

Report on the

# Lee County Commission

Lee County, Alabama

October 1, 2002 through September 30, 2003

Filed: January 28, 2005



## Department of Examiners of Public Accounts

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*Ronald L. Jones, Chief Examiner*



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Ronald L. Jones  
Chief Examiner

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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, 2002 through September 30, 2003.

**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. 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 has 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 (Exhibit 1 through 8), and notes to the financial statements.
5. **Required Supplementary Information** – includes Budget to Actual Comparisons (Exhibits 9 through 13). The MD&A discussed above is also considered RSI.
6. **Additional Information** – contains basic information related to the Commission (Exhibit 14) and the following report required by generally accepted government auditing standards:

**Report on Compliance and on Internal Control Over Financial Reporting 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 has complied with laws and regulations which could have a direct and material effect on the Commission's financial statements.

### **AUDIT COMMENTS**

The Lee County Commission is a six-member body 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.

### **STATUS OF PRIOR AUDIT**

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

Sworn to and subscribed before me this  
the 17<sup>th</sup> day of December, 2004.

Wice M. Hodge  
Notary Public

Respectfully submitted,

Jimmy Flowers  
Jimmy Flowers  
Examiner of Public Accounts

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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 (the "Commission"), as of and for the year ended September 30, 2003, which collectively comprise the basic financial statements of the County's primary government 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.

The financial statements referred to above include only the primary government, the Lee County Commission, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the Commission's legal entity. The financial statements do not include all the financial data of the County's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the County's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of Lee County, as of September 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 for the primary government, the Lee County Commission, as of September 30, 2003, 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 described in Note 1 to the financial statements, the Lee County Commission has implemented a new reporting model as required by the provisions of Governmental Accounting Standards Board (GASB) Statement Number 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement Number 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement Number 38, *Certain Financial Statement Note Disclosures*. This resulted in a change in the format and content of the primary government financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering 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 13) are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

October 18, 2004

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*Management's Discussion and Analysis*  
*(Required Supplementary Information)*

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Lee County Commission  
Management's Discussion and Analysis  
Fiscal Year October 1, 2002 through September 30, 2003

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, 2003. Please consider the information contained in this MD&A in conjunction with the County's financial statements for the same period. This being the first presentation under current Governmental Accounting Standards Board's (GASB) Statement Number 34, few comparisons of government-wide data to prior years will be included. In future years MD&A reports will include such comparisons.

Financial Highlights

- Lee County's assets exceeded its liabilities at the close of the fiscal year ended September 30, 2003 by \$21,449,941. The County's total net assets increased by \$2,109,381 or 11%.
- Total Fund Expenditures for the current fiscal year at \$21,282,984 exceeded Revenues of \$21,121,216 by \$161,768, which is attributed to an additional \$550,000 spent on road improvements and \$600,000 on courthouse improvements from excess funds on hand.
- The General Fund Balance decreased \$856,514 or 22% attributed to the transfer of \$1,475,000 for establishment of the Capital Improvement Fund (under Other Governmental Funds) as a program of utilizing excess funds for one-time capital improvement projects. The General Fund retained a fund balance equivalent of 23% annual revenues and 25% annual expenditures.
- Overall fund balance remained at the same level as last year with a slight \$21,760 or .2% increase. The overall fund balance level is the equivalent of 51% in annual revenues and 51% in annual expenditures.

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 cost of various governmental services and/or subsidy to various business-type activities. The governmental activities include most of the County's basic services including general government, public safety, highways and roads, sanitation, health and welfare, cultural and recreational, and education. The funding of these activities comes primarily from property taxes, charges for services, state share revenues (i.e. gasoline taxes) and other miscellaneous revenues.

### Fund Financial Statements

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 Justice Center Maintenance 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 only for their intended purpose and the assets reported in these funds. 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 13 which are 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, RRR gasoline tax, and the justice center maintenance center funds, the comparison schedules are presented to demonstrate compliance with the fund budgets.

### Additional Information

Additional information in this report includes Exhibits 14 and 15, which show the Lee County Commissioners and the report on internal, controls respectively.

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 \$2,109,381 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 \$21,449,941 as of the fiscal year ending September 30, 2003.

The following table shows the condensed Statement of Net Assets. As noted earlier, due to the implementation of GASB Statement 34 in the current fiscal year no comparative information was available for Net Assets or Changes in Net Assets for the current fiscal year vs. the prior fiscal year.

Statement of Net Assets As of September 30

	<b>Governmental Activities 2003</b>
Current & Other Assets	\$19,582,680
Non-current/non-capital Assets	127,187
Capital Assets, Net	15,475,533
<b>Total Assets</b>	<b>35,185,400</b>
Current Liabilities	9,611,077
Long-term Liabilities	4,124,383
<b>Total Liabilities</b>	<b>13,735,460</b>

Net Assets:	
Invested in Capital Assets, Net of Related Debt	14,338,520
Restricted	4,906,272
Unrestricted	<u>2,205,149</u>
Total Net Assets	<b>\$21,449,941</b>

The largest portion of Lee County's net assets (66.85%) are in its capital assets (e.g., 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 cannot be used to pay for or liquidate these liabilities. The remaining balance of unrestricted net assets in the amount of \$2,205,149 may be used to meet the government's ongoing obligations to citizens and creditors.

### Statement of Activities

The following schedule compares the revenues and expenses for the current year. Government activities increased the County's net assets by \$2,109,381. The key element in this increase was investment in capital assets.

#### Changes in Net Assets As of September 30, 2003

	<b>Governmental Activities</b>
<b>REVENUES</b>	
Program Revenues:	
Charges for Services	\$6,239,466
Operating Grants & Contributions	4,463,268
Capital Grants & Contributions	1,610,887
General Revenues:	
Property Taxes – General Purposes	4,946,074
Property Taxes – Specific Purposes	2,822,974
General Sales Tax **	
Misc. Taxes	1,137,317
Grants & contributions not restricted to specific programs	355,752
Interest Revenue	212,990
Miscellaneous	<u>635,815</u>
Total Revenues	<b>\$22,424,543</b>
<b>EXPENSES</b>	
Program Activities:	
General Government	\$6,030,385
Public Safety	6,145,999
Highways & Roads	5,287,224
Sanitation	1,953,583

Health & Welfare	506,262
Culture & Recreation	52,141
Education	80,376
Interest on Long Term Debt and Fiscal Charges	<u>259,192</u>
<b>Total Expenses</b>	<b>\$20,315,162</b>
<b>Increase in Net Assets</b>	<b>\$2,109,381</b>

\*\* - 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 \$22,424,543, property taxes account for 34.65% of the total revenue of the County. Taxes as a whole represent 39.72% of the total revenue collected by the County for fiscal year ended September 30, 2003.

Expenses for all services of the County were \$20,315,162. Of this amount 29.68% was spent for general government, 30.25% for public safety, 26.03% for highways and roads, 9.62% for sanitation and 4.42% on the remaining categories listed above.

#### 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 \$20,315,162 and the combined charges for services plus operating and capital grants received were \$12,313,620 leaving a net cost to the County of \$8,001,541.

Charges for services amounted to \$6,239,466 and combined grants and contributions totaled \$6,074,154. 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.

<b>Function/Programs</b>	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>
General Government	\$6,030,385	(\$2,027,500)
Public Safety	6,145,999	(5,802,506)
Highways and Roads	5,287,224	313,852
Sanitation	1,953,583	362,556
Health	503,643	(453,615)
Welfare	2,619	(2,619)
Culture and Recreation	52,141	(52,141)
Education	80,376	(80,376)
Interest and Fiscal Charges	<u>259,192</u>	<u>(259,192)</u>
<b>Total Governmental Activities</b>	<b>\$20,315,162</b>	<b>(\$8,001,541)</b>

#### 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 at the end of the fiscal year increased from \$10,763,328 to \$10,785,087. This increase of \$21,760 (0.2%) was primarily due to efforts to maximize services provided within

revenues and resources available to the County. Exhibit 5 gives a full breakdown of revenues, expenditures, and changes in fund balances of all governmental funds.

The negative fund balance for the Public Buildings, Roads and Bridges Fund is due to the adjustment for ad valorem taxes that are received in one year but not fully recognized in that year. The revenue is recognized in the year it is earned.

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 following table provides a summary of the changes in fund balances of the County's major funds as well as the combined Other Governmental Funds.

<b>Fund</b>	<b>Beginning Fund Balance</b>	<b>Net Increase or (Decrease)</b>	<b>Ending Fund Balance</b>	<b>% of Annual Expenditures</b>
General Fund	\$3,938,173	(\$856,514)	\$3,081,659	25.12%
Gasoline Fund	1,526,341	(126,949)	1,399,392	34.38%
Public Buildings, Roads & Bridges Fund	(117,554)	(19,480)	(137,034)	***
RRR Gasoline Fund	2,123,495	387,890	2,511,385	130.91%
Justice Center Maintenance Fund	2,583,798	(563,693)	2,020,105	217.55%
Other Governmental Funds	<u>709,073</u>	<u>1,200,506</u>	<u>1,909,579</u>	<u>76.56%</u>
<b>Totals</b>	<b>\$10,763,327</b>	<b>\$21,760</b>	<b>\$10,785,087</b>	<b>50.68%</b>

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

The General and Gasoline funds finished the year at the higher end of the targeted range due to better than expected revenues and expenditure controls. The RRR Gasoline fund is well over target due to a larger reserve to address infrastructure emergencies and the lack of completing resurfacing projects which were planned for the fiscal year. The Justice Center Maintenance fund has significant amount (\$2,000,000) set aside for use in a near future expansion of the facility. Other Governmental funds include capital improvement funds which have balances intended for capital replacement and facility improvements. The overall Governmental fund balances are at fifty percent (50.68%) of annual expenditures providing the county with reserves and some flexibility in addressing certain capital needs.

#### Budgetary Highlights - Major Funds

##### General Fund

Exhibit 9 shows that only minor changes were made in the original general fund budgets for fiscal year ended September 30, 2003. Revenues remained as originally budgeted and expenditures were increased \$102,387.16. Actual Revenues restated on a budgetary basis were \$1,047,405 higher than the final budgeted revenues while actual expenditures restated were \$432,902 lower than the final budgeted

amounts. Transfers Out for the General Fund were higher than the original and final budget with the Commission's decisions to transfer excess funds for needed renovations at the courthouse \$600,000, and for resurfacing projects of roads identified in a state inspection \$550,000.

The net change in the general fund balance on a budgetary basis for the current fiscal year was a \$715,527 decrease or (18.13%). After audit adjustments the change was an \$856,514 decrease or (21.70) %, which is \$936,780 less than the planned decrease in the final budget. This is primarily attributed to higher than budgeted revenues for the fiscal year.

#### Gasoline Tax Fund

Exhibit 10 shows that no changes were made in the original Gas Tax fund budgets for fiscal year ended September 30, 2003. Actual Revenues restated on a budgetary basis were \$331,729 higher than the final budgeted revenues while actual expenditures restated were \$706,539 lower than the final budgeted amounts.

The net change in the Gas Tax fund balance on a budgetary basis for the current fiscal year was an \$88,828 decrease or (6.5%). After audit adjustments the change was a \$126,949 decrease or (9.28) %, which is \$971,646 less than the planned decrease for this fund. This is primarily attributed to planned capital heavy equipment purchases which were not made during the fiscal year.

#### Public Buildings, Roads and Bridges Fund

Exhibit 11 shows that no changes were made in the original Public Buildings, Roads and Bridges Fund budgets for fiscal year ended September 30, 2003. Actual Revenues restated on a budgetary basis were \$90,604 less than the final budgeted revenues while actual transfer to operational funds restated were \$57,000 lower than the final budgeted amounts.

The net change in the Public Buildings, Roads and Bridges fund balance on a budgetary basis for the current fiscal year was a \$33,604 decrease or (429.92%). After audit adjustments the change was a \$19,480 decrease or (249.22) %. The monies received into this fund are transferred each year to other highway operational funds (Gas Tax and RRR Gas Tax). The negative fund balances are a result in the change of measurement focus brought about with GASB 33.

#### RRR Gasoline Tax Fund

Exhibit 12 shows that no changes were made in the original RRR Gas Tax fund budgets for fiscal year ended September 30, 2003, except a debt service expenditure reclassified as a transfer out. Actual Revenues restated on a budgetary basis were \$370,704 higher than the final budgeted revenues while actual expenditures restated were \$1,215,634 lower than the final budgeted amounts.

The net change in the RRR Gas Tax fund balance on a budgetary basis for the current fiscal year was a \$388,161 increase or 20.19%. After audit adjustments the change was a \$387,890 increase or 20.18%, which is \$1,568,922 less than the planned decrease for this fund. This is primarily attributed to planned resurfacing that was not accomplished during the fiscal year and a practice of budgeting the reserves for this fund in the expenditures, which will be discontinued next fiscal year.

#### Justice Center Maintenance Center Fund

Exhibit 13 shows that only minor changes were made in the original Justice Center Maintenance Center Fund budgets for fiscal year ended September 30, 2003. Revenues remained as originally budgeted and expenditures were increased \$47,520. Actual Revenues restated on a budgetary basis were \$65,244 higher than the final budgeted revenues and the actual expenditures restated were \$71,034 higher than the final budgeted amounts.

The net change in the Justice Center Maintenance Center fund balance on a budgetary basis for the current fiscal year was a \$553,311 decrease or (21.42%). After audit adjustments the change was a \$563,693 decrease or (21.82) %, which is \$16,173 more than the planned decrease in the final budget.

This is primarily attributed to higher than expected expenses for the center's maintenance for the fiscal year.

Capital Asset and Debt Administration

Capital Assets - Depreciation of assets other than land and construction in progress projects is now 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, 2003.

<b>Capital Assets</b>	
Total Capital Assets at October 1, 2002	\$13,676,420
Additions	3,611,062
Retirements	(271,393)
Annual Depreciation	(1,804,397)
Accumulated Depreciation of Retired Assets	<u>263,841</u>
Total Capital Assets at September 30,2003	<b>\$15,475,533</b>

The following table shows total assets before and after depreciation.

<b>Governmental Activities</b>	<b>Assets Original Cost</b>	<b>Value at 09/30/03 After Depreciation</b>
Land	\$1,022,244	\$1,022,244
Construction in Progress	310,401	310,401
Infrastructure	1,696,533	1,682,677
Buildings and Improvements	15,270,328	7,650,974
Equipment and Furniture	10,202,628	3,691,659
Equipment Under Capital Leases	<u>1,579,712</u>	<u>1,117,578</u>
<b>Total Capital Assets</b>	<b>\$30,081,846</b>	<b>\$15,475,533</b>

Debt Outstanding

At the end of September 2002 the County's general obligation long-term debt was \$3,275,000. By the end of the current year the general obligation long-term debt had dropped to \$3,035,000. The pay-down on the general obligation long-term debt was \$240,000.

Capital lease debt had a net change reduction of \$177,331 as the lease debt dropped from \$1,314,345 to \$1,137,014 as of the end of September 2003.

The liability for compensated absences as of the end of the current year was \$596,734.

The total of all general long-term debt for the County as of September 30, 2003 was \$4,746,748 which was \$352,440 less (6.91%) than the prior year's ending balance of \$5,099,188.

Based on the County's legal limits of debt at 5% of the net assessed value of property as of Oct 1, 2003, Lee County's maximum debt limit was \$38,497,263. With our total debt as of the end of the current fiscal year being \$4,746,748 we were at 12.33% 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 13.1% annual tax base increase over the last five years. According to census estimates, the County continues to grow at 1.6% per annum.

Beginning in fiscal year 2003-2004, Lee County was mandated by the State of Alabama Department of Revenue to perform annual re-evaluations of all real and personal property within the County. In prior years, a re-evaluation was performed on a four year cycle. This resulted in a significant increase to property values in the year of re-evaluation, with a corresponding increase in the taxes collected thereon, followed by several years of nominal increases. In adopting a yearly re-evaluation program, property values are expected to increase in a more linear progression in future years. Based on recent historical information, it is expected that the average yearly increase in property values will be approximately five percent (5%) per year.

### 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.

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***Statement of Net Assets***  
***September 30, 2003***

	<b>Governmental Activities</b>
<b><u>Assets</u></b>	
<b><u>Current Assets:</u></b>	
Cash and Cash Equivalents	\$ 8,577,157.55
Investments	1,982,000.00
Accounts Receivable, Net	51,372.38
Ad Valorem Taxes Receivable, Net	8,129,251.28
Due from Other Governments	799,124.72
Interest Receivable	15,165.14
Other Receivables	1,478.31
Inventories	5,874.09
Prepaid Items	21,256.54
Total Current Assets	<u>19,582,680.01</u>
<b><u>Noncurrent Assets:</u></b>	
Restricted Cash with Fiscal Agent	127,187.21
Capital Assets:	
Land	1,022,243.94
Infrastructure	1,696,533.29
Buildings and Improvements	15,270,328.44
Equipment and Furniture	10,202,627.64
Construction In Progress	310,400.86
Equipment Under Capital Leases	1,579,711.42
Less: Accumulated Depreciation	<u>(14,606,312.23)</u>
Total Capital Assets, Net of Depreciation	<u>15,475,533.36</u>
Total Noncurrent Assets	<u>15,602,720.57</u>
Total Assets	<u>\$ 35,185,400.58</u>

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

	<b>Governmental Activities</b>
<b><u>Liabilities</u></b>	
<b><u>Current Liabilities:</u></b>	
Accounts Payable	\$ 34,529.22
Due to Other Governments	308.05
Deferred Revenue	8,570,121.81
Accrued Wages Payable	238,331.00
Health Claims Payable	20.50
Long-Term Liabilities:	
Amount Payable Within One Year:	
Warrants Payable	250,000.00
Capital Lease	394,365.35
Accrued Interest Payable	57,097.43
Compensated Absences	66,303.78
Total Current Liabilities	<u>9,611,077.14</u>
<b><u>Noncurrent Liabilities:</u></b>	
Amount Payable Over One Year:	
Warrants Payable	2,785,000.00
Capital Leases Payable	742,648.54
Compensated Absences	596,734.17
Total Noncurrent Liabilities	<u>4,124,382.71</u>
Total Liabilities	<u>13,735,459.85</u>
<b><u>Net Assets</u></b>	
Investment in Capital Assets, Net of Related Debt	14,338,519.47
Restricted for Road Purposes	4,357,911.64
Restricted for Debt Service	127,187.21
Restricted for Other Purposes	421,173.36
Unrestricted	<u>2,205,149.05</u>
Total Net Assets	<u>\$ 21,449,940.73</u>

**Statement of Activities**  
**For the Year Ended September 30, 2003**

Function/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary Government</b>			
<b>Governmental Activities:</b>			
General Government	\$ 6,030,384.92	\$ 3,788,308.70	\$ 214,575.61
Public Safety	6,145,998.85	135,018.28	208,473.77
Highways and Roads	5,287,224.38		3,990,189.49
Sanitation	1,953,582.56	2,316,138.70	
Health	503,643.94		50,028.90
Welfare	2,618.54		
Culture and Recreation	52,140.61		
Education	80,375.64		
Interest and Fiscal Charges	259,192.20		
Total Governmental Activities	<u>\$ 20,315,161.64</u>	<u>\$ 6,239,465.68</u>	<u>\$ 4,463,267.77</u>

**General Revenues:**

Taxes:

- Property Taxes for General Purposes
- Property Taxes for Specific Purposes
- Miscellaneous Taxes
- Grants and Contributions Not Restricted  
for Specific Programs
- Investment Earnings
- Miscellaneous
- Total General Revenues

Change in Net Assets

Net Assets - Beginning of Year, as Restated (Note 13)

Net Assets - End of Year

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

<b>Net (Expenses) Revenues and Changes in Net Assets Primary Government</b>	
<b>Capital Grants and Contributions</b>	<b>Total Governmental Activities</b>
\$	\$ (2,027,500.61)
	(5,802,506.80)
1,610,886.80	313,851.91
	362,556.14
	(453,615.04)
	(2,618.54)
	(52,140.61)
	(80,375.64)
	(259,192.20)
<u>\$ 1,610,886.80</u>	<u>(8,001,541.39)</u>

4,946,073.86
2,822,973.90
1,137,317.01
355,752.43
212,990.49
635,815.04
<u>10,110,922.73</u>
2,109,381.34
<u>19,340,559.39</u>
<u>\$ 21,449,940.73</u>

***Balance Sheet - Governmental Funds***  
***September 30, 2003***

	General Fund	Gasoline Tax Fund	Public Buildings, Roads and Bridges Fund
<b>Assets</b>			
Cash and Cash Equivalents	\$ 3,144,909.72	\$ 1,297,348.38	\$ 226.45
Cash with Fiscal Agent			
Accounts Receivable, Net	14,791.59	43.86	
Investments			
Ad Valorem Taxes Receivable, Net	5,227,091.35		2,340,361.93
Due from Other Governments	425,185.28	164,204.72	
Other Receivables	1,344.45		
Inventories	5,874.09		
Prepaid Items	21,256.54		
Total Assets	<u>8,840,453.02</u>	<u>1,461,596.96</u>	<u>2,340,588.38</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Accounts Payable	19,359.98	7,655.65	
Due to Other Governments	308.05		
Deferred Revenue	5,530,701.69		2,477,622.12
Accrued Wages Payable	163,131.09	42,364.78	
Health Claims Payable	20.50		
Short-Term Compensated Absences	45,272.63	12,184.29	
Total Liabilities	<u>5,758,793.94</u>	<u>62,204.72</u>	<u>2,477,622.12</u>
<b>Fund Balances:</b>			
Reserved for:			
Inventories	5,874.09		
Debt Service			
Capital Projects			
Prepaid Expenses	21,256.54		
Unreserved, Reported In:			
General	3,054,528.45		
Special Revenue		1,399,392.24	(137,033.74)
Total Fund Balances	<u>3,081,659.08</u>	<u>1,399,392.24</u>	<u>(137,033.74)</u>
Total Liabilities and Fund Balances	<u>\$ 8,840,453.02</u>	<u>\$ 1,461,596.96</u>	<u>\$ 2,340,588.38</u>

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

<b>RRR Gasoline Tax Fund</b>	<b>Justice Center Maintenance Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 2,312,010.03	\$ 50,352.33	\$ 1,772,310.64	\$ 8,577,157.55
		127,187.21	127,187.21
35,784.83		752.10	51,372.38
	1,982,000.00		1,982,000.00
		561,798.00	8,129,251.28
173,974.77		35,759.95	799,124.72
	133.86		1,478.31
			5,874.09
			21,256.54
<u>2,521,769.63</u>	<u>2,032,486.19</u>	<u>2,497,807.90</u>	<u>19,694,702.08</u>
	643.63	6,869.96	34,529.22
			308.05
		561,798.00	8,570,121.81
8,593.29	8,968.28	15,273.56	238,331.00
			20.50
1,791.23	2,768.88	4,286.75	66,303.78
<u>10,384.52</u>	<u>12,380.79</u>	<u>588,228.27</u>	<u>8,909,614.36</u>
			5,874.09
		127,187.21	127,187.21
		503,290.12	503,290.12
			21,256.54
			3,054,528.45
2,511,385.11	2,020,105.40	1,279,102.30	7,072,951.31
<u>2,511,385.11</u>	<u>2,020,105.40</u>	<u>1,909,579.63</u>	<u>10,785,087.72</u>
<u>\$ 2,521,769.63</u>	<u>\$ 2,032,486.19</u>	<u>\$ 2,497,807.90</u>	<u>\$ 19,694,702.08</u>

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***Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Assets  
September 30, 2003***

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 10,785,087.72

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	\$ 1,022,243.94	
Infrastructure	1,696,533.29	
Buildings and Improvements	15,270,328.44	
Equipment and Furniture	10,202,627.64	
Construction in Progress	310,400.86	
Equipment Under Capital Lease	1,579,711.42	
Accumulated Depreciation	<u>(14,606,312.23)</u>	
Total Capital Assets		15,475,533.36

Accrued interest receivable is not available soon enough to pay for the current  
period's expenditures, and therefore is not shown in the funds. 15,165.14

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:

	<u>Current Liabilities</u>	<u>Noncurrent Liabilities</u>	
Warrants Payable	\$ 250,000.00	2,785,000.00	
Capital Lease	394,365.35	742,648.54	
Accrued Interest Payable	57,097.43		
Compensated Absences		596,734.17	
Total Long-Term Liabilities	<u>\$ 701,462.78</u>	<u>\$ 4,124,382.71</u>	<u>(4,825,845.49)</u>

Total Net Assets - Governmental Activities (Exhibit 1) \$ 21,449,940.73

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, 2003***

	General Fund	Gasoline Tax Fund	Public Buildings, Roads and Bridges Fund
<b><u>Revenues</u></b>			
Taxes	\$ 5,916,920.87	\$	\$ 2,164,897.72
Licenses and Permits	444,050.93		
Intergovernmental	661,006.74	1,913,538.98	31,833.39
Charges for Services	5,777,028.45		
Fines and Forfeits	1,000.00		
Miscellaneous	414,706.77	94,115.07	5,788.74
Total Revenues	13,214,713.76	2,007,654.05	2,202,519.85
<b><u>Expenditures</u></b>			
Current:			
General Government	4,211,596.24		
Public Safety	5,168,613.67		
Highways and Roads		2,538,965.49	
Sanitation	1,833,361.27		
Health	259,597.65		
Welfare	2,618.54		
Culture and Recreation	51,340.86		
Education	64,248.38		
Capital Outlay	607,600.29	1,192,120.07	
Debt Service:			
Principal Retirement	62,729.40	287,998.95	
Interest and Fiscal Charges	7,012.87	51,518.25	
Total Expenditures	12,268,719.17	4,070,602.76	
Excess (deficiency) of revenues over expenditures	945,994.59	(2,062,948.71)	2,202,519.85
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers In	293,000.00	1,936,000.00	
Debt Issued	160,831.16		
Transfers Out	(2,256,340.00)		(2,222,000.00)
Total Other Financing Sources (Uses)	(1,802,508.84)	1,936,000.00	(2,222,000.00)
Net Change in Fund Balances	(856,514.25)	(126,948.71)	(19,480.15)
Fund Balances - Beginning of Year, as Restated (Note 13)	3,938,173.33	1,526,340.95	(117,553.59)
Fund Balances - End of Year	\$ 3,081,659.08	\$ 1,399,392.24	\$ (137,033.74)

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

<b>RRR Gasoline Tax Fund</b>	<b>Justice Center Maintenance Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 166,470.00	\$	\$ 658,076.18	\$ 8,906,364.77
			444,050.93
1,835,853.99		759,260.86	5,201,493.96
		17,386.30	5,794,414.75
			1,000.00
90,002.74	80,243.64	89,034.36	773,891.32
<u>2,092,326.73</u>	<u>80,243.64</u>	<u>1,523,757.70</u>	<u>21,121,215.73</u>
	928,584.56	679,749.21	5,819,930.01
		309,237.85	5,477,851.52
1,520,760.00		556,057.35	4,615,782.84
			1,833,361.27
		39,151.50	298,749.15
			2,618.54
		799.75	52,140.61
			64,248.38
		515,627.65	2,315,348.01
		250,130.43	600,858.78
		143,563.65	202,094.77
<u>1,520,760.00</u>	<u>928,584.56</u>	<u>2,494,317.39</u>	<u>21,282,983.88</u>
<u>571,566.73</u>	<u>(848,340.92)</u>	<u>(970,559.69)</u>	<u>(161,768.15)</u>
214,000.00	284,648.00	3,939,369.15	6,667,017.15
		22,697.00	183,528.16
<u>(397,677.15)</u>		<u>(1,791,000.00)</u>	<u>(6,667,017.15)</u>
<u>(183,677.15)</u>	<u>284,648.00</u>	<u>2,171,066.15</u>	<u>183,528.16</u>
387,889.58	(563,692.92)	1,200,506.46	21,760.01
<u>2,123,495.53</u>	<u>2,583,798.32</u>	<u>709,073.17</u>	<u>10,763,327.71</u>
<u>\$ 2,511,385.11</u>	<u>\$ 2,020,105.40</u>	<u>\$ 1,909,579.63</u>	<u>\$ 10,785,087.72</u>

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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, 2003***

Net Change in Fund Balances - Total Governmental Funds (Exhibit 5)	\$	21,760.01
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 (\$2,315,348.01) exceeded depreciation (\$1,804,397.00) in the current period.		510,951.01
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.		(7,552.23)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		600,858.78
Debt issuances provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.		
Capital Lease Issued		(183,528.16)
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	\$	(86,890.12)
Net Increase in Accrued Interest Payable	\$	(57,097.43)
Total Additional Expenditures		(143,987.55)
In the Statement of Activities, donation of capital assets is recorded as revenue, whereas in the governmental funds it is not recorded.		1,295,714.34
Revenues in the Statement of Activities that do not provide current financial resources, such as accrued interest receivable, are not reported as revenues in the funds.		15,165.14
Change in Net Assets of Governmental Activities (Exhibit 2)	\$	<u>2,109,381.34</u>

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

***Statement of Fiduciary Net Assets***  
***Fiduciary Funds***  
***September 30, 2003***

	<b>Private-Purpose Trust Funds</b>
<b><u>Assets</u></b>	
<b><u>Current Assets</u></b>	
Cash and Cash Equivalents	\$ 478,902.60
Due from Other Governments	21,521.58
Total Assets	<u>500,424.18</u>
<b><u>Liabilities</u></b>	
<b><u>Current Liabilities</u></b>	
Accounts Payable	2,425.77
Payable to External Parties	451,187.51
Total Liabilities	<u>453,613.28</u>
<b><u>Net Assets</u></b>	
Held in Trust for Other Purposes	<u>\$ 46,810.90</u>

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, 2003***

	<b>Private-Purpose Trust Funds</b>
<b><u>Additions</u></b>	
Contributions:	
Charges for Services	\$ 347,854.77
Interest	177.06
Total Additions	<u>348,031.83</u>
<b><u>Deductions</u></b>	
Administrative Expenses	<u>359,502.92</u>
Total Deductions	<u>359,502.92</u>
Changes in Net Assets	(11,471.09)
Net Assets - Beginning of Year, as Restated (Note 13)	<u>58,281.99</u>
Net Assets - End of Year	<u>\$ 46,810.90</u>

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

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2003*

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#### Note 1 - Summary of Significant Accounting Policies

The financial statements of the Lee County Commission (the “Commission”), except for the exclusion of the component units discussed below, 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.

In June 1999, the GASB approved Statement Number 34 *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments*. This Statement provides for significant changes in financial reporting for state and local governments. Some of the significant changes include:

- ◆ A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Lee County Commission’s overall financial position and results of operations.
- ◆ Government-wide financial statements prepared using full accrual accounting.
- ◆ Reporting infrastructure assets (roads, bridges, etc.).
- ◆ Recording of depreciation expense on all capital assets.
- ◆ A change in the fund financial statements to focus on major funds.
- ◆ Budget comparison schedules, containing the original budget and amended final budget, for the general fund and each major special revenue fund.

These and other changes are reflected in the accompanying government-wide and fund financial statements (including the notes to the financial statements). The Lee County Commission has implemented the provisions of the Statement in the current fiscal year. The Commission will retroactively report infrastructure (assets acquired prior to October 1, 2002) by or before the fiscal year ending September 30, 2007.

#### A. Reporting Entity

Generally accepted accounting principles (GAAP) require that the financial statements present the Commission (the primary government) and its component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting the following criteria: 1) the primary government appoints a voting majority of the organization’s governing body and the primary government is able to impose its will upon the potential component unit, or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government or 2) the potential component unit is fiscally dependent on the primary government. A potential component unit is considered fiscally dependent if it does not have the authority to do all three of the following: 1) determine its own budget without another government having the authority to approve and modify that budget, 2) levy taxes or set rates or charges without approval by another government, and 3) issue bonded debt without approval by another government.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2003*

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Based on the application of the above criteria, the following entities are component units of the Commission: the Lee County Tax Collector, Lee County Tax Assessor, Lee County Probate Judge and Lee County Sheriff. Separate legal compliance examination reports are issued for these component units and these reports can be obtained from the State of Alabama, Department of Examiners of Public Accounts.

The accompanying financial statements reflect the activity of the Commission (the primary government), and do not include all of the financial activities of the component units listed above as required by generally accepted accounting principles.

#### **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 funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2003*

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The Commission reports the following major governmental funds:

- ◆ **General Fund** - The general fund is the primary operating fund of the Commission. It is used to account for all financial resources except those required to be accounted for in another fund. The Commission primarily received revenues from collections of property taxes and revenues collected by the State of Alabama and shared with the Commission.
- ◆ **Gasoline Tax Fund** - This fund is used to account for the expenditures of gasoline taxes restricted to roads.
- ◆ **RRR Gasoline Tax Fund** - This fund is used to account for the expenditures of the Commission's share of the following taxes: the 4-cent per gallon gasoline tax and the 5-cent per gallon supplemental excise tax for the resurfacing, restoration and rehabilitation of the existing paved county roads and bridges.
- ◆ **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.
- ◆ **Justice Center Maintenance Fund** - This fund is used to account for expenditures of funds earmarked for the continued maintenance and upkeep of the Lee County Justice Center.

The Commission reports the following columns:

**Other Governmental Funds:**

- ◆ **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.
- ◆ **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.
- ◆ **Capital Projects Funds** - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2003*

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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, compensated absences, and landfill closure and postclosure care costs, 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.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2003***

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**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. Sales tax receivables are based on the amounts collected within 60 days after year-end. The allowance for uncollectibles for ad valorem taxes is based on past collection experience.

Sales tax receivables consist of taxes that have been paid by consumers in September. This tax is normally remitted to the Commission within the next 60 days.

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

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

**3. Inventories**

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

**4. Prepaid Items**

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

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2003***

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**5. Restricted Assets**

Certain resources set aside for repayment of warrants 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, water and sewer systems, and similar items), are reported in the governmental activities 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 are expensed as incurred. Major outlays of capital assets and improvements are capitalized as projects are constructed.

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

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

GASB Number 34 requires the Commission to report and depreciate new infrastructure assets effective with the beginning of fiscal year 2003. These infrastructure assets are likely to be the largest asset class of the Commission. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period of up to four years. The Commission will retroactively report its infrastructure built or acquired since June 30, 1980, at the beginning of fiscal year 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.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2003***

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**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 statement of net assets.

**8. Compensated Absences**

The Commission has a standard leave policy for its full-time employees as to sick and annual leave. The Commission's leave policy is as follows:

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. In unusual circumstances department heads may advance up to six days annual leave to an employee eligible to receive annual leave.

**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.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2003*

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As of September 30, 2003, the liability for accrued annual leave is approximately \$663,037.95. Only the current portion of \$66,303.78 has been recorded as a liability in the general fund and the applicable special revenue funds. The long-term portion of \$596,734.17 is reported only 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**

##### **A. Budgets**

Annual budgets are adopted on a budgetary basis 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.

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**Notes to the Financial Statements**  
**For the Year Ended September 30, 2003**

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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.

**B. Deficit Fund Balances/Net Assets of Individual Funds**

At September 30, 2003, the following governmental fund had a deficit fund balance:

Public Buildings, Roads and Bridges Fund	\$137,033.74
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The deficit in the Public Buildings, Roads and Bridges Fund is the result of adjustments to defer current revenues.

**Note 3 - Deposits and Investments**

**Deposits** - The Commission's deposits at year-end were entirely covered by federal depository insurance or by the Security of Alabama Funds Enhancement (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.

**Investments** - State statutes authorize the Commission to invest in obligations of the U. S. Treasury and securities of federal agencies. The Commission's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the Commission or its agent in the Commission's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the dealer's agent in the Commission's name. Category 3 includes uninsured and unregistered investments for which securities are held by the counter party or its trust department or agent, but not in the Commission's name. All of the Commission's investments were in Category 1.

	September 30, 2003	
	Recorded Value	Market Value
Treasury Bonds	\$800,000.00	\$813,920.00

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2003***

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The Commission investments also included certificates of deposit in the amount of \$1,182,000. 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.

**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, 2003, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Ad Valorem Taxes Receivable	\$8,045,498.13	\$524,623.68
Total Deferred/Unearned Revenue for Governmental Funds	<u>\$8,045,498.13</u>	<u>\$524,623.68</u>

**Notes to the Financial Statements**  
**For the Year Ended September 30, 2003**

**Note 5 - Capital Assets**

Capital asset activity for the year ended September 30, 2003, was as follows:

	Balance 10/01/2002 as Restated (*)	Additions	Retirements	Balance 9/30/2003
<b>Governmental Activities:</b>				
<b>Capital Assets, Not Being Depreciated</b>				
Land	\$ 1,022,243.94	\$	\$	\$ 1,022,243.94
Construction in Progress		310,400.86		310,400.86
Total Capital Assets, Not Being Depreciated	1,022,243.94	310,400.86		1,332,644.80
<b>Capital Assets Being Depreciated:</b>				
Infrastructure		1,696,533.29		1,696,533.29
Buildings	15,272,323.44		(1,995.00)	15,270,328.44
Equipment and Furniture	9,055,328.88	1,416,697.24	(269,398.48)	10,202,627.64
Equipment Under Capital Lease	1,392,280.46	187,430.96		1,579,711.42
Total Capital Assets Being Depreciated	25,719,932.78	3,300,661.49	(271,393.48)	28,749,200.79
Buildings	(7,016,927.30)	(604,421.65)	1,995.00	(7,619,353.95)
Infrastructure		(13,855.85)		(13,855.85)
Equipment and Furniture	(5,831,353.78)	(941,461.39)	261,846.25	(6,510,968.92)
Equipment Under Capital Lease	(217,475.40)	(244,658.11)		(462,133.51)
Total Accumulated Depreciation	(13,065,756.48)	(1,804,397.00)	263,841.25	(14,606,312.23)
Total Capital Assets, Being Depreciated, Net	12,654,176.30	1,496,264.49	(7,552.23)	14,142,888.56
Governmental Activities Capital Assets, Net	\$ 13,676,420.24	\$ 1,806,665.35	\$ (7,552.23)	\$15,475,533.36
(*) The beginning balances for capital assets were restated (\$926,733.62) to eliminate items below the new capitalization threshold established by the Commission and to correct other errors in the balances.				

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2003***

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

	Current Year Depreciation Expense
<b>Governmental Activities:</b>	
General Government	\$ 123,564.79
Public Safety	668,147.33
Highway and Roads	671,441.54
Sanitation	120,221.29
Health	204,894.79
Education	16,127.26
Total Depreciation Expense - Governmental Activities	<u>\$1,804,397.00</u>

**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.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2003*

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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, 2003, was 1.73% based on the actuarial valuation performed as of September 30, 2001.

#### **C. Annual Pension Cost**

For the year ended September 30, 2003, the Commission's annual pension cost of \$245,343.55 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, 2002, 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, 2002, was 20 years.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2003***

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/2003	\$245,343.55	100%	\$0
9/30/2002	\$205,587.00	100%	\$0
9/30/2001	\$200,326.00	100%	\$0

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)*	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll	Percentage of Covered Payroll [(b-a)/c]
9/30/2002***	\$16,217,559	\$16,301,199	\$ 83,640	99.5%	\$8,355,171	1.0%
9/30/2001**	\$15,733,614	\$14,274,162	(\$1,459,452)	110.2%	\$7,953,264	(18.4%)
9/30/2000	\$15,329,621	\$13,259,804	(\$2,069,817)	115.6%	\$7,047,360	(29.4%)

\* Reflects liability for cost of living benefit increases granted on or after October 1, 1978.  
 \*\* Reflects changes in actuarial assumptions (as of September 30, 2001). Also, reflects effect of DROP if unit elected to enroll.  
 \*\*\*Reflects effect of DROP if unit elected to enroll prior to June 20, 2003.

**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, to all County employees who retire with twenty-five years of continuous service with the Lee County Commission until the age of 65.

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 \$290.00 per month for retirees under 65 years of age. 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, 2003, post-retirement health care benefits paid by the Commission was \$15,694.00 for four employees.

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**Notes to the Financial Statements**  
**For the Year Ended September 30, 2003**

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**Note 8 - Lease Obligations**

**Capital Leases**

The Commission is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled \$1,579,711.42 for governmental activities at September 30, 2003. If the Commission completes the lease payments according to the schedule 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 Ending	Governmental Activities
September 30, 2004	\$ 441,252.05
2005	415,523.48
2006	369,919.09
2007	1,591.56
Total Minimum Lease Payments	1,228,286.18
Less: Amount Representing Interest	(91,272.29)
Present Value of Net Minimum Lease Payments	<u>\$1,137,013.89</u>

**Note 9 - Long-Term Debt**

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

	Debt Outstanding 10/1/2002	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 9/30/2003	Amounts Due Within One Year
<b>Warrants Payable:</b>					
General Obligation - Series 1998	\$3,275,000.00	\$	\$240,000.00	\$3,035,000.00	\$250,000.00
Capital Lease Contracts Payable	1,314,344.51	183,528.16	360,858.78	1,137,013.89	394,365.35
Estimated Liability for Compensated Absences	509,844.05	153,193.90		663,037.95	66,303.78
Total	<u>\$5,099,188.56</u>	<u>\$336,722.06</u>	<u>\$600,858.78</u>	<u>\$4,835,051.84</u>	<u>\$710,669.13</u>

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2003***

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Payments on the warrants payable that pertain to the Commission's governmental activities are made by the RRR Gasoline 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:

Fiscal Year Ending	Governmental Activities				Total Principal and Interest Requirements to Maturity
	General Obligation Bonds		Contracts Payable Capital Lease		
	Principal	Interest	Principal	Interest	
September 30, 2004	\$ 250,000.00	\$131,052.50	\$ 394,365.35	\$46,886.70	\$ 822,304.55
2005	260,000.00	121,052.50	385,413.78	30,109.70	796,575.98
2006	270,000.00	110,522.50	355,658.99	14,260.10	750,441.59
2007	285,000.00	99,317.50	1,575.77	15.79	385,909.06
2008	295,000.00	87,347.50			382,347.50
2009-2013	1,675,000.00	233,480.00			1,908,480.00
Total	<u>\$3,035,000.00</u>	<u>\$782,772.50</u>	<u>\$1,137,013.89</u>	<u>\$91,272.29</u>	<u>\$5,046,058.68</u>

**Note 10 - 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 or pledge of the faith and credit of the Commission and accordingly, have not been reported in the accompanying financial statements. Upon repayment of the warrants, ownership of the acquired property transfers to the Lee County 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.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2003***

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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, 2003, the aggregate principal amount payable for the Series 2003 Limited Obligation Warrants was \$37,990,000.00.

**Note 11 - 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 remuneration 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.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2003***

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**Note 12 - Interfund Transfers**

The amounts of interfund transfers during the fiscal year ending September 30, 2003, were as follows:

	Transfers Out				Totals
	General Fund	Public Buildings, Roads and Bridges Fund	RRR Gasoline Tax Fund	Other Governmental Funds	
<b>Transfers In:</b>					
General Fund	\$	\$ 293,000.00	\$	\$	\$ 293,000.00
Gasoline Tax Fund		1,600,000.00		336,000.00	1,936,000.00
RRR Gasoline Tax Fund		214,000.00			214,000.00
Justice Center Maintenance Fund	284,648.00				284,648.00
Other Governmental Funds	1,971,692.00	115,000.00	397,677.15	1,455,000.00	3,939,369.15
<b>Totals</b>	<b>\$2,256,340.00</b>	<b>\$2,222,000.00</b>	<b>\$397,677.15</b>	<b>\$1,791,000.00</b>	<b>\$6,667,017.15</b>

The Commission typically used transfers to fund ongoing operating subsidies and to transfer the portion from the RRR Gasoline Tax Fund to the Debt Service Fund to service current-year debt requirements.

**Note 13 - Accounting Changes and Restatements**

**Changes in Accounting Principles**

During the fiscal year 2003, the Commission implemented GASB Statement Number 34, ***Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments***, as amended by GASB Statement Number 37, ***Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus***, and GASB Statement Number 38, ***Certain Financial Statement Note Disclosures***. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at September 30, 2002, caused by the conversion to the accrual basis of accounting.

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2003***

During fiscal year 2003, the Commission changed its policy for capitalizing capital assets by raising the capitalization threshold to \$800.00. The Commission has removed all items previously recorded with a value less than \$800.00 from capital assets records and eliminated those items for reporting purposes. The Commission also began depreciating its capital assets including the accumulated depreciation from prior years. The effect of adding accumulated depreciation is listed below.

**Restatement of Fund Balances**

GASB Statement Number 34 eliminated the use of expendable trust funds to account for assets held by the County in a trustee capacity for other governmental units. The Excess from Land Sales Fund, Fiduciary Fund, and Worthless Check Fund have been classified as private purpose trust funds that report principal and income that benefit individuals, private organizations, or other governments. The remaining expendable trust funds have been reclassified as special revenue funds.

Adjustments were made to the General Fund for the write off of old accounts payable checks and to reflect the refund of appropriation made to the Recreation Department.

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

	General Fund	Gasoline Tax Fund	Public Buildings, Roads and Bridges Fund	RRR Gasoline Tax Fund
Fund Balance, September 30, 2002, as Previously Reported	\$3,646,420.36	\$1,526,340.95	\$(117,553.59)	\$2,123,495.53
Add:				
Write Off of Old Outstanding Checks	1,057.87			
Refund of Appropriation	290,695.10			
<u>Fund Reclassifications:</u>				
Excess from Land Sales Fiduciary Fund Worthless Check Fund Special Revenue Funds				
Total Restatements	291,752.97			
Fund Balance, September 30, 2002, as Restated	\$3,938,173.33	\$1,526,340.95	\$(117,553.59)	\$2,123,495.53
Capital Assets Balance, Beginning, as Restated (Note 5)				
Effect of Adding Accumulated Depreciation				
Long-Term Liabilities, Beginning				
Governmental Activities Net Assets, September 30, 2002				
Private-Purpose Trust Net Assets - September 30, 2002				

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2003***

Justice Center Maintenance Fund	Other Governmental Funds	Total	Private-Purpose Trust Funds	Expendable Trust Funds
\$2,583,798.32	\$650,065.54	\$ 10,412,567.11	\$	\$117,289.62
		1,057.87		
		290,695.10		
			19,845.59	(19,845.59)
			8,168.71	(8,168.71)
			30,267.69	(30,267.69)
	59,007.63	59,007.63	58,281.99	(59,007.63)
	59,007.63	350,760.60		
<u>\$2,583,798.32</u>	<u>\$709,073.17</u>	10,763,327.71		<u>\$</u>
		26,742,176.72		
		(13,065,756.48)		
		<u>(5,099,188.56)</u>		
		<u>\$ 19,340,559.39</u>		
			<u>\$58,281.99</u>	

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2003***

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**Note 14 - Franchise Taxes**

The several counties of the State of Alabama receive a portion of the revenues received by the State from the franchise taxes levied by the State of Alabama on in-state and out-of-state companies under the provisions of the *Code of Alabama 1975*, Section 40-14-41. The State is currently involved in litigation that challenges the constitutionality of the State's franchise tax based on the premise that it violates the Commerce Clause of the U. S. Constitution. The potential liability to the State of Alabama exceeds \$300,000,000. The State of Alabama has received an unfavorable ruling. The several counties of this State may have to refund all the franchise taxes they have received over a period of years or forego the receipt of revenues until the liability is satisfied.

**Note 15 - Subsequent Event**

The Commission on November 9, 2004, entered into a resolution and order authorizing the issuance of \$17,975,000 Principal amount of General Obligation Warrants, Series 2004, for the purpose of expanding, improving and renovating its criminal justice center.

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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, 2003***

	<u>Budgetary Amount</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>
<b><u>Revenues</u></b>			
Taxes	\$ 5,793,945.00	\$ 5,793,945.00	\$ 5,928,982.99
Licenses and Permits	440,575.00	440,575.00	444,066.58
Intergovernmental	723,028.00	723,028.00	659,105.69
Charges for Services	4,836,000.00	4,836,000.00	5,738,111.08
Fines and Forfeits			1,000.00
Miscellaneous	348,400.00	348,400.00	418,086.73
Total Revenues	<u>12,141,948.00</u>	<u>12,141,948.00</u>	<u>13,189,353.07</u>
<b><u>Expenditures</u></b>			
Current:			
General Government	4,215,122.00	4,237,012.00	4,162,336.17
Public Safety	5,099,867.00	5,285,698.16	5,072,057.82
Sanitation	1,749,698.00	1,749,698.00	1,813,296.49
Health	285,300.00	270,310.00	259,130.64
Welfare	4,900.00	4,000.00	2,618.54
Culture and Recreation	127,000.00	47,856.00	51,340.86
Education	64,701.00	64,701.00	64,248.38
Capital Outlay	787,812.00	787,812.00	607,600.29
Debt Service:			
Principal Retirement	70,000.00	65,700.00	62,729.40
Interest and Fiscal Charges	28,486.00	22,486.00	7,012.87
Total Expenditures	<u>12,432,886.00</u>	<u>12,535,273.16</u>	<u>12,102,371.46</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(290,938.00)</u>	<u>(393,325.16)</u>	<u>1,086,981.61</u>
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers In	362,000.00	362,000.00	293,000.00
Debt Issued	160,831.00	160,831.00	160,831.16
Transfers Out	(668,500.00)	(1,922,800.00)	(2,256,340.00)
Total Other Financing Sources (Uses)	<u>(145,669.00)</u>	<u>(1,399,969.00)</u>	<u>(1,802,508.84)</u>
Net Change in Fund Balances	(436,607.00)	(1,793,294.16)	(715,527.23)
Fund Balances at Beginning of Year	<u>4,044,416.55</u>	<u>3,966,964.26</u>	<u>3,946,628.07</u>
Fund Balances at End of Year	<u>\$ 3,607,809.55</u>	<u>\$ 2,173,670.10</u>	<u>\$ 3,231,100.84</u>

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**Explanation of differences between Actual Amounts on Budgetary Basis and Actual Amounts per GAAP Basis:**

Net Changes in Fund Balance - General Fund - Budgetary Basis	\$ (715,527.23)
The Commission recognizes revenues as they are received without regard to when they are earned.	25,360.69
The Commission recognizes salaries only to the extent they are actually paid rather than when actually earned by employees.	<u>(166,347.71)</u>
Net Changes in Fund Balance for the General Fund (Exhibit 5)	<u><u>\$ (856,514.25)</u></u>

The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Commission's budget. (See Note 2 for a description of the Commission's budgetary accounting method.) This amount differs from the fund balance reported in the statement of revenues, expenditures, and changes in fund balances because of the cumulative effect of transactions such as those described above.

***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - Gasoline Tax Fund  
For the Year Ended September 30, 2003***

	<u>Budgetary Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>
<b><u>Revenues</u></b>			
Intergovernmental	\$ 1,593,101.00	\$ 1,593,101.00	\$ 1,911,139.46
Miscellaneous	80,425.00	80,425.00	94,115.07
Total Revenues	<u>1,673,526.00</u>	<u>1,673,526.00</u>	<u>2,005,254.53</u>
<b><u>Expenditures</u></b>			
Current:			
Highways and Roads	4,736,621.00	4,736,621.00	2,498,445.14
Capital Outlay			1,192,120.07
Debt Service:			
Principal Retirement			287,998.95
Interest and Fiscal Charges			51,518.25
Total Expenditures	<u>4,736,621.00</u>	<u>4,736,621.00</u>	<u>4,030,082.41</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(3,063,095.00)</u>	<u>(3,063,095.00)</u>	<u>(2,024,827.88)</u>
<b><u>Other Financing Sources</u></b>			
Transfers In	1,964,500.00	1,964,500.00	1,936,000.00
Total Other Financing Sources	<u>1,964,500.00</u>	<u>1,964,500.00</u>	<u>1,936,000.00</u>
Net Change in Fund Balances	(1,098,595.00)	(1,098,595.00)	(88,827.88)
Fund Balances at Beginning of Year	<u>1,370,501.46</u>	<u>1,370,501.46</u>	<u>1,367,502.56</u>
Fund Balances at End of Year	<u>\$ 271,906.46</u>	<u>\$ 271,906.46</u>	<u>\$ 1,278,674.68</u>

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**Explanation of differences between Actual Amounts on Budgetary Basis and Actual Amounts per GAAP Basis:**

Net Changes in Fund Balance - Gasoline Tax Fund - Budgetary Basis	\$ (88,827.88)
The Commission recognizes revenues as they are received without regard to when they are earned.	2,399.52
The Commission recognizes salaries only to the extent they are actually paid rather than when actually earned by employees.	<u>(40,520.35)</u>
Net Changes in Fund Balance for the Gasoline Tax Fund (Exhibit 5)	<u><u>\$ (126,948.71)</u></u>

The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Commission's budget. (See Note 2 for a description of the Commission's budgetary accounting method.) This amount differs from the fund balance reported in the statement of revenues, expenditures, and changes in fund balances because of the cumulative effect of transactions such as those described above.

***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - Public Buildings, Roads and Bridges Fund  
For the Year Ended September 30, 2003***

	<u>Budgetary Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>
<b><u>Revenues</u></b>			
Taxes	\$ 2,249,000.00	\$ 2,249,000.00	\$ 2,150,773.55
Intergovernmental			31,833.39
Miscellaneous	30,000.00	30,000.00	5,788.74
Total Revenues	<u>2,279,000.00</u>	<u>2,279,000.00</u>	<u>2,188,395.68</u>
<b><u>Expenditures</u></b>			
General Government			
Highways and Roads			
Total Expenditures			
Excess (Deficiency) of Revenues Over Expenditures	<u>2,279,000.00</u>	<u>2,279,000.00</u>	<u>2,188,395.68</u>
<b><u>Other Financing Uses</u></b>			
Transfers Out	<u>(2,279,000.00)</u>	<u>(2,279,000.00)</u>	<u>(2,222,000.00)</u>
Total Other Financing Uses	<u>(2,279,000.00)</u>	<u>(2,279,000.00)</u>	<u>(2,222,000.00)</u>
Net Change in Fund Balances			(33,604.32)
Fund Balances at Beginning of Year	<u>7,816.36</u>		<u>7,816.36</u>
Fund Balances at End of Year	<u>\$ 7,816.36</u>	<u>\$</u>	<u>\$ (25,787.96)</u>

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**Explanation of differences between Actual Amounts on Budgetary Basis and Actual Amounts per GAAP Basis:**

Net Changes in Fund Balance - Public Buildings, Roads and Bridges Fund - Budgetary Basis	\$ (33,604.32)
The Commission recognizes revenues as they are received without regard to when they are earned.	<u>14,124.17</u>
Net Changes in Fund Balance for the Public Buildings, Roads and Bridges Fund (Exhibit 5)	<u><u>\$ (19,480.15)</u></u>

The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Commission's budget. (See Note 2 for a description of the Commission's budgetary accounting method.) This amount differs from the fund balance reported in the statement of revenues, expenditures, and changes in fund balances because of the cumulative effect of transactions such as those described above.

***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - RRR Gasoline Tax Fund  
For the Year Ended September 30, 2003***

	<u>Budgetary Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>
<b><u>Revenues</u></b>			
Taxes	\$ 135,000.00	\$ 135,000.00	\$ 167,721.30
Intergovernmental	1,442,467.00	1,442,467.00	1,825,137.08
Miscellaneous	135,600.00	135,600.00	90,912.34
Total Revenues	<u>1,713,067.00</u>	<u>1,713,067.00</u>	<u>2,083,770.72</u>
<b><u>Expenditures</u></b>			
Current:			
Highways and Roads	3,108,099.00	2,727,566.00	1,511,932.28
Total Expenditures	<u>3,108,099.00</u>	<u>2,727,566.00</u>	<u>1,511,932.28</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,395,032.00)</u>	<u>(1,014,499.00)</u>	<u>571,838.44</u>
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers In	214,000.00	214,000.00	214,000.00
Transfers Out		(380,533.00)	(397,677.15)
Total Other Financing Sources (Uses)	<u>214,000.00</u>	<u>(166,533.00)</u>	<u>(183,677.15)</u>
Net Change in Fund Balances	(1,181,032.00)	(1,181,032.00)	388,161.29
Fund Balances at Beginning of Year	<u>1,923,964.24</u>	<u>1,923,964.24</u>	<u>1,922,176.44</u>
Fund Balances at End of Year	<u>\$ 742,932.24</u>	<u>\$ 742,932.24</u>	<u>\$ 2,310,337.73</u>

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**Explanation of differences between Actual Amounts on Budgetary Basis and Actual Amounts per GAAP Basis:**

Net Changes in Fund Balance - RRR Gasoline Tax Fund - Budgetary Basis	\$	388,161.29
The Commission recognizes revenues as they are received without regard to when they are earned.		8,556.01
The Commission recognizes salaries only to the extent they are actually paid rather than when actually earned by employees.		<u>(8,827.72)</u>
Net Changes in Fund Balance for the RRR Gasoline Tax Fund (Exhibit 5)	\$	<u><u>387,889.58</u></u>

The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Commission's budget. (See Note 2 for a description of the Commission's budgetary accounting method.) This amount differs from the fund balance reported in the statement of revenues, expenditures, and changes in fund balances because of the cumulative effect of transactions such as those described above.

***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - Justice Center Maintenance Fund  
For the Year Ended September 30, 2003***

	<u>Budgetary Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>
<b><u>Revenues</u></b>			
Miscellaneous	\$ 15,000.00	\$ 15,000.00	\$ 80,243.64
Total Revenues	<u>15,000.00</u>	<u>15,000.00</u>	<u>80,243.64</u>
<b><u>Expenditures</u></b>			
Current:			
General Government	799,648.00	847,168.00	918,202.45
Total Expenditures	<u>799,648.00</u>	<u>847,168.00</u>	<u>918,202.45</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(784,648.00)</u>	<u>(832,168.00)</u>	<u>(837,958.81)</u>
<b><u>Other Financing Sources</u></b>			
Transfers In	284,648.00	284,648.00	284,648.00
Total Other Financing Sources	<u>284,648.00</u>	<u>284,648.00</u>	<u>284,648.00</u>
Net Change in Fund Balances	(500,000.00)	(547,520.00)	(553,310.81)
Fund Balances at Beginning of Year	<u>2,584,726.78</u>	<u>2,584,726.78</u>	<u>2,583,622.77</u>
Fund Balances at End of Year	<u>\$ 2,084,726.78</u>	<u>\$ 2,037,206.78</u>	<u>\$ 2,030,311.96</u>

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**Explanation of differences between Actual Amounts on Budgetary Basis and Actual Amounts per GAAP Basis:**

Net Changes in Fund Balance - Justice Center Maintenance Fund - Budgetary Basis	\$ (553,310.81)
The Commission recognizes salaries only to the extent they are actually paid rather than when actually earned by employees.	<u>(10,382.11)</u>
Net Changes in Fund Balance for the Justice Center Maintenance Fund (Exhibit 5)	<u><u>\$ (563,692.92)</u></u>

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## *Additional Information*

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***Commission Members and Administrative Personnel***  
***October 1, 2002 through September 30, 2003***

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<b>Commission Members</b>			<b>Term Expires</b>
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	2004
Hon. Annell M. Smith	Member	1403 Sandray Drive Opelika, AL 36801	2006
Hon. John Andrew Harris	Member	311 East Avenue Opelika, AL 36801	2006
Hon. Sam Pierce	Member	1167 Jenkins Drive Auburn, AL 36830	2004
Hon. Terry White	Member	1807 Oakbowery Road Opelika, AL 36801	2002
Hon. Bobby R. Cannon	Member	1808 Briarwood Lane Opelika, AL 36801	2002

**Administrative Personnel**

Roger Rendleman	Administrator	624 Belmonte Drive Auburn, AL 36830
Alice M. Hodge	Deputy Administrator	1168 Overwood Court Auburn, AL 36830

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

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We have audited the financial statements of the Lee County Commission as of and for the year ended September 30, 2003, and have issued our report thereon dated October 18, 2004. 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.

**Compliance**

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 grants, 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 that are required to be reported under ***Government Auditing Standards***.

**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 opinion on the financial statements and not to provide assurance 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 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 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.

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

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This report is intended solely for the information and use of management and other state officials and is not intended to be and should not be used by anyone other than these specified parties.



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

October 18, 2004