

LEE COLLEGE DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2017



Lovvorn & Kieschnick

CERTIFIED PUBLIC ACCOUNTANTS

LOVVORN & KIESCHNICK, LLP

**LEE COLLEGE DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2017**

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	18-38
<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 2017

Board of Regents

Officers

Mr. Pete C. Alfaro	Chairman
Mr. Mark Hall	Vice Chairman
Ms. Judy Jirrels	Secretary
Mr. Weston Cotten	Assistant Secretary

Regents

Mr. Pete C. Alfaro	Baytown, Texas	May 2019
Mr. Mark Hall	Baytown, Texas	May 2021
Ms. Judy Jirrels	Baytown, Texas	May 2023
Mr. Weston Cotten	Baytown, Texas	May 2021
Dr. Keith Coburn	Baytown, Texas	May 2019
Ms. Gina Guillory	Baytown, Texas	May 2023
Mr. Mark Himsel	Baytown, Texas	May 2021
Ms. Susan Moore-Fontenot	Baytown, Texas	May 2019
Mr. Gilbert Santana	Baytown, Texas	May 2023

Principal Administrative Officers

Dr. Dennis Brown	President
Dr. Christina Ponce	Executive Vice President
Dr. Donnetta Suchon	Vice President of Student Affairs
Dr. Angela Oriano	Vice President of Workforce and Corporate Partnerships
Mr. Steve Evans	Vice President of Finance and Administration
Dr. Veronique Tran	Vice President of Instruction
Dr. Carolyn Lightfoot	Chief Information Officer
Dr. Michael Fleming	Exec. Director of Institutional Research, Effectiveness & Planning
Mr. Layton Childress	Dean of Applied Sciences
Dr. Onimi Wilcox	Dean of Academic Studies
Ms. Donna Zuniga	Dean of 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, 2017 and 2016, 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, 2017 and 2016, 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 supplied 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 11, 2017 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 11, 2017

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, 2017**

Overview of the Financial Statements and Financial Analysis

Lee College District (the District) is proud to present its financial statements for Fiscal Year 2017 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, 2017, by \$41.8 million (net position). There was a decrease in overall net position of the College of \$1,732,420.
- Noncurrent assets of the District were restated to include 126 acres of property donated to the College in 1966. Appraised value of the property is \$6,597,000.

Statement of Net Position

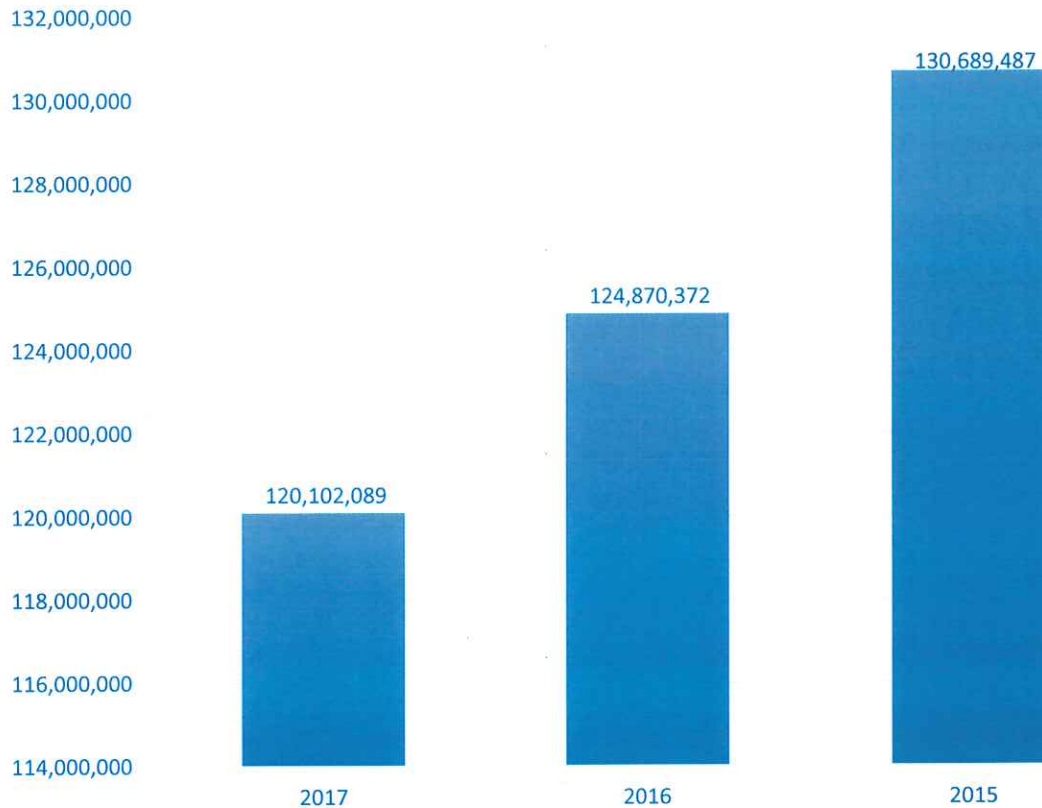
The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the District as of the end of the Fiscal Year. It is a point-in-time financial statement. The purpose of the Statement of Net Position is to give the financial 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 2017 are \$120.1 million, a decrease of \$4.7 million compared to Fiscal Year 2016 and a decrease of \$10.5 million compared to Fiscal Year 2015. Changes in total assets over the past three years are depicted in the following chart:

Total Assets



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 2017, cash, cash equivalents, and short-term investments totaled \$3.2 million a decrease of \$14.6 million from the Fiscal Year 2016 balance of \$17.8 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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets:			
Current Assets	12,318,737	25,101,578	35,232,597
Capital Assets	100,811,339	92,796,781	88,484,876
Other Noncurrent Assets	6,972,013	6,972,013	6,972,013
Total Assets	<u>120,102,089</u>	<u>124,870,372</u>	<u>130,689,486</u>
Deferred Outflows	<u>2,183,929</u>	<u>1,631,961</u>	<u>1,515,528</u>
Liabilities:			
Current Liabilities	11,348,393	11,132,031	13,844,161
Noncurrent Liabilities	68,290,319	70,826,297	73,215,841
Total Liabilities	<u>79,638,712</u>	<u>81,958,328</u>	<u>87,060,002</u>
Deferred Inflows	<u>867,330</u>	<u>1,031,610</u>	<u>1,927,274</u>
Net Position:			
Net Investment in Capital Assets	37,722,303	35,466,164	31,532,812
Restricted – Expendable	-	-	-
Restricted-Non-Expendable	375,013	375,013	375,013
Unrestricted	3,682,659	7,671,218	11,309,913
Total Net Position	<u>41,779,975</u>	<u>43,512,395</u>	<u>43,217,738</u>

Total liabilities of the District are \$79.6 million in Fiscal Year 2017 as compared to \$81.9 million in Fiscal Year 2016 and \$87.0 million in Fiscal Year 2015 and also include a current and non-current portion. Total liabilities decreased from Fiscal Year 2017 to Fiscal Year 2016 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.

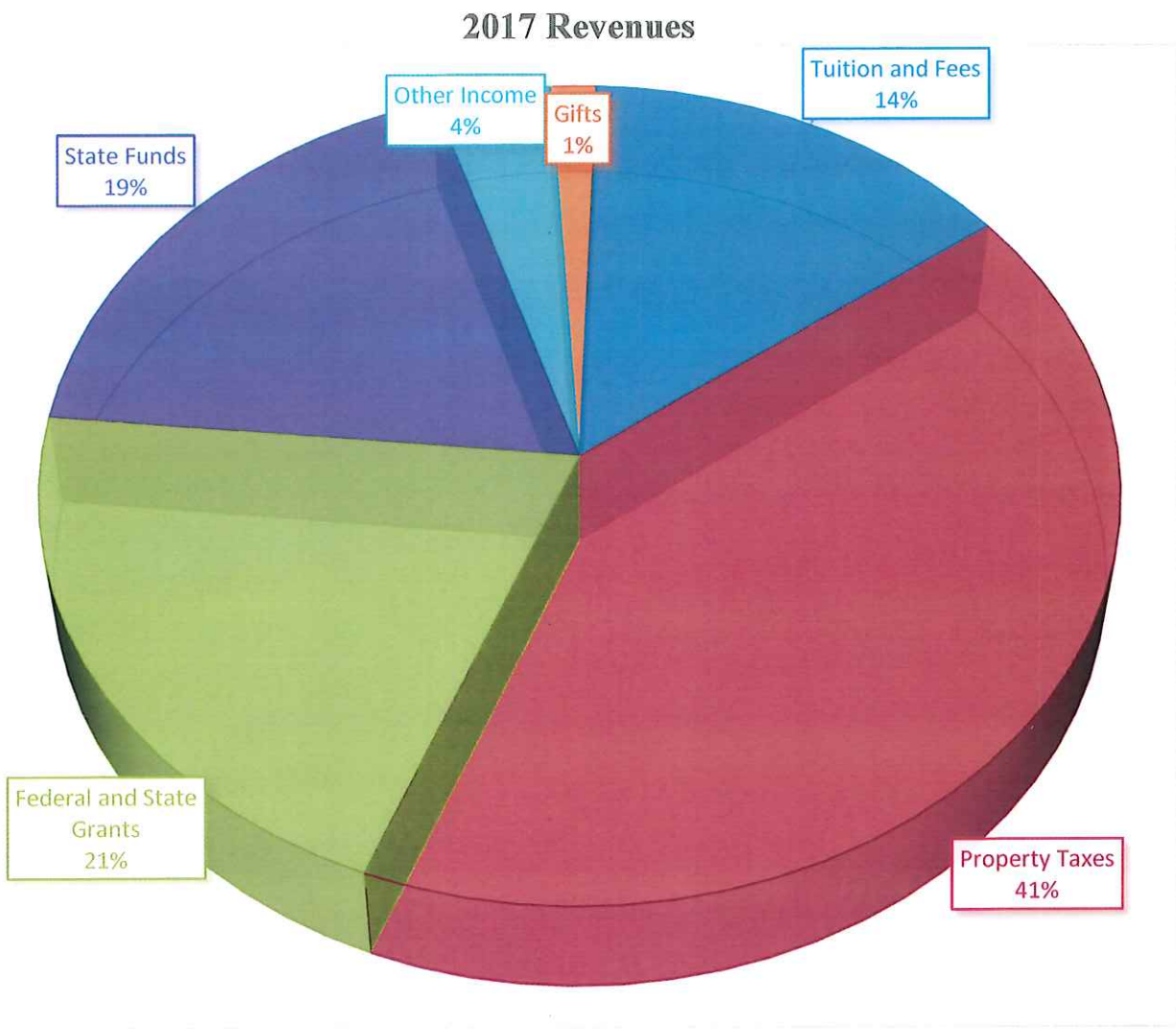
Operating expenses are those paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the District’s mission. Non-operating revenues are funds received for which goods and services are not provided.

LEE COLLEGE

	2017	2016	2,015
Operating Revenues:			
Tuition and Fees, (net)	9,362,334	9,965,420	6,971,257
Federal Grants and Contracts	4,050,634	2,570,352	1,416,559
State Grants and Contracts	592,735	513,231	979,214
Sales and Services of Educational Activities	23,502	26,509	28,021
Auxiliary Enterprises	709,728	736,681	2,379,602
Other Operating Revenues	457,905	483,310	259,561
Total Operating Revenue (Schedule A)	15,196,838	14,295,503	12,034,214
Operating Expenses:			
Instruction	23,988,828	22,106,904	20,259,115
Public Service	2,510,055	2,205,378	1,961,346
Academic Support	4,169,897	3,577,359	3,434,544
Student Services	6,409,553	5,722,149	5,726,187
Institutional Support	11,917,688	11,518,575	10,777,481
Operation and Maintenance of Plant	5,227,398	5,172,563	5,029,749
Scholarships and Fellowships	6,064,593	7,466,568	6,767,286
Auxiliary Enterprises	1,648,349	2,385,111	3,210,916
Depreciation	2,866,777	2,757,001	2,230,469
Total Operating Expenses (Schedule B)	64,803,138	62,911,609	59,397,093
Operating Income (Loss)	(49,606,300)	(48,616,106)	(47,362,879)
Non-Operating Revenues (Expenses):			
State Funds	12,206,244	12,119,516	11,192,664
Maintenance and Obligation Ad-Valorem Taxes	23,410,884	22,448,452	21,179,470
General Obligation Bond Taxes	3,527,955	3,595,267	3,848,737
Federal Non-Operating Grants	8,898,608	9,814,833	9,533,238
Gifts	970,042	1,630,962	1,323,289
Investment Income (net of Investment Expense)	76,684	76,834	351,830
Interest on Capital Related Debt, net of amount capitalized	(2,475,734)	(2,537,757)	(3,181,453)
Payments in Lieu of Taxes	677,876	1,040,389	2,245,066
Other Non-Operating Revenues	581,320	722,268	376,600
Total Non-Operating Revenue (Schedule C)	47,873,879	48,910,763	46,869,441
Increase (Decrease) in Net Position	(1,732,421)	294,657	(493,438)

Total revenues for the District were \$65.4 million, \$65.7 million, and \$62.0 million in 2017, 2016, and 2015, respectively. Total expenses were \$67.3 million, \$65.4 million, and \$62.5 million in 2017, 2016, and 2015, 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 2017:

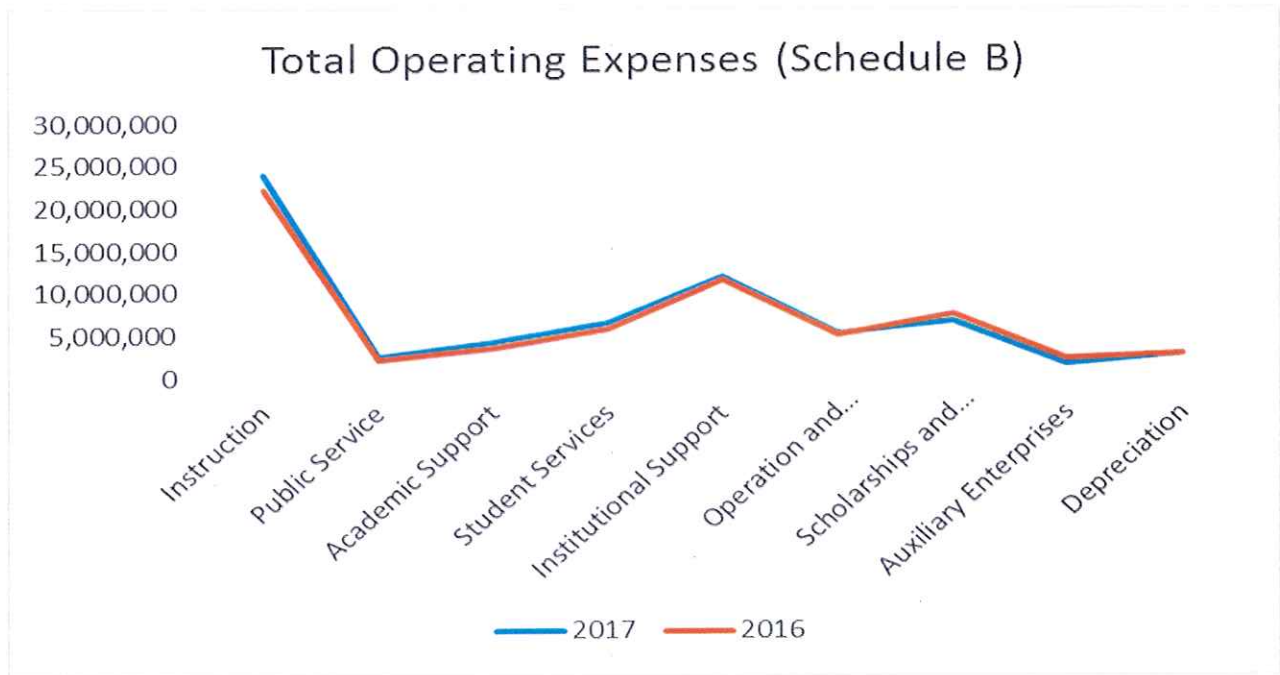
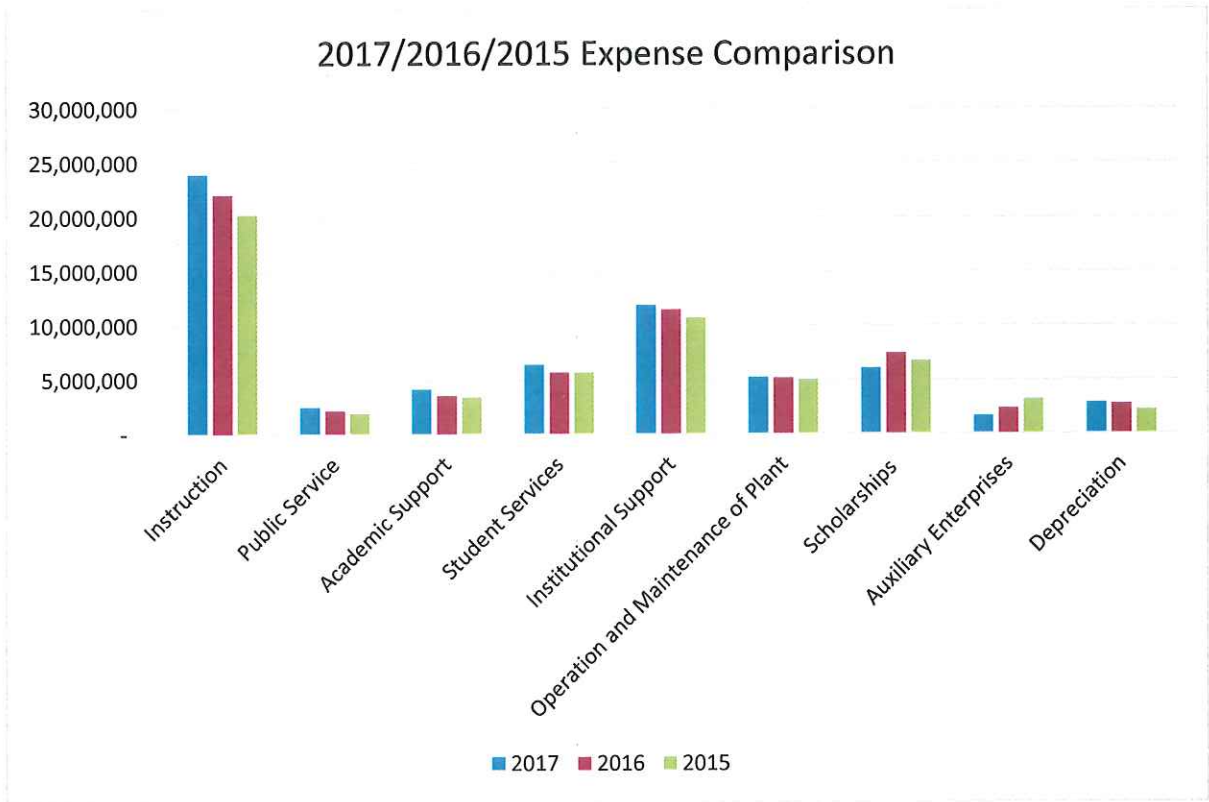


Non-operating revenues consist of the following: state appropriations, tax revenue, gifts, net investment income, payments in lieu of taxes, federal non operating grants, and other revenues. Non-operating expenses consist of interest on capital related debt.

Operating revenues increased from Fiscal Year 2016 to Fiscal Year 2017 as federal operating grants increased. Federal non-operating grants comprised mainly of federal student assistance funds such as Pell grants reflect a decrease when comparing fiscal year 2017 to fiscal year 2016.

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 2017 operating expenses in comparison to 2016 and 2015:



From Fiscal Year 2015 to Fiscal Year 2017 operating expenses for instruction increased as a result of hiring faculty to meet enrollment growth demands of the District, most notably in the area of dual credit instruction. 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.

Capital Assets and Debt Administration

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

	2017	2016	2015
Land	1,393,556	1,393,555	1,393,555
Construction in Progress	-	2,269,522	10,906,040
Buildings	92,203,663	81,852,621	70,142,989
Land Improvements	752,309	804,226	803,816
Equipment	5,024,047	5,073,502	3,863,618
Library Books	1,437,766	1,403,356	1,374,858
	<u>100,811,341</u>	<u>92,796,782</u>	<u>88,484,876</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 Aa2 by Moody’s Investor Service.

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.

	2017	2016	2015
General Obligation Bonds	44,355,000	45,935,000	47,530,000
Revenue Bonds	8,100,000	8,995,000	9,750,000
Capital Leases	10,058,089	10,533,128	11,088,326
Net Pension Liability	8,326,286	7,617,638	6,300,281
	<u>70,839,375</u>	<u>73,080,766</u>	<u>74,668,607</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
Statement of Net Position
Year Ended August 31, 2017 and 2016

	2017	2016
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 642,418	\$ 3,217,680
Short-Term Investments (NOTE 4)	2,201,697	14,667,807
Accounts Receivable (net)	9,280,578	7,019,345
Inventories	7,021	8,205
Prepaid Expenses	187,022	188,541
Total Current Assets	12,318,737	25,101,578
Noncurrent Assets		
Endowment Investments	375,013	375,013
Land Held for Investment	6,597,000	6,597,000
Capital Assets, net of accumulated depreciation (Note 6)	100,811,339	92,796,781
Total Noncurrent Assets	107,783,352	99,768,794
TOTAL ASSETS	120,102,089	124,870,372
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charge for Refunding	249,179	78,428
Deferred Outflow Related to Pensions	1,934,750	1,553,533
	2,183,929	1,631,961
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,285,807	1,502,048
Accrued Liabilities	665,949	546,706
Funds Held for Others	93,819	93,501
Unearned Revenue	5,265,731	5,265,691
Accrued Compensable Absences	662,906	597,247
Leases Payable-Current Portion	801,939	604,595
Bonds Payable-Current Portion	2,572,243	2,522,244
Total Current Liabilities	11,348,393	11,132,032
Noncurrent Liabilities		
Leases Payable-Noncurrent Portion	9,256,150	9,928,533
Bonds Payable-Noncurrent Portion (Note 7)	50,707,883	53,280,126
Net Pension Liability	8,326,286	7,617,638
Total Noncurrent Liabilities	68,290,319	70,826,297
TOTAL LIABILITIES	79,638,712	81,958,329
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions	867,330	1,031,610
	867,330	1,031,610
NET POSITION		
Net Investment in Capital Assets	37,722,302	35,466,164
Restricted for:		
Nonexpendable	375,013	375,013
Unrestricted	3,682,659	7,671,218
TOTAL NET POSITION (SCHEDULE D)	\$ 41,779,975	\$ 43,512,395

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and Cash Equivalents	\$ 1,299,547	\$ 768,601
Investments	11,266,786	9,784,664
Accrued Interest	32,220	27,958
Other Receivables	70,275	72,900
Due From Lee College	-	200
Total Assets	<u><u>\$ 12,668,828</u></u>	<u><u>\$ 10,654,323</u></u>
Liabilities		
Accounts Payable	\$ -	\$ -
Due to Lee College	1,275	-
Funds Held for Others - EHCMA	47,000	278,177
Total Liabilities	<u>48,275</u>	<u>278,177</u>
Net Assets		
Unrestricted - Board Designated	707,002	500,221
Temporarily Restricted	4,984,422	3,119,909
Permanently Restricted	6,929,129	6,756,017
Total Net Assets	<u><u>\$ 12,620,553</u></u>	<u><u>\$ 10,376,147</u></u>
Total Liabilities and Net Assets	<u><u>\$ 12,668,828</u></u>	<u><u>\$ 10,654,324</u></u>

The accompanying notes are an integral part of this statement.

Lee College District
Exhibit 2
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended
August 31, 2017 and 2016

	2017	2016
Operating Revenues		
Tuition and Fees, (Net)	\$ 9,362,334	\$ 9,965,420
Federal Grants and Contracts	4,050,634	2,570,352
State Grants and Contracts	592,735	513,231
Sales and Services of Educational Activities	23,502	26,509
Auxiliary Enterprises	709,728	736,681
Other Operating Revenues	457,905	483,310
Total Operating Revenue (Schedule A)	15,196,838	14,295,503
 Operating Expenses		
Instruction	23,988,828	22,106,904
Public Service	2,510,055	2,205,378
Academic Support	4,169,897	3,577,359
Student Services	6,409,553	5,722,149
Institutional Support	11,917,688	11,518,575
Operation and Maintenance of Plant	5,227,398	5,172,563
Scholarships and Fellowships	6,064,593	7,466,568
Auxiliary Enterprises	1,648,349	2,385,111
Depreciation	2,866,777	2,757,001
Total Operating Expenses (Schedule B)	64,803,138	62,911,608
	-	-
Operating Loss	(49,606,300)	(48,616,105)
 Non-Operating Revenues (Expenses)		
State Funds	12,206,244	12,119,516
Maintenance and Obligation Ad-Valorem Taxes	23,410,884	22,448,452
General Obligation Bond Taxes	3,527,955	3,595,267
Federal Non-Operating Grants	8,898,608	9,814,833
Gifts	970,042	1,630,962
Investment Income (net of Investment Expense)	76,684	76,834
Interest on Capital Related Debt, net of amount capitalized	(2,475,734)	(2,537,757)
Payments in Lieu of Taxes	677,876	1,040,389
Other Non-Operating Revenues	581,320	722,268
Total Non-Operating Revenue (Schedule C)	47,873,879	48,910,764
 Increase (Decrease) in Net Position	(1,732,420)	294,659
 Net Position		
Net Assets-Beginning of Year	43,512,395	43,217,736
Net Position-End of Year	\$ 41,779,975	\$43,512,395

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, 2017
With Comparative Totals for the Year Ended, August 31, 2016

	2017			2016	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Totals
Support, Revenue and Gains:					
Private Gifts	\$ 289,437	\$ 1,239,101	\$ 151,362	\$ 1,679,900	\$ 497,597
Corporate Matching	10,725	2,550	21,750	35,025	-
In-Kind Donations	146,529	-	-	146,529	119,735
Interest/Dividends Income	-	166,059	-	166,059	177,822
Unrealized Gain (Loss) on Holdings	-	1,032,122	-	1,032,122	430,915
Net Assets Released from Restriction	575,319	(575,319)	-	-	-
Total Support, Revenue and Gains	1,022,010	1,864,513	173,112	3,059,635	1,226,069
Expenses and Losses:					
Contract Services - Audit Fees	2,500	-	-	2,500	2,500
In-Kind Expenses	146,529	-	-	146,529	119,735
Lee College Scholarship Breakfast	3,509	-	-	3,509	4,726
Gala Banquet	20,140	-	-	20,140	15,927
Outstanding Honor Awards	1,800	-	-	1,800	600
Bank Charges	2,955	-	-	2,955	3,089
Liability Insurance	2,138	-	-	2,138	1,951
Lee College District Scholarships	480,586	-	-	480,586	385,000
Britt Hodgkin Scholarships	7,661	-	-	7,661	6,003
Student Success Scholarships	23,611	-	-	23,611	17,799
Clay Scholarships	7,181	-	-	7,181	27,134
Ablemarle Scholarship	-	-	-	-	13,000
Ponder Estate	56,280	-	-	56,280	-
EHCMA Donation	31,040	-	-	31,040	-
Other	29,299	-	-	29,299	-
Total Program and Support Expenses	815,229	-	-	815,229	597,464
Increase (Decrease) in Net Assets	206,781	1,864,513	173,112	2,244,406	628,605
Net Assets, beginning of year	500,221	3,119,909	6,756,017	10,376,147	9,747,542
Net Assets, end of year	\$ 707,002	\$ 4,984,422	\$ 6,929,129	\$ 12,620,553	\$ 10,376,147

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, 2017 and 2016

Cash Flows From Operating Activities	2017	2016
Receipts from students and other customers	\$ 9,652,104	\$ 9,357,152
Receipts from grants and contracts	2,819,894	1,162,452
Payments to suppliers for goods or services	(13,711,775)	(13,139,072)
Payments to or on behalf of employees	(39,214,145)	(36,315,062)
Payments of scholarships and fellowships	(5,924,643)	(7,372,178)
Other Receipts	457,905	483,310
Net cash provided (used) by operating activities	<u>(45,920,660)</u>	<u>(45,823,398)</u>
 Cash Flows From Non-capital Financing Activities		
Receipts from state appropriations	9,836,282	9,926,342
Receipts from Ad Valorem taxes	23,416,625	22,457,759
Receipts from gifts and grants for other than capital purposes	970,042	1,630,962
Receipts from Federal grants	8,898,608	9,814,833
Receipts from student organizations and other agency transactions	318	18,974
Other receipts (payments)	650,988	1,040,389
Net cash provided (used) by non-capital financing activities	<u>43,772,863</u>	<u>44,889,259</u>
 Cash Flows From Financing Activities		
Proceeds from Sale of Capital Assets		
Receipts from Ad Valorem tax revenues	3,527,955	3,595,267
Proceeds on Issuance of Capital Debt and leases	10,438,218	16,777,624
Purchases of capital assets	(10,881,335)	(7,068,906)
Payments on capital debt and leases	(16,070,621)	(22,376,950)
Net cash provided (used) by capital and related financing activities	<u>(12,985,783)</u>	<u>(9,072,965)</u>
 Cash Flows From Investing Activities		
Receipts from sales and maturities of investments	34,314,812	31,740,101
Receipts from interest on investments	76,684	81,863
Purchases of investments	(21,833,178)	(23,261,100)
Net cash provided (used) by investing activities	<u>12,558,318</u>	<u>8,560,864</u>
 Increase (decrease) in cash and cash equivalents	(2,575,262)	(1,446,240)
 Cash and cash equivalents - September 1, 2016	<u>3,217,680</u>	<u>4,663,920</u>
 Cash and cash equivalents - August 31, 2017	<u>\$ 642,418</u>	<u>\$ 3,217,680</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, 2017 and 2016

	2017	2016
Reconciliation of net operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	(49,606,300)	(48,616,106)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation Expense	2,866,777	2,757,001
Payments made directly to state for benefits	2,369,962	2,193,174
Changes in Assets and Liabilities:		
Receivables (net)	(2,266,974)	(1,885,688)
Inventories	1,184	952,992
Prepaid Expenses	1,519	1,124,137
Accounts payable	(216,241)	(1,346,393)
Accrued Liabilities	119,243	(356,026)
Deferred Inflows/Outflows	744,471	708,746
Compensated absences	65,659	51,664
Deferred revenue	40	(1,406,899)
 Net cash Provided (used) by operating activities	 \$ (45,920,660)	 \$ (45,823,398)

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

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 and 2016

(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, 2017, 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, 2017 and 2016

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, 2017 and 2016

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 \$5,265,731 and \$5,265,691 have been reported as unearned revenues at August 31, 2017 and 2016, 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, 2017 and 2016

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:

Cash and Deposits		
	2017	2016
Bank Deposits		
Demand Deposits	635,978	3,211,242
Cash and Cash Equivalents		
Petty Cash on Hand	6,440	6,440
Total Cash and Deposits	642,418	3,217,682

During the year ended August 31, 2017, 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, 2017	Market Value August 31, 2016
Investments		
Certificates of Deposit	-	4,003,090
Money Market	673	3,463,650
Domestic Equities	6,884	6,884
Investment Pools	2,569,153	7,569,194
Land Held for Investment	6,597,000	-
Total Investments	9,173,710	15,042,818
Total Cash and Deposits	642,418	3,217,682
Total Deposits and Investments	9,816,128	18,260,500
Cash and Cash Equivalents	642,418	3,217,680
Short Term Investments	2,201,697	14,667,807
Endowment Investments	375,013	375,013
Land Held for Investment	6,597,000	-
Total Deposits and Investments	9,816,128	18,260,500

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 and 2016

As of August 31, 2017, 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	-	-	-	-
Money Market	673	673	-	-
Domestic Equities	6,884	6,884	-	-
Investment Pools:				
Investment in TexPool	2,568,510	2,568,510	-	-
Investment in Lone Star Pool	643	643	-	-
Land Held for Investment	6,597,000	6,597,000	-	-
Total Fair Value	<u>9,173,710</u>	<u>9,173,710</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.

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.

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 and 2016

Limitations exist for withdrawals in this way: ACH (Automated Clearing House) withdrawals from TexPool or Lone Star are restricted to the account designated by the direct deposit form currently on record. The current authorized direct deposit form designates only the District Depository Bank as the entity to use for deposits or withdrawals by ACH. The Vice President of Finance and Administration must authorize any new or replacement direct deposit form that would alter or replace the depository bank.

Limitations exist for wire transfers in this way: A Wire Transfer to or from TexPool or Loan Star requires two signatures from authorized representatives in order to be processed.

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

	<u>August 31, 2017</u>	<u>August 31, 2016</u>
<u>Bank Deposits</u>		
Demand Deposits	1,299,547	768,601
<u>Type of Security</u>		
Investments, at market value:		
Mutual Funds	11,266,786	9,784,664
Total Investments	<u>11,266,786</u>	<u>9,784,664</u>
Total Cash and Investments	<u><u>12,566,333</u></u>	<u><u>10,553,265</u></u>

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 fair value hierarchy of investments as of August 31:

	<u>August 31, 2017</u>				<u>August 31, 2016</u>
	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>	<u>TOTAL</u>
Domestic Equities	6,884	-	-	6,884	6,884
Land Held for Investment	-	6,597,000	-	6,597,000	6,597,000
TOTAL	<u>6,884</u>	<u>6,597,000</u>	<u>-</u>	<u>6,603,884</u>	<u>6,603,884</u>

Lee College Foundation has the following fair value hierarchy of investments as of August 31:

	<u>August 31, 2017</u>				<u>August 31, 2016</u>
	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>	<u>TOTAL</u>
Mutual Funds	11,266,786	-	-	11,266,786	9,784,664
TOTAL	<u>11,266,786</u>	<u>-</u>	<u>-</u>	<u>11,266,786</u>	<u>9,784,664</u>

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 and 2016

(5) DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES

Receivables

Receivables at year-end were as follows:

	District August 31, 2017	District August 31, 2016
Student Receivables	4,606,901	3,606,371
Taxes Receivable	1,518,559	1,533,667
Federal Receivables	2,635,161	2,354,464
Accounts Receivable	1,463,566	477,635
Interest Receivable	5,784	5,784
	<hr/>	<hr/>
TOTAL	10,229,971	7,977,921
Allowance for Uncollectibles	(949,393)	(958,576)
	<hr/>	<hr/>
Accounts Receivable, net	<u>9,280,578</u>	<u>7,019,345</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, 2017	District August 31, 2016
Taxes Receivable	941,507	950,874
Accounts Receivable	7,886	7,702
TOTAL	<u>949,393</u>	<u>958,576</u>

Payables

Payables at year-end were as follows:

Description	District August 31, 2017	District August 31, 2016
Vendor's Payable	1,285,807	1,502,048
Accrued Interest	88,838	90,889
Other Accruals	577,111	455,817
TOTAL	<u>1,951,756</u>	<u>2,048,754</u>

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 and 2016

(6) CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2017 was as follows:

	Balance August 31, 2016	Increases	Decreases	Balance August 31, 2017
<u>Not Depreciated:</u>				
Land	1,393,556	-	-	1,393,556
Construction in Process	2,269,522	-	(2,269,522)	-
Subtotal	<u>3,663,078</u>	<u>-</u>	<u>(2,269,522)</u>	<u>1,393,556</u>
<u>Other Capital Assets:</u>				
Buildings	104,451,736	12,068,231	-	116,519,967
Land Improvements	1,921,847	-	-	1,921,847
Furniture, Machinery, Vehicles and Other Equipment	22,624,731	335,610	-	22,960,341
Telecommunications and Peripheral Equipment	8,097,401	589,392	-	8,686,793
Library Books	3,010,200	157,624	-	3,167,824
Subtotal	<u>140,105,915</u>	<u>13,150,857</u>	<u>-</u>	<u>153,256,772</u>
<u>Accumulated Depreciation:</u>				
Buildings	(22,599,115)	(1,717,189)	-	(24,316,304)
Land Improvements	(1,117,621)	(51,917)	-	(1,169,538)
Furniture, Machinery, Vehicles and Other Equipment	(18,200,505)	(755,340)	-	(18,955,845)
Telecommunications and Peripheral Equipment	(7,448,125)	(219,117)	-	(7,667,242)
Library Books	(1,606,844)	(123,214)	-	(1,730,058)
Subtotal	<u>(50,972,210)</u>	<u>(2,866,777)</u>	<u>-</u>	<u>(53,838,987)</u>
Net Other Capital Assets	<u>89,133,705</u>	<u>10,284,080</u>	<u>-</u>	<u>99,417,785</u>
Net Capital Assets	<u>92,796,783</u>	<u>10,284,080</u>	<u>(2,269,522)</u>	<u>100,811,341</u>

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 and 2016

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, 2017 and 2016

(7) LONG-TERM LIABILITIES

Long-term liability activity for the year ended August 31, 2017 was as follows:

	Balance August 31, 2016	Additions	Reductions	Balance August 31, 2017	Current Portion
<u>Bonds and Leases</u>					
General Obligation Bonds	45,935,000	-	1,580,000	44,355,000	1,605,000
Revenue Bonds	8,995,000	-	895,000	8,100,000	920,000
Bond Premiums	872,371	-	47,244	825,127	47,244
Capital Leases	10,533,128	10,438,218	10,913,257	10,058,089	801,939
Total Bonds and Leases	<u>66,335,499</u>	<u>10,438,218</u>	<u>13,435,501</u>	<u>63,338,216</u>	<u>3,374,183</u>
<u>Other Liabilities</u>					
Compensated Absences	597,247	662,906	597,247	662,906	662,906
Net Pension Liability	7,617,638	1,408,721	700,073	8,326,286	-
Total Long-term Liabilities	<u>74,550,384</u>	<u>12,509,845</u>	<u>14,732,821</u>	<u>72,327,408</u>	<u>4,037,089</u>

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

	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, 2017 and 2016

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

Bond Issue Name:	Series 2010	Series 2013	Series 2015	Series 2015	
Purpose of Issue:	Advance Refunding	Capital Improvements	Advance Refunding	Advance Refunding	
Original Amount Authorized:	2,425,000	39,460,000	8,070,000	8,575,000	
Amount Issued:	2,425,000	39,460,000	8,070,000	8,575,000	
Issue Date:	June 17, 2010	August 29, 2013	October 8, 2015	October 8, 2015	
Type of Bond:	Revenue	General Obligation	General Obligation	Revenue	
Maturity Date Range:	2011-2020	2021-2037	2016-2020	2016-2027	
Source of Revenue for Debt Service:	Pledged Revenues	Tax Revenues	Tax Revenues	Pledged Revenues	
Outstanding Balance:					
	August 31, 2017	825,000	39,460,000	4,895,000	7,275,000
	August 31, 2016	1,080,000	39,460,000	6,475,000	7,915,000

Bonds payable are due in annual installments varying from \$255,000 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, 2017, were as follows:

Year Ended	General Obligation Bonds			Revenue Bonds			Total Bonds	
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest
August 31,								
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	1,645,000	1,771,706	3,416,706	715,000	110,594	825,594	2,360,000	1,882,300
2023-2027	9,530,000	7,561,031	17,091,031	3,855,000	284,229	4,139,229	13,385,000	7,845,260
2028-2032	11,810,000	5,280,644	17,090,644	-	-	-	11,810,000	5,280,644
2033-2037	14,905,000	2,189,638	17,094,638	-	-	-	14,905,000	2,189,638
TOTAL	44,355,000	24,350,460	68,705,460	8,100,000	1,069,527	9,169,527	52,455,000	25,419,987

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 and 2016

Defeased bonds outstanding:

The District did not have any defeased bonds outstanding at August 31, 2017.

Capital Leases

During 2017, the District refinanced a capital lease, resulting in reduced debt service payments of \$938,833 over 10.75 years. Proceeds from the original lease were used for a \$12.9 million energy improvement project. Under the terms of the new lease agreement, the scheduled maturity date of the final lease payment is September 23, 2027. 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
	2018	1,017,979
	2019	987,357
	2020	1,016,040
	2021	1,045,582
	2022	1,076,011
	2023-2027	5,869,415
	2028	312,944
Total		11,325,328
Less Amount Representing Interest (Rate 2.21%)		(1,267,239)
Present Value of Future Minimum Lease Payments		10,058,089

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, 2017, the value of all accumulated vested employee vacation benefits was \$662,906 which is included in the accompanying statement of net assets.

(8) OPERATING LEASE COMMITMENTS AND RENTAL AGREEMENTS

As of August 31, 2017, the District had no significant commitments under non-cancelable operating lease agreements. Total rental expenditures under operating leases for the year ended August 31, 2017 was approximately \$102,000 and \$100,000 for 2016.

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 and 2016

(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.texas.gov/TRS%20Documents/cafr_2016.pdf; 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 above.

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 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

LEE COLLEGE DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2017 and 2016

Contribution Rates

	2017	2016
Member	7.70%	7.20%
Non-Employer Contributing Entity (State)	6.80%	6.80%
Employers	6.80%	6.80%
District's 2016 Employer Contributions		\$ 777,440
District's 2016 Member Contributions		\$1,435,177
NECE 2016 On-Behalf Contributions to District		\$ 471,925

The District's contributions to the TRS pension plan in 2017 were \$777,440 as reported in the Schedule of District Contributions in the Required Supplementary Information section of these financial statements. Estimated State of Texas on-behalf contributions for 2017 were \$471,925.

- 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.

Public junior colleges or junior college districts 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, 2017 and 2016

e. Actuarial Assumptions

The total pension liability in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	8/31/2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Single Discount Rate	8.00%
Long-term Expected Investment Rate of Return*	8.00%
Municipal Bond Rate*	N/A*
Last year ending August 31 in the 2016 to 2115	
Projection period (100 years)	2115
Inflation	2.5%
Payroll Growth Rate	X.X%
Salary increases including inflation	3.5% to 9.5%
Benefit changes during the year	None
Ad hoc post-employment benefit changes	None

**If a municipal bond rate was to be used, the rate would be 2.84 percent as of August 2016 (i.e., the weekly rate closest to but not later than the Measurement Date). The source for the rate is the Federal Reserve Statistical Release H.15, citing the Bond Buyer Index of general obligation bonds with 20 years to maturity and an average AA credit rating.*

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. There were no changes to the actuarial assumptions or other inputs that affected the measurement of the total pension liability since the prior measurement period.

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 8.0%. 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

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 and 2016

for each major asset class included in the Systems target asset allocation as of August 31, 2016 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
Global Equity			
U.S.	18.0%	4.6%	1.0%
Non-U.S. Developed	13.0%	5.1%	0.8%
Emerging Markets	9.0%	5.9%	0.7%
Directional Hedge Funds	4.0%	3.2%	0.1%
Private Equity	13.0%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11.0%	0.7%	0.1%
Absolute Return	0.0%	1.8%	0.0%
Stable Value Hedge Funds	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3.0%	0.9%	0.0%
Real Assets	16.0%	5.1%	1.1%
Energy and Natural Resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk Parity			
Risk Parity	5.0%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	<u>100.0%</u>		<u>8.7%</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 2016 Comprehensive Annual 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 2016 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:	\$12,886,285	\$8,326,286	\$4,458,484

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 and 2016

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

At August 31, 2017, the District reported a liability of \$8,326,286 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	\$ 8,326,286
State's proportionate share that is associated with Lee College District	<u>5,601,675</u>
Total	<u><u>\$13,927,961</u></u>

The net pension liability was measured as of August 31, 2016 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, 2015 thru August 31, 2016.

At the measurement date of August 31, 2016, the employer's proportion of the collective net pension liability was 0.0220339%, which was an increase (decrease) of 0.0004839% from its proportion measured as of August 31, 2015.

For the year ended August 31, 2017, the District recognized pension expense of \$581,320 and revenue of \$581,320 for support provided by the State.

At August 31, 2017, 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	\$ 130,555	\$248,618
Changes in actuarial assumptions	253,770	230,794
Difference between projected and actual investment earnings	705,053	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	67,932	387,918
Contributions paid to TRS subsequent to the measurement date	777,440	-
Total	<u><u>\$1,934,750</u></u>	<u><u>\$867,330</u></u>

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 and 2016

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
2018	\$ (2,018)
2019	\$ (2,018)
2020	\$ 447,699
2021	\$ (36,565)
2022	\$ (135,595)
Thereafter	\$ 18,477

(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 \$1,671,701 and \$1,549,281 for the fiscal years ended August 31, 2017 and 2016, 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 \$32,115,673 and \$29,446,589 for fiscal years 2017 and 2016, respectively. The total payroll of employees covered by the Teacher Retirement System was \$18,635,605 and \$16,825,244, and the total payroll of employees covered by the Optional Retirement Program was 9,700,686 and \$9,440,906 for fiscal years 2017 and 2016, 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 \$617 to \$1,798 per month for the year ended August 31, 2017 (\$577 to \$1,679 per month for 2016) and totaled \$1,853,939 for 2017 (\$1,730,096 for the year ended 2016). The cost of providing those benefits for 198 retirees in the year ended 2017 was \$729,108 (retiree benefits for 202 retirees cost \$671,540 in 2016). For 417 active employees, the cost of

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 and 2016

providing benefits was \$1,124,831 for the year ended 2017 (active employee benefits for 383 active employees cost \$1,058,556 for the year ended 2016).

(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 \$941,507 and \$950,874 for fiscal years 2017 and 2016, 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:

	2017	2016
Assessed Valuation of the District	13,291,171,816	12,682,744,152
Less: Exemptions	(2,271,981,461)	(2,248,827,690)
Less: Abatements	-	-
Net Assessed Valuation of the District	11,019,190,355	10,433,916,462

	2017			2016		
	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	0.213200	0.032100	0.245300	0.215700	0.034500	0.250200

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 and 2016

Taxes levied for the year ended August 31, 2017 and 2016 amounted to \$27,030,077 and \$26,105,307, respectively including any penalty and interest assessed. Tax collections follow:

	2017			2016		
	Current Operations	Debt Service	Total	Current Operations	Debt Service	Total
Current Taxes Collected	22,786,951	3,432,070	26,219,021	21,894,492	3,502,205	25,396,697
Delinquent Taxes Collected	390,649	62,488	453,137	322,316	51,557	373,873
Penalties & Interest Collected	234,720	37,545	272,265	243,774	38,682	282,456
Total Collections	23,412,320	3,532,103	26,944,423	22,460,582	3,592,444	26,053,026

Total tax collections for the year ended August 31, 2017 and 2016 were 103% and 100%, 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 2017, 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, 2017, there were no contract or grant awards funds already committed, e.g., multi-year awards, or funds awarded during fiscal year 2017 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.

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

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 and 2016

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, 2017, 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) RESTATEMENT OF NET POSITION

During the year, management determined that the District had been gifted 126 acres of land approximately 50 years ago and that the value of the land had not been reflected in the financial statements of the District in prior years. The land is being held by the District as an investment and meets the Governmental Accounting Standards Board Statement No. 72 definition of an investment held primarily to generate cash or to generate cash when sold. The most current valuation of the 126 acres was \$6,597,000 from an appraisal dated March 22, 2014. Net Position of the District has been restated as follows:

	August 31,	
	2017	2016
Beginning Net Position, as previously reported	36,915,395	36,620,738
Restatement for land held for investment	6,597,000	6,597,000
Beginning net position, as restated	43,512,395	43,217,738

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, 2017

	Measurement Year Ended August 31,		
	2016	2015	2014
District's Proportion of the Net Pension Liability (Asset)	0.0220339%	0.0215500%	0.0235865%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 8,326,286	\$ 7,617,638	\$ 6,300,281
States Proportionate Share of the Net Pension Liability (Asset) associated with the District	5,601,675	5,069,116	4,073,639
Total	<u>\$ 13,927,961</u>	<u>\$ 12,686,754</u>	<u>\$ 10,373,920</u>
District's Covered Employee Payroll	\$ 16,825,244	\$ 15,191,023	\$ 14,140,263
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Employee Payroll	49.49%	50.15%	44.56%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	78.00%	78.43%	83.25%

Note: Only three 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 THE YEAR ENDED AUGUST 31, 2017

	Fiscal Year Ended August 31,		
	2017	2016	2015
Contractually Required Contribution	\$ 777,440	\$ 700,073	\$ 611,357
Contribution in Relation to the Contractually Required Contribution	<u>(777,440)</u>	<u>(700,073)</u>	<u>(611,357)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Employee Payroll	\$ 18,635,605	\$ 16,825,244	\$ 15,191,023
Contributions as a percentage of Covered Employee Payroll	4.17%	4.16%	4.02%

Note: Only three 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, 2017

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, 2017
(With Memorandum Totals for the Year Ended August 31, 2016)

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	FY 2017 Total	FY 2016 Total
Tuition						
State Funded Courses						
In-District Resident Tuition	\$ 5,041,061	\$ -	\$ 5,041,061	\$ -	\$ 5,041,061	\$ 4,916,926
Out-of-District Resident Tuition	3,324,310	-	3,324,310	-	3,324,310	3,668,733
TPEG-Credit (set aside)*	491,837	-	491,837	-	491,837	436,869
Non-Resident Tuition	313,125	-	313,125	-	313,125	457,606
State-Funded Continuing Education	117,967	-	117,967	-	117,967	167,862
TPEG Non-Credit (set aside)*	-	-	-	-	-	-
Non-State Funded Continuing Education	1,413,178	-	1,413,178	-	1,413,178	1,309,404
Total Tuition	<u>\$ 10,701,478</u>	<u>\$ -</u>	<u>\$ 10,701,478</u>	<u>\$ -</u>	<u>\$ 10,701,478</u>	<u>\$ 10,957,400</u>
Fees						
General Fee	597,002	-	597,002	-	597,002	463,307
Student Service Fee	-	-	-	313,698	313,698	356,091
Lab Fee	900,085	-	900,085	-	900,085	864,379
Building Use Fees	1,737,100	-	1,737,100	-	1,737,100	1,921,253
Other Fees	310,982	-	310,982	-	310,982	287,222
Total Fees	<u>\$ 3,545,169</u>	<u>\$ -</u>	<u>\$ 3,545,169</u>	<u>\$ 313,698</u>	<u>\$ 3,858,868</u>	<u>\$ 3,892,252</u>
Scholarship Allowances and Discounts						
Scholarship Allowances	(776,308)	-	(776,308)	-	(776,308)	(667,489)
Remissions and Exemptions	(1,101,720)	-	(1,101,720)	-	(1,101,720)	(1,196,255)
TPEG Allowances	(313,237)	-	(313,237)	-	(313,237)	(373,928)
State Grants to Students	-	-	-	-	-	-
Federal Grants to Students	(2,857,506)	-	(2,857,506)	-	(2,857,506)	(2,531,929)
Other	(149,240)	-	(149,240)	-	(149,240)	(114,631)
Total Scholarship Allowances and Discounts	<u>\$ (5,198,011)</u>	<u>\$ -</u>	<u>\$ (5,198,011)</u>	<u>\$ -</u>	<u>\$ (5,198,011)</u>	<u>\$ (4,884,232)</u>
Total Net Tuition and Fees	<u>\$ 9,048,637</u>	<u>\$ -</u>	<u>\$ 9,048,637</u>	<u>\$ 313,698</u>	<u>\$ 9,362,335</u>	<u>\$ 9,965,420</u>
Additional Operating Revenues						
Federal Grants and Contracts	-	4,050,634	4,050,634	-	4,050,634	2,670,352
State Grants and Contracts	-	592,735	592,735	-	592,735	513,231
Local Grants and Contracts	-	-	-	-	-	-
Nongovernmental Grants and Contracts	-	-	-	-	-	26,509
Sales and Services of Educational Activities	23,502	-	23,502	-	23,502	-
Investment Income (program restricted)	-	-	-	-	-	-
Other Operating Revenues	457,905	-	457,905	-	457,905	483,310
Total Additional Operating Revenues	<u>\$ 481,407</u>	<u>\$ 4,643,369</u>	<u>\$ 5,124,776</u>	<u>\$ -</u>	<u>\$ 5,124,776</u>	<u>\$ 3,593,402</u>
Auxiliary Enterprises						
Bookstore	-	-	-	600,724	600,724	323,266
Food Service	-	-	-	-	-	261,871
Other Auxiliary Services	109,004	-	109,004	-	109,004	151,545
Total Net Auxiliary Enterprises	<u>\$ 109,004</u>	<u>\$ -</u>	<u>\$ 109,004</u>	<u>\$ 600,724</u>	<u>\$ 709,728</u>	<u>\$ 736,682</u>
Total Operating Revenues	<u>\$ 9,530,043</u>	<u>\$ 4,643,369</u>	<u>\$ 14,282,416</u>	<u>\$ 914,423</u>	<u>\$ 15,196,839</u>	<u>\$ 14,295,504</u>

(Exhibit 2) (Exhibit 2)

In accordance with Education Code 56.033, tuition of \$491,837 and \$436,869 for years August 31, 2017 and 2016 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, 2017
(with Memorandum Totals for the Year ended August 31, 2016)

	Operating Expenses				FY 2017 Total	FY 2016 Total
	Benefits			Other Expenses		
	Salaries and Wages	State	Local			
Educational Activities						
Instruction	\$ 16,468,553		\$ 3,552,579	\$ 1,123,770	\$ 21,144,902	\$ 19,646,561
Public Service	1,094,831		\$ 236,176	1,004,900	2,335,907	2,020,967
Academic Support	2,324,885		\$ 501,522	814,788	3,641,194	3,249,265
Student Services	3,145,450		\$ 678,533	397,540	4,221,523	3,849,864
Institutional Support	5,253,697		\$ 1,133,322	4,226,600	10,613,619	10,082,062
Operation and Maintenance of Plant	1,691,348		\$ 364,856	3,129,720	5,185,924	5,129,929
Scholarships and Fellowships	-			-	-	-
Total Unrestricted Educational Activities	29,978,764	-	6,466,988	10,697,318	47,143,070	43,978,648
Instruction	198,200	1,562,693	34,135	1,048,899	2,843,926	2,460,342
Public Service	-	103,888	-	70,259	174,147	184,412
Academic Support	157,203	220,607	41,623	109,270	528,702	328,094
Student Services	907,845	298,470	235,970	745,745	2,188,030	1,872,285
Institutional Support	361,772	498,521	84,290	359,486	1,304,069	1,436,512
Operation and Maintenance of Plant	-	-	-	41,474	41,474	42,635
Scholarships and Fellowships	139,950			5,924,643	6,064,593	7,466,568
Total Restricted Educational Activities	1,764,969	2,684,179	396,017	8,299,776	13,144,942	13,790,848
Total Educational Activities	31,743,733	2,684,179	6,863,005	18,997,094	60,288,011	57,769,496
Auxiliary Enterprises	381,825		96,267	1,170,257	1,648,349	2,385,111
Depreciation Expense-Buildings and Improvements				1,769,106	1,769,106	1,510,729
Depreciation Expense-Equipment and Furniture				1,097,671	1,097,671	1,246,272
Total Operating Expenses	\$ 32,125,558	\$ 2,684,179	\$ 6,959,273	\$ 23,034,128	\$ 64,803,137	\$ 62,911,608
					(Exhibit 2)	(Exhibit 2)

Lee College District
Schedule C
Schedule of Non-Operating Revenues and Expenses
For the Year Ended August 31, 2017
(with Comparative Data for the Year Ended August 31, 2016)

	Unrestricted	Restricted	FY 2017	Total	FY 2016 Total
NON-OPERATING REVENUES					
Education and General State Support	\$ 9,522,065	\$ -	\$ 9,522,065	\$ 9,619,812	\$ 9,619,812
State Group Insurance		1,853,939	1,853,939	1,730,096	1,730,096
State Retirement Matching		830,240	830,240	769,608	769,608
Total State Support	9,522,065	2,684,179	12,206,244	12,119,516	12,119,516
Maintenance Ad Valorem Taxes	23,410,884		23,410,884	22,448,452	22,448,452
General Obligation Bond Taxes		3,527,955	3,527,955	3,595,267	3,595,267
Federal Non-Operating Grants	-	8,898,608	8,898,608	9,814,833	9,814,833
Gifts	970,042		970,042	1,630,962	1,630,962
Investment Income	76,684	-	76,684	76,834	76,834
TRS on Behalf Revenue		-	-	-	-
Payments in Lieu of Taxes	677,876	-	677,876	1,040,389	1,040,389
Other Non-Operating revenue	-	581,320	581,320	722,268	722,268
Total Non-Operating Revenues	34,657,551	15,692,062	50,349,613	51,448,521	51,448,521
NON-OPERATING EXPENSES					
Interest on Capital Related Debt	-	2,475,734	2,475,734	2,537,757	2,537,757
Other Non-Operating Expenses			-	-	-
Total Non-Operating Expenses	-	2,475,734	2,475,734	2,537,757	2,537,757
Net Non-Operating Revenues	\$ 34,657,551	\$ 13,216,328	\$ 47,873,879	\$ 48,910,764	\$ 48,910,764
			(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, 2017
With Memorandum Totals for the Year Ended August 31, 2016

	Detail by Source					Available for Current Operations	
	Restricted					Yes	No
	Unrestricted	Expendable	Non-Expendable	Capital Assets Net of Depreciation and Related Debt	Total		
Current							
Unrestricted	\$ 3,682,659	\$ -	\$ -	\$ -	3,682,659	\$ 3,682,659	\$ -
Restricted					-	-	-
Auxiliary Enterprises					-	-	-
Loan							
Endowment			375,013		375,013		375,013
Plant							
Unexpended							
Debt Service							
Investment in Plant				37,722,303	37,722,303		37,722,303
 Total Net Position, August 31, 2017	 \$ 3,682,659	 \$ -	 \$ 375,013	 \$ 37,722,303	 \$ 41,779,975	 \$ 3,682,659	 \$ 38,097,316
 Total Net Position, August 31, 2016	 \$ 7,671,218	 \$ -	 \$ 375,013	 \$ 35,466,164	 \$ 43,512,395	 \$ 1,074,218	 \$ 35,841,177
 Net Increase (Decrease) in Net Assets	 \$ (3,988,559)	 \$ -	 \$ -	 \$ 2,256,139	 \$ (1,732,420)	 \$ 2,608,441	 \$ 2,256,139

(Exhibit 2)

LEE COLLEGE DISTRICT
SCHEDULE E
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2017

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass Through Grantor's Number	Pass Through to Subrecipients	Disbursements and Expenditures
U.S. Department of Education				
Direct Programs:				
Student Financial Assistance Cluster				
SEOG 2016-17	84.007		\$ -	\$ 42,499
SEOG 2017-18	84.007		-	11,538
Federal College Workstudy Program 2016-17	84.033		-	96,471
Federal College Workstudy Program 2017-18	84.033		-	11,845
Federal PELL 2015-16	84.063		-	(714)
Federal PELL 2016-17	84.063		-	4,399,586
Federal PELL 2017-18	84.063		-	1,794,261
Direct Loan Program 2015-16	84.268		-	(7,618)
Direct Loan Program 2016-17	84.268		-	2,546,038
Direct Loan Program 2017-18	84.268		-	4,702
Total Financial Assistance Cluster			-	<u>8,898,608</u>
Title III - STEM and Articulation Transformation (SAT) Program	84.031C		-	510,619
Title III - LC STEM Project	84.031C		-	45,161
Title V - Lee College Title V Project	84.031S		-	142,381
Total CFDA 84.031			-	<u>698,162</u>
TRIO Cluster				
Student Support Services	84.042A		-	234,853
Educational Opportunity Center	84.066A		-	230,465
Total TRIO Cluster			-	<u>465,318</u>
Lee College Weekend College - FITW	84.116F		-	606,636
Pass-Through From:				
Texas Higher Education Coordinating Bd. Carl Perkins Vocational Education - Basic 16-17	84.048	174243	-	248,414
			-	<u>10,917,138</u>
Total U.S. Department of Education				
U.S. Department of Labor				
Pass-Through From:				
San Jacinto College H-1B Ready to Work Job Training Grant	17.268	DOL531713003	-	848,604
Pass-Through From:				
Texas Workforce Commission WIOA Dislocated Worker Formula Grant	17.278	2817WOS000	-	4,742
			-	<u>853,347</u>
Total U.S. Department of Labor				
Institute of Museum and Library Services				
Pass-Through From:				
Texas State Library & Archives Commission Special Projects Grant Program	45.310		-	74,999
TexTreasuries Grant Program	45.310		-	7,459
			-	<u>82,458</u>
Institute of Museum and Library Services				
National Science Foundation				
Direct Programs:				
NSF ATE Workshops for Physics Faculty	47.076		-	12,245
			-	<u>12,245</u>
Total National Science Foundation				
U.S. Small Business Administration				
Pass-Through From:				
University of Houston Small Business Development Center 2015-16	59.037	6-603001-EZ-0015	-	7,023
Small Business Development Center 2016-17	59.037	7-603001-EZ-0020	-	77,032
			-	<u>84,055</u>
Total U.S. Small Business Administration				
Economic Development Administration				
Economic Development Assistance Program	11.30		-	1,000,000
			-	<u>12,949,242</u>
Total Expenditures of Federal Awards				
			\$ -	<u>12,949,242</u>

Schedule Continued on Following Page.

SCHEDULE E (Continued)

Note 1: Federal Assistance Reconciliation

Federal Grants and Contracts Revenues per Schedule A	4,050,634
Federal Grants and Contracts Revenues per Schedule C	8,898,608
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>12,949,242</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. The District has elected not to use the 10% de minimus indirect cost rate.

LEE COLLEGE DISTRICT
SCHEDULE F
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended August 31, 2017

Grantor Agency/Program Title	Grant Contract Number	Expenditures
Texas Higher Education Coordinating Board		
Texas College Work Study 16-17		\$ 39,672
Texas Education Opportunity Grant 15-16		(342)
Texas Education Opportunity Grant 16-17		265,223
Texas - STEM Challenge Scholarship Program		75,863
Nursing & Allied Health - NIGP Lab & Sim Grant		21,235
Nursing & Allied Health - NIGP Build Sim & Skills Lab		147,672
Total Texas Higher Education Coordinating Board		549,323
Texas Workforce Commission		
Small Business Program	2815SSD002	41,990
Small Business Program	2817SSD001	1,422
Total Texas Workforce Commission		43,412
Total State Financial Assistance		\$ 592,735

Note 1: State Assistance Reconciliation

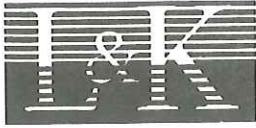
State Revenues - per Schedule A		
State Financial Assistance		
Per Schedule of expenditures of state awards		\$ 592,735
State Financial Assistance		
Continuing Education tuition and fees included in Schedule A captioned "Tuition and Fees"		-
Total State Revenues per Schedule 2-A		\$ 592,735

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, 2017 and 2016, 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 11, 2017.

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*.

Public Funds Investment Act

We have performed tests designed to verify Lee College District's compliance with the requirements of the Public Funds Investment Act. During the year ended August 31, 2017, no instances of noncompliance were found.

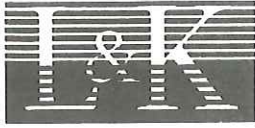
Purpose of this Report

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 11, 2017



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, 2017. 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, 2017.

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 11, 2017

LEE COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2017

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: Federal Supplemental Education Opportunity Grant Program Federal Work Study Program Federal Pell Grant Program Direct Loan Program H1B Ready to Work Job Training Grant Economic Development Assistance Program
84.033	
84.063	
84.268	
17.268	
11.3	

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, 2017

Program

N/A

Corrective Action Plan

No Corrective Action Required

LEE COLLEGE DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED AUGUST 31, 2017

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