liability of $1,096,640.

Based on the County's legal limits of debt at 5% of the net assessed value of property as of Oct 1, 2010, Lee County's maximum debt limit was $70,938,316. With our total chargeable debt against our limit as of the end of the current fiscal year being $21,800,315, we were at 30.73% of our legal debt limit. At the end of Fiscal Year 2011, our budgeted ongoing debt service is $2,210,455 or 7.0% of our total revenues.

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

Economic Factors

Lee County benefits from the 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 areas continually are recognized as excellent places for business and places to live.

Although the presence of the university and regional hospital provide a sound economic base during times of national downturns, Lee County knows it is not totally immune to the current economic climate.

In the 2007 fiscal year, we already had indications of the slowing economy with a significant drop in building permits. Despite building permits, revenue resources remained strong in fiscal year 2007 and most of fiscal year 2008. Towards the end of fiscal year 2008 our economic sensitive revenues started to show significant weakness; however, the largest concern at the time was costs. Fuel and energy prices were peaking and causing problems with our budget. Not only were fuel costs causing a strain on the County’s budget but the vendors were passing their fuel costs on by increasing their prices for goods and services.

In Fiscal Year 2009 cost pressures subsided especially in fuel and associated materials. While costs remained contained that fiscal year, the more economic sensitive revenues experienced significant decreases. Sources like interest earnings from investments dropped 79.83% ($573,550) and Mortgage and Deed Tax 13.83% ($111,465).

In Fiscal Year 2010, the County Commission required departments to reduce operational budgets and implemented a hiring freeze with the exception of where the vacancies may cause public safety and health to be compromised or a department may be incapable of functioning at a minimum level. These moves allowed the County to maintain most of the fund balances at the same amount as the beginning of the fiscal year.

In Fiscal Year 2011, we saw our revenues stabilize with some improvements in charges for services and intergovernmental revenues. In addition, expenditures decreased further with effective cost saving measures and some attrition in personnel. With the General Fund's fund balance increasing to the upper level of our targeted range, the County Commission lifted the hiring freeze to allow departments to fill budgeted positions at their discretion.

For the Fiscal Year 2012 Budget, the County Commission continued to reduce expenditures by another $700,000 (2.12%) in order to maintain financial stability and operation of essential services. With the Commission's actions over the last few years, we have experienced an improvement in our resources and flexibility to address the ongoing financial challenges. We are now able to address some of our capital replacement (i.e. Sheriff's vehicles) and improvement needs (i.e. energy efficiency improvements). Although concern remains on the lack luster economic recovery, the longer-term problem developing is finding the revenue growth needed for attracting and maintaining high quality employees.

Lee County is beginning to see encouraging signs in the local economy with commercial construction in the two largest cities of Auburn and Opelika, which has been absent the last couple of years. In addition, both cities recently have been successful in recruiting new industry to the area like Auburn with GE Aviation and Opelika with Pharmavite. We still expect a slow recovery; however, the area appears to be regaining a pattern of economic growth.

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 Assets
September 30, 2011

		Governmental Activities
Assets		
Current Assets		
Cash and Cash Equivalents	$	17,497,449.07
Investments		1,741,172.08
Accounts Receivable		202,167.22
Interest Receivable		8,967.11
Due from Other Governments		894,496.15
Property Tax Receivable		13,278,222.61
Inventories		118,008.18
Prepaid Expenses		29,929.55
Total Current Assets		33,770,411.97
Noncurrent Assets		
Cash with Fiscal Agent		194,784.68
Capital Assets:		
Nondepreciable:		
Land		2,460,452.92
Construction in Progress		4,954,089.15
Depreciable:		
Infrastructure		19,013,690.54
Buildings		42,445,489.64
Equipment and Furniture		20,551,223.26
Less: Accumulated Depreciation		(32,082,936.68)
Total Noncurrent Assets		57,536,793.51
Total Assets		91,307,205.48
Liabilities		
Current Liabilities		
Accounts Payable		1,973,097.33
Wages and Fringes Payable		553,265.67
Deferred Revenue		14,537,192.18
Due to Other Governments		158,844.80
Accrued Interest Payable		100,567.08
Long-Term Liabilities:		
Portion Due Within One Year:		
Warrants Payable		1,210,879.61
Add: Premium on Warrants		14,356.65
Compensated Absences		53,781.70
Total Current Liabilities	$	18,601,985.02

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

	Governmental Activities
Noncurrent Liabilities	
Portion Payable After One Year:	
Warrants Payable	$ 20,589,435.80
Add: Premium on Warrants	174,672.30
Estimated Liability for Retiree Health Plan	1,096,640.00
Compensated Absences	1,145,708.60
Total Noncurrent Liabilities	23,006,456.70
Total Liabilities	41,608,441.72
Net Assets	
Invested in Capital Assets - Net of Related Debt	41,350,534.07
Restricted for Road Purposes	93,947.13
Restricted for Debt Service	94,217.60
Restricted for Other Purposes	404,985.32
Unrestricted	7,755,079.64
Total Net Assets	$ 49,698,763.76

Statement of Activities
For the Year Ended September 30, 2011

			Program Revenues	
Functions/Programs		**Expenses**	**Charges for Services**	**Operating Grants and Contributions**
Primary Government				
Governmental Activities				
General Government		$ 8,592,997.31	$ 5,357,473.47	$ 89,939.76
Public Safety		12,031,010.86	1,201,708.96	1,030,131.12
Highways and Roads		8,181,448.03	3,030.00	4,387,645.94
Sanitation		2,854,584.97	3,117,829.50	
Health		228,496.99		7,875.84
Welfare		13,281.04		
Culture and Recreation		89,562.37		
Education		41,650.64		
Interest		1,018,645.79		347,260.00
Fiscal Agent Fees		4,700.00		
Total Governmental Activities		$ 33,056,378.00	$ 9,680,041.93	$ 5,862,852.66
	General Revenues:			
	Taxes:			
	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			
	Change in Net Assets			
	Net Assets - Beginning of Year			
	Net Assets - End of Year			

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

Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets Primary Government Total Governmental Activities
$ 498,185.20	$ (2,647,398.88)
35,775.44	(9,763,395.34)
421,961.08	(3,368,811.01)
	263,244.53
	(220,621.15)
	(13,281.04)
6,144.50	(83,417.87)
	(41,650.64)
	(671,385.79)
	(4,700.00)
$ 962,066.22	(16,551,417.19)
	10,111,425.15
	5,750,691.94
	778,757.76
	489,351.63
	137,783.14
	429,872.96
	17,697,882.58
	1,146,465.39
	48,552,298.37
	$ 49,698,763.76

Balance Sheet
Governmental Funds
September 30, 2011

		General Fund		Gasoline Tax Fund
Assets				
Cash and Cash Equivalents	$	4,885,719.54	$	1,525,797.38
Cash with Fiscal Agent				
Investments		1,244,977.51		
Accounts Receivable		188,762.95		
Interest Receivable		3,998.99		
Due from Other Funds		960,097.61		
Due from Other Governments		402,337.69		210,852.48
Property Tax Receivable		12,782,230.67		
Inventories		12,081.38		105,926.80
Prepaid Expenses		29,929.55		
Total Assets		20,510,135.89		1,842,576.66
Liabilities and Fund Balances				
Liabilities				
Accounts Payable		177,330.34		239,393.50
Wages and Fringes Payable		452,407.95		69,370.56
Due to Other Funds				
Deferred Revenue		13,271,584.36		
Due to Other Governments		158,844.80		
Compensated Absences		46,348.73		4,891.78
Total Liabilities		14,106,516.18		313,655.84
Fund Balances				
Nonspendable		42,740.10		105,926.80
Restricted				
Committed		1,624,333.19		
Assigned		1,092,474.65		1,422,994.02
Unassigned		3,644,071.77		
Total Fund Balances		6,403,619.71		1,528,920.82
Total Liabilities and Fund Balances	$	20,510,135.89	$	1,842,576.66

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

2010 Bridge Bond Program Fund	Other Governmental Funds	Total Governmental Funds
$ 7,307,921.08	$ 3,778,011.07	$ 17,497,449.07
	194,784.68	194,784.68
	496,194.57	1,741,172.08
	13,404.27	202,167.22
4,078.48	889.64	8,967.11
		960,097.61
	281,305.98	894,496.15
	495,991.94	13,278,222.61
		118,008.18
		29,929.55
7,311,999.56	5,260,582.15	34,925,294.26
1,314,129.96	242,243.53	1,973,097.33
	31,487.16	553,265.67
	960,097.61	960,097.61
	1,265,607.82	14,537,192.18
		158,844.80
	2,541.19	53,781.70
1,314,129.96	2,501,977.31	18,236,279.29
		148,666.90
5,997,869.60	708,180.82	6,706,050.42
		1,624,333.19
	2,795,966.71	5,311,435.38
	(745,542.69)	2,898,529.08
5,997,869.60	2,758,604.84	16,689,014.97
$ 7,311,999.56	$ 5,260,582.15	$ 34,925,294.26

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Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
September 30, 2011

Total Fund Balances - Governmental Funds (Exhibit 3)			$ 16,689,014.97
Amounts reported for governmental activities in the Statement of Net Assets (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		$ 2,460,452.92	
Infrastructure		19,013,690.54	
Buildings		42,445,489.64	
Equipment and Furniture		20,551,223.26	
Construction in Progress		4,954,089.15	
Less: Accumulated Depreciation		(32,082,936.68)	
			57,342,008.83
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:			
	Current Liabilities	Noncurrent Liabilities	
Warrants Payable	$ 1,210,879.61	20,589,435.80	
Premium on Warrants	14,356.65	174,672.30	
Accrued Interest Payable	100,567.08		
Estimated Liability for Retiree Health Insurance		1,096,640.00	
Compensated Absences		1,145,708.60	
Total Long-Term Liabilities	$ 1,325,803.34	$ 23,006,456.70	
			(24,332,260.04)
Total Net Assets - Governmental Activities (Exhibit 1)			$ 49,698,763.76

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, 2011

	General Fund	Gasoline Tax Fund
Revenues		
Taxes	$ 15,488,420.93	$
Licenses and Permits	474,088.97	
Intergovernmental	2,396,389.22	2,313,100.17
Charges for Services	7,478,223.56	3,030.00
Miscellaneous	455,701.59	13,332.45
Total Revenues	26,292,824.27	2,329,462.62
Expenditures		
Current:		
General Government	6,679,236.39	
Public Safety	10,658,436.22	
Highways and Roads		3,953,293.54
Sanitation	2,588,987.14	
Health	225,533.16	
Welfare	4,972.56	
Culture and Recreation	79,142.47	
Education	39,840.17	
Capital Outlay	613,161.63	1,077,509.76
Debt Service:		
Principal Retirement	502,754.23	82,883.40
Interest and Fiscal Charges	8,907.52	2,239.66
Fiscal Agent Fees		
Total Expenditures	21,400,971.49	5,115,926.36
Excess (Deficiency) of Revenues Over Expenditures	4,891,852.78	(2,786,463.74)
Other Financing Sources (Uses)		
Sale from Capital Assets	6,700.00	
Transfer In		2,260,195.00
Debt Issued	255,000.00	
Transfer Out	(3,129,172.65)	
Total Other Financing Sources (Uses)	(2,867,472.65)	2,260,195.00
Net Change in Fund Balances	2,024,380.13	(526,268.74)
Fund Balances - Beginning of Year, as Restated (Note 13)	4,379,239.58	2,055,189.56
Fund Balances - End of Year	$ 6,403,619.71	$ 1,528,920.82

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

2010 Bridge Bond Program Fund	Other Governmental Funds	Total Governmental Funds
$	$ 1,152,453.92	$ 16,640,874.85
		474,088.97
	3,620,542.29	8,330,031.68
	712,328.76	8,193,582.32
61,942.49	13,203.46	544,179.99
61,942.49	5,498,528.43	34,182,757.81
	1,168,193.93	7,847,430.32
	75,049.09	10,733,485.31
1,314,165.96	1,636,721.80	6,904,181.30
		2,588,987.14
		225,533.16
		4,972.56
		79,142.47
		39,840.17
780,054.28	1,426,842.82	3,897,568.49
	2,479,383.21	3,065,020.84
	1,011,148.61	1,022,295.79
	4,700.00	4,700.00
2,094,220.24	7,802,039.46	36,413,157.55
(2,032,277.75)	(2,303,511.03)	(2,230,399.74)
		6,700.00
	1,972,899.90	4,233,094.90
	1,100,000.00	1,355,000.00
	(1,103,922.25)	(4,233,094.90)
	1,968,977.65	1,361,700.00
(2,032,277.75)	(334,533.38)	(868,699.74)
8,030,147.35	3,093,138.22	17,557,714.71
$ 5,997,869.60	$ 2,758,604.84	$ 16,689,014.97

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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, 2011

Net Change in Fund Balances - Total Governmental Funds (Exhibit 5)			$	(868,699.74)
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 ($3,897,568.49) exceeds depreciation ($3,302,309.39).				595,258.12
Repayment of principal on debt is reflected as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.				3,065,020.84
Debt issuances provide current financial resources in governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.				(1,355,000.00)
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 items consist of:				
Net Increase in Long-Term Retiree Health Plan Benefits	$	(301,733.00)		
Net Increase in Long-Term Compensated Absences		(6,387.51)		
Net Decrease in Accrued Interest Payable		3,650.00		(304,470.51)
Amortization of Premium on Bond Issue				14,356.68
Change in Net Assets - Governmental Activities (Exhibit 2)			$	1,146,465.39

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

Statement of Fiduciary Net Assets
September 30, 2011

		Private-Purpose Trust Funds
Assets		
Cash and Cash Equivalents	$	2,288,225.28
Total Assets		2,288,225.28
Liabilities		
Payable to External Parties		2,091,165.93
Total Liabilities		2,091,165.93
Net Assets		
Held in Trust for Other Purposes	$	197,059.35

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

Statement of Changes in Fiduciary Net Assets
For the Year Ended September 30, 2011

		Private-Purpose Trust Funds
Additions		
Contributions:		
Probate Court	$	390,527.63
Charges for Service		7.69
Total Additions		390,535.32
Deductions		
Payment to Beneficiaries		350,389.84
Administrative Expenses		29,086.89
Total Deductions		379,476.73
Changes in Net Assets		11,058.59
Net Assets - Beginning of Year		186,000.76
Net Assets - End of Year	$	197,059.35

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

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) require that the financial statements present the Commission (the primary government) and its component units. Component units 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 upon the application of these criteria, there are no component units which should be included as part of the financial reporting of the entity of the Commission.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net assets 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 nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues and 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 nonmajor 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 received revenues from collections of general and special county property taxes, solid waste disposal fees 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 gasoline taxes restricted to roads.

- ***2010 Bridge Bond Program Fund*** – This fund is used to account for the expenditures of bond proceeds from an $8 million bond issue for the replacement of approximately sixteen bridges throughout the county.

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

Governmental Fund Types

- ***Special Revenue Funds*** – These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

- ***Debt Service Funds*** – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest and the accumulation of resources for principal and interest payments maturing in future years.

- ***Capital Projects Funds*** – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets.

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.

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. Nonexchange 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 sixty (60) 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 assets 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

D. Assets, Liabilities, and Net Assets/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.

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

Investments are reported at fair value.

2. Receivables

All ad valorem tax receivables are shown net of an allowance for uncollectibles. Sales tax receivables are based on the amounts collected within 60 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 60 days.

Millage rates for property taxes are levied at the first regular meeting of the Commission in February of each year. Property taxes are assessed for property 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.

Receivables due from other governments include amounts due from grantors for grants issued for specific programs and capital projects.

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.

5. Restricted Assets

Certain general obligation warrants, 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.

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 records exist. 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 are 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 roads, the surface, will deteriorate and will be depreciated. The entire costs of bridges in the county will be depreciated.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond/Warrant premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds/Warrants payable are reported gross with separate line items for the applicable bond/warrant premium or discount. Bond/Warrant issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

8. 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 36 days of annual leave may be accrued and carried forward into the next year. 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.

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. In unusual circumstances, department heads may advance up to six days sick leave, provided that all other leave has been used and that the cause of the absence is supported by a doctor's certificate.

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 latter 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).

9. Net Assets/Fund Equity

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

- ***Invested in Capital Assets, Net of Related Debt*** – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Any significant unspent related debt proceeds at year-end related to capital assets are not included in this calculation.

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

- ***Unrestricted*** **–** Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Commission.

Fund equity 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:

- 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.

- 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.

- 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.

- 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.

- 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.

10. 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 consistent with accounting principles generally accepted in the United States of America 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.

Note 3 – Deposits and Investments

A. 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 Depository 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.

B. Cash With Fiscal Agent

The Commission has deposits totaling $194,784.68 in the debt service funds (other governmental funds) which is shown as cash with fiscal agents on the fund financial statements and on the government-wide financial statements. These funds are invested in Federated Treasury Obligation 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 securities. Federated Treasury Obligations Funds are rated AAAm by Standard & Poor's with a dollar-weighted average portfolio maturity of 51 days or less.

C. Investments

The ***Code of Alabama 1975***, Section 11-8-11 and Section 11-81-20, authorizes the Commission to invest in obligations of the U. S. Treasury and federal agency securities along with certain pre-refunded public obligations such as bonds or other obligations of any state of the United States of America or any agency, instrumentality or local governmental unit of any such state.

As of September 30, 2011, the Commission had the following investments on the government-wide financial statements and on the fund financial statements:

Investments	Cost	Fair Value
Franklin U. S. Government Securities, Class A	$1,200,000	$1,244,978
Franklin Limited Maturity U. S. Government Securities, Class A	500,000	496,194
Total	$1,700,000	$1,741,172

Credit Risk – State law requires that pre-refunded public obligations, such as any bonds or other obligations of any state of the United States of America or of any agency instrumentality or local governmental unit of any such state that the Commission invests in be rated in the highest rating category of Standard & Poor's Corporation and Moody's Investors Service, Inc. The Commission does not have formal policy. As of September 30, 2011, the Commission's mutual bond fund investments were rated AAA by Standard and Poor's.

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 federal securities are held in the name of the Commission. As of September 30, 2011, the fair value of the securities exceed the reported amount, therefore, the Commission's investments are fully collateralized.

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.

Note 4 – Deferred Revenues

Governmental funds report deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At September 30, 2011, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Ad Valorem Taxes	$13,093,263.94	$1,290,243.42
Build America Bond Subsidy Received but Unearned		68,173.70
Grants Received but Unearned		85,511.12
Total Deferred/Unearned for Governmental Funds	$13,093,263.94	$1,443,928.24

Note 5 – Capital Assets

Capital asset activity for the year ended September 30, 2011, was as follows:

	Balance 10/01/2010	Additions	Retirements	Balance 09/30/2011
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	$ 2,460,452.92	$	$	$ 2,460,452.92
Construction in Progress	2,984,573.73	1,969,515.42		4,954,089.15
Total Capital Assets, Not Being Depreciated	5,445,026.65	1,969,515.42		7,414,542.07
Capital Assets Being Depreciated:				
Infrastructure	17,818,189.03	1,195,501.51		19,013,690.54
Buildings	42,390,579.69	54,909.95		42,445,489.64
Equipment and Furniture	20,091,589.93	677,640.63	(218,007.30)	20,551,223.26
Total Capital Assets Being Depreciated	80,300,358.65	1,928,052.09	(218,007.30)	82,010,403.44
Less Accumulated Depreciation for:				
Buildings	(10,545,842.46)	(1,077,450.91)		(11,623,293.37)
Infrastructure	(3,896,684.99)	(466,383.63)		(4,363,068.62)
Equipment and Furniture	(14,556,107.14)	(1,758,474.85)	218,007.30	(16,096,574.69)
Total Accumulated Depreciation	(28,998,634.59)	(3,302,309.39)	218,007.30	(32,082,936.68)
Total Capital Assets Being Depreciated, Net	51,301,724.06	(1,374,257.30)		49,927,466.76
Total Governmental Activities Capital Assets, Net	$ 56,746,750.71	$ 595,258.12	$	$ 57,342,008.83

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

	Current Year Depreciation Expense
Governmental Activities:	
General Government	$ 673,610.94
Public Safety	1,143,622.56
Highway and Roads	1,229,665.78
Sanitation	231,907.43
Health	2,963.83
Welfare	8,308.48
Recreation	10,419.90
Education	1,810.47
Total Depreciation Expense – Governmental Activities	$3,302,309.39

Note 6 – Defined Benefit Pension Plan

A. Plan Description

The Commission contributes to the Employees' Retirement System of Alabama, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for the various state agencies and departments.

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

The Employees' Retirement System was established as of October 1, 1945, under the provisions of Act 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 general administration and operation of the Employees' Retirement System is vested in the Board of Control. Benefit provisions are established by the ***Code of Alabama 1975***, Sections 36-27-1 through 36-27-103, as amended, Sections 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Commission authority to accept or reject various Cost-Of-Living-Adjustments (COLAs) granted to retirees.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

B. Funding Policy

Employees of the Commission, with the exception of full-time law enforcement officers, are required by statute to contribute 5 percent of their salary to the Employees' Retirement System. As of January 1, 2001, full-time law enforcement officers are required by statute to contribute 6 percent of their salary to the Employees' Retirement System. The Commission is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. The contribution requirements of the Commission are established by the Employees' Retirement System based on annual actuarial valuations. The employer's contribution rate for the year ended September 30, 2011, was 8.43% based on the actuarial valuation performed as of September 30, 2008.

C. Annual Pension Cost

For the year ended September 30, 2011, the Commission's annual pension cost of $1,097,417 was equal to the Commission's required and actual contribution. The required contribution was determined using the "entry age normal" method. The actuarial assumptions as of September 30, 2010, were: (a) 8 percent investment rate of return on present and future assets, and (b) projected salary increases ranging from 7.75 percent at age 20 to 4.61 percent at age 65. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period as of September 30, 2010, was 30 years.

The following is three-year trend information for the Commission:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
09/30/2011	$1,097,417	100%	$0
09/30/2010	$1,094,196	100%	$0
09/30/2009	$1,084,843	100%	$0

D. Funded Status and Funding Progress

As of September 30, 2010, the most recent actuarial valuation date, the plan was 70.90 percent funded. The actuarial accrued liability for benefits was $36,094,516 and the actuarial value of assets was $25,594,106, resulting in an unfunded actuarial accrued liability (UAAL) of $10,500,410. The covered payroll (annual payroll of active employees covered by the plan) was $13,948,277, and the ratio of the UAAL to the covered payroll was 75.30 percent.

The Schedule of Funding Progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 7 – Other Postemployment Benefits (OPEB)

A. Plan Description

The Lee County Commission contributes to the Local Government Health Insurance Program, an agent multiple-employer defined benefit postemployment healthcare plan administered by the State Employees' Insurance Board. The plan provides medical, drug, and dental insurance benefits to eligible retirees and their dependents. The ***Code of Alabama 1975***, Section 11-91-1 through 11-91-8, gives authority to the Commission to establish and amend benefit provisions. The plan does not issue a stand-alone financial report.

Benefits are provided in accordance with a resolution approved by the Commission on October 12, 1999 (modified on January 1, 2005 and July 27, 2009), to all County employees who retire with twenty-five years of service with the Lee County Commission until full retirement age as outlined by the current Social Security Administration's Full Retirement and Reductions by Age Schedule, or upon eligibility for Medicare and to those County employees eligible to retire with eighteen or more years of service if such employee retires on or before October 1, 2009.

Dependents can be covered under an eligible retiree's family plan if the dependent meets the definition of who can be covered in each option's contract. However, the employee must reimburse the County for dependent coverage. Also, employees who retire without twenty-five years of service for the Lee County Commission can continue the health insurance coverage for which they must reimburse the full cost of the premium.

B. Funding Policy

The Commission's contributions were on a pay-as-you-go basis as of September 30, 2011.

The Commission contributes $376.00 a month towards the costs of current-year premiums of eligible retirees 65 years of age and older and $779.00 a month towards the costs of current-year premiums for retirees under the age of 65. For fiscal year 2011, the Commission contributed $130,872.00 to cover 16 participants. Plan members whose dependents were receiving benefits contributed $4,608.00 for family coverage costs for fiscal year 2011. Plan members who retired without twenty-five years of service for the Lee County Commission who continued the health insurance coverage paid $51,063.00 including $13,824.00 for family coverage for fiscal year 2011. Retirees are required to contribute monthly as follows:

	Fiscal Year 2011
Individual Coverage – Non-Medicare Eligible	$ 0.00
Individual Coverage – Medicare Eligible	$ 0.00
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	$654.00
Family Coverage – Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	$384.00
Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	$540.00
Family Coverage – Medicare Eligible Retired Member and Dependent Medicare Eligible	$384.00

C. Annual OPEB Cost

For the year ended September 30, 2011, the Commission's annual other postemployment benefit (OPEB) cost (expense) for medical, drug, and dental insurance was $432,605. The Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011, is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/2011	$432,605	30.25%	$1,096,640
09/30/2010	$498,267	25.30%	$ 794,907
09/30/2009	$498,267	15.17%	$ 422,698

D. Funded Status and Funding Progress

The Commission had an actuarial valuation of their health care plan as of October 1, 2010. The funding status of the plan was as follows:

Actuarial Accrued Liability (AAL)	$ 3,952,540.00
Actuarial Value of Plan Assets	0.00
Unfunded Actuarial Accrued Liability (UAAL)	$ 3,952,540.00
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0.0%
Covered Payroll (Active Plan Members)	$12,492,616.00
UAAL as a Percentage of Covered Payroll	31.64%

The annual required contribution of the plan was as follows:

	Rate as % of Compensation	Annual Amount
Normal Cost	1.75%	$218,201
Accrued Liability	1.83%	228,577
Total Cost	3.58%	$446,778

As of September 30, 2011, the increase in liability for retiree health care of $301,733 was calculated using the annual required contribution total of $446,778 less the Commission's annual OPEB cost of $145,045. The increase of $301,733 was added to the prior year liability of $794,907 for a total noncurrent liability of $1,096,640, which is recorded as noncurrent in the governmental activities' Statement of Net Assets.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare costs trends. Amounts determined regarding the funding status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Schedule of Funding Progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used was the projected unit credit method. The actuarial assumptions included a four percent investment return assumption (or discount rate) and an annual healthcare cost trend rate of eleven percent initially, reduced by decrements to an ultimate rate of five percent after eight years. It was assumed that one hundred percent of future retirees would participate. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open period. The unfunded actuarial accrued liability (UAAL) is being amortized over thirty years.

Note 8 – Long-Term Debt

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

The Commission issued General Obligation Bonds, Series 2004, for the purpose of (i) expanding the existing County Jail in a partnership with the Cities of Opelika and Auburn for a consolidated detention facility and (ii) paying the costs of issuing the Series 2004 Warrants.

The Commission issued General Obligation Bonds, Series 1998, for the purpose of (i) prepaying and retiring the County's General Obligation Road and Bridge Warrants, dated June 1, 1989, (ii) providing the funds to pay the Cities of Opelika and Auburn for the cost of maintaining, repairing and replacing certain County roads and highways, the responsibility for which will be transferred to such cities pursuant to separate agreements with the County, and (iii) paying the costs of issuing the Series 1998 Warrants. These warrants were repaid in full during fiscal year 2010.

The Commission issued five General Obligation Warrants as a series of bank notes for the following purposes:

Issued in February 2008, a thirty-six month (3 years) $225,357 warrant intended for funding the purchase of vehicles for the Sheriff's Office.

Issued in February 2008, a forty-eight month (4 years) $244,462 warrant intended for funding the purchase of heavy equipment for the Environmental Service Department.

Issued in April 2008, a sixty month (5 years) $600,000 warrant intended for funding the remodeling of the south end of the T. K. Davis Justice Center for a new family courtroom and juvenile probation officer offices.

Issued in February 2009, a thirty-six month (3 years) $415,000 warrant intended for funding the purchase of vehicles ($170,000) for the Sheriff's Office and for the partial funding of an early repayment ($245,000) on a capital lease for Highway Department dump trucks.

Issued in March 2010, a thirty-six month (3 years) $240,000 warrant intended for funding the purchase of vehicles for the Sheriff's Office.

In fiscal year 2011, the County issued a general obligation note of $1,100,000. The note is for a central plant expansion and remodel for the T. K. Davis Justice Center to replace and modernize major facility equipment.

In fiscal year 2011, the County issued a general obligation note of $255,000. The note is for a couple of garbage truck replacements for Environmental Services.

The following is a summary of long-term debt transactions for the Commission for the year ended September 30, 2011:

	Debt Outstanding 10/01/2010	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2011	Amounts Due Within One Year
Governmental Activities:					
Warrants and Notes Payable:					
General Obligation – Series 2004	$14,565,000.00	$	$ 730,000.00	$13,835,000.00	$ 755,000.00
General Obligation – Series 2010	8,120,000.00		330,000.00	7,790,000.00	315,000.00
Unamortized Premium	203,385.63		14,356.68	189,028.95	14,356.65
General Obligation Notes Payable	825,336.25	1,355,000.00	2,005,020.84	175,315.41	140,879.61
Sub-Total Warrants and Notes Payable	23,713,721.88	1,355,000.00	3,079,377.52	21,989,344.36	1,225,236.26
Capital Lease Contracts Payable					
Estimated Liability for Retiree Health Insurance	794,907.00	301,733.00		1,096,640.00	
Compensated Absences	1,176,024.25	23,466.05		1,199,490.30	53,781.70
Total	$25,684,653.13	$1,680,199.05	$3,079,377.52	$24,285,474.66	$1,279,017.96

Payments on the bonds payable that pertain to the General Obligation Bonds Series 2010 are made by the RRR Gasoline Tax Fund and the Debt Service Fund (both Other Governmental Funds).

Payments on the bonds payable that pertain to the General Obligation Bonds Series 2004 are made by the Public Buildings, Roads and Bridges Fund (included with the General Fund) and the Debt Service Fund (an Other Governmental Fund), which both cities (Auburn and Opelika) are contributing an annual appropriation for the debt service on $10 million of the $17.98 million principal.

Payments on the bonds payable that pertain to the General Obligation Bonds Series 1998 are made by the RRR Gasoline Tax Fund and the Debt Service Fund (both Other Governmental Funds).

Payments on the February 2008, a thirty-six month (3 years) $225,357 warrant are made by the General Fund.

Payments on the February 2008, a forty-eight month (4 years) $244,462 warrant are made by the Environmental Services Department (included with the General Fund).

Payments on the April 2008, a sixty month (5 years) $600,000 warrant are made by the Public Buildings, Roads and Bridges Fund (included with the General Fund).

Payments on the February 2009, a thirty-six month (3 years) $415,000 warrant are made by the General Fund ($170,000) and the Gasoline Tax Fund ($245,000).

Payments on the March 2010, thirty-six (3 years) $240,000 warrant 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 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.

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

	Governmental Activities			
	2010 General Obligation Bonds		2004 General Obligation Bonds	
Fiscal Year Ending	Principal	Interest	Principal	Interest
September 30, 2012	$ 315,000.00	$ 389,564.50	$ 755,000.00	$ 603,403.00
2013	320,000.00	380,902.00	780,000.00	579,998.00
2014	330,000.00	371,302.00	805,000.00	554,258.00
2015	335,000.00	359,752.00	830,000.00	526,485.00
2016	345,000.00	347,189.50	860,000.00	497,435.00
2017-2021	1,875,000.00	1,499,040.00	4,925,000.00	1,861,975.00
2022-2026	2,200,000.00	987,613.50	4,880,000.00	552,448.00
2027-2030	2,070,000.00	313,112.50		
Total	$7,790,000.00	$4,648,476.00	$13,835,000.00	$5,176,002.00

Bond Premiums

The Commission has bond premiums in connection with the issuance of its series 2004 General Obligation Warrants. The bond premium is being amortized using the straight-line method over a period of twenty years.

	Premium
Total Premium	$287,132.90
Amount Amortized Prior Years	(83,747.27)
Balance Premium	203,385.63
Current Amount Amortized	(14,356.68)
Balance Premium	$189,028.95

Governmental Activities General Obligation Warrants Bank Notes			
Principal	Interest	Total Principal	Total Interest
$140,879.61	$2,406.92	$ 1,210,879.61	$ 995,374.42
34,435.80	218.90	1,134,435.80	961,118.90
		1,135,000.00	925,560.00
		1,165,000.00	886,237.00
		1,205,000.00	844,624.50
		6,800,000.00	3,361,015.00
		7,080,000.00	1,540,061.50
		2,070,000.00	313,112.50
$175,315.41	$2,625.82	$21,800,315.41	$9,827,103.82

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 improvement of the system'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, 2011, the aggregate principal amount payable for the Series 2009 Limited Obligation Warrants was $23,840,000.

The Commission has issued Series 2003 Limited Obligation School Warrants to provide financial assistance to the Lee County Board of Education. These warrants are limited obligations of the Commission and are payable solely from the funding agreement 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.

This warrant issue also refunded the Commission's $15,000,000 Limited Obligation School Warrants, Series 1997 and the $8,515,000 outstanding Limited Obligation School Warrants Series 1995. These warrants were reported as conduit debt in previous fiscal years.

The original agreements with the Lee County Board of Education provided that they could be cancelled and satisfied of record upon deposit with the Trustee of cash sufficient to provide for full payment of all the Series 1995 and 1997 Limited Obligation School Warrants then outstanding there under, including the interest that will mature thereon until such payment. As a result, these agreements are considered cancelled.

As of September 30, 2011, the aggregate principal amount payable for the Series 2003 Limited Obligation School Warrants was $32,045,000.

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 $500,000.00 per claim for a maximum total coverage of $2,000,000.00 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.

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

The Commission purchases commercial insurance to cover buildings and contents.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Note 11 – Interfund Transactions

Due To/From Other Funds

The amounts due to/from other funds at September 30, 2011, were as follows:

	Due From Other Funds General Fund	Totals
Due To Other Funds:		
Other Governmental Funds	$960,097.61	$960,097.61
Totals	$960,097.61	$960,097.61

The General Fund retired a $1,100,000 general obligation note on behalf of the Lee County Justice Center Improvement Fund which will be repaid out of future court fees.

Interfund Transfers

The amounts of interfund transfers during the fiscal year ended September 30, 2011, were as follows:

	Transfers Out		
	General Fund	Other Governmental Funds	Total
Transfers In:			
Gasoline Tax Fund	$1,881,195.00	$ 379,000.00	$2,260,195.00
Other Governmental Funds	1,247,977.65	724,922.25	1,972,899.90
Total	$3,129,172.65	$1,103,922.25	$4,233,094.90

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

Note 12 – 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 Public Building Authority
Lee County Cemetery Preservation Committee
Industrial Development Board
Loachapoka Water Authority
East Alabama Health Care Authority
Beauregard Water Authority
Smiths Water Authority

Note 13 – Restatements

Beginning fund balances/net assets have been restated due to a change in the reporting entity. The Lee County Commission implemented GASB Statement Number 54, Fund Balance Reporting and Governmental Fund Type Definitions, for the fiscal year ended September 30, 2011. This resulted in a change in format and the method of reporting fund balance in the basic financial statements.

The impact of the restatements on the fund balances/net assets as previously reported is as follows:

	General Fund	Gasoline Tax Fund	Public Buildings, Roads and Bridges Fund	2010 Bridge Bond Program	Other Governmental Funds	Total
Fund Balance, September 30, 2010, as Previously Reported	$3,296,433.97	$2,055,189.56	$ 223,093.40	$8,030,147.35	$3,952,850.43	$17,557,714.71
Fund Restatements:						
Public Buildings, Roads and Bridges Fund	223,093.40		(223,093.40)			
Recreation Fund	563,455.72				(563,455.72)	
Environmental Services Fund	140,204.81				(140,204.81)	
EMA Fund	104,720.02				(104,720.02)	
HMEP Fund	18,651.08				(18,651.08)	
ADECA Grants Fund	32,680.58				(32,680.58)	
Fund Balance, September 30, 2010, as Restated	$4,379,239.58	$2,055,189.56	$	$8,030,147.35	$3,093,138.22	$17,557,714.71

Note 14 – 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:

	General Fund	Gasoline Fund	2010 Bridge Bond Program Fund	Other Governmental Funds	Totals
Nonspendable:					
Inventory	$ 12,810.55	$ 105,926.80	$	$	$ 118,737.35
Prepaid Expenses	29,929.55				29,929.55
Total Nonspendable	42,740.10	105,926.80			148,666.90
Restricted for:					
Bridge Replacement Program			5,997,869.60		5,997,869.60
Road and Bridge Resurface, Repair and Rehabilitation				93,947.13	93,947.13
County Facilities, Repair and Construction				325,651.47	325,651.47
Debt Service Trustee Account				194,784.68	194,784.68
Revenue Commission Office Funds				93,797.54	93,797.54
Total Restricted			5,997,869.60	708,180.82	6,706,050.42
Committed to:					
Airport FAA Projects Match	89,589.60				89,589.60
Recreational Programs	534,743.59				534,743.59
Operational Reserve	1,000,000.00				1,000,000.00
Total Committed	1,624,333.19				1,624,333.19
Assigned to:					
Chairman Expense Issue	39,600.00				39,600.00
Capital Replacement and Improvement	550,000.00	550,000.00			1,100,000.00
Road and Bridge Maintenance		872,994.02			872,994.02
Road and Bridge Resurface, Repair and Rehabilitation				2,245,740.24	2,245,740.24
Capital Improvement Program				550,226.47	550,226.47
Environmental Services Programs	325,226.07				325,226.07
Emergency Management Programs	177,648.58				177,648.58
Total Assigned	1,092,474.65	1,422,994.02		2,795,966.71	5,311,435.38
Unassigned	3,644,071.77			(745,542.69)	2,898,529.08
Total Fund Balances	$6,403,619.71	$1,528,920.82	$5,997,869.60	$2,758,604.84	$16,689,014.97

The negative unassigned fund balance under Other Governmental Funds resulted from the General Fund retiring a $1,100,000 general obligation note on behalf of the Justice Center Improvement Fund. The Justice Center Improvement Fund will be repaying the General Fund out of future receipts of the fund's court fee.

Required Supplementary Information

Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - General Fund For the Year Ended September 30, 2011

	Budgeted Amounts		Actual Amounts
	Original	**Final**	**Budgetary Basis**
Revenues			
Taxes	$ 15,371,042.00	$ 15,371,042.00	$ 15,488,420.93
Licenses and Permits	522,800.00	522,800.00	474,088.97
Intergovernmental	1,800,689.00	1,800,689.00	2,396,389.22
Charges for Services	7,337,198.00	7,337,198.00	7,478,223.56
Miscellaneous	256,000.00	314,350.00	455,701.59
Total Revenues	25,287,729.00	25,346,079.00	26,292,824.27
Expenditures			
Current:			
General Government	6,839,839.00	6,881,113.00	6,679,236.39
Public Safety	10,672,752.00	10,777,112.00	10,658,436.22
Sanitation	2,544,133.00	2,569,133.00	2,588,987.14
Health	226,925.00	228,355.00	225,533.16
Welfare	5,500.00	5,500.00	4,972.56
Culture and Recreation	50,000.00	50,000.00	79,142.47
Education	62,700.00	62,700.00	39,840.17
Capital Outlay	445,300.00	557,586.00	613,161.63
Debt Service:			
Principal Retirement	322,480.00	509,267.00	502,754.23
Interest and Fiscal Charges	15,866.00	15,866.00	8,907.52
Total Expenditures	21,185,495.00	21,656,632.00	21,400,971.49
Excess (Deficiency) of Revenues Over Expenditures	4,102,234.00	3,689,447.00	4,891,852.78
Other Financing Sources (Uses)			
Sale from Capital Assets			6,700.00
Debt Issued	280,000.00	280,000.00	255,000.00
Transfer Out	(4,279,178.00)	(3,129,177.00)	(3,129,172.65)
Total Other Financing Sources (Uses)	(3,999,178.00)	(2,849,177.00)	(2,867,472.65)
Net Change in Fund Balances	103,056.00	840,270.00	2,024,380.13
Fund Balances - Beginning of Year, as Restated (Note 13)	4,379,240.00	4,379,240.00	4,379,239.58
Fund Balances - End of Year	$ 4,482,296.00	$ 5,219,510.00	$ 6,403,619.71

Budget to GAAP Differences	Actual Amounts GAAP Basis
$	$ 15,488,420.93
	474,088.97
	2,396,389.22
	7,478,223.56
	455,701.59
	26,292,824.27
	6,679,236.39
	10,658,436.22
	2,588,987.14
	225,533.16
	4,972.56
	79,142.47
	39,840.17
	613,161.63
	502,754.23
	8,907.52
	21,400,971.49
	4,891,852.78
	6,700.00
	255,000.00
	(3,129,172.65)
	(2,867,472.65)
	2,024,380.13
	4,379,239.58
$	$ 6,403,619.71

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Gasoline Tax Fund
For the Year Ended September 30, 2011

	Budgeted Amounts		Actual Amounts
	Original	**Final**	**Budgetary Basis**
Revenues			
Intergovernmental	$ 1,896,650.00	$ 1,896,650.00	$ 2,313,100.17
Charges for Services			3,030.00
Miscellaneous	13,000.00	13,000.00	13,332.45
Total Revenues	1,909,650.00	1,909,650.00	2,329,462.62
Expenditures			
Current:			
Highways and Roads	4,540,722.00	4,584,722.00	3,953,293.54
Capital Outlay	350,000.00	350,000.00	1,077,509.76
Debt Service:			
Principal Retirement	82,913.00	82,913.00	82,883.40
Interest and Fiscal Charges	2,210.00	2,210.00	2,239.66
Total Expenditures	4,975,845.00	5,019,845.00	5,115,926.36
Excess (Deficiency) of Revenues Over Expenditures	(3,066,195.00)	(3,110,195.00)	(2,786,463.74)
Other Financing Sources (Uses)			
Transfer In	3,066,195.00	2,260,195.00	2,260,195.00
Transfer Out			
Total Other Financing Sources (Uses)	3,066,195.00	2,260,195.00	2,260,195.00
Net Change in Fund Balances		(850,000.00)	(526,268.74)
Fund Balances - Beginning of Year	2,055,190.00	2,055,190.00	2,055,189.56
Fund Balances - End of Year	$ 2,055,190.00	$ 1,205,190.00	$ 1,528,920.82

Budget to GAAP Differences	Actual Amounts GAAP Basis
$	$ 2,313,100.17
	3,030.00
	13,332.45
	2,329,462.62
	3,953,293.54
	1,077,509.76
	82,883.40
	2,239.66
	5,115,926.36
	(2,786,463.74)
	2,260,195.00
	2,260,195.00
	(526,268.74)
	2,055,189.56
$	$ 1,528,920.82

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Schedule of Funding Progress
Defined Benefit Pension Plan
For the Year Ended September 30, 2011

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]
09/30/2010***	$25,594,106**	$36,094,516	$10,500,410	70.90%	$13,948,277	75.30%
09/30/2009	$24,932,333	$33,176,953	$ 8,244,620	75.10%	$13,630,782	60.50%
09/30/2008	$24,216,915	$29,862,034	$ 6,023,047	79.80%	$12,768,983	47.20%

* Reflects liability for cost of living benefit increases granted on or after October 1, 1978.

** Market Value of Assets as of September 30, 2010: $21,565,154.

***Reflects the impact of Act 2011-27, which closes the DROP program to new applicants after March 24, 2011.

Schedule of Funding Progress
Other Postemployment Benefits
For the Year Ended September 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
10/01/2010	$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%

Additional Information

Commission Members and Administrative Personnel
October 1, 2010 through September 30, 2011

Commission Members	**Position**	**Term Expires**
Hon. Bill English	Chairman	2013
Hon. Johnny Lawrence	Member	2014
Hon. Gary D. Long	Member	2012
Hon. Annell M. Smith	Member	2010
Hon. Robert Ham	Member	2014
Hon. John Andrew Harris	Member	2014
Hon. J. Mathan Holt	Member	2012
Administrative Personnel		
Roger Rendleman	Administrator	
Alice M. Fitzgerald	Deputy 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

We have audited 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, 2011, which collectively comprise the Lee County Commission's basic financial statements and have issued our report thereon dated October 25, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Lee County Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Lee County Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lee County Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lee County Commission's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

This report is intended solely for the information and use of management, members of the Lee County Commission, the County Administrator, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Ronald L. Jones
Chief Examiner
Department of Examiners of Public Accounts

October 25, 2012