Report on the

Lee County Commission

Lee County, Alabama

October 1, 2005 through September 30, 2006

Filed: August 3, 2007

Department of Examiners of Public Accounts

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Ronald L. Jones, Chief Examiner

07-416

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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 41-5-14, I submit this report on the Lee County Commission for the period October 1, 2005 through September 30, 2006.

SCOPE AND OBJECTIVES

This report encompasses an audit of the financial statements of the Lee County Commission (the "Commission") and a review of compliance by the Commission with applicable laws and regulations of the State of Alabama and federal financial assistance programs. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America for financial audits. The objectives of the audit 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.

CONTENTS OF REPORT

This report includes the following segments:

1. ***Report to the Chief Examiner*** – contains items pertaining to state legal compliance, agency operations and other matters.

2. ***Independent Auditor's Report*** – reports on whether the financial information constitutes a fair presentation of the financial position and results of financial operations.

3. ***Management's Discussion and Analysis (MD&A)*** – a component of Required Supplementary Information (RSI) prepared by the management of the Commission introducing the basic financial statements and providing an analytical overview of the Commission's financial activities for the year. This information is supplementary information required by the Governmental Accounting Standards Board (GASB). This information has not been audited, and as a result, no opinion is provided about the fairness of the information in accordance with generally accepted accounting principles.

4. ***Financial Section*** – includes basic financial statements (Exhibits 1 through 8), and notes to the financial statements.

5. ***Required Supplementary Information*** – includes Budget to Actual Comparisons (Exhibits 9 through 12) which contain supplementary information required by the Governmental Accounting Standards Board. The MD&A discussed above is also considered RSI.

6. ***Supplementary Information*** – includes the Schedule of Expenditures of Federal Awards (Exhibit 13), which details federal awards expended during the audit period and Notes to the Schedule of Expenditures of Federal Awards.

7. ***Additional Information*** – contains basic information related to the Commission (Exhibit 14) and the following reports and item required by generally accepted government auditing standards and/or U. S. Office of Management and Budget (OMB) Circular A-133 for federal compliance audits:

   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 (Exhibit 15) – a report on internal control related to the financial statements and on whether the Commission complied with laws and regulations which could have a direct and material effect on the Commission's financial statements.

   Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 (Exhibit 16) – a report on internal control over compliance with requirements of laws, regulations, contracts and grants applicable to major federal programs and an opinion on whether the Commission complied with laws, regulations, and the provisions of contracts or grant agreements which could have a direct and material effect on each major program.

   Schedule of Findings and Questioned Costs (Exhibit 17) – a report summarizing the results of the audit findings relating to the financial statements as required by ***Government Auditing Standards*** and findings and questioned costs for federal awards as required by OMB Circular A-133.

AUDIT COMMENTS

The Commission, a six-member body, was established under the provisions of Act Number 133, Acts of Alabama 1894-95.

The Lee County Probate Judge, elected by the citizens of Lee County, acts as Chairman of the Commission.

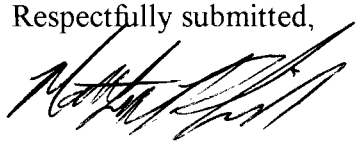
SUMMARY OF FEDERAL COMPLIANCE AND FEDERAL INTERNAL CONTROL

No material instances of noncompliance with laws and regulations applicable to major federal programs were noted. No material weaknesses in the Commission's internal control over the administration of major programs were noted.

STATUS OF PRIOR AUDIT

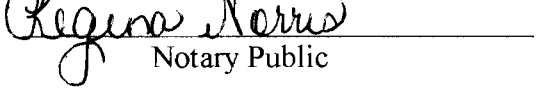
The finding contained in the prior audit report has been resolved.

Respectfully submitted,



Matthew Robinson
Examiner of Public Accounts

Sworn to and subscribed before me this
the 18th day of July, 2007.



Notary Public

My Commission Expires November 16, 2010.

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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, 2006, which collectively comprise the Lee County Commission's basic financial statements as listed in the table of contents as Exhibits 1 through 8. These financial statements are the responsibility of the Lee County Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lee County Commission, as of September 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15, certain entities that were previously treated as component units and excluded from the financial statements are now considered part of the primary government and are included in the accompanying financial statements.

In accordance with ***Government Auditing Standards***, we have also issued our report dated April 18, 2007, on our consideration of the Lee County Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lee County Commission's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 13) as required by U. S. Office of Management and Budget Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

April 18, 2007

Management's Discussion and Analysis
(Required Supplementary Information)

Lee County Commission
Management's Discussion and Analysis
Fiscal Year October 1, 2005 through September 30, 2006

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, 2006. 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, 2006 by $35,067,096. The County's total net assets increased by $5,789,552 or 19.77%. The increase is primarily attributed to continued additional investment into fixed assets (Jail Expansion Project) and infrastructure (Bridge Replacement Program).

- Entity-wide revenues increased $5,143,264.32 or 19.24% over the last fiscal year. Approximately fifty percent (50%) of this increase was one-time funds for one-time projects. The remainder of the increase can be associated with the continued strong growth of Lee County.

- Some of the highlights of this year's revenue increase: Property taxes increased $1,462,343 or 13.86%, which is attributed to the County's growth in residential and commercial development. There was also a one-time project allocation reflected in the property taxes for the Appraisal Department for digital orthophotography and a software project which were subsidize out of all current year property taxes to all entities in the amount of $560,055. Operating Grants & Contributions increased 19.54% ($1,032,969) mainly attributed to receiving the City of Auburn's and City of Opelika's first full year contribution for the debt service with principal payment on the bond issue for the consolidated jail project. Capital Grants & Contributions increased 36.28% ($464,683) due to grants or state aid for bridge Projects, for the construction of a Senior Center, and for purchase of voting machines in relation to HAVA.

- Entity-wide expenses increased $2,634,850 or 11.23% over the last fiscal year. The primary increase was for employee raises and associated costs. Other notable increased cost factors were fuel costs and jail medical costs.

- The overall Governmental fund balances are at thirty-four percent (34.00%) of annual expenditures providing the county with reserves and some flexibility to address possible unforeseen events. (This is excluding the RRR Gasoline Fund and non-annual operational funds; see Financial Analysis of Fund Balances for additional information)

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 the 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 costs 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

Traditional users of governmental financial statements will find the Fund Financial Statements more familiar. 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 many 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 Public Buildings Roads and Bridges Fund, RRR Gasoline Fund and the Jail Expansion Capital 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

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 12 which are Annual Budget to Actual comparisons of the governmental major funds of the County. Lee County adopts an annual appropriated budget for its General, Gasoline, Public Buildings, Roads and Bridges, and the RRR Gasoline Tax funds; the comparison schedules are presented to demonstrate compliance with the fund budgets. The Jail Expansion Capital Fund is not included since it is not adopted on a fiscal year basis but on a project basis and spans more than one fiscal year.

Additional Information

Infrastructure assets, with the implementation of Government Accounting Standards Board (GASB) Statement 34, the County has now begun to report and depreciate general fund assets. The County has elected to depreciate these assets over their estimated useful life using the straight-line method of depreciation. The infrastructure portion related to general governmental activities as stated in GASB Statement 34 requires that these assets (infrastructure-roads and bridges) be valued and reported within the Governmental column of the Government-wide Statement.

Government-wide Financial Analysis

The County governmental net assets increased by $5,789,552 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 $35,067,096 as of the fiscal year ending September 30, 2006.

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 2006	**Governmental Activities 2005 (as restated)**	**Difference**	**Percentage**
Current & Other Assets	29,628,069	40,476,125	(10,848,056)	-26.80%
Non-current/non-capital Assets	130,425	127,849	2,576	2.01%
Capital Assets, Net	41,840,728	24,096,393	17,744,335	73.64%
Total Assets	**71,599,222**	**64,700,367**	6,898,855	10.66%
Current Liabilities	15,362,875	14,158,715	1,204,160	8.50%
Long-term Liabilities	21,169,251	21,269,109	(94,858)	-0.45%
Total Liabilities	**36,532,126**	**35,422,824**	1,109,302	3.13%
Net Assets:				
Invested in Capital Assets, Net of Related Debt	25,059,820	21,870,041	3,189,779	14.59%
Restricted	4,892,770	3,870,458	1,022,312	26.41%
Unrestricted	5,114,506	3,537,044	1,577462	44.60%
Total Net Assets	**35,067,096**	**29,277,543**	5,789,552	19.77%

The significant decrease in Current Assets and significant increase in Capital Assts can be primarily attributed to the expenditure of bond proceeds for the construction of the Jail Expansion to accommodate the consolidation of the County, City of Auburn and the City of Opelika Jails. The construction on the facility is expected to be completed in April 2007.

Although Current Assets overall decreased there was an approximate $600,000 increase in property tax receivable as a result of continued residential and commercial growth in the area. There was a corresponding increase in Current Liabilities for the deferral that is associated with property taxes. Also, Current Liabilities increased approximately $600,000 in Account Payables which was partial associated with the Jail Expansion Project and a slight delay in processing of invoices due to a personnel shortage in payables during the month of September.

The increase in Net Capital Assets of 19.77% represents the continued additional investment into fixed assets and infrastructure.

A significant portion of Lee County's net assets $25,059,820 (71%) are in its capital assets (i.e., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. These assets are not available for future spending. The County uses these capital assets to provide services to citizens. While the County's capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves can't be used to pay for or liquidate these liabilities. The remaining net assets, $4,892,770 in restricted and $5,114,506 in unrestricted, may be used to meet the County's ongoing obligations to citizens and creditors. Restricted net assets are already designated for specific purposes where as unrestricted assets have not been specifically designated for a particular use.

Statement of Activities

The following schedule compares the revenues and expenses for the current year. Government activities increased the County's net assets by $5,789,552. The key element in this increase was investment in capital assets.

Changes in Net Assets as of September 30, 2006:

	Governmental Activities 2006	Governmental Activities 2005	Difference	Percentage
REVENUES				
Program Revenues:				
Charges for Services	7,463,676	6,876,770	586,906	8.53%
Operating Grants & Contributions	6,320,420	5,287,452	1,032,968	19.54%
Capital Grants & Contributions	1,745,367	1,280,683	464,684	36.28%
General Revenues:				
Property Taxes – General Purposes	7,238,892	6,667,727	571,165	8.57%
Property Taxes – Specific Purposes	4,774,097	3,882,920	891,177	22.95%
General Sales Tax **				
Misc. Taxes	1,228,776	1,067,142	161,634	15.15%
Grants & contributions not restricted to specific Programs	723,075	520,392	202,683	38.95%
Gain on Sale of Assets	609,023		609,023	100.00%
Interest Revenue	799,658	790,140	9,518	1.20%
Miscellaneous	976,269	362,764	613,505	169.12%
Total Revenues	**31,879,253**	**26,735,990**	5,143,263	19.24%
EXPENSES				
Program Activities:				
General Government	7,350,122	6,843,660	506,462	7.40%
Public Safety	7,851,424	7,077,701	773,723	10.93%
Highways & Roads	7,395,126	6,233,556	1,161,570	18.63%
Sanitation	2,280,415	2,119,246	161,169	7.61%
Health & Welfare	201,961	164,256	37,705	22.96%
Culture & Recreation	79,239	53,275	25,964	48.74%
Education	68,575	90,589	(22,014)	-24.30%
Interest and Fiscal Charges	862,839	872,569	(9,730)	-1.12%
Total Expenses	**26,089,701**	**23,454,852**	2,634,849	11.23%
Net Assets, Increase in	**5,789,552**	**3,281,138**	2,508,414	76.45%

** - All County General Sales Taxes are collected by Alatax, as an agent of the County, and remitted directly to the school system.

Of the County's total revenues at $31,879,253 property taxes account for 37.68% of the total revenue of the County. Taxes as a whole represent 41.54% of the total revenue collected by the County for fiscal year ended September 30, 2006.

Property Taxes experienced an 8.6% increase as a result of annual reappraisal and continued strong residential and commercial growth in the area. Property Taxes for Specific Purposes actually had a 22.95% increase. Almost 63% of this increase is attributed to a one-time project in the Appraisal Department for digital orthophotography which was subsidized out of all current year property taxes; therefore, this revenue category should experience a significant decline next year.

Operating Grants & Contributions increased 19.54% ($1,032,968). A signification portion of the increase was from receiving the City of Auburn's and City of Opelika's first full year contribution for the debt service with principal payment on the bond issue for the consolidated jail project in the amount of $425,151. The County also received $169,025 additional Homeland Security Funds over the previous year. The County received funds that were due from the State of Alabama from an audit in the amount of $146,526 for Additional Motor Vehicle Fees.

Capital Grants & Contributions increased 36.28% ($464,684). A large portion of the increase is related to the State Aid Road and Bridge Projects in the amount of $391,052 above the previous year. This type of revenue source will have large fluctuations from year to year due to being based on a project basis. The remainder of the increase was attributed to a grant for the construction of a Senior Center on the park property in Smith's Station in the amount of $189,640 and a grant for HAVA Voting Machine Compliance in the amount $156,650.

Charges for Services increased 8.53% ($586,906) primarily due from a $205,612 increase in building permits issued and from a $288,269 increase in issuance fee revenues.

Miscellaneous Taxes increased 15.15% with primarily a $139,680 increase in mortgage and deed filing tax, which is an element to monitor for signs of continued residential growth.

Grants and Contributions not Restricted to Specific Programs increased 38.95% ($202,683). The County received funds that were due from the State of Alabama from an audit in the amount of $190,423 for Franchise Financial Tax.

Miscellaneous revenues increased 169.12% ($613,505) primarily due to a settlement of a lawsuit ($337,500).

Expenses for all services of the County were $26,089,701. Of this amount 28.17% was spent for general government, 30.09% for public safety, 28.35% for highways and roads, 8.74% for sanitation and 4.65% on the remaining categories listed above.

General Government increased 7.40% which is primarily attributed to raises for employees (2.9% cost of living and 3.0% merit raises). Additional contributing factors include continued increases in retirement contribution costs (14.61%) and workers compensation insurance contribution costs (18.07%).

Public Safety increased 10.93% which a majority is attributed to the raises for employees and increased benefit cost increases as identified in the previous paragraph. Other significant cost increases were fuel costs (19.02%) and jail medical costs (40%). In addition there was a payment of a settlement which resulted in 44% of the total 22.27% increase in operational costs for the 2006 Fiscal Year.

Highways and Roads had an increase of 18.63%. Some of the increase is attributed to an increase of 45.21% in fuel costs. The fuel increase is partially attributed to market increases; however, consumption is up also due to increased activity to meet special project requests (i.e., parking areas and access roads at The Lee County Park in Smiths Station, site preparation for construction of a new office building (being built by the County Building Authority for the local office of the State Department of Human Resources) placed on the Highway Department this year. For the same reason, road materials costs are up 42.26% and overtime costs are up 166.28% to complete projects while attempting to keep the road paving program on schedule.

Sanitation had an increase of 7.61% which is primarily attributed to raises for employees (2.9% cost of living and 3.0% merit raises). In addition, the departments were staffed closer to one hundred percent this year than last year. Also attributing to the increase was an effort by the departments to repair equipment and other assets to better work order which increased repair costs $57,150 (94.71%).

The remaining expenditure items (4.65% of total expenditures) are in line with year to year fluctuations for the types of expenditures.

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 $26,089,701 and the combined charges for services plus operating and capital grants received were $15,529,463 leaving a net cost to the County of $10,560,238. This is an increase of $550,290 in expenditures required to be funded from general revenues.

Charges for services amounted to $7,463,676 and combined grants and contributions totaled $8,065,787. 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 the functions or programs.

Function/Programs	**2006 Net Cost of Services**	**2005 Net Cost of Services**	**Net Cost (Increase)/ Decrease**
General Government	(2,027,485)	(2,330,266)	302,781
Public Safety	(5,957,814)	(6,051,958)	94,144
Highways and Roads	(1,771,416)	(1,182,355)	(589,061)
Sanitation	119,493	230,645	(111,152)
Health	(175,421)	(98,808)	(76,613)
Welfare	225,058	(3,491)	228,549
Culture and Recreation	(41,239)	63,685	(104,924)
Education	(68,575)	(90,590)	22,015
Interest and Fiscal	(862,839)	(546,810)	(316,029)
Total Governmental Activities	**(10,560,238)**	**(10,009,948)**	(550,290)

Financial Analysis of Fund Balances

The financial performance of the County as a whole is reflected in its governmental funds. The total governmental funds balances for the funds shown in the following table at the end of the fiscal year increased from $10,038,664 to $11,934,302. This increase of $1,895,638 (18.88%) was primarily due to increase in Other Governmental Funds of $1,200,883. Almost 50% of that increase is attributed to a one-time project in the Appraisal Department for digital orthophotography which was funded but not completed this year; therefore, this area of fund balance should experience a significant decline next year. The decline is primarily attributed to spending the prior year's fund balance in the Jail Expansion Capital Fund on the jail renovations.

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

For Lee County a target fund balance for most operational funds is a floor (absolute minimum) 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 one main exception is the RRR Gasoline Fund which is targeted at 50% due to nature and dollar magnitude of the type of emergencies (i.e., bridge failure) that might arise in the activities funded in this fund.

The following table provides a summary of the changes in fund balances of the County's major funds (except the Jail Expansion Capital Project Fund) as well as the combined Other Governmental Funds (except the Capital Projects Fund).

Fund	Beginning Fund Balance	Net Increase or (Decrease)	Ending Fund Balance	% of Annual Expenditures
General Fund	3,561,217	519,051	4,080,268	29.29%
Gasoline Fund	936,761	365,607	1,302,368	18.68%
Public Buildings, Roads & Bridges Fund	1,093,112	(329,154)	763,958	***
RRR Gasoline Fund	2,597,879	139,251	2,737,130	59.75%
Other Governmental Funds	1,849,695	1,200,883	3,050,578	44.23%
Totals	**10,038,664**	**1,895,638**	**11,934,302**	**36.86%**

***- All Resources of this Major Fund are transferred to other Operational Funds each year.

The Jail Expansion Capital Project Fund and Capital Projects Fund are excluded since these are not ongoing operational funds. The fund balances for these fund are established by the resources set aside for specific projects that have not been complete at the time of these financial statements; therefore, the fund hasn't been included for an annual operations comparison in the table above.

The overall Governmental fund balances (excluding the RRR Gasoline Fund) are at thirty-four percent (34.0%) of annual expenditures providing the county with reserves and some flexibility to address possible unforeseen events.

Budgetary Highlights - Major Funds

General Fund

Exhibit 9 shows that a few changes were made in the original General Fund budgets for fiscal year ended September 30, 2006. Overall revenues were only increased $67,000 to recognize additional resources from funds from the Alabama Forestry Commission ($25,000) and recognize Building Permits received in excess of budget ($42,000). Overall expenditures were increased $425,353 over the original budget. Two of the items were for the purchase of a truck for the local Forestry office and for the Building Inspection Department to hire an additional building inspector not in the original budget. In addition, the County made adjustments for the carryover of funds that were expected to be expensed prior to yearend, which hadn't before September 30, 2006. These were $144,738 for an ambulance service contract and $56,557 remaining allocation for contribution to the Lee-Russell Council of Governments construction of an addition to their facility. The majority of the remaining adjustment was an allocation out of reserves for a settlement.

Transfers Out budget for the General Fund was increased $591,000 which represented excess funds to the Capital Improvement Fund for various capital projects approved by the Commission as established by County Commission Policy.

Actual Revenues were $1,357,581 higher than the final budgeted revenues while actual expenditures were $404,370 lower than the final budgeted amounts. The net change in the general fund balance for the current fiscal year was a $519,051 increase or (14.58%), which is a $1,760,117 positive difference from the planned $1,241,066 decrease in the final budget. This is primarily attributed to budgeting revenues slightly below actual projections for the fiscal year and the commitment of all the various departments to stay within or finish the year below budget. This fund ended with a fund balance equal to 29.29% of its annual expenditures.

Gasoline Tax Fund

Exhibit 10 shows that one change was made in the original Gasoline Tax Fund budgets for fiscal year ended September 30, 2006. Overall revenues and expenditures were increased $38,130 each to recognize additional resources from a Community Development Block Access Grant.

Actual Revenues were slightly lower than the final budgeted revenues. Actual Expenditures and Actual Other Financing Sources were over budget by $2,089,674 and $2,760,289, respectively. The majority of this is related to an approximate $1.4 million lease-sale rotation program transaction of fifteen dump trucks in the Highway Department that the County rotates every three to four years. In addition, the Highway Department exceeded the fuel and materials budget by over $290,000 also due to increase activity to meet special project requests (i.e., parking areas and access roads at The Lee County Park in Smiths Station, site preparation for County Building Authority for new office building) placed on the Highway Department this year, while attempting to keep the road paving program on schedule.

The net change in the Gas Tax fund balance for the current fiscal year was a $365,607 increase or (39%), which is $768,438 less than the planned decrease for this fund. This fund ended with a fund balance equal to 18.68% of its annual expenditures.

Public Buildings, Roads and Bridges Fund

Exhibit 11 shows no changes were made in the original Public Buildings, Roads and Bridges Fund budgets for fiscal year ended September 30, 2006.

Actual Revenues were $170,493 more than the final budgeted revenues while actual transfers to operational funds were $352 lower than the final budgeted amounts.

The net change in the Public Buildings, Roads and Bridges fund balance for the current fiscal year was a $329,154 decrease.

The monies received into this fund are transferred each year to other operational funds (i.e., Gas Tax, RRR Gas Tax and Debt Service).

RRR Gasoline Tax Fund

Exhibit 12 shows no changes in revenues and expenditures were made in the original RRR Gasoline Tax fund budgets for fiscal year ended September 30, 2006.

Actual Revenues were $1,499,128 higher than the final budgeted revenues due to a one-time allocation from an audit of the State while actual expenditures were $284,345 higher than the final budgeted amounts.

The net change in the RRR Gas Tax fund balance for the current fiscal year was a $139,251 increase or 5.03%, which is $1,468,720 less than the planned decrease for this fund. This attributed to the one-time unexpected funds and that various planned road projects weren't completed within this fiscal year.

The Jail Expansion Capital Fund is not on an annual year basis but rather on a project basis that spans more than one fiscal year; therefore, this fund is not included in the annual budget to actual comparisons.

Capital Asset and Debt Administration

Capital Assets - Depreciation of assets other than land and construction in progress projects is 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, 2006.

Capital Assets	
Total Capital Assets at October 1, 2005,	$23,971,635
Restatement Net Increase Depreciation Recalculations **	124,758
Additions	20,721,242
Retirements	(1,918,522)
Annual Depreciation	(2,235,713)
Accumulated Depreciation of Retired Assets	1,177,328
Total Capital Assets at September 30,2006	**$41,840,728**

** - See Notes to the Financial Statements

The following table shows total assets before and after depreciation.

Governmental Activities	**Assets Original Cost**	**Value at 9/30/06 After Depreciation**
Land	$1,685,355	$1,685,355
Construction in Progress	18,299,051	18,299,051
Infrastructure	6,432,595	6,610,597
Buildings and Improvements	17,228,962	9,714,391
Equipment and Furniture	12,542,392	3,849,295
Equipment Under Capital Leases	2,406,179	1,982,039
Total Capital Assets	**$58,594,534**	**$41,840,728**

Debt Outstanding

At the end of September 2005 the County's general obligation long-term debt was $20,500,000. By the end of the current year the general obligation long-term debt had decreased to $19,575,000. The County did not issue any new general obligation bonds during the year and the pay-down on the existing general obligation long-term debt was $925,000.

Capital lease debt had a net change increase of $958,880.89 as the lease debt increased from $1,186,659.67 to $2,145,540.56 as of the end of September 2006. The primary reason for the increase was the new leases for fifteen new dump truck and eleven new Sheriff's patrol cars in the County's lease rotation programs was $1,902,712.75 compared to this year's payout on the program of $943,831.86.

The liability for compensated absences as of the end of the current year was $904,810.33, which was a $65,768.01 increase (7.84%) over last fiscal year's $839,042.32.

The total of all general long-term debt for the County as of September 30, 2006 was $22,625,350.89 which was $99,648.90 more (4.42%) than the prior year's ending balance of $22,525,701.99.

Based on the County's legal limits of debt at 5% of the net assessed value of property as of October 1, 2006, Lee County's maximum debt limit was $57,672,101. With our total chargeable debt against our limit as of the end of the current fiscal year being $36,532,127, we were at 63.34% of our legal debt limit.

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, the largest higher education institution in the state with approximately 23,000 students. 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 residential growth. With the student population and the rate of residential growth supporting a larger retail base, the County has seen significant construction in commercial development recently, as evident in the 10% annual tax base increase over the last five years. According to censes estimates, the County continues to grow at 1.6% per annum.

Over the next few years, the County could experience additional growth due to the results of the 2006 Base Realignment and Closure (BRAC). Fort Benning in Columbus, Georgia borders the Southeast corner of the County and is projected to increase by 28,000 soldiers, support personnel, and families as the result of BRAC. With our quality school systems and proximity to the base, the County will be an attractive alternative location to live, especially to those with families. Also, the recent announcement and beginning of site work for a new KIA automotive plant just outside West Point, Georgia should also have a positive economic impact with Lee County being located within thirty minutes from the site.

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) 745-9767. The office is located on the second floor of the historic courthouse in downtown Opelika.

Statement of Net Assets
September 30, 2006

	Governmental Activities
Assets	
Current Assets	
Cash and Cash Equivalents	$ 6,206,950.76
Investments	11,367,328.40
Accounts Receivable	81,716.33
Interest Receivable	191,159.10
Due from Other Governments	755,732.09
Property Tax Receivable	10,985,366.68
Inventories	64.99
Prepaid Expenses	39,750.77
Total Current Assets	29,628,069.12
Noncurrent Assets	
Cash with Fiscal Agent	130,424.80
Land	1,685,354.98
Construction in Progress	18,299,050.99
Depreciable Assets:	
Infrastructure	6,432,594.92
Buildings	17,228,961.80
Equipment and Furniture	12,542,391.77
Equipment Under Capital Lease	2,406,179.22
Less: Accumulated Depreciation	(16,753,805.45)
Total Noncurrent Assets	41,971,153.03
Total Assets	71,599,222.15
Liabilities	
Current Liabilities	
Accounts Payable	1,346,157.77
Accrued Wages Payable	417,353.51
Deferred Revenue	11,525,212.16
Due to Other Governments	186,050.88
Accrued Interest Payable	171,189.08
Long-Term Liabilities:	
Portion Due Within One Year:	
Warrants Payable	950,000.00
Premium on Warrants	14,356.68
Capital Leases Payable	590,594.57
Liability for Compensated Absences	161,961.05
Total Current Liabilities	$ 15,362,875.70

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	$ 18,625,000.00
Premium on Warrants	246,455.67
Capital Leases Payable	1,554,945.99
Liability for Compensated Absences	742,849.28
Total Noncurrent Liabilities	21,169,250.94
Total Liabilities	36,532,126.64
Net Assets	
Invested in Capital Assets, Net of Related Debt	25,059,820.26
Restricted for Road Projects	3,953,172.92
Restricted for Other Purposes	939,596.14
Unrestricted	5,114,506.19
Total Net Assets	$ 35,067,095.51

Statement of Activities
For the Year Ended September 30, 2006

Function/Programs	Expenses	Program Revenues: Charges for Service	Program Revenues: Operating Grants and Contributions
Primary Government			
Governmental Activities			
General Government	$ 7,350,121.96	$ 4,698,831.75	$ 285,447.69
Public Safety	7,851,424.30	359,015.36	1,534,595.22
Highways and Roads	7,395,126.40	5,921.03	4,492,665.40
Sanitation	2,280,415.28	2,399,908.23	
Health	183,133.66		7,712.28
Welfare	18,827.30		
Culture and Recreation	79,239.19		
Education	68,575.16		
Interest and Fiscal Charges	862,839.22		
Total Governmental Activities	$ 26,089,702.47	$ 7,463,676.37	$ 6,320,420.59

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

Gain on Sale of Capital Assets

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning of Year, as Restated (Note 14)

Net Assets - End of Year

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

Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets Primary Government Total Governmental Activities
$ 338,357.84	$ (2,027,484.68)
	(5,957,813.72)
1,125,123.79	(1,771,416.18)
	119,492.95
	(175,421.38)
243,885.00	225,057.70
38,000.00	(41,239.19)
	(68,575.16)
	(862,839.22)
$ 1,745,366.63	(10,560,238.88)
	7,238,893.36
	4,774,097.01
	1,228,775.78
	723,074.94
	799,657.59
	609,023.09
	976,269.16
	16,349,790.93
	5,789,552.05
	29,277,543.46
	$ 35,067,095.51

Balance Sheet
Governmental Funds
September 30, 2006

	General Fund	Gasoline Fund	Public Buildings, Roads and Bridges Fund
Assets			
Cash and Cash Equivalents	$ 994,216.79	$ 783,330.88	$ 931,510.22
Cash with Fiscal Agent			
Investments	3,710,564.94	650,000.00	
Accounts Receivable	59,219.80		
Interest Receivable	10,558.48	851.05	
Due from Other Governments	391,990.55	166,262.66	
Property Tax Receivable	7,135,621.10		3,292,060.02
Inventories	64.99		
Prepaid Expenses	39,750.77		
Total Assets	12,341,987.42	1,600,444.59	4,223,570.24
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	182,911.71	187,815.96	
Wages and Fringes Payable	282,619.90	77,982.17	
Deferred Revenue	7,507,914.50		3,459,612.10
Due to Other Governments	186,050.88		
Liability for Compensated Absences	102,222.84	32,277.76	
Total Liabilities	8,261,719.83	298,075.89	3,459,612.10
Fund Balances			
Reserved for Debt Service			
Reserved for Capital Projects			
Reserved for Prepaid Expenses	39,750.77		
Reserved for Encumbrances	68,807.93	62,026.24	
Designated	369,859.00		
Unreserved	3,601,849.89	1,240,342.46	763,958.14
Total Fund Balances	4,080,267.59	1,302,368.70	763,958.14
Total Liabilities and Fund Balances	$ 12,341,987.42	$ 1,600,444.59	$ 4,223,570.24

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

RRR Gasoline Tax Fund	Jail Expansion Capital Fund	Other Governmental Funds	Total Governmental Funds
$ 629,800.03	$ 1,090,259.07	$ 1,777,833.77	$ 6,206,950.76
		130,424.80	130,424.80
1,950,000.00	2,608,800.00	2,447,963.46	11,367,328.40
19,545.19		2,951.34	81,716.33
9,981.62	153,830.53	15,937.42	191,159.10
155,559.33		41,919.55	755,732.09
		557,685.56	10,985,366.68
			64.99
			39,750.77
2,764,886.17	3,852,889.60	4,974,715.90	29,758,493.92
14,991.47	907,444.66	52,993.97	1,346,157.77
9,581.21		47,170.23	417,353.51
		557,685.56	11,525,212.16
			186,050.88
3,183.11		24,277.34	161,961.05
27,755.79	907,444.66	682,127.10	13,636,735.37
		130,424.80	130,424.80
	2,687,602.54	1,242,009.72	3,929,612.26
			39,750.77
74,804.42	257,842.40	590,241.68	1,053,722.67
710,000.00		373,102.86	1,452,961.86
1,952,325.96		1,956,809.74	9,515,286.19
2,737,130.38	2,945,444.94	4,292,588.80	16,121,758.55
$ 2,764,886.17	$ 3,852,889.60	$ 4,974,715.90	$ 29,758,493.92

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Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
September 30, 2006

Total Fund Balances - Governmental Funds (Exhibit 3)		$ 16,121,758.55
Amounts reported for governmental activities in the Statement of Net Assets (Exhibit 1) are different because:		
Capital assets used in governmental activities are not financial resources, and therefore are not reported as assets in governmental funds. These assets consist of:		
Land	$ 1,685,354.98	
Infrastructure	6,432,594.92	
Buildings	17,228,961.80	
Equipment and Furniture	12,542,391.77	
Construction in Progress	18,299,050.99	
Equipment Under Capital Lease	2,406,179.22	
Less: Accumulated Depreciation	(16,753,805.45)	
Total Capital Assets		41,840,728.23

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

	Current Liabilities	Noncurrent Liabilities	
Warrants Payable	$ 950,000.00	18,625,000.00	
Premium on Warrants	14,356.68	246,455.67	
Capital Lease	590,594.57	1,554,945.99	
Accrued Interest Payable	171,189.08		
Liability for Compensated Absences		742,849.28	
Total Long-Term Liabilities	$ 1,726,140.33	$ 21,169,250.94	(22,895,391.27)
Total Net Assets - Governmental Activities (Exhibit 1)			$ 35,067,095.51

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, 2006

	General Fund	Gasoline Fund	Public Buildings, Roads and Bridges Fund
Revenues			
Taxes	$ 8,506,770.66	$	$ 3,228,133.97
Licenses and Permits	951,530.59		
Intergovernmental	1,350,725.61	1,871,459.19	32,555.36
Charges for Services	3,857,358.28	5,921.03	
Miscellaneous	448,286.70	243,494.04	97,973.87
Total Revenues	15,114,671.84	2,120,874.26	3,358,663.20
Expenditures			
Current:			
General Government	5,943,655.92		
Public Safety	6,887,475.70		
Highways and Roads		4,361,614.03	
Sanitation			
Health	177,239.96		
Welfare	3,254.10		
Culture and Recreation			
Education	62,451.81		
Capital Outlay	671,165.16	1,639,302.27	
Debt Service			
Principal Retirement	170,767.84	943,891.86	
Interest and Fiscal Charges	14,095.12	26,225.00	
Total Expenditures	13,930,105.61	6,971,033.16	
Excess (Deficiency) of Revenues Over Expenditures	1,184,566.23	(4,850,158.90)	3,358,663.20
Other Financing Sources (Uses)			
Transfers In	28,437.39	2,455,477.00	
Sale of Capital Assets	9,223.78	1,253,864.25	
Issuance of Debt	225,186.50	1,418,925.00	
Litigation Award		87,500.00	
Transfers Out	(928,363.00)		(3,687,817.58)
Total Other Financing Sources (Uses)	(665,515.33)	5,215,766.25	(3,687,817.58)
Net Change in Fund Balances	519,050.90	365,607.35	(329,154.38)
Fund Balances - Beginning of Year	3,561,216.69	936,761.35	1,093,112.52
Fund Balances - End of Year	$ 4,080,267.59	$ 1,302,368.70	$ 763,958.14

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

RRR Gasoline Tax Fund	Jail Expansion Fund	Other Governmental Funds	Total Governmental Funds
$ 280,823.29	$	$ 1,226,038.23	$ 13,241,766.15
		9,345.69	960,876.28
3,193,508.79		2,402,478.24	8,850,727.19
		2,407,247.86	6,270,527.17
108,835.52	366,068.61	329,819.22	1,594,477.96
3,583,167.60	366,068.61	6,374,929.24	30,918,374.75
		804,148.23	6,747,804.15
		570,057.91	7,457,533.61
1,949,010.85			6,310,624.88
		2,086,906.14	2,086,906.14
			177,239.96
		14,188.45	17,442.55
		77,152.07	77,152.07
			62,451.81
2,630,098.50	14,183,727.59	1,596,947.16	20,721,240.68
		931,070.91	2,045,730.61
1,815.00		816,951.15	859,086.27
4,580,924.35	14,183,727.59	6,897,422.02	46,563,212.73
(997,756.75)	(13,817,658.98)	(522,492.78)	(15,644,837.98)
1,263,593.00		1,716,670.93	5,464,178.32
		87,128.19	1,350,216.22
		435,500.00	2,079,611.50
250,000.00			337,500.00
(376,584.89)		(471,412.85)	(5,464,178.32)
1,137,008.11		1,767,886.27	3,767,327.72
139,251.36	(13,817,658.98)	1,245,393.49	(11,877,510.26)
2,597,879.02	16,763,103.92	3,047,195.31	27,999,268.81
$ 2,737,130.38	$ 2,945,444.94	$ 4,292,588.80	$ 16,121,758.55

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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, 2006

Net Change in Fund Balances - Total Governmental Funds (Exhibit 5)		$ (11,877,510.26)
Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:		
Governmental funds report capital outlay as an expenditure. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay ($20,721,240.68) exceeds depreciation ($2,235,712.55).		18,485,528.13
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.		2,045,730.61
Debt issuances provide current financial resources governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.		
Capital Leases Payable		(2,079,611.50)
Some items reported in the Statement of Activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental funds. These items consist of:		
Net Increase in Long-Term Compensated Absences	$ (53,995.53)	
Net Increase in Accrued Interest Payable	$ (3,752.95)	(57,748.48)
Amortization of Premium on Bond Issue		14,356.68
In the Statement of Activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus the changes in net assets differs from the change in fund balance by the cost of the capital assets sold.		(741,193.13)
Total Change in Net Assets - Governmental Activities (Exhibit 2)		$ 5,789,552.05

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

Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2006

	Private-Purpose Trust Funds
Assets	
Cash and Cash Equivalents	$ 938,912.02
Total Assets	938,912.02
Liabilities	
Payable to External Parties	736,408.22
Total Liabilities	736,408.22
Net Assets	
Held in Trust for Other Purposes	$ 202,503.80

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

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended September 30, 2006

		Private-Purpose Trust Funds
Additions		
Contributions:		
Charges for Service	$	332,855.07
Probate Court Receipts		587,067.75
Interest		409.17
Total Additions		920,331.99
Deductions		
Administrative Expenses		303,296.42
Payments to Beneficiaries		601,321.32
Total Deductions		904,617.74
Changes in Net Assets		15,714.25
Net Assets - Beginning of Year, as Restated (Note 14)		186,789.55
Net Assets - End of Year	$	202,503.80

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 reporting entity consist of the primary government and its component units. Accordingly, the accompanying financial statements present the Commission (a primary government).

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on the application of these criteria, there are no component units which should be included as part of the financial reporting entity of the Commission.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Commission. These statements include the financial activities of the primary government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues 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 nonmajor funds in the other governmental funds' column.

The Commission reports the following major governmental funds:

- ***General Fund*** – The general fund is the primary operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund. The Commission primarily received revenues from collections of property taxes and revenues collected by the State of Alabama and shared with the County.

- ***Gasoline 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.

- ***Public Buildings, Roads and Bridges Fund*** – This fund is used to account for the expenditures of special county property taxes for building and maintaining public buildings, roads and bridges.

- ***Jail Expansion Capital Fund*** – This fund is used to account for expenditures of funds designated for the construction of an expansion of the county jail for a consolidated detention facility with the cities of Opelika and Auburn.

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 the proceeds of specific revenue sources (other than those derived from special assessments or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

- ***Capital Projects Funds*** – These funds are used to account for the expenditures of funds designated for significant capital projects.

- ***Debt Service Funds*** – These funds are used to account for the accumulation of resources for and the payment of, the Commission's principal and interest on governmental bonds.

The Commission reports the following fiduciary fund type:

Fiduciary Fund Type

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. General long-term debt issued and acquisitions under capital leases are reported as other financing sources.

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

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

D. Assets, Liabilities, and Net Assets/Fund Balances

1. Deposits and Investments

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

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

Investments are reported at cost.

2. Receivables

All ad valorem tax and sales tax receivables are shown net of an allowance for uncollectibles.

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.

Receivables from external parties are amounts that are being held in a trustee or agency capacity by the fiduciary funds.

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 bonds 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 bond covenants.

6. Capital Assets

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance 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 Commission will retroactively report its major infrastructure assets (assets that were acquired between October 1, 1980 to September 30, 2002, or that received major renovations, restorations or improvements during that period) as of the fiscal year ending September 30, 2007.

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

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities fund type 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, annual leave, and compensatory leave time.

Annual Leave

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

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

Earned leave will be for each full month worked. No more than 36 days of annual leave may be accrued and carried forward into the next year. Upon separation from County service, employees may be paid for all unused annual leave at the employee's current rate of pay or required to take his/her leave, at the discretion of the department head and the Lee County Commission.

Sick Leave

Sick leave is earned at the rate of one day per full month worked. No employee may accumulate more than 130 days total sick leave. Sick days shall not be accrued while an employee is in a non-pay status. Upon separation from County service, an employee's accrued sick leave shall not be paid; however, all individuals who are separated in good standing shall receive up to 120 days credit for unused sick leave accrued from their prior Lee County employment, if they are reinstated within twelve calendar months from the effective date of their separation. In unusual circumstances department heads may advance up to six days sick leave, provided that all other leave has been used and that the cause of absence is supported by a doctor's certificate.

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

Compensatory Time

Compensatory Time is granted in lieu of overtime at the discretion of the employee. This time may be taken by the employee at a 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).

As of September 30, 2006, the liability for accrued annual leave and compensatory leave time is approximately $904,810.33. Of this amount, $161,961.05 is recorded as current, and $742,849.28 as non-current in the governmental activities on the Statement of Net Assets.

9. Net Assets/Fund Equity

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

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

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

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

Fund equity is reported in the fund financial statements. Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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 State Legislature enacted the County Financial Control Act of 1935 which is the present statutory basis for county budgeting operations. Under the terms of the County Financial Control Act, each county commission, at some meeting in September of each year, but in any event not later than the first meeting in October must estimate the County's revenues and expenditures and appropriate for the various purposes the respective amounts that are to be used for each purpose. The appropriations must not exceed the total revenues available for appropriation. 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 Depository Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance. The Commission invested $10,574,047.10 in certificates of deposit. These certificates of deposit are classified as "Deposits" in order to determine insurance and collateralization. However, they are classified as "Investments" on the financial statements.

Cash with Fiscal Agent

The Commission has deposits totaling $130,424.80 in the debt service funds (other governmental funds) which is shown as cash with fiscal agents on the fund financial statements and on the government-wide financial statements. These funds are invested in Regions Select Treasury Money Market Funds. This money market fund invests primarily in U. S. Treasury obligations maturing in 397 days or less and in repurchase agreements collateralized by U. S. Treasury obligations. Regions Select Treasury Money Market Funds are rated AAA by Standard & Poor's with an average maturity of 60 days or less.

Investments

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

As of September 30, 2006, the Commission had the following investments on the government-wide financial statements and on the fund financial statements.

Investments	Maturities	Fair Value
Federal National Mortgage Association Notes	12/01/2006	$ 99,157.00
Federal National Mortgage Association Notes	03/07/2007	$ 92,530.35
Federal Home Loan Mortgage Corporation Notes	01/09/2007	$103,567.80
Federal Home Loan Mortgage Corporation Notes	01/22/2007	$197,671.32
Federal Home Loan Mortgage Corporation Notes	02/28/2007	$200,774.95
Federal National Mortgage Association Notes	11/15/2006	$104,355.30

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

Custodial Credit Risk – The federal securities are held in the name of the Commission. As of September 30, 2006, the fair value of the securities exceed the reported amount, therefore the Commission's investments are fully collateralized. Investments in the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation are rated AAA by Moody's Investors Service and AAA by Standard and Poor's.

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, 2006, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Property Ad Valorem Taxes	$10,812,043.36	$
Motor Vehicle Ad Valorem Taxes		713,168.80
Total Deferred/Unearned Revenue for Governmental Funds	$10,812,043.36	$713,168.80

Note 5 – Capital Assets

Capital asset activity for the year ended September 30, 2006, was as follows:

	Balance 10/01/2005 (**)	Reclassification	Additions	Retirements	Balance 9/30/2006
Governmental Activities:					
Capital Assets, Not Being Depreciated:					
Land	$ 1,633,954.98	$	$ 51,400.00	$	$ 1,685,354.98
Construction in Progress	3,305,397.39	(335,531.78)	15,329,185.38		18,299,050.99
Total Capital Assets, Not Being Depreciated	4,939,352.37	(335,531.78)	15,380,585.38		19,984,405.97
Capital Assets Being Depreciated:					
Infrastructure	4,927,620.21		1,504,974.71		6,432,594.92
Buildings	16,209,253.46	335,531.78	684,176.56		17,228,961.80
Equipment and Furniture	11,915,414.77	327,884.71	976,063.85	(676,971.56)	12,542,391.77
Equipment Under Capital Lease	1,800,173.75	(327,884.71)	2,175,440.18	(1,241,550.00)	2,406,179.22
Total Capital Assets Being Depreciated	34,852,462.19	335,531.78	5,340,655.30	(1,918,521.56)	38,610,127.71
Less Accumulated Depreciation for:					
Buildings	(6,850,216.18)	(222,085.83)	(442,268.57)		(7,514,570.58)
Infrastructure	(160,230.30)	222,085.83	(183,853.43)		(121,997.90)
Equipment and Furniture	(8,119,246.03)		(1,233,866.30)	660,015.93	(8,693,096.40)
Equipment Under Capital Lease	(565,728.82)		(375,724.25)	517,312.50	(424,140.57)
Total Accumulated Depreciation	(15,695,421.33)		(2,235,712.55)	1,177,328.43	(16,753,805.45)
Total Capital Assets Being Depreciated, Net	19,157,040.86	335,531.78	3,104,942.75	(741,193.13)	21,856,322.26
Governmental Activities Capital Assets, Net	$ 24,096,393.23	$	$18,485,528.13	$ (741,193.13)	$ 41,840,728.23

(**) The beginning balance of Construction in Progress was restated ($37,898.50) to remove amounts erroneously included in the prior year, and the beginning balance of Accumulated Depreciation was restated $162,656.55 to reflect changes in useful life on infrastructure assets.

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

	Current Year Depreciation Expense
Governmental Activities:	
General Government	$ 600,439.12
Public Safety	368,236.95
Highway and Roads	1,066,104.08
Sanitation	186,559.22
Health	4,777.96
Welfare	1,384.75
Recreation	2,087.12
Education	6,123.35
Total Depreciation Expense – Governmental Activities	$2,235,712.55

Note 6 – Defined Benefit Pension Plan

A. Plan Description

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

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

The Employees' Retirement System was established as of October 1, 1945, under the provisions of Act Number 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for State employees, State police, and on an elective basis to all cities, counties, towns and quasi-public organizations. The responsibility for general administration and operation of the Employees' Retirement System is vested in the Board of Control. Benefit provisions are established by the ***Code of Alabama 1975***, Sections 36-27-1 through 36-27-103, as amended, Sections 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Commission authority to accept or reject various Cost-Of-Living-Adjustments (COLAs) granted to retirees.

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

B. Funding Policy

Employees of the Commission, with the exception of full-time law enforcement officers, are required by statute to contribute 5 percent of their salary to the Employees' Retirement System. As of January 1, 2001, full-time law enforcement officers are required by statute to contribute 6 percent of their salary to the 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, 2006, was 5.95% based on the actuarial valuation performed as of September 30, 2004.

C. Annual Pension Cost

For the year ended September 30, 2006, the Commission's annual pension cost of $621,409.15 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, 2005, were: (a) 8 percent investment rate of return on present and future assets, and (b) projected salary increases ranging from 7.75 percent at age 20 to 4.61 percent at age 65. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period as of September 30, 2005, was 20 years.

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/2006	$621,409.15	100%	$0
9/30/2005	$555,540.00	100%	$0
9/30/2004	$433,932.00	100%	$0

Schedule of Funding Progress

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	Percentage of Covered Payroll [(b-a)/c]
9/30/2005	$19,680,766	$21,548,208	$1,867,442	91.3%	$9,892,876	18.4%
9/30/2004**	$18,213,253	$19,245,783	$1,032,530	94.6%	$9,086,407	11.1%
9/30/2003***	$17,065,093	$18,056,013	$ 990,920	94.5%	$9,052,016	10.9%

* Reflects liability for cost of living benefit increases granted on or after October 1, 1978.
** Reflects effect of DROP if unit elected to enroll prior to August 4, 2005.
*** Reflects effect of DROP if unit elected to enroll prior to May 18, 2004.

Note 7 – Other Postemployment Benefits (OPEB)

In addition to the pension benefits described in Note 6, the County provides post employment health care benefits, in accordance with a resolution approved by the Commission on October 12, 1999 (modified January 1, 2005), to all County employees who retire with twenty-five years of service with the Lee County Commission until "full retirement age" as outlined by the current Social Security Administration's Full Retirement and Reductions by Age Schedule, or upon eligibility for Medicare.

Dependents can be covered under an eligible retiree's family plan if the dependents meet the definition of "who can be covered" in each option's contract. However, the employee must reimburse the County for dependent coverage.

The County pays for the retired employees' insurance. The cost is currently $597.00 per month for retirees eligible for this benefit. Expenditures for post-retirement health care benefits are made and recognized as premiums are paid, and are included with the expenditures for health care benefits for current employees. During the fiscal year ending September 30, 2006, post-retirement health care benefits paid by the Commission was $59,965.00 to cover eleven retirees.

Note 8 – Construction and Other Significant Commitments

The Commission is in the process of completing the construction and renovation of the Lee County Justice Center.

Original Contract Amount	$18,597,000.00
Amount Paid	15,070,234.51
Balance Remaining at September 30, 2006	$ 3,526,765.49

Note 9 – Lease Obligations

Capital Leases

The Commission is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled $2,406,179.22 for governmental activities at September 30, 2006. If the Commission completes the lease payments according to the schedules below, which is the stated intent of the Commission, ownership of the leased equipment will pass to the Commission. The lease purchase contracts give the Commission the right to cancel the lease with 30 days' written notice and payment of a pro rata share of the current year's lease payments. Until that time, the leased equipment will be identified separately on the balance sheet. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30.

Fiscal Year Ended	Governmental Activities
September 30, 2007	$ 659,964.22
2008	608,277.80
2009	542,315.12
2010	502,460.73
Total Minimum Lease Payments	2,313,017.87
Less: Amount Representing Interest	(167,477.31)
Present Value of Net Minimum Lease Payments	$2,145,540.56

Note 10 – Long-Term Debt

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

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

	Debt Outstanding 10/1/2005	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 9/30/2006	Amounts Due Within One Year
Governmental Activities:					
Warrants Payable:					
General Obligation – Series 1998	$ 2,525,000.00	$	$ 270,000.00	$ 2,255,000.00	$ 285,000.00
General Obligation – Series 2004	17,975,000.00		655,000.00	17,320,000.00	665,000.00
Deferred Amount:					
Unamortized Premium	275,169.03		14,356.68	260,812.35	14,356.68
Sub-Total Warrants Payable	20,775,169.03		939,356.68	19,835,812.35	964,356.68
Capital Lease Contracts Payable	1,186,659.67	2,079,611.50	1,120,730.61	2,145,540.56	590,594.57
Liability for Compensated Absences	839,042.32	65,768.01		904,810.33	161,961.05
Total	$22,800,871.02	$2,145,379.51	$2,060,087.29	$22,886,163.24	$1,716,912.30

Payments on the bonds payable that pertain to the General Obligation Bonds Series 2004 are made by the Public Buildings, Roads and Bridge 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 bonds payable that pertain to the General Obligation Bonds Series 1998 are made by the RRR Gasoline Fund and the Debt Service Fund. The capital lease liability for the governmental activities will be liquidated by the General Fund, Gasoline Tax Fund and the EMA Fund.

The compensated absences liability attributable to the governmental activities will be liquidated by several of the Commission's governmental funds. In the past, approximately 68.28% has paid by the General Fund and 31.72% by other governmental funds (18.38% by the Gasoline Tax Fund, 2.7% by the RRR Gasoline Fund, 4.18% by the Justice Center Maintenance Fund, 4.64% by the Reappraisal Fund and the remaining 1.82% by the Emergency Management Fund.)

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

	Governmental Activities			
	1998 General Obligation Bonds		2004 General Obligation Bonds	
Fiscal Year Ending	Principal	Interest	Principal	Interest
September 30, 2007	$ 285,000.00	$ 99,317.50	$ 665,000.00	$ 691,298.00
2008	295,000.00	87,347.50	680,000.00	677,998.00
2009	305,000.00	74,810.00	695,000.00	662,698.00
2010	320,000.00	61,543.00	715,000.00	645,323.00
2011	335,000.00	47,633.00	730,000.00	625,303.00
2012-2016	715,000.00	49,505.00	4,030,000.00	2,761,579.00
2017-2021			4,925,000.00	1,861,975.00
2022-2026			4,880,000.00	552,448.00
Total	$2,255,000.00	$420,156.00	$17,320,000.00	$8,478,622.00

	Premium
Total Issuance Costs and Premium	$287,132.90
Amount Amortized Prior Years	(11,963.87)
Balance Issuance Costs and Premium	275,169.03
Current Amount Amortized	(14,356.68)
Balance Issuance Costs and Premium	$260,812.35

Note 11 – Conduit Debt Obligations

The Commission has issued Series 2003 Limited Obligation School Warrants to provide financial assistance to the Lee County Board of Education. These warrants are limited obligations of the Commission and are payable solely from the funding agreement payments made by the Lee County Board of Education. The warrants do not constitute a debt pledge of the faith and credit of the Commission and accordingly, have not been reported in the accompanying financial statements. Upon repayment the warrants, ownership of the acquired property transfers to the Lee County Board of Education.

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.

Governmental Activities Capital Lease Contracts Payable		Total	Total
Principal	Interest	Principal	Interest
$ 590,594.57	$ 69,369.65	$ 1,540,594.57	$ 859,985.15
558,250.03	50,027.77	1,533,250.03	815,373.27
510,281.32	32,033.80	1,510,281.32	769,541.80
486,414.64	16,046.09	1,521,414.64	722,912.09
		1,065,000.00	672,936.00
		4,745,000.00	2,811,084.00
		4,925,000.00	1,861,975.00
		4,880,000.00	552,448.00
$2,145,540.56	$167,477.31	$21,720,540.56	$9,066,255.31

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

As of September 30, 2006, the aggregate principal amount payable for the Series 2003 Limited Obligation Warrants was $36,260,000.00.

Note 12 – Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission has general liability insurance through the Association of County Commissions of Alabama (ACCA) Liability Self Insurance Fund, a public entity risk pool. The Fund is self-sustaining through member contributions. The Commission pays an annual premium based on the Commission's individual claims experience and the experience of the Fund as a whole. Coverage is provided up to $500,000.00 per claim for a maximum total coverage of $1,000,000.00.

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. Premiums are based on a rate per $100 of renumeration of each class of employee which is adjusted by an experience modifier for the individual County less a 15% discount. At year-end, pool participants 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 may choose between two options. They may choose to 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 13 – Interfund Transactions

Interfund Transfers

The amounts of interfund transfers during the fiscal year ending September 30, 2006, were as follows:

	Transfers Out				
	General Fund	Road and Bridge Fund	RRR Gasoline Tax Fund	Other Governmental Funds	Totals
Transfers In:					
General Fund	$	$	$	$ 28,437.39	$ 28,437.39
Gasoline Tax Fund	225,000.00	1,816,977.00		413,500.00	2,455,477.00
RRR Gasoline Tax Fund		1,263,593.00			1,263,593.00
Other Governmental Funds	703,363.00	607,247.58	376,584.89	29,475.46	1,716,670.93
Totals	$928,363.00	$3,687,817.58	$376,584.89	$471,412.85	$5,464,178.32

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 14 – Restatement of Net Assets/Fund Balances

The Commission made an adjustment for accumulated depreciation for certain infrastructure assets that were being depreciated with a shorter life span than what should have been used in the depreciation calculations. In addition, an adjustment was made to remove initial costs by the Commission for the construction of a new office building being constructed by the Lee County Building Authority. The building will be owned by the building authority; therefore, these costs should not have been capitalized in Construction in Progress last year. In addition the beginning fund balances of the private-purpose trust funds was restated to include funds that were not previously reported.

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

	Governmental Activities Net Assets
Net Assets September 30, 2005, as Previously Reported	$29,152,785.41
Recalculation of Accumulated Depreciation on Certain Infrastructure Assets	162,656.55
Public Building Authority Building Construction in Progress Removed	(37,898.50)
Net Assets September 30, 2005, as Restated	$29,277,543.46

Private-Purpose Trust Funds Net Assets September 30, 2005, as Previously Reported	$ 27,978.27
Judge of Probate Fiduciary Funds Not Previously Reported	158,811.28
Private-Purpose Trust Funds Net Assets, September 30, 2005, as Restated	$186,789.55

Note 15 – Change in Reporting Entity

The Offices of the Lee County Revenue Commissioner, Judge of Probate and Sheriff, were previously considered component units of the Lee County Commission and the activity of these offices was previously excluded from the financial statements. However, these offices are now considered part of the reporting entity rather than component units and the activity of these offices is now included in the financial statements of the Lee County Commission.

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Required Supplementary Information

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2006

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
Revenues			
Taxes	$ 8,100,527.00	$ 8,100,527.00	$ 8,506,770.66
Licenses and Permits	679,100.00	721,100.00	951,530.59
Intergovernmental	1,003,864.00	1,003,864.09	1,350,725.61
Charges for Services	3,635,000.00	3,635,000.00	3,857,358.28
Miscellaneous	271,600.00	296,600.00	448,286.70
Total Revenues	13,690,091.00	13,757,091.09	15,114,671.84
Expenditures			
Current:			
General Government	6,338,397.00	6,360,082.00	5,943,655.92
Public Safety	6,764,375.00	6,923,121.00	6,887,475.70
Health	181,376.00	181,376.00	177,239.96
Welfare	3,600.00	3,600.00	3,254.10
Culture and Recreation	8,000.00	8,000.00	
Education	68,170.00	68,170.00	62,451.81
Capital Outlay	518,430.00	581,352.00	671,165.16
Debt Service:			
Principal	192,073.00	192,073.00	170,767.84
Interest	16,702.00	16,702.00	14,095.12
Total Expenditures	14,091,123.00	14,334,476.00	13,930,105.61
Excess (Deficiency) of Revenues Over Expenditures	(401,032.00)	(577,384.91)	1,184,566.23
Other Financing Sources (Uses)			
Transfer In		23,057.00	28,437.39
Sale of Capital Assets			9,223.78
Debt Issued	248,000.00	248,000.00	225,186.50
Transfer Out	(343,738.00)	(934,738.00)	(928,363.00)
Total Other Financing Sources (Uses)	(95,738.00)	(663,681.00)	(665,515.33)
Net Change in Fund Balances	(496,770.00)	(1,241,065.91)	519,050.90
Fund Balances at Beginning of Year	3,014,767.00	3,014,767.00	3,561,216.69
Fund Balances at End of Year	$ 2,517,997.00	$ 1,773,701.09	$ 4,080,267.59

Budget to GAAP Differences	Actual Amounts GAAP Basis
$	$ 8,506,770.66
	951,530.59
	1,350,725.61
	3,857,358.28
	448,286.70
	15,114,671.84
	5,943,655.92
	6,887,475.70
	177,239.96
	3,254.10
	62,451.81
	671,165.16
	170,767.84
	14,095.12
	13,930,105.61
	1,184,566.23
	28,437.39
	9,223.78
	225,186.50
	(928,363.00)
	(665,515.33)
	519,050.90
	3,561,216.69
$	$ 4,080,267.59

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Gasoline Tax Fund
For the Year Ended September 30, 2006

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
Revenues			
Intergovernmental	$ 1,919,420.00	$ 1,957,552.00	$ 1,871,459.19
Charges for Services			5,921.03
Miscellaneous	65,500.00	65,500.00	243,494.04
Total Revenues	1,984,920.00	2,023,052.00	2,120,874.26
Expenditures			
Current:			
Highways and Roads	4,028,933.00	4,067,065.00	4,361,614.03
Capital Outlay	482,000.00	482,000.00	1,639,302.27
Debt Service:			
Principal	306,010.00	306,010.00	943,891.86
Interest	26,285.00	26,285.00	26,225.00
Total Expenditures	4,843,228.00	4,881,360.00	6,971,033.16
Excess (Deficiency) of Revenues Over Expenditures	(2,858,308.00)	(2,858,308.00)	(4,850,158.90)
Other Financing Sources (Uses)			
Transfer In	2,455,477.00	2,455,477.00	2,455,477.00
Transfer Out			
Sale of Capital Assets			1,253,864.25
Issuance of Debt			1,418,925.00
Litigation			87,500.00
Total Other Financing Sources (Uses)	2,455,477.00	2,455,477.00	5,215,766.25
Net Change in Fund Balances	(402,831.00)	(402,831.00)	365,607.35
Fund Balances at Beginning of Year	982,831.00	982,831.00	936,761.35
Fund Balances at End of Year	$ 580,000.00	$ 580,000.00	$ 1,302,368.70

Budget to GAAP Differences	Actual Amounts GAAP Basis
$	$ 1,871,459.19
	5,921.03
	243,494.04
	2,120,874.26
	4,361,614.03
	1,639,302.27
	943,891.86
	26,225.00
	6,971,033.16
	(4,850,158.90)
	2,455,477.00
	1,253,864.25
	1,418,925.00
	87,500.00
	5,215,766.25
	365,607.35
	936,761.35
$	$ 1,302,368.70

Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - Public Buildings, Roads and Bridges Fund For the Year Ended September 30, 2006

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
Revenues			
Taxes	$ 2,535,070.00	$ 3,144,415.00	$ 3,228,133.97
Intergovernmental	33,000.00	32,555.00	32,555.36
Miscellaneous	12,500.00	11,200.00	97,973.87
Total Revenues	2,580,570.00	3,188,170.00	3,358,663.20
Expenditures			
Current:			
Highways and Roads			
Total Expenditures			
Excess (Deficiency) of Revenues Over Expenditures	2,580,570.00	3,188,170.00	3,358,663.20
Other Financing Sources (Uses)			
Transfer Out	(3,688,170.00)	(3,688,170.00)	(3,687,817.58)
Total Other Financing Sources (Uses)	(3,688,170.00)	(3,688,170.00)	(3,687,817.58)
Net Change in Fund Balances	(1,107,600.00)	(500,000.00)	(329,154.38)
Fund Balances at Beginning of Year	1,000,000.00	1,000,000.00	1,093,112.52
Fund Balances at End of Year	$ (107,600.00)	$ 500,000.00	$ 763,958.14

Budget to GAAP Differences	Actual Amounts GAAP Basis
$	$ 3,228,133.97
	32,555.36
	97,973.87
	3,358,663.20
	3,358,663.20
	(3,687,817.58)
	(3,687,817.58)
	(329,154.38)
	1,093,112.52
$	$ 763,958.14

Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - RRR Gasoline Tax Fund For the Year Ended September 30, 2006

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis
Revenues			
Taxes	$ 200,000.00	$ 200,000.00	$ 280,823.29
Intergovernmental	1,866,040.00	1,866,040.00	3,193,508.79
Miscellaneous	18,000.00	18,000.00	108,835.52
Total Revenues	2,084,040.00	2,084,040.00	3,583,167.60
Expenditures			
Current:			
Highways and Roads	1,272,455.00	1,272,455.00	1,949,010.85
Capital Outlay	3,024,124.00	3,024,124.00	2,630,098.50
Debt Service			
Interest and Fiscal Charges			1,815.00
Total Expenditures	4,296,579.00	4,296,579.00	4,580,924.35
Excess (Deficiency) of Revenues Over Expenditures	(2,212,539.00)	(2,212,539.00)	(997,756.75)
Other Financing Sources (Uses)			
Transfer In	1,263,593.00	1,263,593.00	1,263,593.00
Litigation Award			250,000.00
Transfer Out	(380,523.00)	(380,523.00)	(376,584.89)
Total Other Financing Sources (Uses)	883,070.00	883,070.00	1,137,008.11
Net Change in Fund Balances	(1,329,469.00)	(1,329,469.00)	139,251.36
Fund Balances at Beginning of Year	2,463,264.00	2,463,264.00	2,597,879.02
Fund Balances at End of Year	$ 1,133,795.00	$ 1,133,795.00	$ 2,737,130.38

Budget to GAAP Differences	Actual Amounts GAAP Basis
$	$ 280,823.29
	3,193,508.79
	108,835.52
	3,583,167.60
	1,949,010.85
	2,630,098.50
	1,815.00
	4,580,924.35
	(997,756.75)
	1,263,593.00
	250,000.00
	(376,584.89)
	1,137,008.11
	139,251.36
	2,597,879.02
$	$ 2,737,130.38

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Supplementary Information

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2006

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
U. S. Department of Justice		
Direct Program		
Local Law Enforcement Block Grants	16.592	2004LBBX1420
Elections Assistance Commission		
Passed Through Alabama Secretary of State		
Help America Vote Act Requirements Payments (M)	90.401	
U. S. Department of Housing and Urban Development		
Passed Through Alabama Department of Economic and Community Affairs (ADECA)		
Community Development Block Grant States Program	14.228	CY-CE-PF-04-001
Community Development Block Grant States Program	14.228	CY-CE-PF-03-101
Community Development Block Grant States Program	14.228	CY-CM-PF-04-019
Total Community Block Grant States Program/U. S. Department of Housing and Urban Development		
U. S. Department of Interior		
Passed Through Alabama Department of Economic and Community Affairs (ADECA)		
Outdoor Recreation Acquisition Development and Planning	15.916	03-LW-828
U. S. Department of Homeland Security		
Passed Through Alabama Emergency Management Agency		
State Domestic Preparedness Equipment Support Program	97.004	
Passed Through Alabama Department of Homeland Security		
State Domestic Preparedness Equipment Support Program	97.004	
Sub-Total State Domestic Equipment Support Program		
Homeland Security Grant Program	97.067	
Sub-Total Homeland Security Cluster (M)		
Passed Through Alabama Department of Homeland Security		
Buffer Zone Protection Plan (M)	97.078	
Passed Through Alabama Emergency Management Agency		
Chemical Stockpile Emergency Preparedness Program	97.040	06-AL-EMA-00138
Emergency Management Performance Grants	97.042	06-EMPG-43
Disaster Grants - Public Assistance (Residentially Declared Disasters)	97.036	
Total U. S. Department of Homeland Security		
Sub-Total Forward		

Assistance Period	Budget Total	Budget Federal Share	Revenue Recognized	Expenditures
09/10/2004 - 09/09/2006	$ 34,741.00	$ 30,386.00	$ 24,953.00	$ 24,953.00
10/01/2005 - 09/30/2006	156,650.00	156,650.00	156,650.00	156,650.00
09/24/2004 - 06/08/2006	199,979.00	172,825.00	172,825.00	172,825.00
09/24/2004 - 06/08/2006	90,675.00	77,175.00	22,930.00	22,930.00
07/27/2004 - 03/31/2006	117,985.18	48,130.00	48,130.00	48,130.00
	408,639.18	298,130.00	243,885.00	243,885.00
10/01/2003 - 04/01/2006	200,000.00	100,000.00	38,000.00	38,000.00
10/01/2005 - 09/30/2006	2,695.00	2,695.00	2,695.00	2,695.00
12/01/2003 - 09/30/2006	321,000.00	321,000.00	121,703.97	121,703.97
	323,695.00	323,695.00	124,398.97	124,398.97
10/01/2004 - 03/31/2007	411,500.00	411,500.00	201,593.77	201,593.77
	735,195.00	735,195.00	325,992.74	325,992.74
04/01/2005 - 12/31/2006	50,000.00	50,000.00	39,420.00	39,420.00
10/01/2005 - 09/30/2007	41,786.11	41,786.11	41,786.11	41,786.11
10/01/2005 - 09/30/2006	132,383.00	62,394.00	62,255.07	62,255.07
10/01/2005 - 09/30/2006	2,640.62	2,640.62	2,640.62	2,640.62
	962,004.73	892,015.73	472,094.54	472,094.54
	$ 1,762,034.91	$ 1,190,145.73	$ 715,979.54	$ 715,979.54

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2006

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
Sub-Total Brought Forward		
U. S. Department of Transportation		
Passed Through Alabama Emergency Management Agency		
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	HMEP-06-DOT
Department of Commerce		
Passed Through Alabama Department of Revenue		
Geodetic Survey and Services	11.400	
Total Expenditures of Federal Awards		

(M) = Major Program
(N) = Non-Cash Assistance

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Assistance Period	Budget Total	Budget Federal Share	Revenue Recognized	Expenditures
	$ 1,762,034.91	$ 1,190,145.73	$ 715,979.54	$ 715,979.54
10/01/2005 - 09/30/2006	9,000.00	7,200.00	3,600.00	3,600.00
10/01/2005 - 09/30/2006	60,240.11	60,240.11	41,379.92	41,379.92
	$ 1,831,275.02	$ 1,544,621.84	$ 980,562.46	$ 980,562.46

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2006

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Lee County Commission and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

Additional Information

Commission Members and Administrative Personnel

October 1, 2005 through September 30, 2006

Commission Members			**Term Expires**
Hon. Bill English	Chairman	P. O. Box 831 Opelika, AL 36801	2007
Hon. Johnny Lawrence	Member	3327 Moores Mill Road Auburn, AL 36830	2006
Hon. Harry B. Ennis	Member	1414 Lee Road 379 Smiths Station, AL 36877	2008
Hon. Annell M. Smith	Member	3825 Lee Road 166 Opelika, AL 36801	2006
Hon. John Andrew Harris	Member	311 East Avenue Opelika, AL 36801	2006
Hon. Mathan Holt	Member	P. O. Box 96 Loachapoka, AL 36865	2008
Administrative Personnel			
Roger Rendleman	Administrator	1512 Turn Lake Court Auburn, AL 36830	
Alice M. Hodge	Deputy Administrator	1168 Overwood Court Auburn, AL 36830	

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 aggregate remaining fund information of the Lee County Commission as of and for the year ended September 30, 2006, which collectively comprise the Lee County Commission's basic financial statements and have issued our report thereon dated April 18, 2007. 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

In planning and performing our audit, we considered the Lee County Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

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

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

April 18, 2007

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Compliance

We have audited the compliance of the Lee County Commission with the types of compliance requirements described in the ***U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*** that are applicable to each of its major federal programs for the year ended September 30, 2006. The Lee County Commission's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Lee County Commission's management. Our responsibility is to express an opinion on the Lee County Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States; and OMB Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Lee County Commission's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Lee County Commission's compliance with those requirements.

In our opinion, the Lee County Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended September 30, 2006.

Internal Control Over Compliance

The management of the Lee County Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Lee County Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

April 18, 2007

Section I – Summary of Examiner's Results

Financial Statements

Type of opinion issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ Yes	__X__ No
Reportable condition(s) identified that are not considered to be material weakness(es)?	_____ Yes	__X__ None reported
Noncompliance material to financial statements noted?	_____ Yes	__X__ No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	_____ Yes	__X__ No
Reportable condition(s) identified that are not considered to be material weakness(es)?	_____ Yes	__X__ None reported
Type of opinion issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____ Yes	__X__ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
97.004 and 97.067	Homeland Security Cluster
97.078	Buffer Zone Protection Plan
90.401	Help America Vote Act Requirements Payments

Dollar threshold used to distinguish Between Type A and Type B programs:	$300,000.00	
Auditee qualified as low-risk auditee?	_____ Yes	__X__ No

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2006

Section II – Financial Statement Findings (GAGAS)

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
		No matters were reportable.	

Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			No matters were reportable.	