

Report on the

# Lee County Commission

Lee County, Alabama

October 1, 2003 through September 30, 2004

Filed: September 16, 2005



## Department of Examiners of Public Accounts

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*Ronald L. Jones, Chief Examiner*







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**Examiners of Public Accounts**

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Ronald L. Jones  
Chief Examiner

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

Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-14, I submit this report on the Lee County Commission for the period October 1, 2003 through September 30, 2004.

**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 12). The MD&A discussed above is also considered RSI.
6. **Additional Information** – contains basic information related to the Commission (Exhibit 13) and the following report required by generally accepted government auditing standards:

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards** (Exhibit 14) – 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.

At the Commission's meeting on May 10, 2004, the Commission declared an emergency for solid waste disposal because an arbitrator found the 1992 Master Disposal Agreement and any amendments between the Salem Waste Disposal Center, Inc. and the East Alabama Regional Solid Waste Authority to be void for failure to comply with the bid law back in 1992. The Commission voted to enter into an emergency contract for solid waste disposal with a 72-hour cancellation notice by either party.

At the Commission's meeting on June 10, 2004, the County Attorney advised the Commission that if they declared an emergency on the solid waste issue then no advertisement would be required but the services would still be required to be bid.

At the Commission's meeting on June 14, 2004, the Solid Waste Director presented the Commission with a proposed bid solicitation on waste disposal. He suggested that the Commission declare an emergency in writing, put out bids that day and call a special meeting the following week to award the bid. The County Attorney again advised the Commission that even if they declared an emergency, they still would be required to bid the services but could avoid the advertising. Contrary to this advice, the Commission voted to end the verbal agreement approved at the meeting on May 10, 2004 and enter into an emergency solid waste disposal agreement in order to adequately protect and serve its citizens and otherwise assess its legal options under the competitive bid process. This agreement was split between two vendors and was not awarded through the requirements of the Competitive Bid Law. A bid was not awarded for solid waste disposal through the competitive bid process until December 27, 2004.

Sworn to and subscribed before me this  
the 31 day of August, 2005.

Janne Beabham  
Notary Public

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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, 2004, 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.

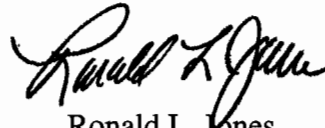
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2004, 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, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2005 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 agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

July 29, 2005

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

# Lee County Commission Management's Discussion and Analysis Fiscal Year October 1, 2003 through September 30, 2004

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, 2004. Please consider the information contained in this MD&A in conjunction with the County's financial statements for the same period.

## Financial Highlights

- Lee County's assets exceeded its liabilities at the close of the fiscal year ended September 30, 2004 by \$25,762,675. The County's total net assets increased by \$2,615,952 or 11.30%. The increase is primarily attributed to continued additional investment into fixed assets and infrastructure.
- Overall revenues increase \$3,624,556 or 17.16% over last fiscal year. Of this amount \$1,350,641 is attributed to recognition of the County's federal aid money from the State for bridge work contracted by the State on behalf the County, which was previously treated as a donation instead of revenue. Once this is taken into consideration, overall revenues increased \$2,273,915 or 10.77% largely the result of this fiscal year being a reappraisal year for property taxes, which occurs every four years. (See economic factors later in this section about a change in the reappraisal cycle.)
- Total Fund Expenditures for the current fiscal year at \$28,109,522 exceeded Revenues of \$24,745,772 by \$3,363,750 or 13.59% which is primarily attributed to the following projects funded with excess funds on hand:
  - \$543,665 for architectural and engineering work on a 81,000 square foot (196 bed) jail expansion and 53,900 square foot remodeling of jail and court spaces which the construction is projected to begin in the summer of 2005,
  - \$500,000 (approx) for road resurfacing planned for last fiscal year not performed until this year,
  - \$442,719 on land improvements for a park in the Smith's Station area,
  - \$395,794 to complete courthouse improvements (including re-roofing),
  - \$201,693 for twenty-one additional outdoor warning sirens throughout the County.

And a \$1,241,550 capital outlay for fifteen dump trucks on a lease-sale program which the fifteen replaced dump trucks were sold for \$1,226,716 in the 2004 Fiscal Year, as reflected in other resources.

- The General Fund Balance increased \$365,475 or 11.88%. The General Fund retained a fund balance equivalent of 27.98% annual revenues and 29.57% annual expenditures.
- Overall fund balance decreased \$741,689 or 6.87%. The overall fund balance level is the equivalent of 40.61% in annual revenues and 35.75% in annual expenditures for Fiscal Year 2004.

## 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 Capital Projects Fund. These funds are deemed to be major funds. Data from the remaining funds are combined into a single aggregated presentation.

### Fiduciary Funds Statements

Fiduciary funds are funds in which the County is the trustee, or fiduciary, for assets that belong to others. The County is responsible for ensuring that those to whom the assets belong use 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 12 which are Annual Budget to Actual comparisons of the governmental major funds of the County. Lee County adopts an annual appropriated budget for its General, Gasoline, Public Buildings, Roads and Bridges, and the RRR Gasoline Tax funds; the comparison schedules are presented to demonstrate compliance with the fund budgets. The Capital Projects Fund is not included since it is not adopted on a fiscal year basis but a project by project basis.

### Additional Information

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

Government-wide Financial Analysis

The County governmental net assets increased by \$2,615,952 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 \$25,762,675 as of the fiscal year ending September 30, 2004.

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

Statement of Net Assets As of September 30: (SEE GRAPHS on G- 1)

	<b>Governmental Activities 2004</b>	<b>Governmental Activities 2003</b>	<b>Difference</b>	<b>Percentage</b>
Current & Other Assets	20,660,920	19,588,577	1,072,343	5.47%
Non-current/non-capital Assets	127,178	127,187	(9)	-0.01%
Capital Assets, Net	20,637,281	17,166,420	3,470,861	20.22%
<b>Total Assets</b>	<b>41,425,379</b>	<b>36,882,184</b>	<b>4,543,195</b>	<b>12.32%</b>
Current Liabilities	11,458,950	9,611,077	1,847,873	19.23%
Long-term Liabilities	4,203,754	4,124,383	79,371	1.92%
<b>Total Liabilities</b>	<b>15,662,704</b>	<b>13,735,460</b>	<b>1,927,244</b>	<b>14.03%</b>
<b>Net Assets:</b>				
Invested in Capital Assets, Net of Related Debt	18,498,379	16,035,303	2,463,076	15.36%
Restricted	3,383,638	4,906,272	(1,522,634)	-31.03%
Unrestricted	<u>3,880,658</u>	<u>2,205,149</u>	1,675,509	75.98%
<b>Total Net Assets</b>	<b>25,762,675</b>	<b>23,146,724</b>	<b>2,615,951</b>	<b>11.30%</b>

The largest portion of Lee County's net assets (80.11%) 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 \$3,880,658 may be used to meet the government's ongoing obligations to citizens and creditors.

Current Assets and Current Liabilities both increased a sizable amount over the previous fiscal year due to the results of this fiscal year being the collection year of a reappraisal conducted every four years in a rapidly growing community. The associated property tax receivable and deferral both increased by approximately \$1.2 million dollars.

The increase in Net Capital Assets and Invested in Capital Assets (Net Debt) of 20.22% and 15.36%, respectively, indicate the continued additional investment into fixed assets and infrastructure.

The increase in Unrestricted Assets of \$1,675,509 (11.30%) can be attributed increase in property tax collections as a result of the reappraisal. The decrease in Restricted Assets of \$1,522,634 (31.03%) directly reflects the additional investment into fixed assets and infrastructure, since most of the restricted net assets are in the highway funds and capital projects fund.

Statement of Activities

The following schedule compares the revenues and expenses for the current year. Government activities increased the County's net assets by \$2,615,952. The key element in this increase was investment in capital assets.

Changes in Net Assets As of September 30, 2004: (SEE GRAPHS on G – 2)

	<b>Governmental Activities 2004</b>	<b>Governmental Activities 2003</b>	<b>Difference</b>	<b>Percentage</b>
<b>REVENUES</b>				
Program Revenues:				
Charges for Services	6,619,753	6,239,466	380,287	6.09%
Operating Grants & Contributions	4,851,653	4,463,268	388,385	8.70%
Capital Grants & Contributions	1,687,797	1,610,887	76,910	4.77%
General Revenues:				
Property Taxes – General Purposes	6,162,821	4,946,074	1,216,747	24.60%
Property Taxes – Specific Purposes	3,548,652	2,822,974	725,678	25.71%
General Sales Tax **				
Misc. Taxes	857,340	1,137,317	(279,977)	-24.62%
Grants & contributions not restricted to specific				
Programs	442,238	355,752	86,486	24.31%
Interest Revenue	140,135	212,990	(72,855)	-34.21%
Miscellaneous	<u>815,329</u>	<u>635,815</u>	179,514	28.23%
<b>Total Revenues</b>	<b>25,125,718</b>	<b>22,424,543</b>	<b>2,701,175</b>	<b>12.05%</b>
<b>EXPENSES</b>				
Program Activities:				
General Government	6,536,987	6,030,385	506,602	8.40%
Public Safety	6,537,297	6,153,839	383,458	6.23%
Highways & Roads	7,023,916	5,538,576	1,485,340	26.82%
Sanitation	2,157,977	1,953,583	204,394	10.46%
Health & Welfare	150,727	506,262	(355,535)	-70.23%
Culture & Recreation	30,881	52,141	(21,260)	-40.77%
Education	71,981	80,376	(8,395)	-10.44%
<b>Total Expenses</b>	<b>22,509,766</b>	<b>20,315,162</b>	<b>2,194,604</b>	<b>10.80%</b>
<b>Net Assets, Increase in</b>	<b>2,615,952</b>	<b>2,109,381</b>	<b>506,571</b>	<b>24.02%</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 \$25,125,718 property taxes account for 38.65% of the total revenue of the County. Taxes as a whole represent 42.06% of the total revenue collected by the County for fiscal year ended September 30, 2004.

Expenses for all services of the County were \$22,509,766. Of this amount 29.04% was spent for general government, 29.04% for public safety, 31.20% for highways and roads, 9.59% for sanitation and 1.13% on the remaining categories listed above.

Charges for Services increased 6.09% from a \$262,436 increase in transaction fees and a \$121,627 increase in building permits due to a raise in the permit fee schedule.

Operating Grants & Contributions increased 8.70% from additional grant funding of Homeland Security (\$215,655), Local Law Enforcement Block Grant (\$71,680), and School Resource Officers (\$58,500).

Property Taxes experienced a 24.60% to 25.71% increase as a result of being the first collection year after a property reappraisal that occurs every four years and is indicative of a rapidly growing area.

Miscellaneous Taxes decreased by 24.62% primarily due to a \$137,284 decrease in mortgage and deed filing tax, which is an element to monitor for a possible slow down in residential growth.

The remaining revenue items (5.56% of total revenues) are in line with year to year fluctuations for the types of revenues.

General Government and Public Safety increased 8.40% and 6.23%, respectfully. A portion of this attributed to raises for employees (2.1% cost of living and 3.0% merit raises) and an increase of 140% in retirement contributions. In addition, General Government had an increase of \$355,354 in repair and maintenance line items attributed to significant facility maintenance projects (i.e., re-roofing the courthouse). Also, Public Safety had expenditure increases related to the grants received as note in the preceding paragraph.

Highways and Roads had the largest increase of 26.82% attributed to the \$1,473,572 increase in road materials costs. These costs were associated with the increase funding for resurfacing (\$500,000) in the Fiscal Year 2004 budget, performing resurfacing that was not completed in Fiscal Year 2003, and an increase in the amount of materials used on unpaved roads over the previous year.

Health and Welfare decreased 70.23% due to Solid Waste Enforcement Officers being moved from the Animal Control Department to a separate department in the Environmental Services Fund under Other Governmental Funds, which moved the costs from Health and Welfare to Sanitation. Sanitation had an increase of 10.46% as a result of previously identified change. Also, Sanitation had the same increase due to raises and rise in retirement costs; however, some of these increases were offset by a \$96,334 decrease in landfill charges due to a rate decrease.

The remaining expenditure items (0.5% of total expenditures) are in line with year to year fluctuations for the types of expenditures.

### Net Cost of Services

The net cost of services is a comparison of the total cost for government functions and programs and the net cost remaining after reducing that total by the revenue generated from the specific function or program. For the current year total cost of services were \$22,509,766 and the combined charges for services plus operating and capital grants received were \$13,159,202 leaving a net cost to the County of \$9,350,564. This is an increase of \$1,349,023 in expenditures required to be funded from general revenues.

Charges for services amounted to \$6,619,753 and combined grants and contributions totaled \$6,539,449. 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. (SEE GRAPH on G – 3)

<b>Function/Programs</b>	<b>2004 Net Cost of Services</b>	<b>2003 Net Cost of Services</b>	<b>Net Cost (Increase)/Decrease</b>
General Government	(2,297,036)	(2,027,500)	(269,536)
Public Safety	(5,433,231)	(5,810,346)	377,115
Highways and Roads	(1,568,677)	62,500	(1,631,177)
Sanitation	192,213	362,556	(170,343)
Health	(138,677)	(453,615)	314,938
Welfare	(2,294)	(2,619)	325
Culture and Recreation	(30,881)	(52,141)	21,260
Education	(71,981)	(80,376)	8,395
Total Governmental Activities	<b>(9,350,564)</b>	<b>(8,001,541)</b>	<b>(1,349,023)</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 decreased from \$10,790,985 to \$10,049,296. This decrease of \$741,689 (6.87%) was primarily due to additional planned resurfacing of roads and planned facility improvements out of available excess resources available to the County. Exhibit 5 gives a full breakdown of revenues, expenditures, and changes in fund balances of all governmental funds.

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

The following table provides a summary of the changes in fund balances of the County's major funds (except the Capital Projects Fund) as well as the combined Other Governmental Funds. (SEE GRAPH on G – 3 / graph includes Capital Projects Fund)

<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	3,075,819	365,475	3,441,294	29.90%
Gasoline Fund	1,399,392	(50,939)	1,348,453	22.23%
Public Buildings, Roads & Bridges Fund	(137,034)	751,541	614,507	***
RRR Gasoline Fund	2,511,385	(894,505)	1,616,880	34.07%
Other Governmental Funds	<u>1,406,290</u>	<u>(275,805)</u>	1,130,485	26.89%
<b>Totals</b>	<b>8,255,852</b>	<b>(104,233)</b>	<b>8,151,619</b>	<b>30.73%</b>

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

The Capital Projects Fund is excluded since it is not an ongoing operational fund. The Capital Projects Fund is for one-time specific projects. The fund balance in this fund is established by the funds set aside for specific projects that have not been complete at the time of these financial statements; therefore, the fund hasn't been included for an annual operations comparison in the table above. The funds in the table above finished the year at the higher end of the targeted range. The RRR Gasoline fund is slightly over target due even after a sizable decrease over the previous fiscal year. The overall Governmental fund balances are at almost thirty-one percent (30.73%) of annual expenditures providing the county with reserves and some flexibility to address possible unforeseen events.

#### Budgetary Highlights - Major Funds

##### **General Fund**

Exhibit 9 shows that a few changes were made in the original general fund budgets for fiscal year ended September 30, 2004. Overall revenues remained as originally budgeted and overall expenditures were increased \$136,443 for a \$58,000 HVAC improvement and various larger ticket item purchase orders that had not been received by the end of the previous fiscal year. The county does not roll outstanding purchase order (encumbrances) allocations into the new fiscal year budget or utilizes an allowance for such. These will be counted against the new fiscal year budget, unless a large ticket item would cause an undue hardship on the department's new fiscal year budget. Transfers Out budget for the General Fund was increased \$384,950 for the transfer of excess funds to the Capital Improvement Fund for various capital projects approved by the Commission.

Actual Revenues were \$870,000 higher than the final budgeted revenues while actual expenditures were \$648,220 lower than the final budgeted amounts. The net change in the general fund balance for the current fiscal year was a \$365,475 increase or (11.88%), which is a \$1,479,500 positive difference from the planned \$1,114,025 decrease in the final budget. This is primarily attributed to budgeting revenues slightly below actual projections for the fiscal year and the commitment of all the various departments to stay within or finish the year below budget.

## **Gasoline Tax Fund**

Exhibit 10 shows that a \$178,015 increase in expenditures was made in the original Gas Tax fund budgets for fiscal year ended September 30, 2004. This was for heavy equipment purchase orders that had not been received by the end of the previous fiscal year. The county does not roll outstanding purchase order (encumbrances) allocations into the new fiscal year budget or utilizes an allowance for such. These will be counted against the new fiscal year budget, unless a large ticket item would cause an undue hardship on the department's new fiscal year budget.

Actual Revenues were slightly higher than the final budgeted revenues while actual expenditures were \$1,682,838 higher than the final budgeted amounts. Other Financing Sources were in excess by \$2,178,266. This is attributed to a lease-sale transaction during March 2004 for the rotation of fifteen dump trucks. Expenditures were in excess for the payoff of the outstanding debt and purchase of the new trucks. Other Financing Sources were in excess for the proceeds from the sale of the dump trucks and the proceeds from the new lease.

The net change in the Gas Tax fund balance for the current fiscal year was a \$50,939 decrease or (3.6%), which is \$567,779 less than the planned decrease for this fund. This is primarily attributed to lease-sale transaction, which resulted in a \$576,990 positive cash flow from the sale after the payment of the outstanding debt on the trucks.

## **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, 2004. Actual Revenues were \$461,541 more than the final budgeted revenues while actual transfers to operational funds were \$290,000 lower than the final budgeted amounts.

The net change in the Public Buildings, Roads and Bridges fund balance for the current fiscal year was a \$751,541 increase. This is primarily attributed to budgeting revenues below actual projections for the fiscal year and only transferring funds that were absolutely necessary in order to address the negative fund balance from the previous fiscal year and to ensure enough revenue for debt service of the planned bond issue in the 2005 fiscal year.

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

## **RRR Gasoline Tax Fund**

Exhibit 12 shows that a \$1,575,179 increase in expenditures was made in the original RRR Gasoline Tax fund budgets for fiscal year ended September 30, 2004. Of this amount, \$1,350,641 was for the recognition of the federal and state funds utilized on county bridge projects completed during the current fiscal year and the remaining \$224,538 was for an emergency repair on a road approved by the Commission on April 27, 2004 to be paid out of fund balance on hand.

Actual Revenues were slightly higher than the final budgeted revenues while actual expenditures were \$673,753 lower than the final budgeted amounts.

The net change in the RRR Gas Tax fund balance for the current fiscal year was an \$894,505 decrease or 35.61%, which is \$765,276 less than the planned decrease for this fund. The decrease in fund balance is primarily attributed completing resurfacing that was not accomplished during the prior fiscal year and a practice of budgeting the reserves for this fund in the expenditures, which will be discontinued next fiscal year.

The Capital Projects Fund is not on an annual year basis but rather on a project by project basis; therefore, this fund is not included in the annual budget to actual comparisons.

Capital Asset and Debt Administration

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

The following table shows a reconciliation of capital assets for the year ended September 30, 2004.

<b>Capital Assets</b>	
Total Capital Assets at October 1, 2003,	\$15,475,533
Correction of Accumulated Depreciation**	1,578,880
Additions	7,686,913
Retirements	(2,851,731)
Annual Depreciation	(1,772,131)
Accumulated Depreciation of Retired Assets	<u>519,817</u>
Total Capital Assets at September 30,2004	<b>\$20,637,281</b>

\*\* - See Notes to the Financial Statements

The following table shows total assets before and after depreciation.

<b>Governmental Activities</b>	<b>Assets Original Cost</b>	<b>Value at 9/30/04 After Depreciation</b>
Land	\$ 1,542,645	\$ 1,542,645
Construction in Progress	563,774	563,774
Infrastructure	3,731,753	3,678,472
Buildings and Improvements	15,939,533	9,487,390
Equipment and Furniture	11,382,533	4,000,363
Equipment Under Capital Leases	<u>1,756,789</u>	<u>1,364,637</u>
<b>Total Capital Assets</b>	<b>\$34,917,028</b>	<b>\$20,637,281</b>

Debt Outstanding

At the end of September 2003 the County's general obligation long-term debt was \$3,035,000. By the end of the current year the general obligation long-term debt had dropped to \$2,785,000. The pay-down on the general obligation long-term debt was \$250,000.

Capital lease debt had a net change increase of \$325,547 as the lease debt increased from \$1,137,014 to \$1,462,561 as of the end of September 2004. The primary reason for the increase was the lease-sale of fifteen dump trucks, which occurred in March 2004.

The liability for compensated absences as of the end of the current year was \$776,382.

The total of all general long-term debt for the County as of September 30, 2004 was \$4,203,754 which was \$79,371 more (1.93%) than the prior year's ending balance of \$4,124,383.

Based on the County's legal limits of debt at 5% of the net assessed value of property as of Oct 1, 2004, Lee County's maximum debt limit was \$48,590,955. With our total chargeable debt against our limit as of the end of the current fiscal year being \$4,247,561 we were at 8.74% 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 12% 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. The change to an annual re-evaluation will first effect 2004-2005 collections.

### 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, 2004***

	<b>Governmental Activities</b>
<b><u>Assets</u></b>	
<b><u>Current Assets:</u></b>	
Cash and Cash Equivalents	\$ 8,496,825.45
Investments	2,074,895.70
Accounts Receivable	273,316.03
Interest Receivable	9,737.92
Due from Other Governments	402,367.73
Property Tax Receivable	9,362,299.47
Inventories	9,367.40
Prepaid Expenses	32,110.78
Total Current Assets	<u>20,660,920.48</u>
<b><u>Noncurrent Assets:</u></b>	
Cash with Fiscal Agent	127,177.57
Land	1,542,644.98
Infrastructure	3,731,753.46
Buildings	15,939,533.11
Equipment and Furniture	11,404,738.51
Construction in Progress	563,774.07
Equipment under Capital Lease	1,734,583.71
Less: Accumulated Depreciation	<u>(14,279,746.50)</u>
Total Noncurrent Assets	<u>20,764,458.91</u>
Total Assets	<u>\$ 41,425,379.39</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	\$ 111,188.15
Accrued Wages Payable	565,457.14
Deferred Revenue	9,763,184.75
Due to Other Governments	150,261.88
Warrants Payable	260,000.00
Capital Leases Payable	421,215.59
Accrued Interest Payable	48,669.67
Estimated Liability for Compensated Absences	138,972.34
Total Current Liabilities	<u>11,458,949.52</u>
<b><u>Noncurrent Liabilities:</u></b>	
Estimated Liability for Compensated Absences	637,409.45
Capital Leases Payable	1,041,344.98
Warrants Payable	2,525,000.00
Total Noncurrent Liabilities	<u>4,203,754.43</u>
Total Liabilities	<u>15,662,703.95</u>
<b><u>Net Assets</u></b>	
Invested in Capital Assets, Net of Related Debt	19,174,720.77
Restricted for Road Projects	2,972,691.76
Restricted for Debt Service	127,177.57
Restricted for Other Purposes	539,671.78
Unrestricted	2,948,413.56
Total Net Assets	<u>\$ 25,762,675.44</u>

**Statement of Activities**  
**For the Year Ended September 30, 2004**

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary Government</b>			
<b>Governmental Activities:</b>			
General Government	\$ 6,536,987.48	\$ 3,858,653.66	\$ 134,420.38
Public Safety	6,526,309.81	410,929.18	693,136.50
Highways and Roads	6,859,832.37	49.00	4,014,271.00
Sanitation	2,157,977.21	2,350,120.89	68.85
Health	148,433.36		9,755.97
Welfare	2,293.84		
Culture and Recreation	30,880.55		
Education	71,980.49		
Interest and Fiscal Charges	175,070.71		
Total Governmental Activities	<u>\$ 22,509,765.82</u>	<u>\$ 6,619,752.73</u>	<u>\$ 4,851,652.70</u>

**General Revenues:**

- 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 (See 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>
\$ 246,878.02	\$ (2,297,035.42)
	(5,422,244.13)
1,440,918.79	(1,404,593.58)
	192,212.53
	(138,677.39)
	(2,293.84)
	(30,880.55)
	(71,980.49)
	(175,070.71)
<u>\$ 1,687,796.81</u>	<u>(9,350,563.58)</u>

6,162,821.47
3,548,651.62
857,340.43
442,237.52
140,135.15
815,329.17
<u>11,966,515.36</u>
2,615,951.78
<u>23,146,723.66</u>
<u>\$ 25,762,675.44</u>

***Balance Sheet***  
***Governmental Funds***  
***September 30, 2004***

	General Fund	Gasoline Fund	Public Buildings, Roads and Bridges Fund
<b><u>Assets</u></b>			
Cash and Cash Equivalents	\$ 4,041,268.92	\$ 1,323,154.44	\$ 53,710.98
Cash with Fiscal Agent			
Investments			
Accounts Receivable	253,598.00		
Due from Other Funds			700,000.00
Due from Other Governments	66,802.89	157,048.15	
Property Tax Receivable	5,969,071.69		2,727,244.30
Inventories	9,367.40		
Prepaid Expenses	32,110.78		
Total Assets	<u>10,372,219.68</u>	<u>1,480,202.59</u>	<u>3,480,955.28</u>
<b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities:</b>			
Accounts Payable	80,763.03	2,311.05	
Accrued Wages Payable	378,549.14	102,579.17	
Due to Other Funds			
Deferred Revenue	6,230,753.07		2,866,448.20
Due to Other Governments	150,261.88		
Estimated Liability for Compensated Absences	90,598.63	26,859.04	
Total Liabilities	<u>6,930,925.75</u>	<u>131,749.26</u>	<u>2,866,448.20</u>
<b>Fund Balances:</b>			
Reserved for Debt Service			
Reserved for Capital Projects			
Reserved for Prepaid Expenses	32,110.78		
Reserved for Inventories	9,367.40		
Reserved for Encumbrances	86,762.08	360,646.93	
Designated	339,913.00		
Unreserved	2,973,140.67	987,806.40	614,507.08
Total Fund Balances	<u>3,441,293.93</u>	<u>1,348,453.33</u>	<u>614,507.08</u>
Total Liabilities and Fund Balances	<u>\$ 10,372,219.68</u>	<u>\$ 1,480,202.59</u>	<u>\$ 3,480,955.28</u>

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

<b>RRR Gasoline Fund</b>	<b>Capital Projects Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 1,474,057.55	\$ 522,781.12	\$ 1,081,852.44	\$ 8,496,825.45
		127,177.57	127,177.57
	2,074,895.70		2,074,895.70
14,328.62		5,389.41	273,316.03
			700,000.00
146,487.40		32,029.29	402,367.73
		665,983.48	9,362,299.47
			9,367.40
			32,110.78
<u>1,634,873.57</u>	<u>2,597,676.82</u>	<u>1,912,432.19</u>	<u>21,478,360.13</u>
		28,114.07	111,188.15
14,920.88		69,407.95	565,457.14
	700,000.00		700,000.00
		665,983.48	9,763,184.75
			150,261.88
3,072.26		18,442.41	138,972.34
<u>17,993.14</u>	<u>700,000.00</u>	<u>781,947.91</u>	<u>11,429,064.26</u>
		127,177.57	127,177.57
	1,608,678.32		1,608,678.32
			32,110.78
			9,367.40
989.43	288,998.50	304,284.21	1,041,681.15
		187,326.95	527,239.95
1,615,891.00		511,695.55	6,703,040.70
<u>1,616,880.43</u>	<u>1,897,676.82</u>	<u>1,130,484.28</u>	<u>10,049,295.87</u>
<u>\$ 1,634,873.57</u>	<u>\$ 2,597,676.82</u>	<u>\$ 1,912,432.19</u>	<u>\$ 21,478,360.13</u>

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***Reconciliation of the Balance Sheet of Governmental Funds to the  
Statement of Net Assets  
September 30, 2004***

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 10,049,295.87

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	\$	1,542,644.98	
Infrastructure		3,731,753.46	
Buildings		15,939,533.11	
Equipment and Furniture		11,404,738.51	
Construction in Progress		563,774.07	
Equipment Under Capital Lease		1,734,583.71	
Less: Accumulated Depreciation		<u>(14,279,746.50)</u>	
Total Capital Assets, Net			20,637,281.34

Accrued interest receivable is not available soon enough to pay for the current  
period's expenditures, and therefore is not shown in the funds. 9,737.92

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

	Liabilities		
	Current	Noncurrent	
Warrants Payable	\$ 260,000.00	2,525,000.00	
Capital Lease Payable	421,215.59	1,041,344.98	
Accrued Interest Payable	48,669.67		
Estimated Liability for Compensated Absences		637,409.45	
Total Long-Term Liabilities	<u>\$ 729,885.26</u>	<u>\$ 4,203,754.43</u>	<u>(4,933,639.69)</u>

Total Net Assets - Governmental Activities (Exhibit 1) \$ 25,762,675.44

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, 2004***

	General Fund	Gasoline Fund	Public Buildings, Roads and Bridges Fund
<b><u>Revenues</u></b>			
Taxes	\$ 7,064,689.64	\$	\$ 2,768,867.05
Licenses and Permits	582,152.44		
Intergovernmental	1,039,749.23	1,954,695.79	
Charges for Service	3,392,525.70	49.00	
Miscellaneous	218,399.24	6,503.79	18,248.77
Total Revenues	<u>12,297,516.25</u>	<u>1,961,248.58</u>	<u>2,787,115.82</u>
<b><u>Expenditures</u></b>			
Current:			
General Government	5,018,244.99		
Public Safety	5,621,966.82		
Highways and Roads		3,384,182.38	
Sanitation			
Health	148,433.36		
Welfare	2,293.84		
Culture and Recreation	498.25		
Education	65,111.73		
Capital Outlay	517,604.13	1,704,707.19	
Debt Service:			
Principal Retirement	124,141.72	938,642.02	
Interest and Fiscal Charges	10,226.48	39,422.29	
Total Expenditures	<u>11,508,521.32</u>	<u>6,066,953.88</u>	
Excess (deficiency) of revenues over expenditures	<u>788,994.93</u>	<u>(4,105,705.30)</u>	<u>2,787,115.82</u>
<b><u>Other Financing Sources (Uses)</u></b>			
Sale of Assets		1,226,716.39	
Transfer In	58,000.00	1,586,500.00	
Debt Issued	153,795.25	1,241,550.00	
Transfer Out	(635,315.00)		(2,035,575.00)
Total Other Financing Sources (Uses)	<u>(423,519.75)</u>	<u>4,054,766.39</u>	<u>(2,035,575.00)</u>
Net Change in Fund Balances	365,475.18	(50,938.91)	751,540.82
Fund Balances - Beginning of Year, as Restated (Note 13)	<u>3,075,818.75</u>	<u>1,399,392.24</u>	<u>(137,033.74)</u>
Fund Balances - End of Year	<u>\$ 3,441,293.93</u>	<u>\$ 1,348,453.33</u>	<u>\$ 614,507.08</u>

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

<b>RRR Gasoline Fund</b>	<b>Capital Projects Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 178,885.05	\$	\$ 561,798.00	\$ 10,574,239.74
		7,211.75	589,364.19
3,191,835.91		1,055,729.50	7,242,010.43
		2,360,768.53	5,753,343.23
135,895.12	137,216.90	70,550.65	586,814.47
<u>3,506,616.08</u>	<u>137,216.90</u>	<u>4,056,058.43</u>	<u>24,745,772.06</u>
	204,383.18	785,127.31	6,007,755.48
	638.40	567,505.62	6,190,110.84
2,710,971.18			6,095,153.56
		2,022,825.14	2,022,825.14
			148,433.36
			2,293.84
		30,382.30	30,880.55
			65,111.73
2,035,220.17	1,379,488.30	406,641.15	6,043,660.94
		257,014.83	1,319,798.57
		133,849.70	183,498.47
<u>4,746,191.35</u>	<u>1,584,509.88</u>	<u>4,203,346.05</u>	<u>28,109,522.48</u>
<u>(1,239,575.27)</u>	<u>(1,447,292.98)</u>	<u>(147,287.62)</u>	<u>(3,363,750.42)</u>
			1,226,716.39
725,575.00	822,197.50	1,028,179.89	4,220,452.39
			1,395,345.25
<u>(380,504.41)</u>	<u>(12,360.48)</u>	<u>(1,156,697.50)</u>	<u>(4,220,452.39)</u>
<u>345,070.59</u>	<u>809,837.02</u>	<u>(128,517.61)</u>	<u>2,622,061.64</u>
<u>(894,504.68)</u>	<u>(637,455.96)</u>	<u>(275,805.23)</u>	<u>(741,688.78)</u>
<u>2,511,385.11</u>	<u>2,535,132.78</u>	<u>1,406,289.51</u>	<u>10,790,984.65</u>
<u>\$ 1,616,880.43</u>	<u>\$ 1,897,676.82</u>	<u>\$ 1,130,484.28</u>	<u>\$ 10,049,295.87</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, 2004***

Net Change in Fund Balances - Total Governmental Funds (Exhibit 5)	\$ (741,688.78)
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 net increase/(decrease) in fixed asset additions and deletions. This is the amount by which capital outlay (\$6,043,660.94) exceeds depreciation (\$1,772,130.61).	4,271,530.33
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.	(800,668.35)
Repayment of principal on debt that is reflected as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	1,319,798.57
Debt issuances provide current financial resources governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.	(1,395,345.25)
Net increase in Long-Term Compensated Absences.	(40,675.28)
Net decrease in Accrued Interest Payable.	8,427.76
Net decrease in accrued interest receivable in the Statement of Activities not reported in the funds.	<u>(5,427.22)</u>
Total Net Assets - Governmental Activities (Exhibit 2)	<u>\$ 2,615,951.78</u>

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

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***Statement of Fiduciary Net Assets***  
***Fiduciary Funds***  
***September 30, 2004***

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	<b>Private-Purpose Trust Funds</b>
<b><u>Assets</u></b>	
Cash and Cash Equivalents	\$ 581,371.97
Due from Other Governments	24,569.49
Total Assets	<u>605,941.46</u>
<b><u>Liabilities</u></b>	
Payable to External Parties	554,677.39
Total Liabilities	<u>554,677.39</u>
<b><u>Net Assets</u></b>	
Held in Trust for Other Purposes	<u>\$ 51,264.07</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, 2004***

	<b>Private-Purpose Trust Funds</b>
<b><u>Additions</u></b>	
Contributions:	
Charges for Service	\$ 317,135.72
Interest	220.72
Total Additions	<u>317,356.44</u>
<b><u>Deductions</u></b>	
Administrative Expenses	<u>312,903.27</u>
Total Deductions	<u>312,903.27</u>
Changes in Net Assets	4,453.17
Net Assets - Beginning of Year	<u>46,810.90</u>
Net Assets - End of Year	<u>\$ 51,264.07</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, 2004*

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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 implemented the provisions of the Statement in the 2003 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, 2004***

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Based on the application of the above criteria, the following entities are component units of the Commission: the Lee County Revenue Commissioner, 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, 2004*

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The Commission reports the following major governmental funds:

- ◆ **General Fund** - The general fund is the primary operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund. The Commission primarily received revenues from collections of property taxes and revenues collected by the State of Alabama and shared with the County.
- ◆ **Gasoline Fund** - This fund is used to account for the expenditures of gasoline taxes restricted to roads.
- ◆ **RRR Gasoline Tax Fund** - This fund is used to account for the expenditures of the County'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 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.
- ◆ **Capital Projects Fund** - This fund is used to account for expenditures of funds designated for significant capital projects.

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

**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.

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.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2004*

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

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

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

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

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

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

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2004***

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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.

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

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

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

**3. Inventories**

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

**4. Prepaid Items**

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

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2004***

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**5. Restricted Assets**

Certain general obligation bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

**6. Capital Assets**

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance 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 Statement 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 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, 2004***

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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. Bond/Warrant premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds/Warrants payable are reported net of the applicable bond/warrant premium or discount. Bond/Warrant issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**8. Compensated Absences**

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

**Annual Leave**

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

Continuous Years of Service	Per Year
Less than Six Years	10 days
Six to Ten Years	12 days
Eleven to Fifteen Years	15 days
Sixteen Years and Over	18 days

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

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2004***

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**Sick Leave**

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

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

**Compensatory Time**

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

As of September 30, 2004, the liability for accrued annual leave and compensatory leave time is approximately \$776,381.79. Only the current portion of \$138,972.34 has been recorded as a liability in the governmental funds and Statement of Net Assets. The remainder of \$637,409.45 has been recorded as noncurrent in the Statement of Net Assets.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2004*

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#### **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 basis consistent with accounting principles generally accepted in the United States of America for all governmental funds except the capital projects funds, which adopt project-length budgets. All annual appropriations lapse at fiscal year-end.

The State Legislature enacted the County Financial Control Act of 1935, which is the present statutory basis for county budgeting operations. Under the terms of the County Financial Control Act, each county commission, at some meeting in September of each year, but in any event not later than the first meeting in October must estimate the County's revenues and expenditures and appropriate for the various purposes the respective amounts that are to be used for each purpose. The appropriations must not exceed the total revenues available for appropriation. Expenditures may not legally exceed appropriations.

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

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2004*

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#### Note 3 - Deposits and Investments

##### Deposits

The Commission's deposits at year-end were held by financial institutions in the State of Alabama's 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 County or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the dealer's agent in the County'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 County's name. All of the Commission's investments were in Category 1.

	September 30, 2004	
	Recorded Value	Market Value
Federal Home Loan Bank Bonds	\$399,764.01	\$401,556.00
Federal Home Mortgage Discount Notes	248,131.69	247,850.00
Total Securities	\$647,895.70	\$649,406.00

The Commission's investments also included certificates of deposit in the amount of \$1,427,000. 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.

## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2004*

#### 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, 2004, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Ad Valorem Taxes Receivable	\$9,158,120.38	\$605,064.37
Total Deferred/Unearned Revenue for Governmental Funds	\$9,158,120.38	\$605,064.37

#### Note 5 - Capital Assets

Capital asset activity for the year ended September 30, 2004, was as follows:

	Balance 10/1/2003, as Restated (*)	Reclassifications	Additions	Retirements	Balance 9/30/2004
<b>Governmental Activities:</b>					
<b>Capital Assets, Not Being Depreciated:</b>					
Land	\$ 1,031,577.54	\$	\$ 511,067.44	\$	\$ 1,542,644.98
Construction in Progress	310,400.86	(310,400.86)	563,774.07		563,774.07
Total Capital Assets, Not Being Depreciated	1,341,978.40	(310,400.86)	1,074,841.51		2,106,419.05
<b>Capital Assets Being Depreciated:</b>					
Infrastructure	1,696,533.29		2,035,220.17		3,731,753.46
Buildings	15,373,001.44	310,400.86	256,130.81		15,939,533.11
Equipment and Furniture	10,205,486.45	22,921.50	1,272,767.70	(96,437.14)	11,404,738.51
Equipment Under Capital Lease	1,579,429.46	(22,921.50)	1,404,700.75	(1,226,625.00)	1,734,583.71
Total Capital Assets Being Depreciated	28,854,450.64	310,400.86	4,968,819.43	(1,323,062.14)	32,810,608.79
Buildings	(6,065,179.80)		(386,962.89)		(6,452,142.69)
Infrastructure	(4,454.11)		(48,826.98)		(53,281.09)
Equipment and Furniture	(6,440,736.36)	(22,921.50)	(1,121,170.69)	81,736.59	(7,503,091.96)
Equipment Under Capital Lease	(517,062.46)	22,921.50	(215,170.05)	438,080.25	(271,230.76)
Total Accumulated Depreciation	(13,027,432.73)		(1,772,130.61)	519,816.84	(14,279,746.50)
Total Capital Assets, Being Depreciated, Net	15,827,017.91	310,400.86	3,196,688.82	(803,245.30)	18,530,862.29
Total Governmental Activities Capital Assets, Net	\$ 17,168,996.31	\$	\$ 4,271,530.33	\$ (803,245.30)	\$ 20,637,281.34
(*) The beginning balances for capital assets were restated (\$1,693,462.95) to correct accumulated depreciation for annual calculations performed more than once in a single fiscal year and to include items that were left off the last fiscal year inventory.					

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2004***

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

	Current Year Depreciation Expense
<u>Governmental Activities:</u>	
General Government	\$ 529,232.00
Public Safety	336,198.97
Highway and Roads	764,678.81
Sanitation	135,152.07
Education	6,868.76
Total Depreciation Expense - Governmental Activities	<u>\$1,772,130.61</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, 2004*

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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, 2004, was 4.77% based on the actuarial valuation performed as of September 30, 2002.

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

For the year ended September 30, 2004, the Commission's annual pension cost of \$434,632.50 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, 2003, 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, 2003 was 20 years.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2004***

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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
9/30/2004	\$434,632.50	100%	\$0
9/30/2003	\$238,735.00	100%	\$0
9/30/2002	\$205,587.00	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]
9/30/2003****	\$17,065,093	\$18,056,013	\$ 990,920	94.5%	\$9,052,016	10.9%
9/30/2002***	\$16,217,559	\$16,301,199	\$ 83,640	100.0%	\$8,355,171	1.0%
9/30/2001**	\$15,733,614	\$14,274,162	(\$1,459,452)	110.2%	\$7,953,264	(18.4%)

\* Reflects liability for cost of living benefit increases granted on or after October 1, 1978.  
\*\* Reflects change in actuarial assumption (as of September 30, 2001). Also reflects effect of DROP if unit elected to enroll.  
\*\*\* Reflects effect of DROP if unit elected prior to June 30, 2003.  
\*\*\*\* Reflects effect of DROP if unit elected to enroll prior to May 18, 2004.

**Note 7 - Other Postemployment Benefits (OPEB)**

In addition to the pension benefits described in Note 6, the Commission provides post employment health care benefits, in accordance with a resolution approved by the Commission on October 12, 1999, to all Commission 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 Commission for dependent coverage.

The Commission pays for the retired employees' insurance. The cost is currently \$490.00 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, 2004, post-retirement health care benefits paid by the Commission was \$29,220.00 to cover seven retirees.

**Notes to the Financial Statements**  
**For the Year Ended September 30, 2004**

**Note 8 - Lease Obligations**

**Capital Leases**

The Commission is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled \$1,734,583.71 for governmental activities at September 30, 2004. If the Commission completes the lease payments according to the schedules below, which is the stated intent of the Commission, ownership of the leased equipment will pass to the Commission. The lease purchase contracts give the Commission the right to cancel the lease with 30 days' written notice and payment of a pro rata share of the current year's lease payments. Until that time, the leased equipment will be identified separately on the balance sheet. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30.

Fiscal Year Ending	Governmental Activities
September 30, 2005	\$ 462,472.57
2006	416,868.15
2007	347,428.93
2008	332,294.40
Total Minimum Lease Payments	1,559,064.05
Less: Amount Representing Interest	(96,503.48)
Present Value of Net Minimum Lease Payments	<u>\$1,462,560.57</u>

**Note 9 - Long-Term Debt**

The Commission issued General Obligation Bonds 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 10/1/2003	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 9/30/2004	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Warrants Payable:					
General Obligation - Series 1998	\$3,035,000.00	\$	\$ 250,000.00	\$2,785,000.00	\$260,000.00
Capital Lease Contracts Payable	1,137,013.89	1,395,345.25	1,069,798.57	1,462,560.57	421,215.59
Estimated Liability for Compensated Absences	663,037.95	113,343.84		776,381.79	138,972.34
Total	<u>\$4,835,051.84</u>	<u>\$1,508,689.09</u>	<u>\$1,319,798.57</u>	<u>\$5,023,942.36</u>	<u>\$820,187.93</u>

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2004***

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Payments on the bonds payable that pertain to the Commission's governmental activities are made by the RRR Gasoline Fund and the Debt Service Fund. The capital lease liability for the governmental activities will be liquidated by the General Fund, Gasoline Tax Fund and the EMA Fund.

The compensated absences liability attributable to the governmental activities will be liquidated by several of the Commission's governmental funds. In the past, approximately 68.28% has been 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		Capital Lease Contracts Payable		
	Principal	Interest	Principal	Interest	
September 30, 2005	\$ 260,000.00	\$121,052.50	\$ 421,215.61	\$41,256.96	\$ 843,525.07
2006	270,000.00	110,522.50	388,484.92	28,383.23	797,390.65
2007	285,000.00	99,317.50	329,569.06	17,859.87	731,746.43
2008	295,000.00	87,347.50	323,290.98	9,003.42	714,641.90
2009	305,000.00	74,810.00			379,810.00
2010-2013	1,370,000.00	158,670.00			1,528,670.00
Total	<u>\$2,785,000.00</u>	<u>\$651,720.00</u>	<u>\$1,462,560.57</u>	<u>\$96,503.48</u>	<u>\$4,995,784.05</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, 2004***

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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 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, 2004, the aggregate principal amount payable for the Series 2003 Limited Obligation Warrants was \$37,350,000.00.

**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.

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2004***

**Note 12 - Interfund Transactions**

**Interfund Receivable and Payable**

As of fiscal year ending September 30, 2004, there was an interfund receivable to the Public Buildings, Roads and Bridges Fund for \$700,000.00 from the Capital Projects Fund as a short-term loan for cash flow until investments in the Capital Projects Fund mature.

**Interfund Transfers**

The amounts of interfund transfers during the fiscal year ending September 30, 2004, were as follows:

	Transfers Out					Totals
	General Fund	Public Buildings, Roads and Bridges Fund	RRR Gasoline Tax Fund	Capital Projects Fund	Other Governmental Funds	
<b>Transfers In:</b>						
General Fund	\$	\$	\$	\$	\$ 58,000.00	\$ 58,000.00
Gasoline Fund		1,310,000.00			276,500.00	1,586,500.00
RRR Gasoline Tax Fund		725,575.00				725,575.00
Capital Projects Fund					822,197.50	822,197.50
Other Governmental Funds	635,315.00		380,504.41	12,360.48		1,028,179.89
<b>Totals</b>	<b>\$635,315.00</b>	<b>\$2,035,575.00</b>	<b>\$380,504.41</b>	<b>\$12,360.48</b>	<b>\$1,156,697.50</b>	<b>\$4,220,452.39</b>

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

**Note 13 - Restatement of Fund Balance/Net Assets**

**Fund Balance**

An adjustment was made to the General Fund for funds transferred for payroll withholding in excess of the actual needed remittances.

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2004***

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

	General Fund	Gasoline Fund	Public Buildings, Roads and Bridges Fund
Fund Balance, September 30, 2003, as Previously Reported	\$3,081,659.08	\$1,399,392.24	\$(137,033.74)
Add:			
Withholding Refund	5,896.93		
Fund Reclassifications	(11,737.26)		
Total Restatements	(5,840.33)		
Fund Balance, September 30, 2003, as Restated	<u>\$3,075,818.75</u>	<u>\$1,399,392.24</u>	<u>\$(137,033.74)</u>

**Net Assets**

An adjustment was made for the recalculation of capital asset accumulated depreciation. The capital asset system during fiscal year 2003 calculated several groups of assets more than once. Two adjustments were made for assets that should have been on the listing of fixed assets, which were left off from last fiscal year.

An adjustment was made for funds transferred for payroll withholding in excess of the actual needed remittances.

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

	Entity-Wide Net Assets
Net Assets, September 30, 2003, as Previously Reported	\$21,449,940.73
Adjustment of Depreciated Assets	1,578,879.50
HVAC Phase I and II Not Originally Capitalized	102,673.00
Land Not Originally Capitalized	9,333.60
Withholding Refund	5,896.83
Net Assets, September 30, 2003, as Restated	<u>\$23,146,723.66</u>

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2004***

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RRR Gasoline Tax Fund	Justice Center Maintenance Fund	Capital Projects Fund	Other Governmental Funds	Total
\$2,511,385.11	\$ 2,020,105.40	\$	\$1,909,579.63	\$10,785,087.72
				5,896.93
	(2,020,105.40)	2,535,132.78	(503,290.12)	
	(2,020,105.40)	2,535,132.78	(503,290.12)	5,896.93
\$2,511,385.11	\$	\$2,535,132.78	\$1,406,289.51	\$10,790,984.65

**Note 14 - Subsequent Event**

The Commission on November 17, 2004 issued \$17,975,000 in 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, 2004***

	<b>Budgetary Amount</b>	
	<b>Original</b>	<b>Final</b>
<b><u>Revenues</u></b>		
Taxes	\$ 6,689,101.00	\$ 6,689,101.00
Licenses and Permits	408,800.00	408,800.00
Intergovernmental	937,250.00	937,250.00
Charges for Services	3,119,265.00	3,119,265.00
Miscellaneous	273,100.00	273,100.00
Total Revenues	11,427,516.00	11,427,516.00
<b><u>Expenditures</u></b>		
Current:		
General Government	5,320,611.00	5,494,622.00
Public Safety	5,836,800.00	5,710,913.00
Health	148,131.00	148,131.00
Welfare	4,000.00	4,000.00
Culture and Recreation		
Education	65,270.00	67,232.00
Capital Outlay	482,625.00	588,982.00
Debt Service:		
Principal	149,372.00	129,372.00
Interest	13,489.00	13,489.00
Total Expenditures	12,020,298.00	12,156,741.00
Excess (Deficiency) of Revenues Over Expenditures	(592,782.00)	(729,225.00)
<b><u>Other Financing Sources (Uses)</u></b>		
Transfer In		58,000.00
Debt Issued	190,700.00	190,700.00
Transfer Out	(248,550.00)	(633,500.00)
Total Other Financing Sources (Uses)	(57,850.00)	(384,800.00)
Net Change in Fund Balances	(650,632.00)	(1,114,025.00)
Fund Balances at Beginning of Year, as Restated	3,125,545.00	3,081,659.00
Fund Balances at End of Year	\$ 2,474,913.00	\$ 1,967,634.00

<b>Actual Amounts Budgetary Basis</b>	<b>Actual Amounts GAAP Basis</b>
\$ 7,064,689.64	\$ 7,064,689.64
582,152.44	582,152.44
1,039,749.23	1,039,749.23
3,392,525.70	3,392,525.70
218,399.24	218,399.24
<u>12,297,516.25</u>	<u>12,297,516.25</u>
5,018,244.99	5,018,244.99
5,621,966.82	5,621,966.82
148,433.36	148,433.36
2,293.84	2,293.84
498.25	498.25
65,111.73	65,111.73
517,604.13	517,604.13
124,141.72	124,141.72
10,226.48	10,226.48
<u>11,508,521.32</u>	<u>11,508,521.32</u>
<u>788,994.93</u>	<u>788,994.93</u>
58,000.00	58,000.00
153,795.25	153,795.25
(635,315.00)	(635,315.00)
<u>(423,519.75)</u>	<u>(423,519.75)</u>
365,475.18	365,475.18
<u>3,075,818.75</u>	<u>3,075,818.75</u>
<u>\$ 3,441,293.93</u>	<u>\$ 3,441,293.93</u>

***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - Gasoline Fund  
For the Year Ended September 30, 2004***

	<b>Budgetary Amount</b>	
	<b>Original</b>	<b>Final</b>
<b><u>Revenues</u></b>		
Intergovernmental	\$ 1,810,598.00	\$ 1,810,598.00
Charges for Services	3,500.00	3,500.00
Miscellaneous	74,800.00	74,800.00
Total Revenues	<u>1,888,898.00</u>	<u>1,888,898.00</u>
<b><u>Expenditures</u></b>		
Current:		
Highways and Roads	3,178,398.00	3,178,398.00
Capital Outlay	688,186.00	866,201.00
Debt Service:		
Principal	300,095.00	300,095.00
Interest	39,422.00	39,422.00
Total Expenditures	<u>4,206,101.00</u>	<u>4,384,116.00</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,317,203.00)</u>	<u>(2,495,218.00)</u>
<b><u>Other Financing Sources (Uses)</u></b>		
Sale of Capital Assets		
Transfer In	1,876,500.00	1,876,500.00
Debt Issued		
Total Other Financing Sources (Uses)	<u>1,876,500.00</u>	<u>1,876,500.00</u>
Net Change in Fund Balances	(440,703.00)	(618,718.00)
Fund Balances at Beginning of Year	<u>995,268.00</u>	<u>1,399,392.00</u>
Fund Balances at End of Year	<u>\$ 554,565.00</u>	<u>\$ 780,674.00</u>

<b>Actual Amounts Budgetary Basis</b>	<b>Actual Amounts GAAP Basis</b>
\$ 1,954,695.79	\$ 1,954,695.79
49.00	49.00
6,503.79	6,503.79
1,961,248.58	1,961,248.58
3,384,182.38	3,384,182.38
1,704,707.19	1,704,707.19
938,642.02	938,642.02
39,422.29	39,422.29
6,066,953.88	6,066,953.88
(4,105,705.30)	(4,105,705.30)
1,226,716.39	1,226,716.39
1,586,500.00	1,586,500.00
1,241,550.00	1,241,550.00
4,054,766.39	4,054,766.39
(50,938.91)	(50,938.91)
1,399,392.24	1,399,392.24
\$ 1,348,453.33	\$ 1,348,453.33

***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - Public Buildings, Roads and Bridges Fund  
For the Year Ended September 30, 2004***

	<b>Budgetary Amount</b>	
	<b>Original</b>	<b>Final</b>
<b><u>Revenues</u></b>		
Taxes	\$ 2,288,241.00	\$ 2,288,241.00
Intergovernmental	31,884.00	31,834.00
Miscellaneous	5,450.00	5,500.00
Total Revenues	<u>2,325,575.00</u>	<u>2,325,575.00</u>
<b><u>Expenditures</u></b>		
Current:		
Highways and Roads		
Total Expenditures		
Excess (Deficiency) of Revenues Over Expenditures	<u>2,325,575.00</u>	<u>2,325,575.00</u>
<b><u>Other Financing Sources (Uses)</u></b>		
Transfer Out	(2,325,575.00)	(2,325,575.00)
Total Other Financing Sources (Uses)	<u>(2,325,575.00)</u>	<u>(2,325,575.00)</u>
Net Change in Fund Balances		
Fund Balances at Beginning of Year		
Fund Balances at End of Year	<u>\$</u>	<u>\$</u>

<b>Actual Amounts Budgetary Basis</b>	<b>Actual Amounts GAAP Basis</b>
\$ 2,768,867.05	\$ 2,768,867.05
18,248.77	18,248.77
<u>2,787,115.82</u>	<u>2,787,115.82</u>
<u>2,787,115.82</u>	<u>2,787,115.82</u>
(2,035,575.00)	(2,035,575.00)
<u>(2,035,575.00)</u>	<u>(2,035,575.00)</u>
751,540.82	751,540.82
<u>(137,033.74)</u>	<u>(137,033.74)</u>
<u>\$ 614,507.08</u>	<u>\$ 614,507.08</u>

***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - RRR Gasoline Tax Fund  
For the Year Ended September 30, 2004***

	<b>Budgetary Amount</b>	
	<b>Original</b>	<b>Final</b>
<b><u>Revenues</u></b>		
Taxes	\$ 177,000.00	\$ 177,000.00
Intergovernmental	1,802,000.00	3,152,641.00
Miscellaneous	86,000.00	86,000.00
Total Revenues	<u>2,065,000.00</u>	<u>3,415,641.00</u>
<b><u>Expenditures</u></b>		
Current:		
Highways and Roads	1,229,362.00	2,580,003.00
Capital Outlay	2,615,403.00	2,839,941.00
Total Expenditures	<u>3,844,765.00</u>	<u>5,419,944.00</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,779,765.00)</u>	<u>(2,004,303.00)</u>
<b><u>Other Financing Sources (Uses)</u></b>		
Transfer In	725,575.00	725,575.00
Transfer Out	(381,053.00)	(381,053.00)
Total Other Financing Sources (Uses)	<u>344,522.00</u>	<u>344,522.00</u>
Net Change in Fund Balances	(1,435,243.00)	(1,659,781.00)
Fund Balances at Beginning of Year	<u>2,304,300.00</u>	<u>2,511,385.00</u>
Fund Balances at End of Year	<u><u>\$ 869,057.00</u></u>	<u><u>\$ 851,604.00</u></u>

<b>Actual Amounts Budgetary Basis</b>	<b>Actual Amounts GAAP Basis</b>
\$ 178,885.05	\$ 178,885.05
3,191,835.91	3,191,835.91
135,895.12	135,895.12
<u>3,506,616.08</u>	<u>3,506,616.08</u>
2,710,971.18	2,710,971.18
2,035,220.17	2,035,220.17
<u>4,746,191.35</u>	<u>4,746,191.35</u>
<u>(1,239,575.27)</u>	<u>(1,239,575.27)</u>
725,575.00	725,575.00
(380,504.41)	(380,504.41)
<u>345,070.59</u>	<u>345,070.59</u>
(894,504.68)	(894,504.68)
<u>2,511,385.11</u>	<u>2,511,385.11</u>
<u>\$ 1,616,880.43</u>	<u>\$ 1,616,880.43</u>

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## *Additional Information*

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***Commission Members and Administrative Personnel***  
***October 1, 2003 through September 30, 2004***

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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	3825 Lee Road 166 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
<b><u>Administrative Personnel</u></b>			
Roger Rendleman	Administrator	419 Belmonte Drive Auburn, AL 36830	
Alice M. Hodge	Deputy Administrator	1168 Overwood Court Auburn, AL 36830	

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

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We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lee County Commission as of and for the year ended September 30, 2004, which collectively comprise the Lee County Commission's basic financial statements and have issued our report thereon dated July 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

**Compliance and Other Matters**

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

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

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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

July 29, 2005