Report on the

Lee County Commission

Lee County, Alabama

October 1, 2011 through September 30, 2012

Filed: August 9, 2013

Department of Examiners of Public Accounts

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Ronald L. Jones, Chief Examiner

13-340

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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, I submit this report on the results of the audit of the Lee County Commission, Lee County, Alabama, for the period October 1, 2011 through September 30, 2012.

Sworn to and subscribed before me this
the 25th day of July, 20 13.

Notary Public

Respectfully submitted,

David J. Lane, Sr.
Examiner of Public Accounts

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SUMMARY

Lee County Commission
October 1, 2011 through September 30, 2012

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 14. 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, 2012.

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, 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, and John Andrew Harris; and representatives from the Department of Examiners of Public Accounts: Tammy D. Shelley, Audit Manager; and David J. Lane, Sr., Examiner. The results of the audit were discussed via telephone with Commissioner J. Mathan Holt.

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Independent Auditor’s Report

Independent Auditor's Report

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, 2012, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lee County Commission's internal control over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2012, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with ***Government Auditing Standards***, we have also issued our report dated July 22, 2013 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Exhibits 9 through 11), and the Schedules of Funding Progress (Exhibits 12 and 13), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ronald L. Jones

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

July 22, 2013

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Management's Discussion and Analysis
(Required Supplementary Information)

Lee County Commission
Management's Discussion and Analysis
Fiscal Year October 1, 2011 through September 30, 2012

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, 2012. 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, 2012 by $52,507,331. The County's total net assets increased by $2,808,567 or 5.65%.

- Of the increase in net assets, most can be attributed to the $2,582,963 (14.76%) increase in Cash and Cash Equivalents. With conservative revenue estimates, holding expenditures within reason and a temporary reduction in highway and road activities, the County's already solid overall cash position was strengthened even more.

- The County Commission is in a solid financial position to provide matching funds for the State of Alabama's new Transportation Rehabilitation and Improvement Program (ATRIP). With ATRIP and the County's Bridge Bond program (started in 2010), a significant amount of infrastructure projects will be completed or started over the next couple of years.

- The County issued general obligation warrants of $10,000,000 to refinance the 2004 Series Warrants associated with a consolidated jail project. The refunding decreased the total debt service over the next thirteen years by $891,648 resulting in an economic gain of $771,255 based on the net present value of the future savings. These savings are proportionally shared with the Cities of Opelika and Auburn as partners in the consolidated jail.

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 shared revenues (i.e. gasoline taxes) and other miscellaneous revenues.

Fund Financial Statements

Fund financial statements provide more detailed information about the County's funds, focusing on its Major funds rather than the County 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; the Resurfacing, Restoration, and Rehabilitation (RRR) 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 11 which are Annual Budget to Actual comparisons of the major governmental funds of the County. Lee County adopts an annual appropriated budget for its General, Gasoline Tax and RRR 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 $2,808,567 (5.65%) 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 $52,507,331 as of the fiscal year ending September 30, 2012.

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 2012	Governmental Activities 2011	Difference	Percentage
Current Assets	37,006,943	33,770,412	3,236,531	9.58%
Non-current/non-capital Assets	553,552	194,785	358,767	184.19%
Capital Assets, Net	56,215,482	57,342,009	(1,126,527)	-1.96%
Total Assets	**93,775,976**	**91,307,206**	2,468,770	2.70%
Current Liabilities	18,335,203	18,601,985	(266,782)	-1.43%
Long-term Liabilities	22,933,443	23,006,457	(73,014)	-0.32%
Total Liabilities	**41,268,646**	**41,608,442**	(339,796)	-0.82%
Net Assets:				
Invested in Capital Assets, Net of Related Debt	40,493,224	41,350,534	(857,310)	-2.07%
Restricted	1,081,721	593,150	488,571	82.37%
Unrestricted	10,932,385	7,755,080	3,177,306	40.97%
Total Net Assets	**52,507,331**	**49,698,764**	2,808,567	5.65%

Of the $2,808,567 increase in net asset (particularly the Unrestricted portion), most can be attributed to the $2,582,963 (14.76%) increase in Cash and Cash Equivalents. With conservative revenue estimates, holding expenditures within reason and a temporary reduction in highway and road activities, the County's already solid overall cash position was strengthened even more.

Capital Assets, Net Accumulated Depreciation, decreased by $1.1million as the County restricted capital replacement to essential items as one of the measures to preserve the overall financial health with little to no growth expected in revenue resources for Fiscal Year 2012. Although the County still spent over $2.5 million on capital outlay, the annual depreciation was over $3.6 for the same time period.

Non-current/non-capital Assets almost doubled with the recognition of deferred issuance cost associated with the refunding of the 2004 Series Warrants. The refunding is discussed in more detail later in this Management's Discussion and Analysis under Debt Outstanding.

Restricted Net Assets increased $488,571 (82.37%) due to restricted revenues received for resurfacing, rehabilitation, and restoration during Fiscal Year 2012 remaining unexpended.

A significant portion of Lee County's net assets $40,493,224 (77.12%) are in its capital assets (i.e., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. These assets are not available for future spending. The County uses these capital assets to provide services to citizens. While the County's capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves can't be used to pay for or to liquidate these liabilities. The remaining net assets, $1,081,721 in restricted and $10,932,385 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 whereas 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 $2,808,567.

Changes in Net Assets as of September 30, 2012:

	Governmental Activities 2012	Governmental Activities 2011	Difference	Percentage
REVENUES				
Program Revenues:				
Charges for Services	9,672,674	9,680,042	(7,368)	-0.08%
Operating Grants & Contributions	6,153,132	5,862,853	290,279	4.95%
Capital Grants & Contributions	1,684,094	962,066	722,028	75.05%
General Revenues:				
Property Taxes – General Purposes	10,077,674	10,111,425	(33,751)	-0.33%
Property Taxes – Specific Purposes	5,631,117	5,750,692	(119,576)	-2.08%
Misc. Taxes	925,895	778,758	147,137	18.89%
Grants & contributions not restricted to Special Programs	561,110	489,352	71,758	14.66%
Interest Revenue	110,151	137,783	(27,632)	-20.05%
Miscellaneous	491,727	429,873	61,854	14.39%
Total Revenues	**35,307,574**	**34,202,844**	1,104,730	3.23%
EXPENSES				
Program Activities:				
General Government	8,673,805	8,592,997	80,808	0.94%
Public Safety	12,373,818	12,031,011	342,807	2.85%
Highways & Roads	7,178,802	8,181,448	(1,002,646)	-12.26%
Sanitation	3,043,859	2,854,585	189,274	6.63%
Health & Welfare	114,592	241,778	(127,186)	-52.60%
Culture & Recreation	54,024	89,562	(35,538)	-39.68%
Education	43,145	41,651	1,494	3.59%
Interest and Fiscal Charges	1,016,962	1,023,346	(6,384)	-0.62%
Total Expenses	**32,499,007**	**33,056,379**	(557,372)	-1.69%
Net Assets, Increase in	**2,808,567**	**1,146,465**	1,662,102	144.98%

Of the County's total $35,307,574 revenues, property taxes account for 44.49% or $15,708,791. Taxes as a whole represent 46.38% of the total revenue collected by the County for fiscal year ended September 30, 2012.

Property Taxes experienced a 0.97% decrease. These revenues for the 2012 fiscal year were based on assessments and values established from activity (i.e., sales and change in use) that occurred from October 2009 through September 2010 in Lee County. These revenues continue to remain stagnate from the effects of the nationwide housing market collapse.

Overall revenues increased $1,104,730 (3.23%) from the previous year. An increase of just over $508,000 in State-Aid funded projects from 2011 Fiscal Year contributed the most to the difference. The County also received a $210,000 increase in Oil and Gas Tax Trust Funds over the previous year. Both these revenues are considered Capital Grants & Contributions which resulted in a 75% increase in that category.

The other category attributing to the overall increase is Operating Grants & Contributions of $290,279 over the 2011 Fiscal Year. With the release of the 2010 U.S. Censes, the state gasoline tax distributions were adjusted based on each county's population. Lee County's growth adjusted the distribution for an increased share of the allocation, which is reflective in this category's increase.

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

Expenses for all services of the County were $32,499,007, which is a decrease of 1.69% ($557,372). Of the total expenses 26.69% was spent for general government, 38.07% for public safety, 22.09% for highways and roads, 9.37% for sanitation and 4.43% on the remaining categories listed above.

Highways and Roads had a decrease of 12.26% ($1,002,646), which isn't unusual due to the timing of projects from year to year. Fiscal Year 2011 had an increase of 28.97% ($1,837,942) over Fiscal Year 2010 that was attributed to the start of the Bridge Bond Program. One significant operational change was the implementation of a new fuel system that improved the tracking of fuel usage. The Highway department was inadvertently subsidizing other department’s fuel budgets. Approximately, $200,000 of the decrease is related to the improved fuel system.

Public Safety increased by 2.85% ($342,807) with half of the increase associated to maintenance expenses with facilities and the remainder with one-time costs associated with the refinancing of the Series 2004 Warrants that financed the consolidated detention center project.

Sanitation had an increase of 6.63% ($189,274). Most of the increase of about $120,000 was associated with the improved fueling system that is now being properly allocated to the disposal department. The remaining increase is associated with increased operational costs like landfill fees and equipment repairs.

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

Net Cost of Services

The net cost of services is a comparison of the total cost for government functions and programs and the net cost remaining after reducing that total by the revenue generated from the specific function or program. For the current year total cost of services were $32,499,007 and the combined charges for services plus operating and capital grants received were $17,509,900 leaving a net cost to the County of $16,989,107. This is a decrease of $1,562,310 in expenditures required to be funded from general revenues; which is related to the decrease in annual Highways and Roads expenditures as associated with the timing of projects that span more than one fiscal year.

Function/Programs	2012 Net Cost of Services	2011 Net Cost of Services	Net Cost (Increase)/Decrease
General Government	(2,486,794.84)	(2,647,398.88)	160,604
Public Safety	(10,204,580.34)	(9,763,395.34)	(441,185)
Highways and Roads	(1,326,282.27)	(3,368,811.01)	2,042,529
Sanitation	5,267.99	263,244.53	(257,977)
Health	(102,891.05)	(220,621.15)	117,730
Welfare	(3,334.53)	(13,281.04)	9,947
Culture and Recreation	(54,024.21)	(83,417.87)	29,394
Education	(43,145.09)	(41,650.64)	(1,494)
Interest and Fiscal	(773,322.99)	(676,085.79)	(97,237)
Total Governmental Activities	**(14,989,107)**	**(16,551,417)**	1,562,310

Charges for services amounted to $9,672,674 and combined grants and contributions totaled $6,153,132. 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 $10,691,145 to $13,834,513. This was an increase of $3,143,369 (29.40%).

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	6,406,689	1,220,715	7,627,404	36.31%
Gasoline Fund	1,528,920	449,689	1,978,609	42.44%
RRR Gasoline Tax Fund	2,339,687	934,386	3,274,073	132.95%
Other Governmental Funds *(less Capital Fund)*	415,848	538,579	954,427	23.21%
Totals	**10,691,145**	**3,143,369**	**13,834,513**	**42.91%**

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 $1,220,715 (19.05%) increase. With the combination of stabilizing of revenues and efforts to reduce ongoing costs, we were able to increase the fund balance for the third fiscal year in a row.

The Gasoline Tax Fund, which is the main operational fund for the Highway Department, increased $449,689 (29.41%). The fund experienced slight revenue growth and efforts have been made to keep costs modest to create an excess for capital asset replacement of heavy equipment.

The RRR Gasoline Tax Fund increased $934,386 (39.94%). The main reason of the increase is from a temporary reduction in highway and road activities primarily due to the timing of projects that can span two or more fiscal years. With the level of fund balance, the County is in a great position to participate in the State of Alabama's Transportation Rehabilitation and Improvement Program (ATRIP). The program is a twenty percent match program and targets the type of projects that are funded by the RRR Gasoline Tax Fund.

The Other Governmental Funds increased $538,579 (129.51%) in an effort to accumulate funds for future facilities improvements and/or replacements.

Budgetary Highlights - Major Funds

General Fund

Exhibit 9 shows that a few changes were made in the original General Fund budget for fiscal year ended September 30, 2012.

Budgeted revenues were increased $60,000 for funds from the Sheriff's Office to assist in purchasing vehicles.

Budgeted expenditures were increased about $440,000 with available unallocated funds for $253,000 in vehicle replacement and $187,000 for technology and communication improvements.

Budgeted Transfer Out was reduced and budgeted expenditures increased by $200,000 as a result of the reallocation to address correcting the fuel allocation mainly between Highway and Environmental Services which is also reflected in the increase in budgeted expenditures for Sanitation and Public Safety.

Actual Revenues were $1,487,961 higher than the final budgeted revenues and actual expenditures were $98,344 lower than the final budgeted amounts.

The net change in the general fund balance for the current fiscal year was a $1,220,715 increase or (19.05%), which is a $1,595,621 difference from the planned $374,906 decrease in the final budget.

Gasoline Tax Fund

Exhibit 10 shows that a couple of changes were made in the original Gasoline Tax Fund budget for fiscal year ended September 30, 2012.

Budgeted expenditures were increased about $335,452 with available unallocated funds for $320,000 in vehicle replacement and $15,452 for technology and communication improvements.

Budgeted Transfer In and budgeted expenditures reduced by $200,000 as a result of the reallocation to address correcting the fuel allocation mainly between Highway and Environmental Services.

Actual Revenues were $1,061,335.52 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 $276,195 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 $815,600 below budgeted expenditures.

The net change in the Gasoline Tax fund balance for the current fiscal year was a $449,688 increase or (29.41%), which is a $785,141 improvement from the planned $335,452 decrease in the final budget.

RRR Gasoline Tax Fund

Exhibit 11 shows that no changes were made in the original RRR Gasoline Tax Fund budget for fiscal year ended September 30, 2012.

Actual Revenues were $362,960 higher than the budgeted revenues. A portion of this is attributed to the change in gasoline distribution based on the 2010 U.S. Census which took effect during the 2012 Fiscal Year and a conservative financial approach to budgeting revenues.

Actual Expenditures were under budget by $574,511 from a temporary reduction in highway and road activities primarily due to the timing of projects that can span two or more fiscal years.

The net change in the RRR Gasoline Tax fund balance for the current fiscal year was a $934,386 increase or (39.94%).

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, 2012.

Total Capital Assets at October 1, 2011,	$57,342,009
Additions	2,562,275
Retirements	(135,820)
Annual Depreciation	(3,677,393)
Gain from Sale of Assets	
Accumulated Depreciation of Retired Assets	124,412
Total Capital Assets at September 30, 2012	**$56,215,482**

The following table shows total assets before and after depreciation.

Governmental Activities	**Assets Original Cost**	**Value at 9/30/12 After Depreciation**
Land	2,460,453	2,460,453
Construction in Progress	1,114,902	1,114,902
Infrastructure	22,778,437	17,901,177
Buildings and Improvements	43,665,445	31,378,588
Equipment and Furniture	21,832,163	3,360,362
Total Capital Assets	**$91,851,400**	**$56,215,482**

Debt Outstanding

At the end of September 2011 the County's long-term debt was $24,285,475. By the end of the current year the long-term debt had decreased $47,770 (0.2%) to $24,237,704.

The County paid-down $1,340,315 of existing general obligation warrants through annual debt service.

The County issued general obligation warrants of $10,000,000 to refinance the 2004 Series Warrants associated with the jail consolidated project. The new warrant issue has an average interest rate of 2.3809% to advance refund $9.345 Million of the $13.835 Million outstanding warrants in a partial refunding of the General Obligation Warrants Series 2004 with an outstanding average interest rate of 4.7833%. The refunding decreased the total debt service over the next thirteen years by $891,648 resulting in an economic gain of $771,255 based on the net present value of the future savings.

The liability for compensated absences as of the end of the current year was $1,116,942, which was an $82,518 decrease (6.88%) from last fiscal year's $1,199,490. The reduction is attributed to attrition in personnel through retirements and position elimination experienced over the last couple of years

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 $1,096,640. For the 2012 Fiscal Year, the difference between the annual required contribution as determined by an actuarial valuation and the actual contribution was $326,447. 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 $1,423,087.

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.

Lee County is continuing to see encouraging signs in the local economy with commercial construction in the two largest cities of Auburn and Opelika. Both cities continue to have success in recruiting new industry to the area. Finally, we are now seeing indications of improvement of the housing market in the area with new home starts, particularly in Auburn. Early indications from the annual appraisal for the 2014 Fiscal Year indicate the first overall increase in several years of home values within the County.

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, 2012

	Governmental Activities
ASSETS	
Current Assets	
Cash and Cash Equivalents	$ 20,080,411.82
Investments	1,734,615.13
Accounts Receivable	196,640.68
Interest Receivable	8,417.23
Due from Other Governments	914,246.05
Property Tax Receivable	13,465,794.70
Inventories	163,628.05
Prepaid Expenses	47,084.49
Deferred Cost on Refunding	396,104.35
Total Current Assets	37,006,942.50
Noncurrent Assets	
Cash with Fiscal Agent	190,456.08
Deferred Cost on Refunding	363,095.65
Capital Assets:	
Nondepreciable:	
Land	2,460,452.92
Construction in Progress	1,114,902.13
Depreciable:	
Infrastructure	22,778,437.43
Buildings	43,665,444.55
Equipment and Furniture	21,832,162.76
Less: Accumulated Depreciation	(35,635,917.86)
Total Noncurrent Assets	56,769,033.66
TOTAL ASSETS	93,775,976.16
LIABILITIES	
Current Liabilities	
Accounts Payable	1,571,998.93
Wages and Fringes Payable	725,018.82
Deferred Revenue	14,638,627.92
Accrued Interest Payable	95,295.63
Long-Term Liabilities:	
Portion Due Within One Year:	
Warrants Payable	1,180,000.00
Add: Premium on Warrants	58,133.89
Compensated Absences	66,127.86
Total Current Liabilities	$ 18,335,203.05

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	$ 19,935,000.00
Add: Premium on Warrants	524,541.80
Estimated Liability for Retiree Health Plan	1,423,087.00
Compensated Absences	1,050,813.77
Total Noncurrent Liabilities	22,933,442.57
TOTAL LIABILITIES	41,268,645.62
NET ASSETS	
Invested in Capital Assets - Net of Related Debt	40,493,224.14
Restricted for Road Purposes	226,870.57
Restricted for Debt Service	190,456.08
Restricted for Other Purposes	664,394.38
Unrestricted	10,932,385.37
Total Net Assets	$ 52,507,330.54

Statement of Activities
For the Year Ended September 30, 2012

		Program Revenues	
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**
Primary Government			
Governmental Activities			
General Government	$ 8,673,805.10	$ 5,477,805.95	$ 114,745.36
Public Safety	12,373,817.87	1,143,841.72	1,025,395.81
Highways and Roads	7,178,801.71	1,900.00	4,760,984.70
Sanitation	3,043,858.61	3,049,126.60	
Health	111,257.57		8,366.52
Welfare	3,334.53		
Culture and Recreation	54,024.21		
Education	43,145.09		
Interest	1,016,962.49		243,639.50
Total Governmental Activities	$ 32,499,007.18	$ 9,672,674.27	$ 6,153,131.89

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.

	Net (Expenses) Revenues and Changes in Net Assets Primary Government
Capital Grants and Contributions	Total Governmental Activities
$ 594,458.95	$ (2,486,794.84)
	(10,204,580.34)
1,089,634.74	(1,326,282.27)
	5,267.99
	(102,891.05)
	(3,334.53)
	(54,024.21)
	(43,145.09)
	(773,322.99)
$ 1,684,093.69	(14,989,107.33)
	10,077,673.97
	5,631,116.50
	925,895.37
	561,110.34
	110,150.81
	491,727.12
	17,797,674.11
	2,808,566.78
	49,698,763.76
	$ 52,507,330.54

Balance Sheet
Governmental Funds
September 30, 2012

		General Fund		Gasoline Tax Fund
ASSETS				
Cash and Cash Equivalents	$	6,628,717.27	$	2,130,746.52
Cash with Fiscal Agent				
Investments		1,243,178.41		
Accounts Receivable		186,498.62		
Interest Receivable		3,493.44		
Due from Other Funds		747,099.45		
Due from Other Governments		373,033.02		318,519.12
Property Tax Receivable		12,809,905.03		
Inventories		32,321.07		131,306.98
Prepaid Expenses		47,084.49		
TOTAL ASSETS		22,071,330.80		2,580,572.62
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable		443,964.74		508,526.30
Wages and Fringes Payable		595,872.53		88,793.85
Deferred Revenue		13,345,615.61		
Due to Other Funds				
Estimated Liability for Compensated Absences		58,473.51		4,643.09
TOTAL LIABILITIES		14,443,926.39		601,963.24
FUND BALANCES				
Nonspendable		79,405.56		131,306.98
Restricted				
Committed		1,753,924.09		
Assigned		773,291.54		1,847,302.40
Unassigned		5,020,783.22		
TOTAL FUND BALANCES		7,627,404.41		1,978,609.38
TOTAL LIABILITIES AND FUND BALANCES	$	22,071,330.80	$	2,580,572.62

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

RRR Gasoline Tax Fund		2010 Bridge Bond Program Fund		Other Governmental Funds		Total Governmental Funds
$ 3,180,099.56	$	5,971,383.76	$	2,169,464.71	$	20,080,411.82
				190,456.08		190,456.08
491,436.72						1,734,615.13
10,142.06						196,640.68
889.65		4,034.14				8,417.23
						747,099.45
200,593.87				22,100.04		914,246.05
				655,889.67		13,465,794.70
						163,628.05
						47,084.49
3,883,161.86		5,975,417.90		3,037,910.50		37,548,393.68
539,662.26		10,411.12		69,434.51		1,571,998.93
2,498.96				37,853.48		725,018.82
66,657.85				1,226,354.46		14,638,627.92
				747,099.45		747,099.45
269.68				2,741.58		66,127.86
609,088.75		10,411.12		2,083,483.48		17,748,872.98
						210,712.54
226,870.57		5,965,006.78		854,850.46		7,046,727.81
						1,753,924.09
3,047,202.54				645,032.88		6,312,829.36
				(545,456.32)		4,475,326.90
3,274,073.11		5,965,006.78		954,427.02		19,799,520.70
$ 3,883,161.86	$	5,975,417.90	$	3,037,910.50	$	37,548,393.68

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Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
September 30, 2012

Total Fund Balances - Governmental Funds (Exhibit 3)			$ 19,799,520.70
Amounts reported for governmental activities in the Statement of Net Assets (Exhibit 1) are different because:			
Deferred Cost on 2012 Refunding			759,200.00
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	22,778,437.43		
Buildings	43,665,444.55		
Equipment and Furniture	21,832,162.76		
Construction in Progress	1,114,902.13		
Less: Accumulated Depreciation	(35,635,917.86)		
Total Capital Assets			56,215,481.93
Certain liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. These liabilities at year-end consist of:			
	Liabilities Current	Noncurrent	
Warrants Payable	$ 1,180,000.00	$ 19,935,000.00	
Premium on Warrants	58,133.89	524,541.80	
Accrued Interest Payable	95,295.63		
Estimated Liability for Compensated Absences		1,050,813.77	
Estimated Liability for Retiree Health Plan		1,423,087.00	
Total Long-Term Liabilities	$ 1,333,429.52	$ 22,933,442.57	(24,266,872.09)
Total Net Assets - Governmental Activities (Exhibit 1)			$ 52,507,330.54

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, 2012

	General Fund	Gasoline Tax Fund
Revenues		
Taxes	$ 15,675,563.16	$
Licenses and Permits	458,184.94	
Intergovernmental	1,957,639.21	2,953,882.20
Charges for Services	7,696,630.77	1,900.00
Miscellaneous	411,078.06	10,203.32
Total Revenues	26,199,096.14	2,965,985.52
Expenditures		
Current:		
General Government	6,676,775.52	
Public Safety	10,463,191.33	
Highways and Roads		3,215,156.04
Sanitation	2,782,372.59	
Health	106,002.45	
Welfare	3,334.53	
Culture and Recreation	51,952.78	
Education	41,630.44	
Capital Outlay	739,702.22	1,411,838.68
Debt Service:		
Principal Retirement	139,968.93	35,346.48
Interest and Fiscal Charges	2,265.92	247.76
Total Expenditures	21,007,196.71	4,662,588.96
Excess (Deficiency) of Revenues Over Expenditures	5,191,899.43	(1,696,603.44)
Other Financing Sources (Uses)		
Sale from Capital Assets	7,388.42	
Transfer In		2,146,292.00
Debt Issued		
Transfer Out	(3,978,572.66)	
Payment to Escrow Agent		
Total Other Financing Sources (Uses)	(3,971,184.24)	2,146,292.00
Net Change in Fund Balances	1,220,715.19	449,688.56
Fund Balances - Beginning of Year	6,406,689.22	1,528,920.82
Fund Balances - End of Year	$ 7,627,404.41	$ 1,978,609.38

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

	RRR Gasoline Tax Fund	2010 Bridge Bond Program Fund	Other Governmental Funds	Total Governmental Funds
	$ 150,518.94	$	$ 959,122.68	$ 16,785,204.78
				458,184.94
	2,740,396.36		1,532,663.77	9,184,581.54
			574,013.93	8,272,544.70
	6,114.90	49,469.55	95,992.20	572,858.03
	2,897,030.20	49,469.55	3,161,792.58	35,273,373.99
			1,472,423.93	8,149,199.45
			134,252.69	10,597,444.02
	2,459,558.83			5,674,714.87
				2,782,372.59
				106,002.45
				3,334.53
				51,952.78
				41,630.44
	3,085.63	82,332.37	325,315.75	2,562,274.65
			1,165,000.00	1,340,315.41
			1,014,448.81	1,016,962.49
	2,462,644.46	82,332.37	4,111,441.18	32,326,203.68
	434,385.74	(32,862.82)	(949,648.60)	2,947,170.31
				7,388.42
	500,000.00		1,332,280.66	3,978,572.66
			10,549,985.00	10,549,985.00
				(3,978,572.66)
			(10,394,038.00)	(10,394,038.00)
	500,000.00		1,488,227.66	163,335.42
	934,385.74	(32,862.82)	538,579.06	3,110,505.73
	2,339,687.37	5,997,869.60	415,847.96	16,689,014.97
	$ 3,274,073.11	$ 5,965,006.78	$ 954,427.02	$ 19,799,520.70

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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, 2012

Net Change in Fund Balances - Total Governmental Funds (Exhibit 5)			$	3,110,505.73
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 depreciation ($3,677,393.39) exceeds capital outlay ($2,562,274.65).				(1,115,118.74)
Difference between economic loss and funds received for sale of disposed assets.				(11,408.16)
Repayment of principal on debt that is reflected as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.				1,340,315.41
Debt issuance for refinancing of 2004 Series Warrant issue and associated costs.				(10,549,985.00)
Payment to Trustee for Defeasance of debt associated with the 2004 Series Warrant issue.				10,394,038.00
Some items reported in the Statement of Activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental funds. These consist of:				
Net Decrease in Long-Term Compensated Absences	$	94,894.83		
Net Increase in Long-Term Retiree Health Plan Benefits		(326,447.00)		
Net Decrease in Accrued Interest Payable		5,271.45		(226,280.72)
Amortization of Deferred Cost on Refunding				(165,043.48)
Amortization of Premium on Bond Issue				31,543.74
Change in Net Assets - Governmental Activities (Exhibit 2)			$	2,808,566.78

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

Statement of Fiduciary Net Assets
September 30, 2012

		Private-Purpose Trust Funds
Assets		
Cash and Cash Equivalents	$	2,573,598.21
Total Assets		2,573,598.21
Liabilities		
Payable to External Parties		2,379,152.43
Total Liabilities		2,379,152.43
Net Assets		
Held in Trust for Other Purposes	$	194,445.78

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, 2012

		Private-Purpose Trust Funds
Additions		
Contributions:		
Probate Court	$	319,650.52
Total Additions		319,650.52
Deductions		
Payment to Beneficiaries		322,264.09
Total Deductions		322,264.09
Changes in Net Assets		(2,613.57)
Net Assets - Beginning of Year		197,059.35
Net Assets - End of Year	$	194,445.78

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) requires that the financial statements present the Commission (the primary government) and its component units. Component units generally are legally separate entities for which a primary government is financially accountable or other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. Based on the application of these criteria, there is one component unit which should be included as part of the financial reporting entity of the Commission.

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

The board has the authority over its personnel; set fees for its programs; to buy, sell, lease personal and real property; enter into contracts; and exercise incidental powers to carry out the intent and purposes of Act 2009-330. Currently, the Commission provides about 21% of the funding for the board. The Commission is also closely related to the Board by providing participation of the Board's employees in retirement, health insurance and worker's compensation programs of the Commission. In addition, the Commission provides office space, administrative services and general liability insurance coverage to the Board and its employees. The Board's programs provide benefits to the Commission by diverting certain non-violent individuals from occupying space in the county's jail. For these reasons, the Lee County Alternative Sentencing Board financial information has been blended into the Commission's financial statements and is included as a special revenue fund in the Other Governmental Funds column.

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 non-exchange transactions.

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

Fund Financial Statements

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

The Commission reports the following major governmental funds:

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

- ***Gasoline Tax Fund*** – This fund is used to account for the expenditures of gasoline taxes restricted to roads.

- ***RRR Gasoline Tax Fund*** – This fund is used to account for the expenditure of the Commission's share of the following taxes: the 4-cent per gallon gasoline tax, the 5-cent per gallon supplemental excise tax, the 2-cent per gallon inspection fee, and the designated portion of truck licenses for the resurfacing, restoration and rehabilitation of the existing bridges and paved county 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 financial resources that are restricted, committed, or assigned for specific purposes other than capital outlay, debt service, and private-purpose trusts. The restricted or committed resources are expected to comprise a substantial portion of the financial inflows of the fund. Lee County Commission has defined a substantial portion has at least forty-percent within three consecutive fiscal years. Any funds failing to meet this definition, whether legally required or established by resolution of the County Commission, is combined with the General Fund for reporting purposes.

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

- ***Debt Service Funds*** – These funds are used to account for financial resources that are restricted, committed, or assigned for current and future principal and interest payments on debt.

The Commission reports the following fiduciary fund type:

Fiduciary Fund Type

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

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within thirty (30) days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, 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 un-collectibles. The allowance for un-collectibles for ad valorem taxes is based on past collection experience.

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 record exists. Donated fixed assets are valued at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Major outlays of capital assets and improvements are capitalized as projects are constructed.

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

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

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

7. 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 net of 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.

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

Compensatory Time

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

9. Net Assets/Fund Equity

Net assets are reported on the government-wide and proprietary fund 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:

- Non-spendable 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 non-spendable 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 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

Deposits

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

Cash with Fiscal Agent

The Commission has deposits totaling $190,456 in the debt service funds (other governmental funds) which is shown as cash with fiscal agents on the fund financial statements and as restricted assets on the government-wide financial statements. These funds are invested in Federated Treasury Obligations Funds. This money market fund invests primarily in U. S. Treasury securities maturing in 397 days or less. These investments include repurchase agreements collateralized fully by U. S. Treasury obligations. Federated Treasury Obligations Funds are rated AAA by Standard & Poor's with a dollar-weighted average portfolio maturity of 51 days or less.

Investments

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

At September 30, 2012, the Commission had the following investments on the government-wide financial statements and on the fund financial statements:

Mutual Fund Investments	Cost	Fair Value
Franklin U. S. Government Securities Class A	$1,200,000	$1,243,178
Franklin Limited Maturity U. S. Government Securities Class A	500,000	491,438
Total	$1,700,000	$1,734,616

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

The Franklin Limited Maturity U. S. Government Securities fund normally invests at least 80% in securities with an average maturity of less than 10 years and issued or guaranteed by the U. S. government, its agencies, or instrumentalities. It invests a substantial portion of assets in mortgage-backed securities including adjustable rate mortgage securities, but the fund also invests in direct obligations of the U. S. government (such as treasury bonds, bills and notes) and of its agencies and instrumentalities.

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

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

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

Note 4 – 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, 2012, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Property Ad Valorem Tax Receivable	$13,272,754.47	$1,246,973.14
Build American Bonds Subsidy		66,657.85
Grants Received but Unearned at 9/30/2012		52,242.46
Total Deferred/Unearned Revenue for Governmental Funds	$13,272,754.47	$1,365,873.45

Note 5 – Capital Assets

Capital asset activity for the year ended September 30, 2012, was as follows:

	Balance 10/1/2011	Reclassification	Additions	Retirements	Balance 9/30/2012
Governmental Activities:					
Capital Assets, not Being Depreciated:					
Land	$ 2,460,452.92	$	$	$	$ 2,460,452.92
Construction in Progress	4,954,089.15	-3,958,882.02	119,695.00		1,114,902.13
Total Capital Assets, not Being Depreciated	7,414,542.07	-3,958,882.02	119,695.00		3,575,355.05
Capital Assets Being Depreciated:					
Infrastructure	19,013,690.54	2,830,487.79	934,258.96		22,778,437.29
Buildings	42,445,489.64	1,089,635.73	130,319.18		43,665,444.55
Equipment and Furniture	20,551,223.26	38,758.50	1,378,001.51	-135,820.37	21,832,162.90
Total Capital Assets Being Depreciated	82,010,403.44	3,958,882.02	2,442,579.65	-135,820.37	88,276,044.74
Accumulated Depreciation:					
Buildings	-11,147,139.22		-1,146,917.02	7,199.75	-12,286,856.49
Infrastructure	-4,013,042.15		-864,218.09		-4,877,260.24
Equipment and Furniture	-16,922,755.34		-1,666,258.28	117,212.49	-18,471,801.13
Total Accumulated Depreciation	-32,082,936.71		-3,677,393.39	124,412.24	-35,635,917.86
Total Capital Assets, Being Depreciated, Net	49,927,466.73	3,958,882.02	-1,234,813.74	-11,408.13	52,640,126.88
Governmental Activities Capital Assets, Net	$ 57,342,008.80	$	$-1,115,118.74	$ -11,408.13	$ 56,215,481.93

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

	Current Year Depreciation Expense
Governmental Activities:	
General Government	$ 336,242.14
Public Safety	1,643,389.30
Highway and Roads	1,478,967.31
Sanitation	212,970.28
Health	2,238.28
Recreation	2,071.43
Education	1,514.65
Total Depreciation Expense – Governmental Activities	$3,677,393.39

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. Retirees may also elect to receive a reduced retirement allowance (*Special Privileges at Retirement*) in order to provide an allowance to a designated beneficiary after the member's death. 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, 201 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 Employee's 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, 2012, was 7.73% based on the actuarial valuation performed as of September 30, 2009 and after consideration of the effect of Act 2011-27 which repealed new participation in the Deferred Retirement Option Plan (DROP).

C. Annual Pension Cost

For the year ended September 30, 2012, the Commission's annual pension cost of $948,828 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, 2011, were: (a) 8 percent investment rate of return on present and future assets, and (b) projected salary increases ranging from 7.25 percent at age 20 to 3.75 percent at age 65. Both (a) and (b) include an inflation component of 3.0 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 funding excess is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period as of September 30, 2011, 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
9/30/2012	$ 948,828	100%	$0
9/30/2011	$1,097,417	100%	$0
9/30/2010	$1,094,196	100%	$0

D. Funded Status and Funding Progress

As of September 30, 2011, the most recent actuarial valuation date, the plan was 73.1 percent funded. The actuarial accrued liability for benefits was $35,188,422 and the actuarial value of assets was $25,706,756 resulting in an unfunded actuarial accrued liability (UAAL) of $9,481,666. The covered payroll (annual payroll of active employees covered by the plan) was $12,963,912 and the ratio of the UAAL to the covered payroll was 73.1 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 in 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 benefits 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, July 27, 2009, and April 9, 2012), to all County employees who retire with twenty-five years of service with the Lee County Commission until eligible 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; and to those County employees eligible to retire with twenty or more years of service if such employee retires on or before July 1, 2012.

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. Fund Policy

The Commission's contributions were on a pay-as-you-go basis as of September 30, 2012.

The Commission contributes $779.00 a month for the cost of current-year premiums of eligible retirees under the age of 65 years for single coverage. For fiscal year 2012, the Commission contributed $118,649 to cover 20 participants at various times during the year. During the course of the year, four new participants were added while four were removed upon reaching Medicare age leaving 16 active participants on September 30, 2012. None of the eligible participants paid premiums for dependent coverage during the 2012 fiscal year. Retirees are required to contribute monthly as follows:

	Fiscal Year 2012
Individual Coverage – Non-Medicare Eligible	$ 0.00
Individual Coverage – Medicare Eligible	$376.00
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

Plan members who retired without meeting the eligibility requirement for paid coverage by the Lee County Commission who continued the health insurance coverage paid $19,959.00 for single coverage for fiscal year 2012. Plan members who retired and have qualified for Medicare who continued the health insurance coverage paid $50,016.00 including $18,432.00 for family coverage for fiscal year 2012.

C. Annual OPEB Cost

For the year ended September 30, 2012, the Commission’s annual other postemployment benefit (OPEB) cost (expense) for medical, drug, and dental insurance was $445,096. The Commission’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012, is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/2012	$445,096	26.66%	$1,423,087
09/30/2011	$432,605	30.25%	$1,096,640
09/30/2010	$498,267	25.30%	$ 794,907

D. Funded Status and Funding Progress

For fiscal year 2012 and 2011, the Lee County Commission made no contributions to its post-employment benefits plan. The plan is not funded, has no assets, and hence has a funded ratio of zero. Based on the October 1, 2010 actuarial valuation, the most recent valuation, the Actuarial Accrued Liability (AAL) at the end of the year September 30, 2012 was $4,110,642 which is defined as that portion, as determined by a particular actuarial cost method (the Lee County Commission uses the Projected Unit Credit Cost Method), of the actuarial present value of post-employment plan benefits and expenses which is not provided by normal cost.

	2012	2011
Actuarial Accrued Liability (AAL)	$4,110,642	$3,952,540
Actuarial Value of Plan Assets (AVP)	0.00	0.00
Unfunded Actuarial Accrued Liability (UAAL)	$4,110,642	$3,952,540
Funded Ratio (AVP/AAL)	0.00%	0.00%
Covered Payroll (Active Plan Members)	$12,352,344	$12,492,616
UAAL as a Percentage of Covered Payroll	33.28%	31.64%

The annual required contribution of the plan for fiscal year 2012 and 2011, was as follows:

	2012	2011
Normal Cost	$226,929	$218,201
Accrued Liability	$237,720	$228,577
Annual Required Contribution (ARC)	$464,649	$446,778

As of September 30, 2012, the increase in liability for retiree health care of $326,447 was calculated using the annual required contribution total of $464,649 less the Commission's annual OPEB cost of $118,649. The increase of $326,447 was added to the prior year liability of $1,096,640 for a total noncurrent liability of $1,423,087 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

Outstanding long-term as of September 30, 2012, was as follows:

On May 15, 2012, the Commission issued $10 million in General Obligation Warrants with an average interest rate of 2.3809% to advance refund $9.345 million of the $13.835 million outstanding warrants in a partial refunding of the General Obligation Warrants Series 2004 with an outstanding average interest rate of 4.7833%. The net proceeds of $10,394,038 (which included a $549,985 net original issue premium less underwriter's fee of $65,000 and issuance costs of $90,947) were used to purchase U. S. government securities. These securities have been placed in an irrevocable trust to provide future debt service payments and future call (August 1, 2014) for $345,000 of the $805,000 in warrants payable in 2017 and the remaining $9 million of the original issue maturity though 2025. As a result $9.345 million of the General Obligation Warrants Series 2004 are considered defeased and the related liability has been removed from the financial statements. The refunding decreased the total debt service over the next thirteen years by $891,648 resulting in an economic gain of $771,255 based on the net present value of the future savings.

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

The Commission issued a $17.98 million General Obligation Warrants 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 (ii) paying the costs of issuing the Series 2004 Warrants.

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

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

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

	Debt Outstanding 10/1/2011	Issued/ Increased	Repaid/ Decreased	Amount Refunded	Debt Outstanding 9/30/2012	Amounts Due Within One Year
General Obligation - Series 2012 Refunding	$	$10,000,000.00	$ 95,000.00	$	$ 9,905,000.00	$ 80,000.00
General Obligation - Series 2010	7,790,000.00		315,000.00		7,475,000.00	320,000.00
General Obligation - Series 2004	13,835,000.00		755,000.00	9,345,000.00	3,735,000.00	780,000.00
Unamortized Premium	189,028.95	549,985.00	156,338.26		582,675.69	58,133.89
General Obligation Notes	175,315.41		175,315.41			
Estimated Liability for Retiree Health Insurance	1,096,640.00	326,447.00			1,423,087.00	
Estimated Liability for Compensated Absences	1,199,490.30		82,548.67		1,116,941.63	66,127.86
Totals	$24,285,474.66	$10,876,432.00	$1,579,202.34	$9,345,000.00	$24,237,704.32	$1,304,261.75

Payments on the warrants payable that pertain to the General Obligation Refunding Warrants Series 2012 and the remaining General Obligation Warrants Series 2004 are made by the General Fund and the Debt Service Fund, which both cities are contributing an annual appropriation for the debt service on $10 million of the $17.98 million principal.

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

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

The 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			
	2012 General Obligation Refunding Warrants		2010 General Obligation Warrants - Bridge Program	
Fiscal Year Ending	Principal	Interest	Principal	Interest
September 30, 2013	$ 80,000.00	$ 297,869.00	$ 320,000.00	$ 380,902.00
2014	80,000.00	297,169.00	330,000.00	371,302.00
2015	85,000.00	296,469.00	335,000.00	359,752.00
2016	85,000.00	295,725.00	345,000.00	347,190.00
2017	515,000.00	294,663.00	355,000.00	333,045.00
2018-2022	5,380,000.00	1,096,075.00	1,930,000.00	1,409,173.00
2023-2027	3,680,000.00	197,525.00	2,280,000.00	866,882.50
2028-2030			1,580,000.00	190,665.00
Total	$9,905,000.00	$2,775,495.00	$7,475,000.00	$4,258,911.50

Bond (Warrant) Premiums

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

	2012 General Obligation Refunding Warrants	2004 General Obligation Warrants - Jail
Total Issuance Premium	$549,985.00	$ 287,132.90
Amount Amortized Prior Years		-98,103.95
Balance Issuance Premium	549,985.00	189,028.95
Current Amount Amortized	-17,187.05	-14,356.69
Amount Associated with Defeased Debt		-124,794.52
Balance Issuance Premium	$532,797.95	$ 49,877.74

Governmental Activities 2004 General Obligation Warrants Bonds - Jail		Totals	
Principal	Interest	Principal	Interest
$ 780,000.00	$136,952.50	$ 1,180,000.00	$ 815,723.50
805,000.00	111,212.50	1,215,000.00	779,683.50
830,000.00	83,440.00	1,250,000.00	739,661.00
860,000.00	54,390.00	1,290,000.00	697,305.00
460,000.00	23,000.00	1,330,000.00	650,708.00
		7,310,000.00	2,505,248.00
		5,960,000.00	1,064,407.50
		1,580,000.00	190,665.00
$3,735,000.00	$408,995.00	$21,115,000.00	$7,443,401.50

Deferred Cost on Refunding

The Commission has deferred cost on refunding with the 2012 General Obligation Refunding Warrants. The costs are being amortized over the life of the defeased debt of the 2004 General Obligation Warrants, which will be called on August 1, 2014.

	2012 General Obligation Refunding Bonds Deferred Costs
Total Deferred Cost	$ 924,243.48
Amount Amortized Prior Years	
Balance Deferred Cost	924,243.48
Current Amount Amortized	-165,043.48
Balance Deferred Cost	$ 759,200.00

Note 9 – Conduit Debt Obligations

The Commission has issued Series 2009 Limited Obligation School Warrants to provide financial assistance to the Lee County Board of Education for the construction and improvements of the 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, 2012, the aggregate principal amount payable for the Series 2009 Limited Obligation Warrants was $22,850,000.

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 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.

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 leases provided that they could be cancelled and satisfied of record upon deposit with the Trustee 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, 2012, the aggregate principal amount payable for the Series 2003 Limited Obligation Warrants was $31,135,000.

Subsequent to September 30, 2012, the Series 2003 Limited Obligation School Warrants were economically defeased as of January 15, 2013. Upon the debt service payment made on February 1, 2013, the remaining outstanding warrants were called for redemption. The Lee County Board of Education refunded the redemption through a private placement with a financial intuition and is fully responsible for the new obligation; therefore, the Lee County Commission considers the conduit debt obligation related to the Series 2003 Limited Obligation School Warrants fully satisfied and the associated agreement cancelled.

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 $1,000,000 per claim for a maximum total coverage of $3,000,000.00 and unlimited defense costs. Employment-related practices damage protection is limited to $1,000,000 per incident with a $5,000 deductible and unlimited defense costs. Employment-related benefits administration damage protection is limited to $1,000,000 per incident with a $1,000 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 loss cost modifier to meet the required premiums of the Fund. Member premiums are then calculated on a rate per $100 of remuneration of 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, 2012, were as follows:

	Due From Other Funds General Fund	Totals
Due to Other Funds:		
Other Governmental Funds	$747,099.45	$747,099.45
Totals	$747,099.45	$747,099.45

The General Fund retired a $1,100,000 general obligation note on behalf of the Lee County Justice 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, 2012, were as follows:

	Transfers Out General Fund	Totals
Transfer In:		
Gasoline Tax Fund	$2,146,292.00	$2,146,292.00
RRR Gasoline Tax Fund	500,000.00	500,000.00
Other Governmental Funds	1,332,280.66	1,332,280.66
Totals	$3,978,572.66	$3,978,572.66

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

Note 12 – Aggregated Fund Balance Amounts and Classification

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

Fund Balance Classification Detail from Exhibit 3
As of September 30, 2012

	General Fund	Gasoline Fund	RRR Gasoline Tax Fund	2010 Bridge Bond Program Fund	Other Governmental Funds	Totals
Nonspendable:						
Inventory	$ 32,321.07	$ 131,306.98	$	$	$	$ 163,628.05
Prepaid Expenses	47,084.49					47,084.49
Total Nonspendable	79,405.56	131,306.98				210,712.54
Restricted for:						
Bridge Replacement Program				5,965,006.78		5,965,006.78
Road and Bridge Resurface, Repair and Rehabilitation			226,870.57			226,870.57
County Facilities, Repair and Construction					492,142.01	492,142.01
Debt Service Trustee Account					190,456.08	190,456.08
Alternative Sentencing Board					67,676.85	67,676.85
Revenue Commission Office Funds					104,575.52	104,575.52
Total Restricted			226,870.57	5,965,006.78	854,850.46	7,046,727.81
Committed to:						
Airport FAA Projects Match	120,385.48					120,385.48
Recreational Programs	633,538.61					633,538.61
Operational Reserve	1,000,000.00					1,000,000.00
Total Committed	1,753,924.09					1,753,924.09
Assigned to:						
Chairman Expense Issue	39,600.00					39,600.00
Capital Replacement and Improvement	400,000.00	750,000.00	1,900,000.00			3,050,000.00
Road and Bridge Maintenance		1,097,302.40				1,097,302.40
Road and Bridge Resurface, Repair and Rehabilitation			1,147,202.54			1,147,202.54
Capital Improvement Program					645,032.88	645,032.88
Environmental Services Programs	308,879.81					308,879.81
Emergency Management Programs	24,811.73					24,811.73
Total Assigned	773,291.54	1,847,302.40	3,047,202.54		645,032.88	6,312,829.36
Unassigned	5,020,783.22				(545,456.32)	4,475,326.90
Total Fund Balances	$7,627,404.41	$1,978,609.38	$3,274,073.11	$5,965,006.78	$ 954,427.02	$19,799,520.70

= 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.

Note 13 – 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

Required Supplementary Information

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2012

	Budgetary Amount	
	Original	**Final**
Revenues		
Taxes	$ 14,857,310.00	$ 14,917,310.00
Licenses and Permits	423,600.00	423,600.00
Intergovernmental	1,692,963.00	1,692,963.00
Charges for Services	7,298,380.00	7,298,380.00
Miscellaneous	378,882.00	378,882.00
Total Revenues	24,651,135.00	24,711,135.00
Expenditures		
Current:		
General Government	6,810,138.17	6,820,138.17
Public Safety	10,399,826.83	10,449,494.83
Sanitation	2,683,085.22	2,765,834.22
Health	106,630.78	106,630.78
Welfare	6,000.00	6,000.00
Culture and Recreation	50,000.00	50,000.00
Education	60,650.00	60,650.00
Capital Outlay	242,600.00	735,089.00
Debt Service:		
Principal Retirement	103,788.35	103,788.35
Interest and Fiscal Charges	7,915.65	7,915.65
Total Expenditures	20,470,635.00	21,105,541.00
Excess (Deficiency) of Revenues Over Expenditures	4,180,500.00	3,605,594.00
Other Financing Sources (Uses)		
Sale from Capital Assets		
Transfer Out	(4,180,500.00)	(3,980,500.00)
Total Other Financing Sources (Uses)	(4,180,500.00)	(3,980,500.00)
Net Change in Fund Balances		(374,906.00)
Fund Balances - Beginning of Year	6,406,689.22	6,406,689.22
Fund Balances - End of Year	$ 6,406,689.22	$ 6,031,783.22

Actual Amounts	Excess/ (Deficit)
$ 15,675,563.16	$ 758,253.16
458,184.94	34,584.94
1,957,639.21	264,676.21
7,696,630.77	398,250.77
411,078.06	32,196.06
26,199,096.14	1,487,961.14
6,676,775.52	143,362.65
10,463,191.33	(13,696.50)
2,782,372.59	(16,538.37)
106,002.45	628.33
3,334.53	2,665.47
51,952.78	(1,952.78)
41,630.44	19,019.56
739,702.22	(4,613.22)
139,968.93	(36,180.58)
2,265.92	5,649.73
21,007,196.71	98,344.29
5,191,899.43	1,586,305.43
7,388.42	7,388.42
(3,978,572.66)	1,927.34
(3,971,184.24)	9,315.76
1,220,715.19	1,595,621.19
6,406,689.22	
$ 7,627,404.41	$ 1,595,621.19

Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - Gasoline Tax Fund For the Year Ended September 30, 2012

	Budgetary Amount	
	Original	**Final**
Revenues		
Intergovernmental	$ 1,896,650.00	$ 1,896,650.00
Charges for Services		
Miscellaneous	8,000.00	8,000.00
Total Revenues	1,904,650.00	1,904,650.00
Expenditures		
Current:		
Highways and Roads	4,230,926.00	4,030,926.00
Capital Outlay		320,000.00
Debt Service:		
Principal Retirement	35,225.00	35,225.00
Interest and Fiscal Charges	243.00	243.00
Total Expenditures	4,266,394.00	4,386,394.00
Excess (Deficiency) of Revenues Over Expenditures	(2,361,744.00)	(2,481,744.00)
Other Financing Sources (Uses)		
Transfer In	2,361,744.00	2,146,292.00
Total Other Financing Sources (Uses)	2,361,744.00	2,146,292.00
Net Change in Fund Balances		(335,452.00)
Fund Balances - Beginning of Year	1,528,920.82	1,528,920.82
Fund Balances - End of Year	$ 1,528,920.82	$ 1,193,468.82

Actual Amounts	Excess/ (Deficit)
$ 2,953,882.20	$ 1,057,232.20
1,900.00	1,900.00
10,203.32	2,203.32
2,965,985.52	1,061,335.52
3,215,156.04	815,769.96
1,411,838.68	(1,091,838.68)
35,346.48	(121.48)
247.76	(4.76)
4,662,588.96	(276,194.96)
(1,696,603.44)	785,140.56
2,146,292.00	
2,146,292.00	
449,688.56	785,140.56
1,528,920.82	
$ 1,978,609.38	$ 785,140.56

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - RRR Gasoline Tax Fund
For the Year Ended September 30, 2012

	Budgetary Amount	
	Original	**Final**
Revenues		
Intergovernmental	$ 147,000.00	$ 147,000.00
Charges for Services	2,377,070.00	2,377,070.00
Miscellaneous	10,000.00	10,000.00
Total Revenues	2,534,070.00	2,534,070.00
Expenditures		
Current:		
Highways and Roads	3,034,070.00	3,034,070.00
Capital Outlay		
Total Expenditures	3,034,070.00	3,034,070.00
Excess (Deficiency) of Revenues Over Expenditures	(500,000.00)	(500,000.00)
Other Financing Sources (Uses)		
Transfer In	500,000.00	500,000.00
Total Other Financing Sources (Uses)	500,000.00	500,000.00
Net Change in Fund Balances		
Fund Balances - Beginning of Year	2,339,687.37	2,339,687.37
Fund Balances - End of Year	$ 2,339,687.37	$ 2,339,687.37

Actual Amounts	Excess/ (Deficit)
$ 150,518.94	$ 3,518.94
2,740,396.36	363,326.36
6,114.90	(3,885.10)
2,897,030.20	362,960.20
2,459,558.83	574,511.17
3,085.63	(3,085.63)
2,462,644.46	571,425.54
434,385.74	934,385.74
500,000.00	
500,000.00	
934,385.74	934,385.74
2,339,687.37	
$ 3,274,073.11	$ 934,385.74

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Schedule of Funding Progress
Defined Benefit Pension Plan
For the Year Ended September 30, 2012

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]
09/30/2011***	$25,706,756	$35,188,422	$ 9,481,666	73.10%	$12,963,912	73.10%
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%

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

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

*** Reflects changes in actuarial assumptions.

****Market Value of Assets as of September 30, 2011: $22,193,215.

Schedule of Funding Progress
Other Postemployment Benefits
For the Year Ended September 30, 2012

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, 2011 through September 30, 2012

Commission Members	Position	Term Expires
Hon. Bill English	Chairman	2013
Hon. Johnny Lawrence	Member	2014
Hon. Gary D. Long	Member	2012
Hon. Robert Ham	Member	2014
Hon. John Andrew Harris	Member	2014
Hon. J. Mathan Holt	Member	2012

<u>Administrative Personnel</u>

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, 2012, which collectively comprise the Lee County Commission's basic financial statements and have issued our report thereon dated July 22, 2013. 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
Ronald L. Jones
Chief Examiner
Department of Examiners of Public Accounts

July 22, 2013