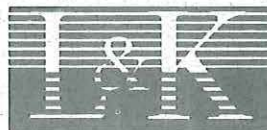


**LEE COLLEGE DISTRICT**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED AUGUST 31, 2016**



**Lovvorn & Kieschnick**  
CERTIFIED PUBLIC ACCOUNTANTS

LOVVORN & KIESCHNICK, LLP

*This page is left blank intentionally.*

**LEE COLLEGE DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2016**

**TABLE OF CONTENTS**

	<u>Page</u>
ORGANIZATIONAL DATA	
FINANCIAL SECTION	
Independent Auditor's Report .....	1
Management's Discussion and Analysis (Required Supplementary Information).....	4
 <u>Basic Financial Statements</u>	
Government-wide Financial Statements:	
Exhibits	
1 Statement of Net Position.....	12
Component Unit Statement of Financial Position.....	13
2 Statement of Revenues, Expenses, and Changes in Net Position.....	14
Component Unit Statement of Activities.....	15
3 Statement of Cash Flows .....	16
Notes to the Basic Financial Statements.....	18
 <u>Required Supplementary Information</u>	
Schedule of the District's Proportionate Share of the Net Position Liability – Teacher Retirement System .....	39
Schedule of the District's Contributions – Teacher Retirement System .....	40
Notes to Required Supplementary Information .....	41
 <u>Other Supplementary Information</u>	
<u>Schedules</u>	
A Schedule of Operating Revenues .....	42
B Schedule of Operating Expenses by Object .....	43
C Schedule of Non-Operating Revenues and Expenses.....	44
D Schedule of Net Position by Source and Availability.....	45
E Schedule of Expenditures of Federal Awards .....	46
F Schedule of Expenditures of State Awards.....	48
 SINGLE AUDIT SECTION	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	49
Report on Compliance for Each Major Program and on Internal Control over Compliance Required by Title 2 CFR Part 200 (Uniform Guidance).....	51
Schedule of Findings and Questioned Costs .....	54
Schedule of Corrective Action Plan.....	55
Summary Schedule of Prior Audit Findings.....	56

*This page is left blank intentionally.*

## **ORGANIZATIONAL DATA**

*This page is left blank intentionally.*

# LEE COLLEGE DISTRICT ORGANIZATIONAL DATA FOR THE FISCAL YEAR 2016

---

## Board of Regents

### Officers

Mr. Ronald Haddox	Chairman
Mr. Pete C. Alfaro	Vice Chairman
Mr. Mark Hall	Secretary
Mr. Wayne Gray	Assistant Secretary

### Regents

Mr. Pete C. Alfaro	Baytown, Texas	May 2019
Dr. Keith Coburn	Baytown, Texas	May 2019
Mr. Weston Cotten	Baytown, Texas	May 2021
Mr. Wayne Gray	Baytown, Texas	May 2017
Mr. Ronald Haddox	Baytown, Texas	May 2017
Mr. Mark Hall	Baytown, Texas	May 2021
Mr. Mark Himsel	Baytown, Texas	May 2021
Ms. Judy Jirrels	Baytown, Texas	May 2017
Ms. Susan Moore-Fontenot	Baytown, Texas	May 2019

---

## Principal Administrative Officers

Dr. Dennis Brown	President
Mr. Steve Evans	Vice President of Finance and Administration
Dr. Cathy Kemper-Pelle	Vice President of Learning
Dr. Christina Ponce	Vice President of Student Success, Workforce & Resource Development
Dr. Donnetta Suchon	Vice President of Student Affairs
Dr. Michael Fleming	Exec. Director of Institutional Research, Effectiveness & Planning
Dr. Carolyn Lightfoot	Chief Information Officer
Mr. Layton Childress	Dean, Applied Sciences
Dr. Daria Willis	Dean, Academic Studies
Mrs. Donna Zuniga	Dean, Huntsville Center

*This page is left blank intentionally.*



## **FINANCIAL SECTION**

*This page is left blank intentionally.*



**Lovvorn & Kieschnick, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report**

Board of Regents  
Lee College District  
Baytown, Texas 77520

Members of the Board of Regents:

**Report on the Financial Statements**

We have audited the accompanying financial statements of Lee College District (the District) as of and for the years ended August 31, 2016 and 2015, the related notes to the financial statements, and the discretely presented component unit financial statements of Lee College Foundation, Inc., which collectively comprise the District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audits 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to Lee College District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Lee College District internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lee College District, and the discretely presented component unit, as of August 31, 2016 and 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of the District's Proportionate Share of the Net Position Liability – TRS, and Schedule of the District's Contributions – TRS, identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lee College District's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as

required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Subpart F—Audit Requirements (Uniform Guidance) and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.


The other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

#### **Other Reporting Required by *Government auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2016 on our consideration of Lee College District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lee College District's internal control over financial reporting and compliance.

Respectfully submitted,



Lovvorn & Kieschnick, LLP  
December 13, 2016

*This page is left blank intentionally.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*This page is left blank intentionally.*



**Management's Discussion and Analysis  
Fiscal Year Ended August 31, 2016**

**Overview of the Financial Statements and Financial Analysis**

Lee College District (the District) is proud to present its financial statements for Fiscal Year 2016 which are in conformance with Governmental Accounting Standards Board (GASB) standards. There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. These statements should be read in conjunction with the notes to the basic financial statements. The following summary and management's discussion and analysis of the results is intended to provide readers with an overview of the basic financial statements.

Some of the financial highlights of the Fiscal Year are as follows:

- Assets and Deferred Outflows of Resources of the District exceeded Liabilities and Deferred Inflows of Resources at the close of the Fiscal Year on August 31, 2016, by \$36.9 million (net position). There was an increase in overall net position of the College of \$294,657.

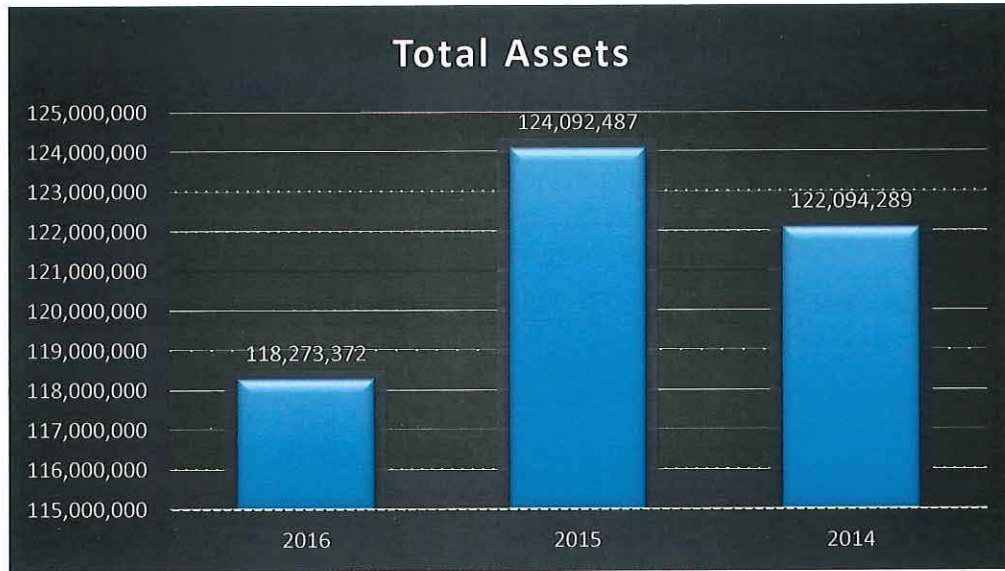
**Statement of Net Position**

The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the District as of the end of the Fiscal Year. It is a point-in-time financial statement. The purpose of the Statement of Net Position is to give the financial statement readers a snapshot of the fiscal condition of Lee College District. It presents end-of-year data for Current and Noncurrent Assets, Deferred Outflows of Resources, Current and Noncurrent Liabilities, Deferred Inflows of Resources, and Net Position (Assets plus Deferred Outflows of Resources minus Liabilities and Deferred Inflows of Resources).

From the information shown, financial statement readers are able to determine the assets available to continue the operations of the District. The reader can also determine how much the institution owes vendors and bondholders. The net position and its availability for expenditure can be determined as well.

Net position is divided into three major categories. The first category, invested in capital assets, provides the District's equity in property, plant and equipment it owns. The next net position category is restricted net position. These assets have external limitations on the way in which they may be used. The last category is unrestricted net position. It is available to use for any lawful purpose of the District.

Total assets of the District for Fiscal Year 2016 are \$118.2 million, a decrease of \$5.8 million compared to Fiscal Year 2015 and a decrease of \$3.8 million compared to Fiscal Year 2014. The change in total assets between fiscal year 2016 and fiscal year 2015 can be attributed to a decrease of over \$1 million in bookstore inventory as the College transferred its bookstore operations to Follet during December 2015. In addition, there was a decrease in prepaid expenses of \$1.2 million and cash decreased by \$1.5 million as liabilities at 8-31-15 were paid down with cash balances on hand during the current year. Changes in total assets over the past three years are depicted in the following chart:



Current assets are comprised of several categories. Cash and cash equivalents include the District's cash and investments in TexPool and certificates of deposit. TexPool is a statewide investment pool. In Fiscal Year 2016, cash, cash equivalents, and short-term investments totaled \$17.8 million a decrease of \$10.0 million from the Fiscal Year 2015 balance of \$27.8 million. Receivables include tuition and fees receivable, accounts receivable, and taxes receivable. Prepaid expenses and inventories are also assets of the District. Non-current assets consist of capital assets and funds held in endowments. Capital assets include land, land improvements, buildings, equipment, and library books. These items are reflected in the financial statements net of accumulated depreciation.

## LEE COLLEGE

	2016	2015	2014
<b>Assets:</b>			
Current Assets	25,101,578	35,232,597	46,857,521
Capital Assets	92,796,781	88,484,876	74,861,755
Other Noncurrent Assets	375,013	375,013	375,013
<b>Total Assets</b>	<b>118,273,372</b>	<b>124,092,486</b>	<b>122,094,289</b>
<b>Deferred Outflows</b>	<b>1,631,961</b>	<b>1,515,528</b>	<b>477,320</b>
<b>Liabilities:</b>			
Current Liabilities	11,132,031	13,844,161	8,490,026
Noncurrent Liabilities	70,826,297	73,215,841	69,829,161
<b>Total Liabilities</b>	<b>81,958,328</b>	<b>87,060,002</b>	<b>78,319,187</b>
<b>Deferred Inflows</b>	<b>1,031,610</b>	<b>1,927,274</b>	-
<b>Net Position:</b>			
Net Investment in Capital Assets	35,466,164	31,532,812	31,766,853
Restricted – Expendable	-	-	53,499
Restricted-Non-Expendable	375,013	375,013	375,013
Unrestricted	1,074,218	4,712,913	12,057,057
<b>Total Net Position</b>	<b>36,915,395</b>	<b>36,620,738</b>	<b>44,252,422</b>

Total liabilities of the District are \$81.9 million in Fiscal Year 2016 as compared to \$87.0 million in Fiscal Year 2015 and \$78.3 million in Fiscal Year 2014 and also include a current and non-current portion. Total liabilities decreased from Fiscal Year 2016 to Fiscal Year 2015 due a decrease in accounts payable and unearned revenue and bonds payable at year end. Current liabilities include accounts payable and accrued liabilities, funds held for others, deferred revenue, accrued compensable absences payable and the current portion of bonds payable and leases payable. A liability is considered to be current if it is due within one year.

Net position represents the District's equity, some of which is restricted for certain uses and some of which is unrestricted.

### Statement of Revenues, Expenses and Changes in Net Position

The purpose of the Statement of Revenues, Expenses and Changes in Net Position is to present the revenues earned by the District, both operating and non-operating, and the expenses incurred, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the District. Generally operating revenues are received for providing goods and services to the various customers of the District.

Operating expenses are those paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the District's mission. Non-operating revenues are funds received for which goods and services are not provided.

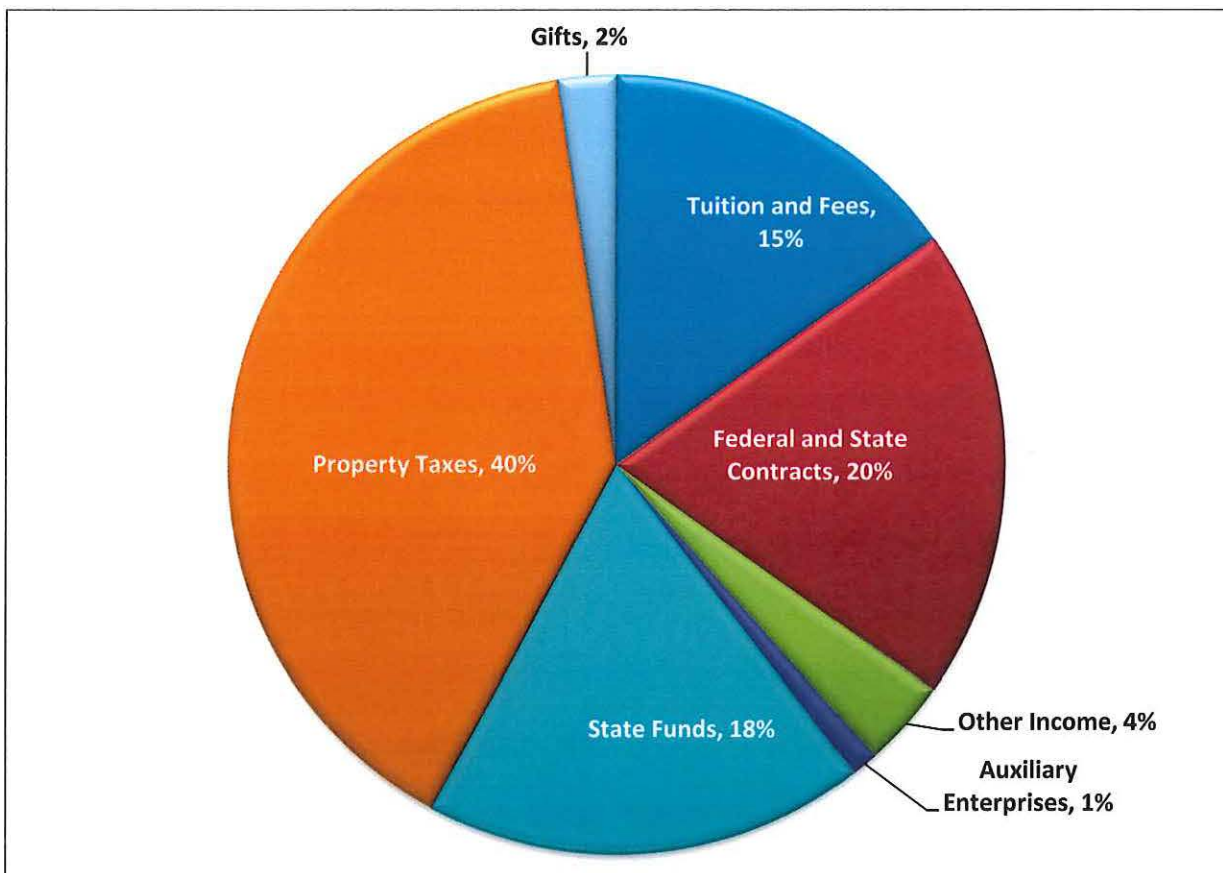
LEE COLLEGE

	2016	2,015	2014
<b>Operating Revenues:</b>			
Tuition and Fees, (net)	9,965,420	6,971,257	6,355,384
Federal Grants and Contracts	2,570,352	1,416,559	367,707
State Grants and Contracts	513,231	979,214	549,773
Sales and Services of Educational Activities	26,509	28,021	28,491
Auxiliary Enterprises	736,681	2,379,602	2,355,312
Other Operating Revenues	483,310	259,561	543,395
<b>Total Operating Revenue (Schedule A)</b>	<b>14,295,503</b>	<b>12,034,214</b>	<b>10,200,062</b>
<b>Operating Expenses:</b>			
Instruction	22,106,904	20,259,115	18,902,333
Public Service	2,205,378	1,961,346	1,766,151
Academic Support	3,577,359	3,434,544	2,888,849
Student Services	5,722,149	5,726,187	5,020,746
Institutional Support	11,518,575	10,777,481	10,309,642
Operation and Maintenance of Plant	5,172,563	5,029,749	4,704,905
Scholarships and Fellowships	7,466,568	6,767,286	6,089,155
Auxiliary Enterprises	2,385,111	3,210,916	3,541,597
Depreciation	2,757,001	2,230,469	2,039,755
<b>Total Operating Expenses (Schedule B)</b>	<b>62,911,609</b>	<b>59,397,093</b>	<b>55,263,133</b>
<b>Operating Income (Loss)</b>	<b>(48,616,106)</b>	<b>(47,362,879)</b>	<b>(45,063,071)</b>
<b>Non-Operating Revenues (Expenses):</b>			
State Funds	12,119,516	11,192,664	11,106,093
Maintenance and Obligation Ad-Valorem Taxes	22,448,452	21,179,470	19,719,673
General Obligation Bond Taxes	3,595,267	3,848,737	3,772,346
Federal Non-Operating Grants	9,814,833	9,533,238	10,507,847
Gifts	1,630,962	1,323,289	1,406,737
Investment Income (net of Investment Expense)	76,834	351,830	(239,294)
Interest on Capital Related Debt, net of amount capitalized	(2,537,757)	(3,181,453)	(3,267,545)
Payments in Lieu of Taxes	1,040,389	2,245,066	2,117,043
Other Non-Operating Revenues	722,268	376,600	-
<b>Total Non-Operating Revenue (Schedule C)</b>	<b>48,910,763</b>	<b>46,869,441</b>	<b>45,122,900</b>
<b>Increase (Decrease) in Net Position</b>	<b>294,657</b>	<b>(493,438)</b>	<b>59,829</b>
<b>Net Position</b>			
Net Position - Beginning of Year	36,620,738	37,114,176	44,192,593
<b>Net Position - End of Year</b>	<b>36,915,395</b>	<b>36,620,738</b>	<b>44,252,422</b>

Total revenues for the District were \$65.7 million, \$62.0 million, and \$58.6 in 2016, 2015, and 2014, respectively. Total expenses were \$65.4 million, \$62.5 million, and \$58.5 million in 2016, 2015, and 2014, respectively.

Revenues for the District consist of four main categories: taxes, state appropriations, federal grants and tuition and fees. The following table shows the breakdown of total revenue for the District for 2016:

### 2016 Revenues

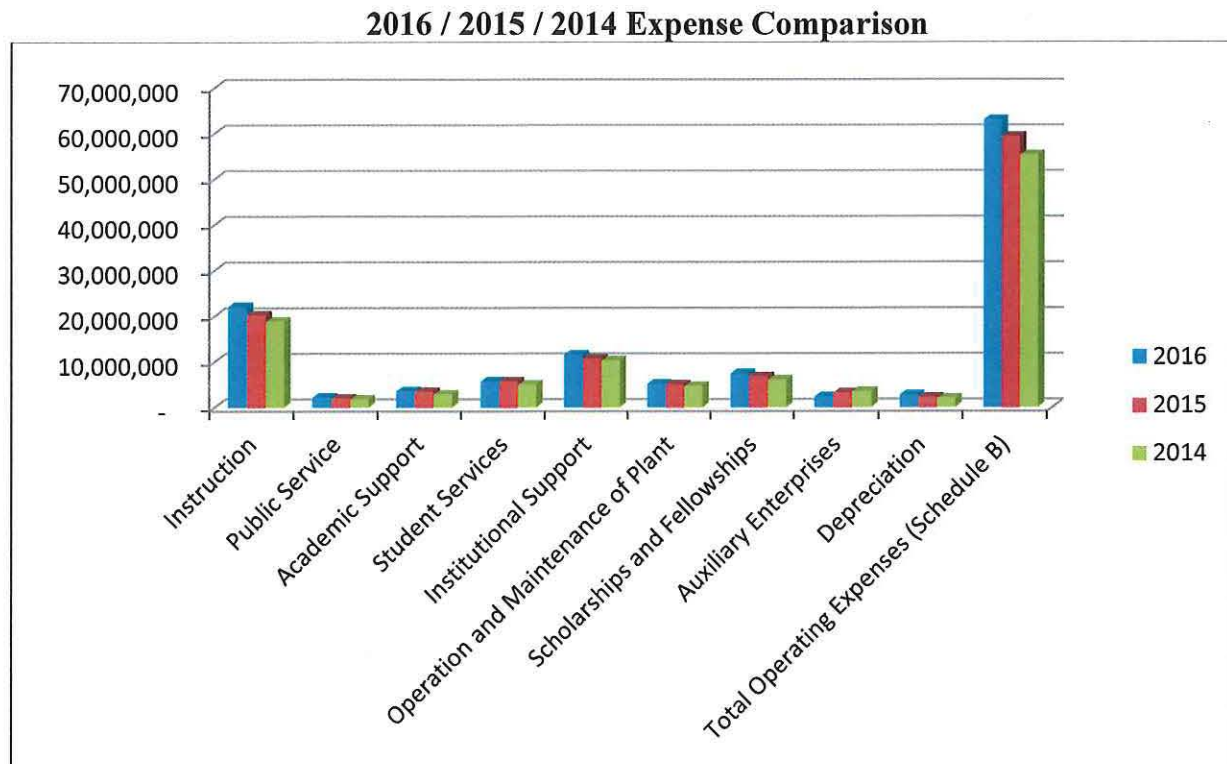


Non-operating revenues consist of the following: state appropriations, tax revenue, gifts, net investment income, payments in lieu of taxes, federal non operating grants, and other revenues. Non-operating expenses consist of interest on capital related debt.

Operating revenues increased from Fiscal Year 2015 to Fiscal Year 2016 as federal operating grants and tuition and fees increased. Federal non-operating grants comprised mainly of federal student assistance funds such as Pell grants reflect an increase when comparing fiscal year 2016 to fiscal year 2015.

**Operating Expenses by Functional Classification**

Functional classifications are the traditional categories that have been used to show expenses. They represent the type of programs and services provided. The chart below shows the District’s 2016 operating expenses in comparison to 2015 and 2014:



	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Operating Expenses</b>			
Instruction	22,106,904	20,259,115	18,902,333
Public Service	2,205,378	1,961,346	1,766,151
Academic Support	3,577,359	3,434,544	2,888,849
Student Services	5,722,149	5,726,187	5,020,746
Institutional Support	11,518,575	10,777,481	10,309,642
Operation and Maintenance of Plant	5,172,563	5,029,749	4,704,905
Scholarships and Fellowships	7,466,568	6,767,286	6,089,155
Auxiliary Enterprises	2,385,111	3,210,916	3,541,597
Depreciation	2,757,001	2,230,469	2,039,755
<b>Total Operating Expenses (Schedule B)</b>	<b>62,911,609</b>	<b>59,397,093</b>	<b>55,263,133</b>

## LEE COLLEGE

From Fiscal Year 2014 to Fiscal Year 2015 operating expenses for instruction increased resulting from faculty raises and filling open faculty positions in high demand programs. The District continues to achieve operational and utility savings attributable to energy management programs implemented since 2010 whereby repairs and replacement of infrastructure items are financed with debt repayment funded from energy savings. This program allows new equipment, major repairs and retrofits to be financed over a 17 year term with energy savings derived from equipment replacement, repairs and retrofits utilized to fund the debt. Phase 1 of the energy management program was successfully implemented in 2010. Phase 2 was implemented in 2012. Scholarship expenses increased due to enrollment growth among students that qualified for Pell grants.

### Capital Assets and Debt Administration

Below is a summary of district capital assets, net of depreciation.

	2016	2015	2014
Land	1,393,555	1,393,555	1,393,555
Construction in Progress	2,269,522	10,906,040	11,162,474
Buildings	81,852,621	70,142,989	57,684,638
Land Improvements	804,226	803,816	396,583
Equipment	5,073,502	3,863,618	2,890,484
Library Books	1,403,356	1,374,858	1,334,020
	<u>92,796,782</u>	<u>88,484,876</u>	<u>74,861,754</u>

The District has issued 75.2 million in capital improvement bonds since FY 1999. Shown in the table below is the outstanding debt at the end of the Fiscal Year as compared to the end of the two previous fiscal years. The District's General Obligation bonds are currently rated AA by Standard and Poors while the Revenue bonds are rated A+ by Standard and Poors.

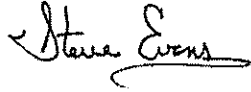
As a result of the District adopting GASB 68 in fiscal year 2015, the District's proportional share of the Teacher Retirement System net pension liability is reflected as a long-term liability of the District as of August 31, 2015 and thereafter.

	2016	2015	2014
General Obligation Bonds	45,935,000	47,530,000	48,915,000
Revenue Bonds	8,995,000	9,750,000	10,500,000
Capital Leases	10,533,128	11,088,326	11,596,989
Net Pension Liability	7,617,638	6,300,281	-
	<u>73,080,766</u>	<u>74,668,607</u>	<u>71,011,989</u>

## LEE COLLEGE

---

For more detailed information on the District's capital assets and long-term debt, see Notes 5 – 8 in the Notes to Basic Financial Statements. Financial information can be obtained from the Lee College District Business Office via written request to P.O. Box 818, Baytown, TX, 77522-0818.



Steve Evans  
Vice President of Finance and Administration



## BASIC FINANCIAL STATEMENTS

*This page is left blank intentionally.*

**Lee College District**  
**Exhibit 1**  
**Statements of Net Position**  
**Year Ended August 31, 2016 and 2015**

<b>ASSETS</b>	<u>2016</u>	<u>2015</u>
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 3,217,680	\$ 4,663,920
Short-Term Investments (Note 4)	14,667,807	23,146,806
Accounts Receivable (net)	7,019,345	5,147,997
Inventories	8,205	961,197
Prepaid Expenses	188,541	1,312,678
Total Current Assets	<u>25,101,578</u>	<u>35,232,598</u>
<b>Noncurrent Assets</b>		
Endowment Investments	375,013	375,013
Capital Assets, net of accumulated depreciation (Note 6)	92,796,781	88,484,876
Total Noncurrent Assets	<u>93,171,794</u>	<u>88,859,889</u>
<b>TOTAL ASSETS</b>	<u>118,273,372</u>	<u>124,092,487</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Charge for Refunding	78,428	397,210
Deferred Outflow Related to Pensions	1,553,533	1,118,318
	<u>1,631,961</u>	<u>1,515,528</u>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable	1,502,048	2,851,747
Accrued Liabilities	546,706	899,426
Funds Held for Others	93,501	74,527
Unearned Revenue	5,265,691	6,672,590
Accrued Compensable Absences	597,247	545,583
Leases Payable-Current Portion	604,595	555,288
Bonds Payable-Current Portion	2,522,244	2,245,000
Total Current Liabilities	<u>11,132,031</u>	<u>13,844,161</u>
<b>Noncurrent Liabilities</b>		
Leases Payable-Noncurrent Portion	9,928,533	10,533,128
Bonds Payable-Noncurrent Portion (Note 7)	53,280,126	56,382,432
Net Pension Liability	7,617,638	6,300,281
Total Noncurrent Liabilities	<u>70,826,297</u>	<u>73,215,841</u>
<b>TOTAL LIABILITIES</b>	<u>81,958,328</u>	<u>87,060,002</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Inflow Related to Pensions	1,031,610	1,927,274
Net Investment in Capital Assets	35,466,164	31,532,812
Restricted for:		
Nonexpendable	375,013	375,013
Unrestricted	1,074,218	4,712,913
<b>TOTAL NET POSITION (SCHEDULE D)</b>	<u><u>\$ 36,915,395</u></u>	<u><u>\$ 36,620,738</u></u>

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

**Lee College District**  
**Component Unit**  
**Lee College Foundation**  
**Statements of Financial Position**  
**August 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 768,601	\$ 370,636
Investments	9,784,664	9,253,753
Accrued Interest	27,958	29,353
Other Receivables	72,900	93,600
Due From Lee College	200	200
<b>Total Assets</b>	<u><u>\$ 10,654,323</u></u>	<u><u>\$ 9,747,542</u></u>
<b>Liabilities</b>		
Accounts Payable	\$ -	\$ -
Due to Lee College	-	-
Funds Held for Others - EHCMA	278,177	-
<b>Total Liabilities</b>	<u><u>278,177</u></u>	<u><u>-</u></u>
<b>Net Assets</b>		
Unrestricted - Board Designated	500,221	314,079
Temporarily Restricted	3,119,909	2,814,404
Permanently Restricted	6,756,017	6,619,059
<b>Total Net Assets</b>	<u><u>\$ 10,376,147</u></u>	<u><u>\$ 9,747,542</u></u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 10,654,324</u></u>	<u><u>\$ 9,747,542</u></u>

The accompanying notes are an integral part of this statement.

**Lee College District**  
**Exhibit 2**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**For the Year Ended**  
**August 31, 2016 and 2015**

	2016	2015
<b>Operating Revenues</b>		
Tuition and Fees, (Net)	\$ 9,965,420	\$ 6,971,257
Federal Grants and Contracts	2,570,352	1,416,559
State Grants and Contracts	513,231	979,214
Sales and Services of Educational Activities	26,509	28,021
Auxiliary Enterprises	736,681	2,379,602
Other Operating Revenues	483,310	259,561
<b>Total Operating Revenue (Schedule A)</b>	<u>14,295,503</u>	<u>12,034,214</u>
<b>Operating Expenses</b>		
Instruction	22,106,904	20,259,115
Public Service	2,205,378	1,961,346
Academic Support	3,577,359	3,434,544
Student Services	5,722,149	5,726,187
Institutional Support	11,518,575	10,777,481
Operation and Maintenance of Plant	5,172,563	5,029,749
Scholarships and Fellowships	7,466,568	6,767,286
Auxiliary Enterprises	2,385,111	3,210,916
Depreciation	2,757,001	2,230,469
<b>Total Operating Expenses (Schedule B)</b>	<u>62,911,609</u>	<u>59,397,093</u>
<b>Operating Loss</b>	<u>(48,616,106)</u>	<u>(47,362,879)</u>
<b>Non-Operating Revenues (Expenses)</b>		
State Funds	12,119,516	11,192,664
Maintenance and Obligation Ad-Valorem Taxes	22,448,452	21,179,470
General Obligation Bond Taxes	3,595,267	3,848,737
Federal Non-Operating Grants	9,814,833	9,533,238
Gifts	1,630,962	1,323,289
Investment Income (net of Investment Expense)	76,834	351,830
Interest on Capital Related Debt, net of amount capitalized	(2,537,757)	(3,181,453)
Payments in Lieu of Taxes	1,040,389	2,245,066
Other Non-Operating Revenues	722,268	376,600
<b>Total Non-Operating Revenues (Schedule C)</b>	<u>48,910,763</u>	<u>46,869,441</u>
<b>Increase (Decrease) in Net Position</b>	<u>294,657</u>	<u>(493,438)</u>
<b>Net Position</b>		
Net Position-Beginning of Year	36,620,738	37,114,176
<b>Net Position-End of Year</b>	<u>\$ 36,915,395</u>	<u>\$ 36,620,738</u>

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

**Lee College District**  
**Component Unit**  
**Lee College Foundation**  
**Statement of Activities**  
**For the Year Ended August 31, 2016**  
**With Comparative Totals for the Year Ended, August 31, 2015**

	2016			2015	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Totals
<b>Support, Revenue and Gains:</b>					
Private Gifts	\$ 214,935	\$ 145,704	\$ 136,958	\$ 497,597	\$ 590,243
Corporate Matching	-	-	-	-	127,500
In-Kind Donations	119,735	-	-	119,735	108,228
Interest/Dividends Income	-	177,822	-	177,822	173,782
Realized Gain (Loss) on Holdings	-	-	-	-	285
Unrealized Gain (Loss) on Holdings	-	430,915	-	430,915	(287,742)
Net Assets Released from Restriction	448,936	(448,936)	-	-	-
<b>Total Support, Revenue and Gains</b>	<b>783,606</b>	<b>305,505</b>	<b>136,958</b>	<b>1,226,069</b>	<b>712,296</b>
<b>Expenses and Losses:</b>					
Contract Services - Audit Fees	2,500	-	-	2,500	2,500
In-Kind Expenses	119,735	-	-	119,735	108,228
Lee College Scholarship Breakfast	4,726	-	-	4,726	3,716
Gala Banquet	15,927	-	-	15,927	25,087
Outstanding Honor Awards	600	-	-	600	1,000
Bank Charges	3,089	-	-	3,089	2,951
Liability Insurance	1,951	-	-	1,951	1,891
Lee College District Scholarships	385,000	-	-	385,000	350,000
Britt Hodgkin Scholarships	6,003	-	-	6,003	16,169
Student Success Scholarships	17,799	-	-	17,799	27,475
Clay Scholarships	27,134	-	-	27,134	64,118
Ablemarle Scholarship	13,000	-	-	13,000	-
Other	-	-	-	-	21,461
<b>Total Program and Support Expenses</b>	<b>597,464</b>	<b>-</b>	<b>-</b>	<b>597,464</b>	<b>624,596</b>
<b>Increase (Decrease) in Net Assets</b>	<b>186,142</b>	<b>305,505</b>	<b>136,958</b>	<b>628,605</b>	<b>87,700</b>
<b>Net Assets, beginning of year</b>	<b>314,079</b>	<b>2,814,404</b>	<b>6,619,059</b>	<b>9,747,542</b>	<b>9,659,842</b>
<b>Net Assets, end of year</b>	<b>\$ 500,221</b>	<b>\$ 3,119,909</b>	<b>\$ 6,756,017</b>	<b>\$ 10,376,147</b>	<b>\$ 9,747,542</b>

The accompanying notes are an integral part of this statement.

**Lee College District**  
**Exhibit 3**  
**Statements of Cash Flows**  
**For the Year Ended August 31, 2016 and 2015**

<b>Cash Flows From Operating Activities</b>	<u>2016</u>	<u>2015</u>
Receipts from students and other customers	\$ 9,357,152	\$ 11,418,466
Receipts from grants and contracts	1,162,452	2,003,626
Payments to suppliers for goods or services	(13,139,072)	(12,656,873)
Payments to or on behalf of employees	(38,508,236)	(35,054,953)
Payments of scholarships and fellowships	(7,372,178)	(6,634,893)
Payments for Loans issued to students		
Other Receipts	483,310	259,561
Net cash provided (used) by operating activities	<u>(48,016,572)</u>	<u>(40,665,066)</u>
 <b>Cash Flows From Non-capital Financing Activities</b>		
Receipts from state appropriations	12,119,516	11,192,664
Receipts from Ad Valorem taxes	22,457,759	21,189,178
Receipts from gifts and grants for other than capital purposes	1,630,962	1,323,289
Receipts from Federal grants	9,814,833	9,533,238
Receipts from student organizations and other agency transactions	18,974	4,244
Other receipts (payments)	1,040,389	2,621,666
Net cash provided (used) by non-capital financing activities	<u>47,082,433</u>	<u>45,864,279</u>
 <b>Cash Flows From Financing Activities</b>		
Receipts from Ad Valorem tax revenues	3,595,267	3,848,737
Proceeds on Issuance of Capital Debt	16,777,624	-
Purchases of capital assets	(7,068,906)	(15,853,590)
Payments on capital debt and leases	(22,376,950)	(5,938,339)
Net cash provided (used) by capital and related financing activities	<u>(9,072,965)</u>	<u>(17,943,192)</u>
 <b>Cash Flows From Investing Activities</b>		
Receipts from sales and maturities of investments	31,740,101	43,639,101
Receipts from interest on investments	81,863	351,830
Purchases of investments	(23,261,100)	(28,231,629)
Net cash provided (used) by investing activities	<u>8,560,864</u>	<u>15,759,303</u>
 Increase (decrease) in cash and cash equivalents	(1,446,240)	3,119,070
 Cash and cash equivalents - September 1, 2015	<u>4,663,920</u>	<u>1,544,850</u>
 Cash and cash equivalents - August 31, 2016	<u>\$ 3,217,680</u>	<u>\$ 4,663,920</u>

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

Lee College District  
 Exhibit 3  
 Statements of Cash Flows (Continued)  
 For the Year Ended August 31, 2016 and 2015

	2016	2015
<b>Reconciliation of net operating income (loss) to net cash provided (used) by operating activities</b>		
Operating income (loss)	(48,616,106)	(47,362,879)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation Expense	2,757,001	2,230,469
<b>Changes in Assets and Liabilities:</b>		
Receivables (net)	(1,885,688)	(965,330)
Inventories	952,992	(25,533)
Prepaid Expenses	1,124,137	363,628
Accounts payable	(1,349,699)	1,932,511
Accrued Liabilities	356,026	546,880
Compensated absences	51,664	2,419
Deferred revenue	(1,406,899)	2,612,769
 Net cash Provided (used) by operating activities	 \$ (48,016,572)	 \$ (40,665,066)

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



LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016 and 2015

(1) REPORTING ENTITY

The Lee College District (the District) was established in 1934, in accordance with the laws of the State of Texas, to serve the educational needs of Baytown and the surrounding communities. As a public two-year college, the District has taxing authority and possesses attributes of a local governmental unit. The District is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement 14 *The Financial Reporting Entity*. While the District receives funding from local, state and federal government sources and must comply with the spending, reporting, and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

The accompanying financial statements include the Lee College Foundation, Inc. (the Foundation) as a component unit of the District. This unit, which has a fiscal year-end of August 31, 2016, has been discretely presented on separate pages to emphasize that it is legally separate from the District. The foundation was established to "... solicit and receive donations, gifts and grant... on behalf of Lee College, its departments and activities..." Although the Foundation is a legally separate, tax-exempt entity, it meets the criteria of GASB Statement No. 39 to be considered a component unit of the District. That is, the Foundation's economic resources are for the direct benefit of the District or its students. By the Foundation charter, the District is entitled to a majority of the Foundation's economic resources, and such economic resources are material to the District. Historically, the Foundation has made no direct contributions to the District, but has awarded scholarships to students attending the District. The Foundation is governed by a 25-member board of trustees, which includes two District regents.

Complete financial statements for the Foundation may be obtained at the entity's administrative offices:

Lee College Foundation  
511 South Whiting  
Baytown, Texas 77522

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Report Guidelines:

The significant accounting policies followed by the District in preparing these financial statements are in accordance with the Texas Higher Education Coordinating Board's *Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges*. The District applies all applicable GASB pronouncements. The District is reported as a special-purpose government engaged in business-type activities.

Tuition Discounting:

Texas Public Education Grants

Certain tuition amounts are required to be set aside for use as scholarships by qualifying students. This set aside, called the Texas Public Education Grant (TPEG), is shown with tuition and fee revenue amounts as a separate set aside amount (Texas Education Code §56.0333). When the student uses the award for tuition and fees, the amount is recorded as tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

Tuition Discounting:

Title IV, Higher Education Act Program Funds

Certain Title IV HEA Program funds are received by the District to pass through to the student. These funds are initially received by the District and recorded as revenue. When the award is used by the student for tuition and fees, the amount is recorded as tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016 and 2015

Other Tuition Discounts:

The District awards tuition and fee scholarships from institutional funds to students who qualify. When these amounts are used for tuition and fees, the amount is recorded as a tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

Basis of Accounting:

The financial statements of the District have been prepared on the accrual basis whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

Budgetary Data:

Each community college district in Texas is required by law to prepare an annual operating budget of anticipated revenues and expenditures for the fiscal year beginning September 1. The budget, which is prepared on the accrual basis of accounting, is adopted by the District's Board of Regents. A copy of the approved budget must be filed with the Texas Higher Education Coordinating Board, Legislative Budget Board, Legislative Reference Library, and Governor's Office of Budget and Planning by December 1.

Cash and Cash Equivalents:

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Deferred Inflows:

In addition to liabilities, the District is aware that the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so is not recognized as an inflow of resources (revenue) until that time. Governments are permitted only to report deferred inflows in circumstances specifically authorized by the GASB.

Deferred Outflows:

In addition to assets, the District is aware that the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Governments are permitted only to report deferred outflows in circumstances specifically authorized by the GASB. A typical deferred outflow for community colleges is a deferred charge on refunding debt.

Investments:

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Short-term investments have an original maturity greater than three months but less than one year at time of purchase. The governing board has designated public funds investment pools comprised of TexPool and Lone Star to be short-term investments. Long-term investments have an original maturity of greater than one year at the time of purchase.

Inventories:

Inventories, consisting of bookstore stock and food service and print shop supplies are valued at the lower of cost (under the "first-in, first-out" method) or market.

Capital Assets:

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of \$5,000 or more and has an estimated useful life in excess of one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are charged to operating expense in the year in which the expense is incurred. The District reports

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016 and 2015

depreciation under a single-line item as a business-type unit. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

The following lives are used:

Buildings	50 years
Facilities and Other Improvements	20 years
Furniture, Machinery, Vehicles and Other Equipment	10 years
Telecommunications and Peripheral Equipment	5 years
Library Books	15 years

Unearned Revenues:

Tuition and fees of \$5,265,691 and \$6,672,590 have been reported as unearned revenues at August 31, 2016 and 2015, respectively.

Use of Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Operating and Non-Operating Revenue and Expense Policy:

The District distinguishes operating revenues and expenses from non-operating items. The College reports as a BTA and as a single, proprietary fund. Operating revenues and expenses generally result from providing services in connection with the College's principal ongoing operations. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues are tuition and related fees. The major non-operating revenues are state appropriations, Federal Pell grants, all Title IV student financial aid grants, and property tax collections. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Long-term Obligations:

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Net Position:

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on the use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or law or regulations of other governments. Non-expendable endowments included in restricted net position represent permanently restricted assets subject to restrictions of gift instruments requiring the principal be invested for perpetuity and only the income be used for donor-designated purposes. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted new position is available.

(3) AUTHORIZED INVESTMENTS

The District is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Sec. 2256.001 Texas Government Code). Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) obligations of political

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016 and 2015

subdivisions rated not less than A by a national investment rating firm, (4) certificates of deposit, and (5) other instruments and obligations authorized by statute.

(4) DEPOSITS AND INVESTMENTS

Cash and Deposits included on Exhibit 1, Statement of Net Position, consist of the items reported below:

<b>Cash and Deposits</b>		
	2016	2015
Bank Deposits		
Demand Deposits	3,211,242	4,653,680
Cash and Cash Equivalents		
Petty Cash on Hand	6,440	10,240
Total Cash and Deposits	3,217,682	4,663,920

During the year ended August 31, 2016, deposits were entirely covered by FDIC insurance or by pledged collateral held by the College's agent bank in the College's name.

**Reconciliation of Deposits and Investments to Exhibit 1**

Type of Security	Market Value August 31, 2016	Market Value August 31, 2015
<b>Investments</b>		
Certificates of Deposit	4,003,090	12,214,652
Money Market	3,463,650	2,068,533
Domestic Equities	6,884	5,944
Investment Pools	7,569,194	9,232,689
Total Investments	15,042,818	23,521,818
Total Cash and Deposits	3,217,682	4,663,920
Total Deposits and Investments	18,260,500	28,185,738
Cash and Cash Equivalents (Exhibit 1)	3,217,680	4,663,920
Short Term Investments (Exhibit 1)	14,667,807	23,146,805
Endowment Investments (Exhibit 1)	375,013	375,013
Total Deposits and Investments (Exhibit 1)	18,260,500	28,185,738

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016 and 2015

As of August 31, 2016, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less than 1	1 to 3	4 to 5
Certificates of Deposit	4,003,090	4,003,090	-	-
Money Market	3,463,650	3,463,650	-	-
Domestic Equities	6,884	6,884	-	-
Investment Pools:				
Investment in TexPool	7,568,555	7,568,555	-	-
Investment in Lone Star Pool	639	639	-	-
Total Fair Value	<u>15,042,818</u>	<u>15,042,818</u>	<u>-</u>	<u>-</u>

**Interest Rate Risk**

In accordance with state law and District policy, the District does not purchase any investments with maturities greater than 10 years.

**Credit Risk**

In accordance with state law and the District's investment policy, investments in mutual funds and investment pools must be rated at least AAA, commercial paper must be rated at **least A-1 or P-1**, and investments in obligations from other states, municipalities, counties, etc. must be rated at least A. The District's investments in investment pools were rated AAA.

**Concentration of Credit Risk**

The District does not place a limit on the amount the District may invest in any one issuer. The District does not have a concentration of credit risk.

**Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a custodial credit risk.

The local government investment pools such as TexPool and Lone Star Pool are not evidenced by securities in physical form. They are managed conservatively to provide safe, efficient and liquid investments to Texas governmental entities. The pools both seek to maintain a \$1 value per share as required by the Texas Public Funds Investment Act.

Federated Investors manages the assets, provides participant services, and arranges for all custody and other functions in support of TexPool operations under a contract with the State Comptroller of Public Accounts. The state comptroller maintains oversight responsibility for TexPool, including the ability to influence operations, designation of management and accountability for fiscal matters. Although TexPool is not registered with the SEC as an investment company, it operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. GASB 31 allows 2a7-like pools to use amortized cost (which excludes unrealized gains and losses) rather than market value to report net assets to compute share price. The fair value of the College's position in TexPool is the same as the value of TexPool shares.

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016 and 2015

Lone Star Investment Pool is administered by First Public. The fair value of the funds in Lone Star is also the same as the value of Lone Star shares.

Total Cash and Investments for Lee College Foundation, Component Unit of Lee College District, consist of:

	August 31, 2016	August 31, 2015
Bank Deposits		
Demand Deposits	768,601	370,636
Type of Security		
Investments, at market value:		
Mutual Funds	9,784,664	9,253,751
Total Investments	9,784,664	9,253,751
Total Cash and Investments	10,553,265	9,624,387

FAIR VALUE MEASUREMENTS

Lee College District and Lee College Foundation categorize their fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Lee College District has the following recurring fair value measurements as of August 31:

	Level 1	
	2016	2015
Domestic Equities	6,884	7,857

Lee College Foundation has the following recurring fair value measurements as of August 31:

	Level 1	
	2016	2015
Mutual Funds	9,784,664	9,153,492

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016 and 2015

(5) DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES

Receivables

Receivables at year-end were as follows:

	District August 31, 2016	District August 31, 2015
Student Receivables	3,606,371	3,384,069
Taxes Receivable	1,533,667	1,558,144
Federal Receivables	2,354,464	853,760
Accounts Receivable	477,635	314,951
Interest Receivable	5,784	10,819
	<hr/>	<hr/>
TOTAL	7,977,921	6,121,743
Allowance for Uncollectibles	(958,576)	(973,746)
	<hr/>	<hr/>
Accounts Receivable, net	<u>7,019,345</u>	<u>5,147,997</u>

Accounts receivable have been reflected net of an allowance for doubtful accounts in the accompanying statements of net assets. Generally the allowances are based upon historical experience in collecting the applicable receivables. Allowances for doubtful accounts at year- end are as follows:

Description	District August 31, 2016	District August 31, 2015
Taxes Receivable	950,874	966,044
Accounts Receivable	7,702	7,702
TOTAL	<u>958,576</u>	<u>973,746</u>

Payables

Payables at year-end were as follows:

Description	District August 31, 2016	District August 31, 2015
Vendor's Payable	1,502,048	2,851,747
Accrued Interest	90,889	112,553
Other Accruals	455,817	786,873
TOTAL	<u>2,048,754</u>	<u>3,751,173</u>

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016 and 2015

(6) CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2016 was as follows:

	Balance August 31, 2015	Increases	Decreases	Balance August 31, 2016
<u>Not Depreciated:</u>				
Land	1,393,556	-	-	1,393,556
Construction in Process	10,906,040	1,549,067	(10,185,585)	2,269,522
Subtotal	12,299,596	1,549,067	(10,185,585)	3,663,078
<u>Other Capital Assets:</u>				
Buildings	91,262,433	13,189,303	-	104,451,736
Land Improvements	1,890,379	31,468	-	1,921,847
Furniture, Machinery, Vehicles and Other Equipment	20,938,667	1,686,064	-	22,624,731
Telecommunications and Peripheral Equipment	7,450,523	646,878	-	8,097,401
Library Books	2,858,488	151,712	-	3,010,200
Subtotal	124,400,490	15,705,425	-	140,105,915
<u>Accumulated Depreciation:</u>				
Buildings	(21,119,444)	(1,479,671)	-	(22,599,115)
Land Improvements	(1,086,563)	(31,058)	-	(1,117,621)
Furniture, Machinery, Vehicles and Other Equipment	(17,420,880)	(779,625)	-	(18,200,505)
Telecommunications and Peripheral Equipment	(7,104,692)	(343,433)	-	(7,448,125)
Library Books	(1,483,630)	(123,214)	-	(1,606,844)
Subtotal	(48,215,209)	(2,757,001)	-	(50,972,210)
Net Other Capital Assets	<u>76,185,281</u>	<u>12,948,424</u>	<u>-</u>	<u>89,133,705</u>
Net Capital Assets	<u>88,484,877</u>	<u>14,497,491</u>	<u>(10,185,585)</u>	<u>92,796,783</u>



LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016 and 2015

Capital asset activity for the year ended August 31, 2015 was as follows:

	Balance August 31, 2014	Increases	Decreases	Balance August 31, 2015
<u>Not Depreciated:</u>				
Land	1,393,555	-	-	1,393,555
Construction in Process	11,162,475	10,906,040	(11,162,475)	10,906,040
Subtotal	12,556,030	10,906,040	(11,162,475)	12,299,595
<u>Other Capital Assets:</u>				
Buildings	77,570,789	13,691,644	-	91,262,433
Land Improvements	1,451,906	438,473	-	1,890,379
Furniture, Machinery, Vehicles and Other Equipment	19,169,342	1,769,325	-	20,938,667
Telecommunications and Peripheral Equipment	7,393,878	56,645	-	7,450,523
Library Books	2,704,550	153,938	-	2,858,488
Subtotal	108,290,465	16,110,025	-	124,400,490
<u>Accumulated Depreciation:</u>				
Buildings	(19,886,151)	(1,233,293)	-	(21,119,444)
Land Improvements	(1,055,323)	(31,240)	-	(1,086,563)
Furniture, Machinery, Vehicles and Other Equipment	(16,801,763)	(619,117)	-	(17,420,880)
Telecommunications and Peripheral Equipment	(6,870,973)	(233,719)	-	(7,104,692)
Library Books	(1,370,530)	(113,100)	-	(1,483,630)
Subtotal	(45,984,740)	(2,230,469)	-	(48,215,209)
Net Other Capital Assets	<u>62,305,725</u>	<u>13,879,556</u>	<u>-</u>	<u>76,185,281</u>
Net Capital Assets	<u>74,861,755</u>	<u>24,785,596</u>	<u>(11,162,475)</u>	<u>88,484,876</u>

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016 and 2015

(7) LONG-TERM LIABILITIES

Long-term liability activity for the year ended August 31, 2016 was as follows:

Refunding Bonds

On October 8, 2015 the District issued \$8,070,000 Limited Tax General Obligation Refunding Bonds, Series 2015 with an interest rate of 1.490%. The District issued the bonds to advance refund \$8,070,000 General Obligation Refunding Bonds, Series 2005 carrying an interest rate of 5.000%. The District used the net proceeds, along with other resources, and deposited them with a paying agent for the refunded bonds. As a result, the 2005 series bonds are considered defeased, and the District has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$0 at August 31, 2016. The advance refunding reduced total debt service payments over the next 5 years by nearly \$766,234. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$724,605.

On October 8, 2015 the District issued \$8,575,000 Revenue Financing System Refunding Bonds, Series 2015 with an interest rate of 2.420%. The District issued the bonds to advance refund \$8,425,000 Revenue Financing System Bonds, Series 2006 carrying an interest rate of 4.500% to 5.000%. The District used the net proceeds to deposit them with a paying agent for the refunded bonds. As a result, the 2006 series bonds are considered defeased, and the District has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$0 at August 31, 2016. The advance refunding reduced total debt service payments over the next 12 years by nearly \$1,322,866. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,135,432.

	Balance August 31, 2015	Additions	Reductions	Balance August 31, 2016	Current Portion
<u>Bonds and Leases</u>					
General Obligation Bonds	47,530,000	8,070,000	9,665,000	45,935,000	1,580,000
Revenue Bonds	9,750,000	8,575,000	9,330,000	8,995,000	895,000
Bond Premiums	1,347,432	-	475,061	872,371	47,244
Capital Leases	11,088,416	-	555,288	10,533,128	604,595
Total Bonds and Leases	<u>69,715,848</u>	<u>16,645,000</u>	<u>20,025,349</u>	<u>66,335,499</u>	<u>3,126,839</u>
<u>Other Liabilities</u>					
Compensated Absences	545,583	597,247	545,583	597,247	597,247
Net Pension Liability	6,300,281	1,955,462	638,105	7,617,638	-
Total Long-term Liabilities	<u>76,561,712</u>	<u>19,197,709</u>	<u>21,209,037</u>	<u>74,550,384</u>	<u>3,724,086</u>

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016 and 2015

Long-term liability activity for the year ended August 31, 2015 was as follows:

	Balance August 31, 2014	Additions	Reductions	Balance August 31, 2015	Current Portion
<b>Bonds and Leases</b>					
General Obligation Bonds	48,915,000	-	1,385,000	47,530,000	1,460,000
Revenue Bonds	10,500,000	-	750,000	9,750,000	785,000
Bond Premiums	1,469,711	-	122,279	1,347,432	-
Capital Leases	11,596,989	-	508,573	11,088,416	555,288
<b>Total Bonds and Leases</b>	<b>72,481,700</b>	<b>-</b>	<b>2,765,852</b>	<b>69,715,848</b>	<b>2,800,288</b>
<b>Other Liabilities</b>					
Compensated Absences	543,164	545,583	543,164	545,583	545,583
Net Pension Liability	7,138,246	-	837,965	6,300,281	-
<b>Total Long-term Liabilities</b>	<b>80,163,110</b>	<b>545,583</b>	<b>4,146,981</b>	<b>76,561,712</b>	<b>3,345,871</b>

General information related to bonds payable as of August 31 is summarized below:

Bond Issue Name:	Series 2005*	Series 2006*	Series 2010	Series 2013	Series 2015	Series 2015
Purpose of Issue:	Advance Refunding	Capital Improvements	Advance Refunding	Capital Improvements	Advance Refunding	Advance Refunding
Original Amount Authorized:	13,688,672	12,000,000	2,425,000	39,460,000	8,070,000	8,575,000
Amount Issued:	13,688,672	12,000,000	2,425,000	39,460,000	8,070,000	8,575,000
Issue Date:	July 14, 2005	July 20, 2006	June 17, 2010	August 29, 2013	October 8, 2015	October 8, 2015
Type of Bond:	General Obligation	Revenue	Revenue	General Obligation	General Obligation	Revenue
Maturity Date Range:	2011-2020	2008-2027	2011-2020	2021-2037	2016-2020	2016-2027
Source of Revenue for Debt Service:	Tax Revenues	Pledged Revenues	Pledged Revenues	Tax Revenues	Tax Revenues	Pledged Revenues
Outstanding Balance:						
August 31, 2016	-	-	1,080,000	39,460,000	6,475,000	7,915,000
August 31, 2015	8,070,000	8,425,000	1,325,000	39,460,000	-	-

\* Advance Refunded October 8, 2015.

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016 and 2015

Bonds payable are due in annual installments varying from \$245,000 to \$3,265,000 with the final installment due in 2037.

Interest rates for the General Obligation Bonds vary from 1.490% to 5.000% and on the Revenue Bonds from 2.42% to 4.00%.

Debt Service requirements at August 31, 2016, were as follows:

Year Ended August 31,	General Obligation Bonds			Revenue Bonds			Total Bonds	
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest
2017	1,580,000	1,946,684	3,526,684	895,000	234,743	1,129,743	2,475,000	2,181,427
2018	1,605,000	1,923,142	3,528,142	920,000	209,055	1,129,055	2,525,000	2,132,197
2019	1,635,000	1,899,227	3,534,227	940,000	182,604	1,122,604	2,575,000	2,081,831
2020	1,655,000	1,874,866	3,529,866	970,000	155,511	1,125,511	2,625,000	2,030,377
2021	1,570,000	1,850,206	3,420,206	700,000	127,534	827,534	2,270,000	1,977,740
2022-2026	9,095,000	7,993,281	17,088,281	3,760,000	375,221	4,135,221	12,855,000	8,368,502
2027-2031	11,310,000	5,779,906	17,089,906	810,000	19,602	829,602	12,120,000	5,799,508
2032-2036	14,220,000	2,874,744	17,094,744	-	-	-	14,220,000	2,874,744
2037	3,265,000	155,088	3,420,088	-	-	-	3,265,000	155,088
<b>TOTAL</b>	<b>45,935,000</b>	<b>26,297,144</b>	<b>72,232,144</b>	<b>8,995,000</b>	<b>1,304,270</b>	<b>10,299,270</b>	<b>54,930,000</b>	<b>27,601,414</b>

Defeased bonds outstanding:

The District did not have any defeased bonds outstanding at August 31, 2016.

#### Capital Leases

During 2009, the District entered into a lease agreement for the construction of energy efficiency improvements at a cost of \$9,972,735. In 2011, the District refinanced the lease to include additional funding of \$2,797,012 to cover the cost of Phase II of the energy improvement project. Total proceeds from the refinancing were \$12,923,784. Interest incurred during the construction phase is reflected in the capitalized value of the energy improvement project. Capitalized interest for 2011 was \$149,858 and \$212,025 on the initial 2009 lease agreement. The scheduled maturity date of the final lease payment is June 25, 2028. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception. Future minimum lease payments to be paid are as follows:

Year Ending August 31	Minimum Payment
2017	989,241
2018	1,017,979
2019	987,357
2020	1,016,040
2021	1,045,582
2022-2026	5,703,018
2027-2028	2,494,185
Total	13,253,402
Less Amount Representing Interest (Rate 3.7315%)	<u>(2,720,274)</u>
Present Value of Future Minimum Lease Payments	<u>10,533,128</u>

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016 and 2015

Employees of the District are awarded twelve days sick leave per year and may accumulate up to 120 days leave; however, accumulated sick leave does not vest and employees are not paid for unused days at the time of termination of employment. Employees of the District earn up to 168 hours paid vacation each year and may accumulate up to 208 hours. Earned vacation hours are credited to the employee on a monthly basis. Accumulated vacation hours in excess of 208 are forfeited. As of August 31, 2016, the value of all accumulated vested employee vacation benefits was \$597,247 which is included in the accompanying statement of net assets.

(8) OPERATING LEASE COMMITMENTS AND RENTAL AGREEMENTS

As of August 31, 2016, the District had no significant commitments under non-cancelable operating lease agreements. Total rental expenditures under operating leases for the year ended August 31, 2016 was approximately \$100,000 and \$95,000 for 2015.

(9) DEFINED BENEFIT PENSION PLAN

**a. Plan Description**

Lee College District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

**b. Pension Plan Fiduciary Net Position**

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

**c. Benefits Provided**

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (A) above.

LEE COLLEGE DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 AUGUST 31, 2016 and 2015

**d. Contributions**

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83<sup>rd</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83<sup>rd</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2015 and 2016.

**Contribution Rates**

	2015	2016
Member	6.70%	7.20%
Non-Employer Contributing Entity (State)	6.80%	6.80%
Employers	6.80%	6.80%
District's 2015 Employer Contributions	\$700,073	
District's 2015 Member Contributions	\$1,211,419	
NECE 2015 On-Behalf Contributions to District	\$424,749	

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

In addition to the employer contributions listed above, when employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016 and 2015

**e. Actuarial Assumptions**

The total pension liability in the August 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	8/31/2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return*	8.00%
Inflation	2.50%
Salary Increases Including Inflation	3.5% to 9.5%
Payroll Growth Rate	2.50%
Benefit Changes During Year	None
AD HOC Post-Employment Benefit Changes	None

*\*Includes Inflation rate of 2.5%*

Actuarial methods and assumptions were updated based on a study of actual experience for the four year period ending August 31, 2014, and adopted on September 24, 2015, by the TRS Board of Trustees, who have sole authority to determine the actuarial assumptions used for the plan. The most significant changes were related to the update of the postretirement mortality rates based on the most recent TRS member experience and the decrease in the assumption for general wage inflation from 3.0% to 2.5%. Other changes to overall assumptions and methods had a minor impact on the results of the actuarial valuation and the related pension liability.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

**f. Discount Rate**

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2015 are summarized below:

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016 and 2015

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
<b>Global Equity</b>			
U.S.	18.00%	4.60%	1.00%
Non-U.S. Developed	13.00%	5.10%	0.80%
Emerging Markets	9.00%	5.90%	0.70%
Directional Hedge Funds	4.00%	3.20%	0.10%
Private Equity	13.00%	7.00%	1.10%
<b>Stable Value</b>			
U.S. Treasuries	11.00%	0.70%	0.10%
Absolute Return	0.00%	1.80%	0.00%
Stable Value Hedge Funds	4.00%	3.00%	0.10%
Cash	1.00%	-0.20%	0.00%
<b>Real Return</b>			
Global Inflation Linked Bonds	3.00%	0.90%	0.00%
Real Assets	16.00%	5.10%	1.10%
Energy and Natural Resources	3.00%	6.60%	0.20%
Commodities	0.00%	1.20%	0.00%
<b>Risk Parity</b>			
Risk Parity	5.00%	6.70%	0.30%
Inflation Expectation			2.20%
Alpha			1.00%
<b>Total</b>	<u>100.00%</u>		<u>8.70%</u>

\* The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.

Source: Teacher Retirement System of Texas 2015 Comprehensive Board Financial Report

**Discount Rate Sensitivity Analysis**

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2015 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability:	\$11,935,403	\$7,617,638	\$4,021,208



LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016 and 2015

**g. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At August 31, 2016, the District reported a liability of \$7,617,638 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 7,617,638
State's proportionate share that is associated with [employer]	<u>5,069,116</u>
Total	<u><u>\$12,686,754</u></u>

The net pension liability was measured as of August 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2014 thru August 31, 2015.

At the measurement date of August 31, 2015, the employer's proportion of the collective net pension liability was 0.0215500%, which was an increase (decrease) of -0.0020365% from its proportion measured as of August 31, 2014.

For the year ended August 31, 2016, the District recognized pension expense of \$722,268 and revenue of \$722,268 for support provided by the State.

At August 31, 2015, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 81,034	\$ 292,753
Changes in actuarial assumptions	340,588	271,764
Difference between projected and actual investment earnings	431,838	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	-	467,093
Contributions paid to TRS subsequent to the measurement date	<u>700,073</u>	-
<b>Total</b>	<u><u>\$1,553,533</u></u>	<u><u>\$1,031,610</u></u>

LEE COLLEGE DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 AUGUST 31, 2016 and 2015

The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended August 31:	Pension Expense Amount
2016	\$ (101,862)
2017	\$ (101,862)
2018	\$ (101,862)
2019	\$ 379,542
2020	\$ 94,526
Thereafter	\$ 157,581

(10) OPTIONAL RETIREMENT PLAN

*Plan Description.* Participation in the Optional Retirement Program is in lieu of participation in the Teacher Retirement System. The optional retirement program provides for the purchase of annuity contracts and operates under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C.

*Funding Policy.* Contribution requirements are not actuarially determined but are established and amended by the Texas legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.6% and 6.65%, respectively. The college contributes 1.9% for employees who were participating in the optional retirement program prior to September 1, 1995. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program.

The retirement expense to the state for the college was \$1,549,281 and \$1,429,819 for the fiscal years ended August 31, 2016 and 2015, respectively. This amount represents the portion of expended appropriations made by the state legislature on behalf of the college.

The total payroll for all college employees was \$29,446,589 and \$27,409,104 for fiscal years 2016 and 2015, respectively. The total payroll of employees covered by the Teacher Retirement System was \$16,825,244 and \$15,191,023, and the total payroll of employees covered by the Optional Retirement Program was \$9,440,906 and \$9,196,385 for fiscal years 2016 and 2015, respectively.

(11) DEFERRED COMPENSATION PROGRAM

District employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001.

(12) POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

In addition to providing pension benefits, the state provides certain health care and life insurance benefits for retired employees. Almost all of the employees may become eligible for those benefits if they reach normal retirement age while working for the state. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The state recognizes the cost of providing these benefits by expending the annual insurance premiums. The state's contribution per full-time employee was \$577 to \$1,679 per month for the year ended August 31, 2016 (\$538 to \$1,566 per month for 2015) and totaled \$1,730,096 for 2016 (\$1,798,449 for the year ended 2015). The cost of providing those benefits for 202 retirees in the year ended 2016 was \$671,540 (retiree benefits for 196 retirees cost \$637,911 in 2015). For 383 active employees, the cost of

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016 and 2015

providing benefits was \$1,058,556 for the year ended 2015 (active employee benefits for 410 active employees cost \$1,160,538 for the year ended 2015).

(13) INCOME TAXES

The District is exempt from income taxes under Internal Revenue Code Section 115, Income of States, Municipalities, Etc., although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511(a)(2)(B), Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations. The District had no unrelated business income tax liability for fiscal years 2011 and 2010. The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

(14) AD VALOREM TAXES

Delinquent taxes receivable are shown in the accompanying statements of net position net of the allowance for doubtful taxes of \$950,874 and \$966,044 for fiscal years 2016 and 2015, respectively. Allowances for uncollectibles are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

The District's Ad Valorem property tax is levied by October 1, on the assessed value listed as of the prior January 1, for all real and business personal property located in the District. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

At August 31:

	2016	2015
Assessed Valuation of the District	12,682,744,152	12,152,258,101
Less: Exemptions	(2,248,827,690)	(2,666,276,179)
Less: Abatements	-	-
Net Assessed Valuation of the District	10,433,916,462	9,485,981,922

	2016			2015		
	Current Operations	Debt Service	Total	Current Operations	Debt Service	Total
Authorized Tax Rate per \$100 valuation (Maximum per Enabling Legislation)	0.280000	0.500000	0.780000	0.280000	0.500000	0.780000
Assessed Tax Rate per \$100 valuation	0.215700	0.034500	0.250200	0.220700	0.040000	0.260700

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016 and 2015

Taxes levied for the year ended August 31, 2016 and 2015 amounted to \$26,105,307 and \$24,729,932, respectively including any penalty and interest assessed. Tax collections follow:

	2016			2015		
	Current Operations	Debt Service	Total	Current Operations	Debt Service	Total
Current Taxes Collected	21,894,492	3,502,205	25,396,697	20,566,163	3,726,494	24,292,657
Delinquent Taxes Collected	322,316	51,557	373,873	404,714	44,818	449,532
Penalties & Interest Collected	243,774	38,682	282,456	239,203	56,523	295,726
Total Collections	22,460,582	3,592,444	26,053,026	21,210,080	3,827,835	25,037,915

Total tax collections for the year ended August 31, 2016 and 2015 were 100% and 101%, respectively of the current tax levy. Property tax revenue is recognized in the fiscal year in which the taxes are levied and is restricted to either maintenance and operations or interest and sinking expenditures.

During 2016, tax collections from one petrochemical complex within the District's taxing authority represented approximately 28% of total tax revenues.

(15) CONTRACT AND GRANT AWARDS

At August 31, 2016, there were no contract or grant awards funds already committed, e.g., multi-year awards, or funds awarded during fiscal year 2016 for which monies have not been received nor funds expended.

(16) DONATED PROPERTY AND MATERIALS

Donated property, plant and equipment are recorded as investment in plant at estimated fair market value at date of donation. Donated materials or consumable goods and supplies are not recorded in the financial statements, as such items are generally not material to the operations of the District.

(17) RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance for claims related to risks except loss due to theft and general liability.

The District is essentially self-insured for risks arising from theft of property. Losses, if any, are funded on an as incurred basis. As a governmental entity, the District is essentially exempt from general liability claims and, accordingly, carries no general liability insurance.

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016 and 2015

The District obtains its property/casualty coverage through the PCAT – Property Casualty Alliance of Texas (Fund). The Fund is a modified self-funded plan of coverage offered to education based political subdivisions. Under the Fund, participants join together in a pool to purchase coverage for their property and liability exposures, as well as claim administration and loss control services. As a participant in the Fund, the District is not responsible for its own unpaid claims. Accordingly, no liabilities for unpaid claims have been recorded in the accompanying financial statements. Premiums paid by the District are expensed over the coverage period.

The District retains risk of loss, in the form of policy deductibles of \$100,000 for damage to or destruction of assets and \$10,000 for educator's legal liability. Current coverage amounts are substantially unchanged from prior year amounts and settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

(18) COMMITMENTS AND CONTINGENCIES

As of August 31, 2016, the District was not involved in any lawsuits or other legal actions which, in Administration's opinion (based on discussions with legal counsel) would result in any direct loss to the District which would be material to its financial position.

(19) CONSTRUCTION COMMITMENTS

At August 31, 2016, the District has approximately \$8.9 million committed for construction, acquisition and equipping of school buildings.

*This page is left blank intentionally.*

## REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

*This page is left blank intentionally.*



LEE COLLEGE DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
TEACHER RETIREMENT SYSTEM  
FOR THE YEAR ENDED AUGUST 31, 2016

	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.0215500%	0.0235865%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 7,617,638	\$ 6,300,281
States Proportionate Share of the Net Pension Liability (Asset) associated with the District	<u>5,069,116</u>	<u>4,073,639</u>
Total	<u>\$ 12,686,754</u>	<u>\$ 10,373,920</u>
District's Covered Employee Payroll	\$ 15,191,023	\$ 14,140,263
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Employee Payroll	50.15%	44.56%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	78.43%	83.25%

Note: Only two years of data is presented in accordance with GASB #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

LEE COLLEGE DISTRICT  
 SCHEDULE OF THE DISTRICT CONTRIBUTIONS  
 TEACHER RETIREMENT SYSTEM  
 FOR FISCAL YEAR 2016

	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 700,073	\$ 611,357
Contribution in Relation to the Contractually Required Contribution	<u>(700,073)</u>	<u>(611,357)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
District's Covered Employee Payroll	\$ 16,825,244	\$ 15,191,023
Contributions as a percentage of Covered Employee Payroll	4.16%	4.02%

Note: GASB 68, Paragraph 81.2.b requires that the data in this schedule be presented as of the District's current fiscal year as opposed to the time period covered by the measurement date of September 1, 2014 - August 31, 2015.

Note: Only two years of data is presented in accordance with GASB #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

**LEE COLLEGE DISTRICT**  
*NOTES TO REQUIRED SUPPLEMENTARY INFORMATION*  
*FOR THE YEAR ENDED AUGUST 31, 2016*

Defined Benefit Pension Plan

*Changes of benefit terms*

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

*Changes of assumptions*

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

*This page is left blank intentionally.*

## OTHER SUPPLEMENTARY INFORMATION

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

*This page is left blank intentionally.*

## SCHEDULES

*This page is left blank intentionally.*



Lee College District  
Schedule A  
Schedule of Detailed Operating Revenues  
For the Year Ended August 31, 2016  
(With Memorandum Totals for the Year Ended August 31, 2015)

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	FY 2016 Total	FY 2015 Total
<b>Tuition</b>						
State Funded Courses						
In-District Resident Tuition	\$ 4,916,926	\$ -	\$ 4,916,926	\$ -	\$ 4,916,926	\$ 4,187,967
Out-of-District Resident Tuition	3,668,733	-	3,668,733	-	3,668,733	3,174,119
TPEG-Credit (set aside)*	436,869	-	436,869	-	436,869	461,665
Non-Resident Tuition	457,606	-	457,606	-	457,606	484,410
State-Funded Continuing Education	167,862	-	167,862	-	167,862	207,037
TPEG Non-Credit (set aside)*	-	-	-	-	-	-
Non-State Funded Continuing Education	1,309,404	-	1,309,404	-	1,309,404	972,228
Total Tuition	\$ 10,957,401	\$ -	\$ 10,957,401	\$ -	\$ 10,957,401	\$ 9,487,426
<b>Fees</b>						
General Fee	463,307	-	463,307	-	463,307	441,495
Student Service Fee	-	-	-	356,091	356,091	317,828
Lab Fee	864,379	-	864,379	-	864,379	877,215
Building Use Fees	1,921,253	-	1,921,253	-	1,921,253	1,855,816
Other Fees	287,222	-	287,222	-	287,222	254,927
Total Fees	\$ 3,536,161	\$ -	\$ 3,536,161	\$ 356,091	\$ 3,892,252	\$ 3,747,281
<b>Scholarship Allowances and Discounts</b>						
Scholarship Allowances	(667,489)	-	(667,489)	-	(667,489)	(469,940)
Remissions and Exemptions	(1,196,255)	-	(1,196,255)	-	(1,196,255)	(2,697,621)
TPEG Allowances	(373,928)	-	(373,928)	-	(373,928)	(270,818)
State Grants to Students	-	-	-	-	-	-
Federal Grants to Students	(2,531,929)	-	(2,531,929)	-	(2,531,929)	(2,683,962)
Other	(114,631)	-	(114,631)	-	(114,631)	(141,109)
Total Scholarship Allowances and Discounts	\$ (4,884,232)	\$ -	\$ (4,884,232)	\$ -	\$ (4,884,232)	\$ (6,263,450)
Total Net Tuition and Fees	\$ 9,609,329	\$ -	\$ 9,609,329	\$ 356,091	\$ 9,965,420	\$ 6,971,257
<b>Additional Operating Revenues</b>						
Federal Grants and Contracts	-	2,570,352	2,570,352	-	2,570,352	1,416,559
State Grants and Contracts	-	513,231	513,231	-	513,231	979,214
Local Grants and Contracts	-	-	-	-	-	-
Nongovernmental Grants and Contracts	-	-	-	-	-	-
Sales and Services of Educational Activities	26,509	-	26,509	-	26,509	28,021
Investment Income (program restricted)	-	-	-	-	-	-
Other Operating Revenues	483,310	-	483,310	-	483,310	259,561
Total Additional Operating Revenues	\$ 509,819	\$ 3,083,583	\$ 3,593,402	\$ -	\$ 3,593,402	\$ 2,683,355
<b>Auxiliary Enterprises</b>						
Bookstore	-	-	-	323,266	323,266	1,826,465
Food Service	-	-	-	261,871	261,871	387,764
Other Auxiliary Services	-	-	-	151,545	151,545	165,373
Total Net Auxiliary Enterprises	\$ -	\$ -	\$ -	\$ 736,682	\$ 736,682	\$ 2,379,602
Total Operating Revenues	\$ 10,119,148	\$ 3,083,583	\$ 13,202,731	\$ 1,092,773	\$ 14,295,504	\$ 12,034,214
					(Exhibit 2)	(Exhibit 2)

In accordance with Education Code 56.033, tuition of \$436,869 and \$461,665 for years August 31, 2016 and 2015 respectively, was set aside for Texas Public Education Grants (TPEG).

Lee College District  
Schedule B  
Schedule of Operating Expenses By Object  
For the Year Ended August 31, 2016  
(with Memorandum Totals for the Year ended August 31, 2015)

	Operating Expenses				FY 2016 Total	FY 2015 Total
	Benefits			Other Expenses		
	Salaries and Wages	State	Local			
Educational Activities						
Instruction	\$ 15,055,327		\$ 3,183,976	\$ 1,407,258	\$ 19,646,561	\$ 18,033,278
Public Service	991,934		209,779	819,253	2,020,967	1,742,357
Academic Support	2,181,152		461,281	606,832	3,249,265	3,196,283
Student Services	2,883,935		609,909	356,020	3,849,864	3,577,645
Institutional Support	4,932,605		1,043,172	4,106,284	10,082,062	9,256,062
Operation and Maintenance of Plant	1,694,500		358,361	3,077,068	5,129,929	5,008,176
Scholarships and Fellowships	-			-	-	-
<b>Total Unrestricted Educational Activities</b>	<b>27,739,452</b>	<b>-</b>	<b>5,866,478</b>	<b>10,372,716</b>	<b>43,978,646</b>	<b>40,813,801</b>
Instruction	153,684	1,444,958	28,302	833,399	2,460,342	2,225,837
Public Service	-	95,202	-	89,210	184,412	218,989
Academic Support	26,028	209,339	8,230	84,496	328,094	238,261
Student Services	710,691	276,790	181,648	703,156	1,872,285	2,148,542
Institutional Support	302,659	473,414	63,125	597,315	1,436,512	1,521,419
Operation and Maintenance of Plant	-		-	42,635	42,635	21,573
Scholarships and Fellowships	94,390			7,372,178	7,466,568	6,767,286
<b>Total Restricted Educational Activities</b>	<b>1,287,452</b>	<b>2,499,704</b>	<b>281,305</b>	<b>9,722,388</b>	<b>13,790,849</b>	<b>13,141,907</b>
<b>Total Educational Activities</b>	<b>29,026,904</b>	<b>2,499,704</b>	<b>6,147,783</b>	<b>20,095,104</b>	<b>57,769,495</b>	<b>53,955,708</b>
Auxiliary Enterprises	429,461		103,328	1,852,323	2,385,111	3,210,916
Depreciation Expense-Buildings and Improvements				1,510,729	1,510,729	1,264,533
Depreciation Expense-Equipment and Furniture				1,246,272	1,246,272	965,936
<b>Total Operating Expenses</b>	<b>\$ 29,456,365</b>	<b>\$ 2,499,704</b>	<b>\$ 6,251,111</b>	<b>\$ 24,704,427</b>	<b>\$ 62,911,607</b>	<b>\$ 59,397,093</b>
				(Exhibit 2)	(Exhibit 2)	

Lee College District  
Schedule C  
Schedule of Non-Operating Revenues and Expenses  
For the Year Ended August 31, 2016  
(With Comparative Data for the Year Ended August 31, 2015)

	Unrestricted	Restricted	FY 2016 Total	FY 2015 Total
<b>NON-OPERATING REVENUES</b>				
Education and General State Support	\$ 9,619,812	\$ -	\$ 9,619,812	\$ 8,680,108
State Group Insurance		1,730,096	1,730,096	1,797,924
State Retirement Matching		769,608	769,608	714,632
<b>Total State Support</b>	<b>9,619,812</b>	<b>2,499,704</b>	<b>12,119,516</b>	<b>11,192,664</b>
Maintenance Ad Valorem Taxes	22,448,452		22,448,452	21,179,470
General Obligation Bond Taxes		3,595,267	3,595,267	3,848,737
Federal Non-Operating Grants	-	9,814,833	9,814,833	9,533,238
Gifts	1,630,962		1,630,962	1,323,289
Investment Income	76,834	-	76,834	351,830
Payments in Lieu of Taxes	1,040,389	-	1,040,389	2,245,066
Other Non-Operating revenue		722,268	722,268	376,600
<b>Total Non-Operating Revenues</b>	<b>34,816,449</b>	<b>16,632,072</b>	<b>51,448,521</b>	<b>50,050,894</b>
<b>NON-OPERATING EXPENSES</b>				
Interest on Capital Related Debt		2,537,757	2,537,757	3,181,453
Other Non-Operating Expenses		-	-	
<b>Total Non-Operating Expenses</b>	<b>-</b>	<b>2,537,757</b>	<b>2,537,757</b>	<b>3,181,453</b>
<b>Net Non-Operating Revenues</b>	<b>\$ 34,816,449</b>	<b>\$ 14,094,315</b>	<b>\$ 48,910,764</b>	<b>\$ 46,869,441</b>
			(Exhibit 2)	(Exhibit 2)

*This page is left blank intentionally.*

Lee College District  
Schedule D  
Schedule of Net Position by Source and Availability  
For the Year Ended August 31, 2016  
With Memorandum Totals for the Year Ended August 31, 2015

	Detail by Source					Available for Current Operations	
	Restricted			Capital Assets Net of Depreciation and Related		Yes	No
	Unrestricted	Expendable	Non-Expendable				
<b>Current</b>							
Unrestricted	\$ 1,074,218	\$ -	\$ -	\$ -	1,074,218	\$ 1,074,218	\$ -
Restricted		-			-	-	
Auxiliary Enterprises	-				-		
<b>Loan</b>							
Endowment			375,013		375,013		375,013
<b>Plant</b>							
Unexpended	-	-		-	-		
Debt Service		-			-		
Investment in Plant				35,466,164	35,466,164		35,466,164
<b>Total Net Position, August 31, 2016</b>	<b>\$ 1,074,218</b>	<b>\$ -</b>	<b>\$ 375,013</b>	<b>\$ 35,466,164</b>	<b>\$ 36,915,395</b>	<b>\$ 1,074,218</b>	<b>\$ 35,841,177</b>
<b>Total Net Position, August 31, 2015</b>	<b>\$ 4,712,913</b>	<b>\$ -</b>	<b>\$ 375,013</b>	<b>\$ 31,532,812</b>	<b>\$ 36,620,738</b>	<b>\$ 4,712,913</b>	<b>\$ 31,907,825</b>
<b>Net Increase (Decrease) in Net Position</b>	<b>\$ (3,638,695)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,933,352</b>	<b>\$ 294,657</b>	<b>\$ (3,638,695)</b>	<b>\$ 3,933,352</b>

(Exhibit 2)

LEE COLLEGE DISTRICT  
SCHEDULE E  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended August 31, 2016

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass Through Grantor's Number	Passed Through to Subrecipients	Pass Through Disbursements and Expenditures
U.S. Department of Education				
Direct Programs:				
Student Financial Assistance Cluster				
SEOG 2014-15	84.007		\$ -	\$ 1,350
SEOG 2015-16	84.007		-	17,029
SEOG 2016-17	84.007		-	29,876
Federal College Workstudy Program 2015-16	84.033		-	71,255
Federal College Workstudy Program 2016-17	84.033		-	1,508
Federal PELL 2008-09	84.063		-	(123)
Federal PELL 2010-11	84.063		-	(263)
Federal PELL 2012-13	84.063		-	(38)
Federal PELL 2014-15	84.063		-	(23,878)
Federal PELL 2015-16	84.063		-	5,571,650
Federal PELL 2016-17	84.063		-	1,555,334
Direct Loan Program 2014-15	84.268		-	(11,261)
Direct Loan Program 2015-16	84.268		-	2,574,784
Direct Loan Program 2016-17	84.268		-	27,608
Total Student Financial Assistance Cluster			-	9,814,833
Title III - STEM and Articulation Transformation (SAT) Program	84.031C		-	776,850
TRIO Cluster				
Student Support Services	84.042A		-	201,676
Educational Opportunity Center	84.066A		-	259,552
Total TRIO Cluster			-	461,228
Lee College Weekend College - FITW	84.116F		-	454,872
Pass-Through From:				
Texas Higher Education Coordinating Bd. Carl Perkins Vocational Education - Basic 14-15	84.048	1642020601	-	215,306
Total U.S. Department of Education			-	11,723,088
U.S. Department of Labor				
Pass-Through From:				
San Jacinto College H-1B Ready to Work Job Training Grant	17.268	DOL531713003	-	477,210
Total U.S. Department of Labor			-	477,210
Institute of Museum and Library Services				
Pass-Through From:				
Texas State Library & Archives Commission Special Projects Grant Program	45.310		-	31,200
Total Institute of Museum and Library Services			-	31,200
National Science Foundation				
Direct Programs:				
NSF ATE Workshops for Physics Faculty	47.076		-	69,984
Total National Science Foundation			-	69,984
U.S. Small Business Administration				
Pass-Through From:				
University of Houston Small Business Development Center 2014-15	59.037	5-603001-EZ-0045	-	7,963
Small Business Development Center 2015-16	59.037	6-603001-EZ-0015	-	75,739
Total U.S. Small Business Administration			-	83,702
Total Expenditures of Federal Awards			\$ -	\$ 12,385,185

Schedule Continued on Following Page.

SCHEDULE E (Continued)

Note 1: Federal Assistance Reconciliation

Federal Grants and Contracts Revenues per Schedule A	2,570,352
Federal Grants and Contracts Revenues per Schedule C	9,814,833
Less: Indirect/Administrative Costs Recoveries	-
Add: Cost of Capital Asset Acquisitions	-
Add: General Services Surplus Property Acquisitions	-
	<hr/>
Total Federal Revenues per Schedule of Expenditures of Federal Awards	<u>12,385,185</u>

Note 2: Significant accounting policies used in preparing the schedule.

The expenditures included in the schedule are reported for the District's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above represent funds which have been expended by the college for the purposes of the award. The expenditures reported above may not have been reimbursed by the funding agencies as of the end of the fiscal year. Some amounts reported in the schedule may differ from amounts used in the preparation of the basic financial statements. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The District has followed all applicable guidelines issued by various entities in the preparation of the schedule.

LEE COLLEGE DISTRICT  
SCHEDULE F  
SCHEDULE OF EXPENDITURES OF STATE AWARDS  
For the Year Ended August 31, 2016

Grantor Agency/Program Title	Grant Contract Number	Expenditures
Texas Higher Education Coordinating Board		
Texas College Work Study 15-16		\$ 22,282
Texas Education Opportunity Grant 15-16		221,958
Texas Education Opportunity Grant 16-17		27,258
Developmental Education S3		23,559
Texas - STEM Challenge Scholarship Program		78,750
Nursing & Allied Health - NIGP		35,933
Train the Trainer HB 5		4,192
Gulf Coast College Access Network		6,200
Pass Through From:		
College of the Mainland		
Accelerate Texas		28,846
Total Texas Higher Education Coordinating Board		448,978
Texas Workforce Commission		
Small Business Program	2813SSD001	64,252
Total Texas Workforce Commission		64,252
Total State Financial Assistance		\$ 513,230

Note 1: State Assistance Reconciliation

State Revenues - per Schedule A		
State Financial Assistance		
Per Schedule of expenditures of state awards		\$ 513,230
State Financial Assistance		
Continuing Education tuition and fees included in Schedule A captioned "Tuition and Fees"		-
Total State Revenues per Schedule 2-A		\$ 513,230

Note 2: Significant Accounting Policies Used In Preparing the Schedule

The accompanying schedule is presented using the accrual basis of accounting. See Note 2 to the financial statements for Lee College's significant accounting policies. These expenditures are reported on Lee College's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis.



## **SINGLE AUDIT SECTION**

*This page is left blank intentionally.*



**Lovvorn & Kieschnick, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's 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**

Board of Regents  
Lee College District  
Baytown, Texas 77520

Members of the Board of Regents:

We have audited, in accordance with the 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, the basic financial statements of Lee College District (the District) as of and for the years ended August 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise Lee College District's basic financial statements, and have issued our report thereon dated December 13, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Lee College District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lee College District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be

material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.


### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Lee College District'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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Lovvorn & Kieschnick, LLP  
December 13, 2016



**Lovvorn & Kieschnick, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report on Compliance  
for Each Major Program and on Internal Control  
Over Compliance Required by the Uniform Guidance**

Board of Regents  
Lee College District  
Baytown, Texas 77520

Members of the Board of Regents:

**Report on Compliance for Each Major Federal Program**

We have audited Lee College District's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of Lee College District's major federal programs for the year ended August 31, 2016. Lee College District's major federal programs are identified in the summary of auditor's result section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Lee College District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a

major federal program occurred. An audit includes examining, on a test basis, evidence about Lee College District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Lee College District's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, Lee College District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2016.

### **Report on Internal Control Over Compliance**

Management of Lee College District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lee College District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lee College District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than as material weakness in internal control over compliance, yet important enough to merit by those charged with governance

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

*Lovvorn & Kieschnick, LLP*

Lovvorn & Kieschnick, LLP  
December 13, 2016

**LEE COLLEGE DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2016**

**A. Summary of Auditor's Results**

**1. Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weakness(es) identified?  Yes  No

One or more significant deficiencies identified that are not considered to be material weaknesses?  Yes  None Reported

Noncompliance material to financial statements noted?  Yes  No

**2. Federal Awards**

Internal control over major programs:

One or more material weakness(es) identified?  Yes  No

One or more significant deficiencies identified that are not considered to be material weaknesses?  Yes  None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200?  Yes  No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.007	Student Financial Assistance Programs Cluster:
84.033	Federal Supplemental Education Opportunity Grant Program
84.063	Federal Work Study Program
84.268	Federal Pell Grant Program
84.031C	Direct Loan Program
	Title III - Stem and Articulation Transformation (SAT) Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?  Yes  No

**B. Financial Statement Findings**

NONE

**C. Federal Award Findings and Questioned Costs**

NONE



**LEE COLLEGE DISTRICT  
SCHEDULE OF CORRECTIVE ACTION PLAN  
YEAR ENDED AUGUST 31, 2016**

Program

N/A

Corrective Action Plan

No Corrective Action Required

**LEE COLLEGE DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**YEAR ENDED AUGUST 31, 2016**

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
N/A - No Prior Findings		