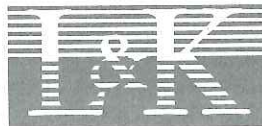


LEE COLLEGE DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2013



**Lovvorn & Kieschnick**

CERTIFIED PUBLIC ACCOUNTANTS

LOVVORN & KIESCHNICK, LLP

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**LEE COLLEGE DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2013**

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## **ORGANIZATIONAL DATA**

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# LEE COLLEGE DISTRICT ORGANIZATIONAL DATA FOR THE FISCAL YEAR 2013

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## Board of Regents

### Officers

Ms. Susan Moore-Fontenot	Chairman
Mr. Ronald Haddox	Vice-Chairman
Mr. Pete C. Alfaro	Secretary
Ms. Judy Jirrels	Assistant Secretary

### Members

Mr. Don Coffey	Baytown, Texas	May 2015
Mr. Mark Hall	Baytown, Texas	May 2015
Mr. Mark Himsel	Baytown, Texas	May 2015
Mr. Wayne Gray	Baytown, Texas	May 2017
Mr. Ronald Haddox	Baytown, Texas	May 2017
Ms. Judy Jirrels	Baytown, Texas	May 2017
Mr. Pete C. Alfaro	Baytown, Texas	May 2019
Dr. Keith Coburn	Baytown, Texas	May 2019
Ms. Susan Moore-Fontenot	Baytown, Texas	May 2019

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## Principal Administrative Officers

Dr. Dennis Brown	President
Mr. Steve Evans	Vice President of Finance and Administration
Dr. Cathy Kemper	Vice President of Learning
Dr. Jeff Thies	Dean, Academic Studies
Mr. Layton Childress	Dean, Applied Sciences
Mrs. Donna Zuniga	Dean, Huntsville Center
Dr. Donnetta Suchon	Vice President of Student Affairs
Dr. Carolyn Lightfoot	Exec. Director, Technical Research & Planning

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## **FINANCIAL SECTION**

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**Lowvorn & Kieschnick**

CERTIFIED PUBLIC ACCOUNTANTS

418 Peoples Street, Suite 308 tele 361-884-8897  
Corpus Christi, TX 78401 fax 361-884-3457

## **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 statements of Lee College District (the District) as of and for the years ended August 31, 2013 and 2012, 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's 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, 2013 and 2012, 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.

### **Emphasis of Matter**

As described in Note 2 to the financial statements. In 2013, Lee College District adopted new accounting guidance. Government Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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 Lee College District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2013 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 16, 2013

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Overview of the Financial Statements and Financial Analysis

Lee College District (the District) is proud to present its financial statements for fiscal year 2013 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 of the District exceeded liabilities at the close of the fiscal year on August 31, 2013, by \$45.0 million (net position). Of this amount, \$13.4 million (unrestricted and expendable net position) may be used to meet the District's ongoing obligations.
- Total net position increased by \$130,702 from fiscal year 2012 to fiscal year 2013. The District operated on a balanced budget for 2013 with no budgeted increase to fund balances. Through careful management the District met its budgetary obligations for the year.

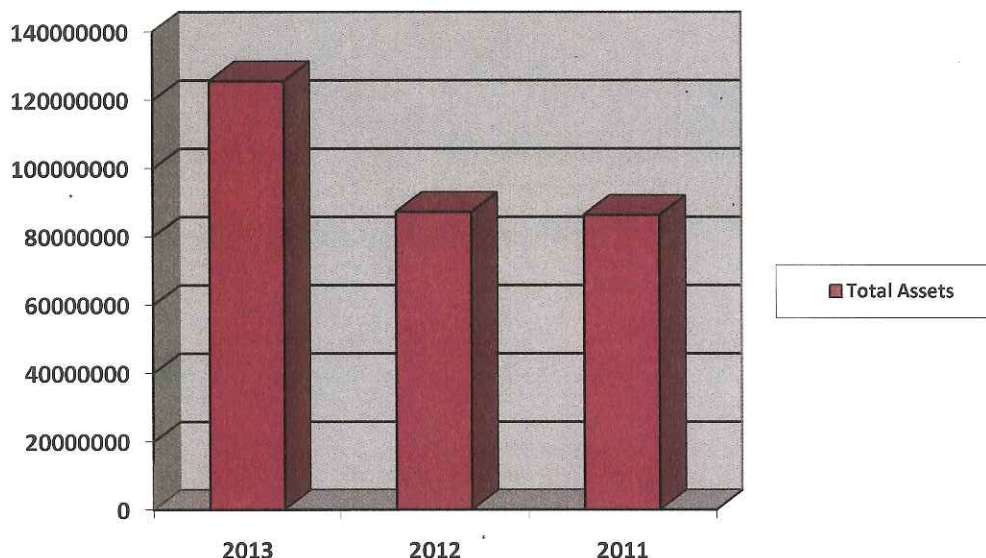
### Statement of Net Position

The Statement of Net Position presents the assets, liabilities, 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, Current and Noncurrent Liabilities, and Net Position (Assets minus Liabilities). Also shown is the sum of Total Liabilities and Net Position which equals Total Assets.

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, net of related debt, 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. They are available to use for any lawful purpose of the District.

Total assets of the District for fiscal year 2013 are \$125,495,658, an increase from \$87,192,268 in fiscal year 2012 and an increase from \$86,300,045 in fiscal year 2011. The large change in total assets between fiscal year 2013 and fiscal year 2012 can be attributed to the receipt of \$40,000,000 from bond proceeds at the end of the fiscal year. Changes in total assets over the past three years are depicted in the following chart:



Current assets are comprised of several categories. Cash and cash equivalents include the District’s cash and investments in TexPool and certificates of deposit. TexPool is a statewide investment pool. In fiscal year 2013, cash, cash equivalents, and short-term investments totaled \$51,543,870, an increase of \$40,226,000 from the fiscal year 2012 amount of \$11,317,870. 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 and bond issuance costs which are being amortized over the life of the respective bonds. Capital assets include land, land improvements, buildings, equipment, and library books. These items are reflected in the financial statements net of accumulated depreciation.

Total liabilities of the District are \$80,457,422 in fiscal year 2013 as compared with \$42,284,734 in fiscal year 2012 and \$45,694,012 in fiscal year 2011 and also include a current and non-current portion. Total liabilities increased from fiscal year 2012 to fiscal year 2013 due to an increase in bonds payable resulting from the issuance of \$39,460,000 in general obligation bonds in August, 2013. 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.

LEE COLLEGE

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Assets:</b>			
Current Assets	58,518,155	19,387,578	18,525,339
Capital Assets	65,756,847	66,967,942	66,897,574
Other Noncurrent Assets	1,220,656	836,748	877,132
<b>Total Assets</b>	<u><b>125,495,658</b></u>	<u><b>87,192,268</b></u>	<u><b>86,300,045</b></u>
<b>Liabilities:</b>			
Current Liabilities	8,410,872	8,136,748	9,115,280
Noncurrent Liabilities	72,046,550	34,147,986	36,578,732
<b>Total Liabilities</b>	<u><b>80,457,422</b></u>	<u><b>42,284,734</b></u>	<u><b>45,694,012</b></u>
<b>Net Position</b>			
Invested in capital assets, net of related debt	31,257,991	30,391,180	27,996,458
Restricted – Expendable	1,307,235	1,054,275	904,003
Restricted-Non-Expendable	375,013	375,013	375,013
Unrestricted	12,097,997	13,087,066	11,330,559
<b>Total Net Position</b>	<u><b>45,038,236</b></u>	<u><b>44,907,534</b></u>	<u><b>40,606,033</b></u>
<b>Total Liabilities and Net Position</b>	<u><u><b>125,495,658</b></u></u>	<u><u><b>87,192,268</b></u></u>	<u><u><b>86,300,045</b></u></u>

**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.

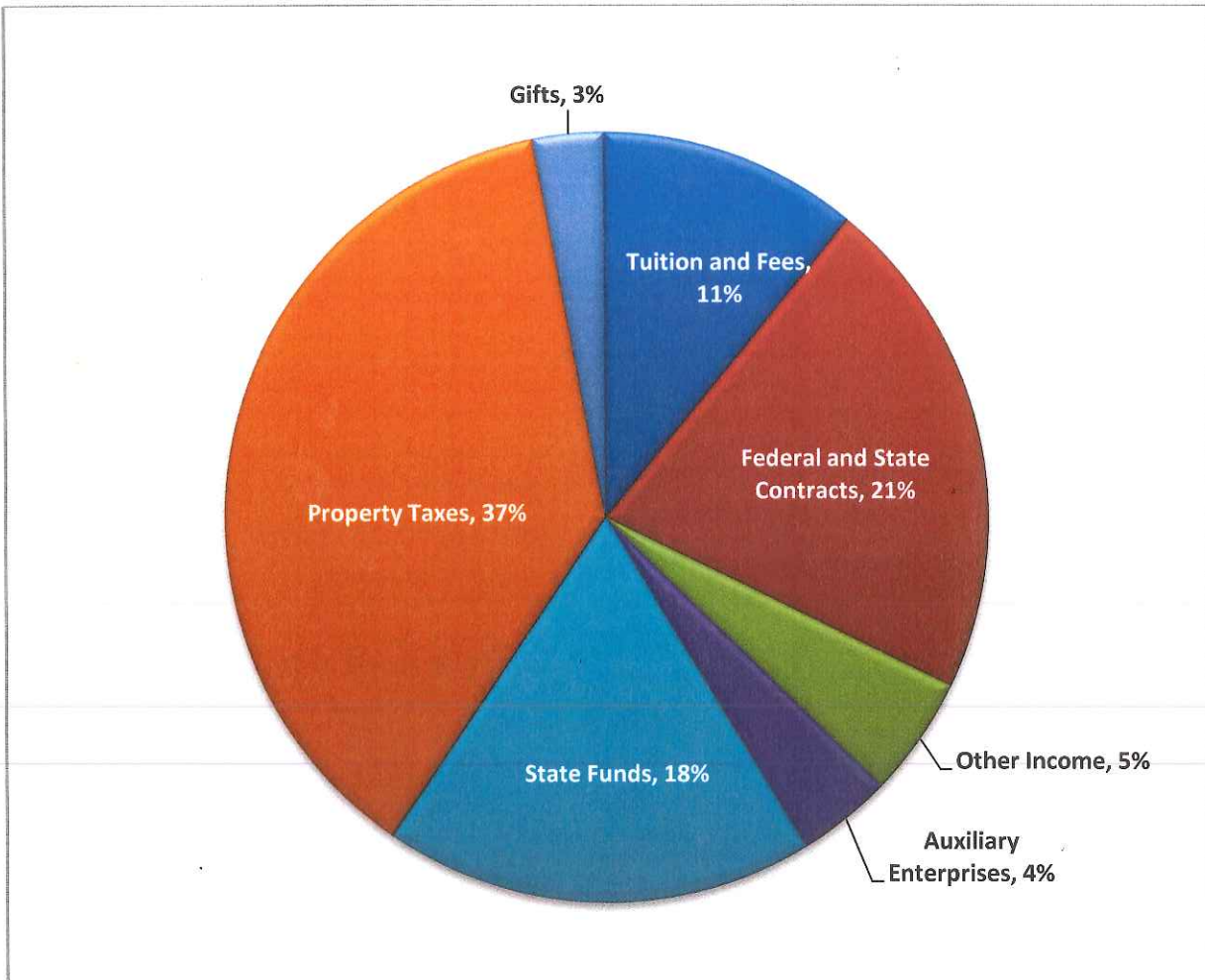
# LEE COLLEGE

	2013	2012	2011
<b>Operating Revenues</b>			
Tuition and Fees, (net of discounts of \$5,550,123 and \$4,109,554 respectively)	6,283,578	6,532,856	6,650,894
Federal Grants and Contracts	608,024	1,648,568	2,630,900
State Grants and Contracts	426,196	1,191,115	1,008,770
Non-Governmental Grants and Contracts	-	20,644	28,516
Sales and Services of Educational Activities	30,533	36,077	35,180
Auxiliary Enterprises, (net of discounts of \$0 and \$1,405,824 respectively)	2,447,719	1,546,922	1,933,162
Other Operating Revenues	609,681	579,663	880,784
<b>Total Operating Revenue (Schedule A)</b>	<b>10,405,730</b>	<b>11,555,845</b>	<b>13,168,206</b>
<b>Operating Expenses</b>			
Instruction	18,700,123	18,212,927	20,116,433
Public Service	1,121,389	1,641,367	1,702,552
Academic Support	2,954,123	2,957,665	2,812,005
Student Services	4,898,188	3,629,067	3,151,591
Institutional Support	9,969,389	8,532,586	8,699,325
Operation and Maintenance of Plant	5,636,247	5,025,427	5,126,904
Scholarships and Fellowships	7,083,870	8,324,490	10,060,298
Auxiliary Enterprises	3,369,297	4,266,266	4,263,639
Depreciation	1,908,126	1,886,469	1,954,899
<b>Total Operating Expenses (Schedule B)</b>	<b>55,640,752</b>	<b>54,476,264</b>	<b>57,887,646</b>
<b>Operating Income (Loss)</b>	<b>(45,235,022)</b>	<b>(42,920,418)</b>	<b>(44,719,440)</b>
<b>Non-Operating Revenues (Expenses)</b>			
State Funds	10,526,986	11,197,797	12,912,168
Maintenance and Obligation Ad-Valorem Taxes	19,395,554	18,657,446	17,881,845
General Obligation Bond Taxes	1,919,195	1,915,382	1,855,764
Federal Non-Operating Grants	11,283,638	14,290,142	15,570,891
Gifts	1,525,813	767,785	404,297
Investment Income (net of Investment Expense)	17,804	44,097	42,756
Interest on Capital Related Debt, net of amount capitalized	(1,581,658)	(1,587,307)	(1,853,957)
Payments in Lieu of Taxes	2,278,392	1,936,577	1,618,019
<b>Total Non-Operating Revenue (Schedule C)</b>	<b>45,365,724</b>	<b>47,221,919</b>	<b>48,431,783</b>
<b>Increase (Decrease) in Net Position</b>	<b>130,702</b>	<b>4,301,501</b>	<b>3,712,344</b>
<b>Net Position</b>			
Net Position--Beginning of Year	44,907,534	40,606,033	36,893,689
<b>Net Position--End of Year</b>	<b>45,038,236</b>	<b>44,907,534</b>	<b>40,606,033</b>

Total revenues for the District were \$57,353,112, \$60,365,071 and \$63,453,947 in 2013, 2012, and 2011, respectively. Total expenses were \$57,222,410, \$56,063,570 and \$59,741,603 in 2013, 2012, and 2011, 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 2013:

### 2013 Revenues



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

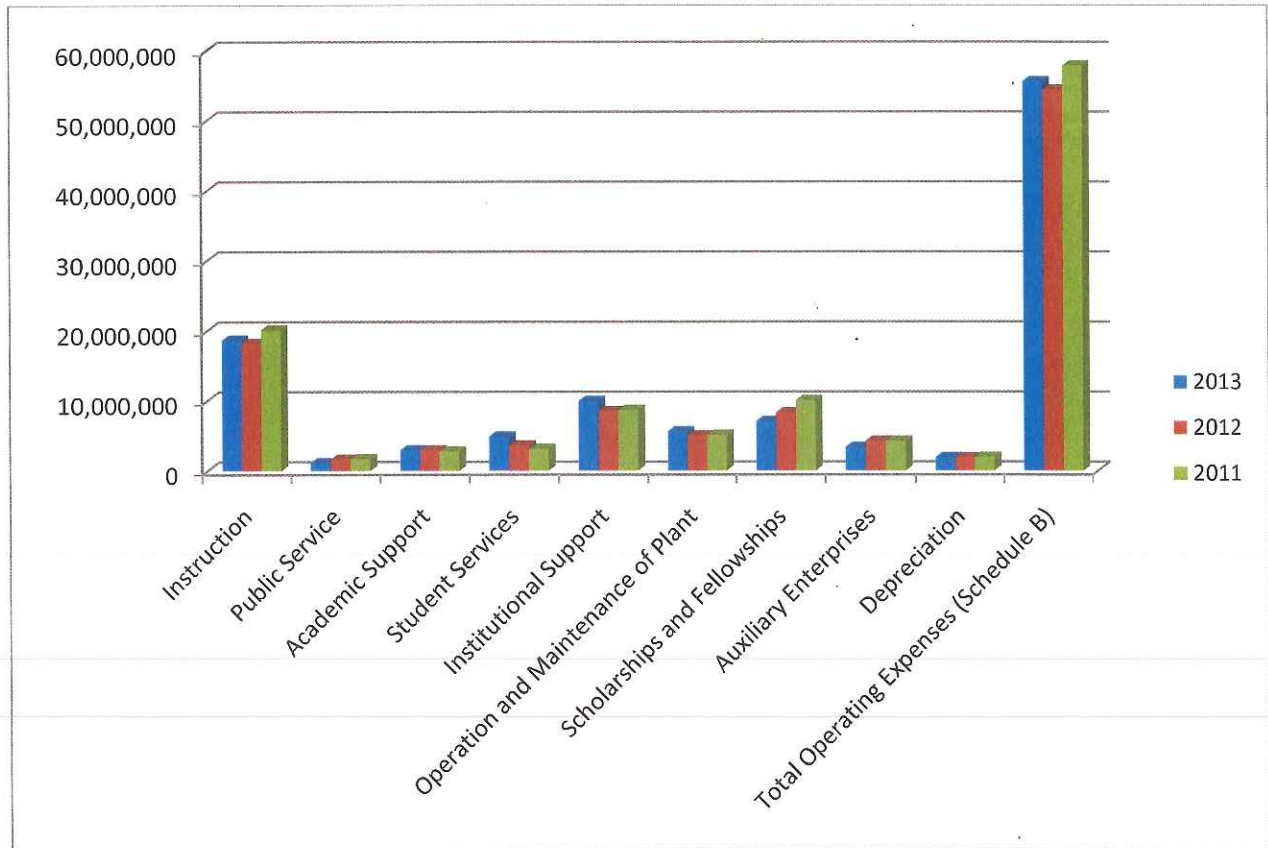
Operating revenues decreased from fiscal year 2012 to fiscal year 2013 primarily due to a decrease in federal and state operating grants. Federal non-operating grants decreased by \$1.0 million due to winding down of projects funded by the Department of Labor over the past two years. State grant funding for operations was reduced from 2012 due to reduced funding from the Texas Workforce Commission for job training.



**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 2013 operating expenses in comparison to 2012 and 2011:

**2011 / 2012 / 2013 Expense Comparison**



<b>Operating Expenses</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Instruction	18,700,123	18,212,927	20,116,433
Public Service	1,121,389	1,641,367	1,702,552
Academic Support	2,954,123	2,957,665	2,812,005
Student Services	4,898,188	3,629,067	3,151,591
Institutional Support	9,969,389	8,532,586	8,699,325
Operation and Maintenance of Plant	5,636,247	5,025,427	5,126,904
Scholarships and Fellowships	7,083,870	8,324,490	10,060,298
Auxiliary Enterprises	3,369,297	4,266,266	4,263,639
Depreciation	1,908,126	1,886,469	1,954,899
<b>Total Operating Expenses (Schedule B)</b>	<b>55,640,752</b>	<b>54,476,264</b>	<b>57,887,647</b>

## LEE COLLEGE

From fiscal year 2012 to fiscal year 2013 operating expenses for instruction increased resulting from faculty raises and filling open faculty positions in high demand programs. The District continues to achieve operational and utility savings attributable to energy management programs implemented since 2010 whereby repairs and replacement of infrastructure items are financed with debt repayment funded from energy savings. This program allows new equipment, major repairs and retrofits to be financed over a 17 year term with energy savings derived from equipment replacement, repairs and retrofits utilized to fund the debt. Phase 1 of the energy management program was successfully implemented in 2010. Phase 2 was implemented in 2012. Scholarship expenses decreased due to a decreased amount of federal Pell grants stemming from new federal Pell grant requirements placed on students.

### Capital Assets and Debt Administration

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

	2013	2012	2011
Land	1,393,555	1,327,217	1,327,217
Construction in Progress	694,906	457,163	3,743,998
Buildings	58,917,931	60,151,224	57,279,437
Land Improvements	427,823	459,063	490,322
Equipment	3,043,118	3,352,541	2,827,527
Library Books	1,279,514	1,220,734	1,229,073
Total	65,756,847	66,967,942	66,897,574

The District has issued 75.2 million in capital improvement bonds since fiscal year 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.

	2013	2012	2011
General obligation bonds	50,235,000	12,045,000	13,265,000
Revenue bonds	11,225,000	11,925,000	12,595,000
Total	61,460,000	23,970,000	25,860,000

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.

### Contingent Liability

For fiscal year 2012, the State of Texas limited the amount of funding that community colleges received for the employer portion of the retirement contributions for eligible employees. The Teacher Retirement System of Texas (TRS) requested that community colleges make up the difference. The Texas Association of Community Colleges (TACC) and most of the community colleges in the state contended that the amount owed to TRS was the state's liability and not a liability of the community college districts. Management of the Lee College District did not believe it was legally responsible for the payment and chose not to report a liability for the difference in the financial statements. The estimated

## LEE COLLEGE

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contingent liability was \$544,202. During 2013, it was determined that the College Districts were, in fact, responsible for paying the difference, and Lee College did submit payment for \$544,202 to the State of Texas.

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

Lee College District  
Exhibit 1  
Statements of Net Position  
Year Ended August 31, 2013 and 2012

<b>ASSETS</b>	2013	2012
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 41,245,034	\$ 1,888,910
Short-Term Investments (note 4)	9,923,823	9,053,947
Accounts Receivable (net)	4,727,504	4,917,342
Inventories	1,028,873	1,542,736
Prepaid Expenses	1,592,921	1,984,643
Total Current Assets	58,518,155	19,387,578
<b>Noncurrent Assets</b>		
Endowment Investments	375,013	375,013
Other Assets	845,643	461,734
Capital Assets, net of accumulated depreciation (Note 6)	65,756,847	66,967,942
Total Noncurrent Assets	66,977,503	67,804,689
<b>TOTAL ASSETS</b>	<b>125,495,658</b>	<b>87,192,267</b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable	1,096,329	1,226,988
Accrued Liabilities	441,892	228,096
Funds Held for Others	85,089	87,981
Unearned Revenue	3,770,401	3,711,333
Accrued Compensable Absences	492,811	453,574
Leases Payable-Current Portion	479,348	458,776
Bonds Payable-Current Portion	2,045,000	1,970,000
Total Current Liabilities	8,410,872	8,136,748
<b>Noncurrent Liabilities</b>		
Leases Payable-Noncurrent Portion	11,596,989	12,076,249
Bonds Payable-Noncurrent Portion (Note 7)	60,449,561	22,071,737
Total Noncurrent Liabilities	72,046,550	34,147,986
<b>TOTAL LIABILITIES</b>	<b>80,457,422</b>	<b>42,284,734</b>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	31,257,991	30,391,180
Restricted:		
Nonexpendable	375,013	375,013
Expendable-		
Student Aid	1,307,235	901,814
Debt Service	-	152,461
Unrestricted	12,097,997	13,087,066
<b>TOTAL NET POSITION</b>	<b>\$ 45,038,236</b>	<b>\$ 44,907,533</b>

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

**Lee College District  
Component Unit  
Lee College Foundation  
Statements of Financial Position  
August 31, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 661,397	\$ 120,972
Investments	7,889,253	7,020,582
Accrued Interest	24,932	24,795
Other Receivables	39,825	46,050
Due From Lee College	100	0
<b>Total Assets</b>	<b>\$ 8,615,507</b>	<b>\$ 7,212,399</b>
<b>Liabilities</b>		
Accounts Payable	40	40
Due to Lee College	468,523	50
<b>Total Liabilities</b>	<b>\$ 468,563</b>	<b>\$ 90</b>
<b>Net Assets</b>		
Unrestricted - Board Designated	407,482	427,905
Temporarily Restricted	2,065,630	1,452,742
Permanently Restricted	5,673,832	5,331,662
<b>Total Net Assets</b>	<b>8,146,944</b>	<b>7,212,309</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 8,615,507</b>	<b>\$ 7,212,399</b>

The accompanying notes are an integral part of this statement.

Lee College District  
Exhibit 2  
Statements of Revenues, Expenses, and Changes in Net Position  
For the Year Ended  
August 31, 2013 and 2012

<b>Operating Revenues</b>	2013	2012
Tuition and Fees, (net of discounts of \$5,021,075 and \$5,550,123 respectively)	\$ 6,283,578	\$ 6,532,856
Federal Grants and Contracts	608,024	1,648,568
State Grants and Contracts	426,196	1,191,115
Non-Governmental Grants and Contracts	-	20,644
Sales and Services of Educational Activities	30,533	36,077
Auxiliary Enterprises (net of discounts of \$0 and \$1,405,824 respectively)	2,447,719	1,546,922
Other Operating Revenues	609,681	579,663
<b>Total Operating Revenue (Schedule A)</b>	<u>10,405,730</u>	<u>11,555,845</u>
<b>Operating Expenses</b>		
Instruction	18,700,123	18,212,927
Public Service	1,121,389	1,641,367
Academic Support	2,954,123	2,957,665
Student Services	4,898,188	3,629,067
Institutional Support	9,969,389	8,532,586
Operation and Maintenance of Plant	5,636,247	5,025,427
Scholarships and Fellowships	7,083,870	8,324,490
Auxiliary Enterprises	3,369,297	4,266,266
Depreciation	1,908,126	1,886,469
<b>Total Operating Expenses (Schedule B)</b>	<u>55,640,752</u>	<u>54,476,264</u>
<b>Operating Income (Loss)</b>	<u>(45,235,022)</u>	<u>(42,920,419)</u>
<b>Non-Operating Revenues (Expenses)</b>		
State Funds	10,526,986	\$ 11,197,797
Maintenance and Obligation Ad-Valorem Taxes	19,395,554	18,657,446
General Obligation Bond Taxes	1,919,195	1,915,382
Federal Non-Operating Grants	11,283,638	14,290,142
Gifts	1,525,813	767,785
Investment Income (net of Investment Expense)	17,804	44,097
Interest on Capital Related Debt, net of amount capitalized	(1,581,658)	(1,587,307)
Payments in Lieu of Taxes	2,278,392	1,936,577
<b>Total Non-Operating Revenue (Schedule C)</b>	<u>45,365,724</u>	<u>47,221,919</u>
<b>Increase (Decrease) in Net Position</b>	<u>130,702</u>	<u>4,301,500</u>
<b>Net Position</b>		
Net Position-Beginning of Year	44,907,534	40,606,033
<b>Net Position-End of Year</b>	<u>\$ 45,038,236</u>	<u>\$ 44,907,533</u>

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

**Lee College District**  
**Component Unit**  
**Lee College Foundation**  
**Statement of Activities**  
**For the Year Ended August 31, 2013**  
**With Comparative Totals For The Year Ended August 31, 2012**

	2013			2012	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Totals
<b>Support, Revenue and Gains:</b>					
Private Gifts	\$ -	\$ -	\$ 311,825	\$ 311,825	\$ 238,559
Corporate Matching	-	-	30,345	30,345	97,223
Interest/Dividends Income	-	159,217	-	159,217	150,254
Unrealized Gain (Loss) on Holdings	-	718,671	-	718,671	381,767
Net Assets Released from Restriction	265,000	(265,000)	-	-	-
<b>Total Support, Revenue and Gains</b>	<u>265,000</u>	<u>612,888</u>	<u>342,170</u>	<u>1,220,058</u>	<u>867,803</u>
<b>Expenses and Losses:</b>					
Contract Services-Audit Fees	2,500	-	-	2,500	2,500
Lee College Scholarship Breakfast	3,994	-	-	3,994	3,370
Lee College Library	-	-	-	-	10,557
Gala Banquet	11,243	-	-	11,243	11,527
Outstanding Honor Awards	1,000	-	-	1,000	500
Bank Charges	1,686	-	-	1,686	1,274
Lee College District Scholarships	265,000	-	-	265,000	240,000
<b>Total Program and Support Expenses</b>	<u>285,423</u>	<u>-</u>	<u>-</u>	<u>285,423</u>	<u>269,728</u>
<b>Increase (Decrease) in Net Assets</b>	(20,423)	612,888	342,170	934,635	598,075
<b>Net Assets, beginning of year</b>	<u>427,905</u>	<u>1,452,742</u>	<u>5,331,662</u>	<u>7,212,309</u>	<u>6,614,234</u>
<b>Net Assets, end of year</b>	<u>\$ 407,482</u>	<u>\$ 2,065,630</u>	<u>\$ 5,673,832</u>	<u>\$ 8,146,944</u>	<u>\$ 7,212,309</u>

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, 2013 and 2012**

<b>Cash Flows From Operating Activities</b>	<u>2013</u>	<u>2012</u>
Receipts from students and other customers	\$ 8,546,446	\$ 6,513,270
Receipts from grants and contracts	1,516,160	3,290,337
Payments to suppliers for goods or services	(13,452,686)	(12,238,911)
Payments to or on behalf of employees	(32,358,192)	(30,879,462)
Payments of scholarships and fellowships	(6,967,922)	(9,579,312)
Other Receipts	650,066	579,663
Net cash provided (used) by operating activities	<u>(42,066,129)</u>	<u>(42,314,414)</u>
 <b>Cash Flows From Non-capital Financing Activities</b>		
Receipts from state appropriations	10,526,986	11,197,797
Receipts from Ad Valorem taxes	19,373,893	18,646,331
Receipts from gifts and grants for other than capital purposes	1,525,813	767,785
Receipts from Federal grants	11,283,638	14,290,142
Receipts from student organizations and other agency transactions	(2,052)	15,350
Other receipts (payments)	2,278,392	1,936,577
Net cash provided (used) by non-capital financing activities	<u>44,986,670</u>	<u>46,853,982</u>
 <b>Cash Flows From Financing Activities</b>		
Receipts from Ad Valorem tax revenues	1,919,195	1,915,382
Proceeds on Issuance of Capital Debt	40,071,952	-
Purchases of capital assets	(697,031)	(1,956,837)
Payments on capital debt and leases	(4,010,434)	(3,896,485)
Net cash provided (used) by capital and related financing activities	<u>37,283,682</u>	<u>(3,937,940)</u>
 <b>Cash Flows From Investing Activities</b>		
Receipts from sales and maturities of investments	21,491,341	15,717,774
Receipts from interest on investments	10,402	39,914
Purchases of investments	(22,349,843)	(15,600,000)
Net cash provided (used) by investing activities	<u>(848,100)</u>	<u>157,688</u>
 Increase (decrease) in cash and cash equivalents	39,356,124	759,316
 Cash and cash equivalents - September 1, 2012	<u>1,888,910</u>	<u>1,129,594</u>
 Cash and cash equivalents - August 31, 2013	<u>\$ 41,245,034</u>	<u>\$ 1,888,910</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, 2013 and 2012

	2013	2012
<b>Reconciliation of net operating income (loss) to net cash provided (used) by operating activities</b>		
Operating income (loss)	\$ (45,235,022)	\$ (42,920,418)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation Expense	1,908,126	1,886,469
<b>Changes in Assets and Liabilities:</b>		
Receivables (net)	247,874	(714,847)
Inventories	513,863	(105,426)
Prepaid Expenses	391,722	640,080
Accounts payable	(130,657)	(6,764)
Accrued Liabilities	139,660	(264,259)
Compensated absences	39,237	(15,483)
Unearned revenue	59,068	(457,728)
Early retirement incentive	-	(356,038)
 Net cash Provided (used) by operating activities	 \$ (42,066,129)	 \$ (42,314,414)

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

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LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2013 and 2012

(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, 2013, 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.

Implementation of GASB Statement No. 63: For fiscal year 2013, the District implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides financial reporting guidance for deferred outflows and inflows of resources and required changes in account captions in the statement of net position.

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

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2013 and 2012

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.

**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.

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 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 \$3,770,401 and \$3,711,333 have been reported as deferred revenues at August 31, 2013 and 2012, 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.

LEE COLLEGE DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 AUGUST 31, 2013 and 2012

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 and liabilities. Net position invested in capital assets, net of related debt consist 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 subdivisions rated not less than A by a national investment rating firm, (4) certificates of deposit, and (5) other instruments and obligations authorized by statute.

(4) DEPOSITS AND INVESTMENTS

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

<b>Cash and Deposits</b>		
	2013	2012
Bank Deposits		
Demand Deposits	41,234,794	1,878,670
Cash and Cash Equivalents		
Petty Cash on Hand	10,240	10,240
Total Cash and Deposits	41,245,034	1,888,910

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2013 and 2012

During the year ended August 31, 2013, deposits were entirely covered by FDIC insurance or by pledged collateral held by the College's agent bank in the College's name except for the months of November, December and January. No losses were incurred.

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

<u>Type of Security</u>	<u>Market Value</u> <u>August 31, 2013</u>	<u>Market Value</u> <u>August 31, 2012</u>
<b>Investments</b>		
Certificates of Deposit	-	761,375
Money Market	2,220,848	-
Domestic Equities	6,886	6,760
Investment Pools	8,071,102	8,660,825
Total Investments	10,298,836	9,428,960
Total Cash and Deposits	41,245,034	1,888,910
Total Deposits and Investments	<u>51,543,870</u>	<u>11,317,870</u>
Cash and Cash Equivalents (Exhibit 1)	41,245,034	1,888,910
Short Term Investments (Exhibit 1)	9,923,823	9,053,947
Endowment Investments (Exhibit 1)	375,013	375,013
Total Deposits and Investments (Exhibit 1)	<u>51,543,870</u>	<u>11,317,870</u>

As of August 31, 2013, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less than 1</u>	<u>1 to 3</u>	<u>4 to 5</u>
Money Market	2,220,848	2,220,848		
Domestic Equities	6,886	6,886	-	-
Investment Pools:				
Investment in TexPool	8,070,465	8,070,465	-	-
Investment in Lone Star Pool	637	637	-	-
Total Fair Value	<u>10,298,836</u>	<u>10,298,836</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.

LEE COLLEGE DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 AUGUST 31, 2013 and 2012

**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.

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

	<u>August 31, 2013</u>	<u>August 31, 2012</u>
<u>Bank Deposits</u>		
Demand Deposits	<u>661,397</u>	<u>120,972</u>
<u>Type of Security</u>		
Investments, at market value:		
Mutual Funds	<u>7,889,253</u>	<u>7,020,582</u>
Total Investments	<u>7,889,253</u>	<u>7,020,582</u>
Total Cash and Investments	<u><u>8,550,650</u></u>	<u><u>7,141,554</u></u>

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2013 and 2012

(5) DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES

Receivables

Receivables at year-end were as follows:

	District <u>August 31, 2013</u>	District <u>August 31, 2012</u>
Student Receivables	2,712,655	2,462,767
Taxes Receivable	1,705,543	1,648,696
Federal Receivables	842,958	1,324,898
Accounts Receivable	531,428	506,865
Interest Receivable	-	4,011
	<u>5,792,584</u>	<u>5,947,237</u>
TOTAL	5,792,584	5,947,237
Allowance for Uncollectibles	<u>(1,065,080)</u>	<u>(1,029,895)</u>
Accounts Receivable, net	<u><u>4,727,504</u></u>	<u><u>4,917,342</u></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:

<u>Description</u>	District <u>August 31, 2013</u>	District <u>August 31, 2012</u>
Taxes Receivable	1,057,378	1,022,193
Accounts Receivable	<u>7,702</u>	<u>7,702</u>
TOTAL	<u><u>1,065,080</u></u>	<u><u>1,029,895</u></u>

Payables

Payables at year-end were as follows:

<u>Description</u>	District <u>August 31, 2013</u>	District <u>August 31, 2012</u>
Vendor's Payable	1,096,329	1,226,988
Accrued Interest	123,594	49,460
Other Accruals	<u>318,298</u>	<u>178,636</u>
TOTAL	<u><u>1,538,221</u></u>	<u><u>1,455,084</u></u>

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2013 and 2012

(6) CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2013 was as follows:

	Balance August 31, 2012	Increases	Decreases	Balance August 31, 2013
<u>Not Depreciated:</u>				
Land	1,327,217	66,338	-	1,393,555
Construction in Process	457,163	237,743	-	694,906
Subtotal	1,784,380	304,081	-	2,088,461
<u>Other Capital Assets:</u>				
Buildings	77,570,789	-	-	77,570,789
Land Improvements	1,451,906	-	-	1,451,906
Furniture, Machinery, Vehicles and Other Equipment	18,898,139	-	-	18,898,139
Telecommunications and Peripheral Equipment	6,903,508	241,822	-	7,145,330
Library Books	2,396,080	151,127	-	2,547,207
Subtotal	107,220,422	392,949	-	107,613,371
<u>Accumulated Depreciation:</u>				
Buildings	(17,419,565)	(1,233,293)	-	(18,652,858)
Land Improvements	(992,843)	(31,240)	-	(1,024,083)
Furniture, Machinery, Vehicles and Other Equipment	(15,988,824)	(370,754)	-	(16,359,578)
Telecommunications and Peripheral Equipment	(6,460,282)	(180,491)	-	(6,640,773)
Library Books	(1,175,346)	(92,347)	-	(1,267,693)
Subtotal	(42,036,860)	(1,908,125)	-	(43,944,985)
Net Other Capital Assets	65,183,562	(1,515,176)	-	63,668,386
Net Capital Assets	66,967,942	(1,211,095)	-	65,756,847

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2013 and 2012

Capital asset activity for the year ended August 31, 2012 was as follows:

	Balance August 31, 2011	Increases	Decreases	Balance August 31, 2012
<u>Not Depreciated:</u>				
Land	1,327,217	-	-	1,327,217
Construction in Process	3,743,998	457,163	(3,743,998)	457,163
Subtotal	<u>5,071,215</u>	<u>457,163</u>	<u>(3,743,998)</u>	<u>1,784,380</u>
<u>Other Capital Assets:</u>				
Buildings	73,465,709	4,105,080	-	77,570,789
Land Improvements	1,451,906	-	-	1,451,906
Furniture, Machinery, Vehicles and Other Equipment	18,455,039	443,100	-	18,898,139
Telecommunications and Peripheral Equipment	6,281,930	621,578	-	6,903,508
Library Books	2,322,167	73,913	-	2,396,080
Subtotal	<u>101,976,751</u>	<u>5,243,671</u>	<u>-</u>	<u>107,220,422</u>
<u>Accumulated Depreciation:</u>				
Buildings	(16,186,273)	(1,233,292)	-	(17,419,565)
Land Improvements	(961,603)	(31,240)	-	(992,843)
Furniture, Machinery, Vehicles and Other Equipment	(15,573,476)	(415,348)	-	(15,988,824)
Telecommunications and Peripheral Equipment	(6,335,966)	(124,316)	-	(6,460,282)
Library Books	(1,093,074)	(82,272)	-	(1,175,346)
Subtotal	<u>(40,150,392)</u>	<u>(1,886,468)</u>	<u>-</u>	<u>(42,036,860)</u>
Net Other Capital Assets	<u>61,826,359</u>	<u>3,357,203</u>	<u>-</u>	<u>65,183,562</u>
Net Capital Assets	<u>66,897,574</u>	<u>3,814,366</u>	<u>(3,743,998)</u>	<u>66,967,942</u>



LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2013 and 2012

(7) LONG-TERM LIABILITIES

On August 29, 2013 the District issued \$39,460,000 Limited Tax General Obligation Bonds, Series 2013. The Bonds are direct obligations of the District, payable from a continuing ad valorem tax levied on all taxable property within the District. Proceeds from the sale of the Bonds will be used to finance the construction, acquisition and equipment of school buildings within the District and the purchase of necessary sites for school buildings. The issuance consisted of \$30,105,000 in serial bonds and \$9,355,000 in term bonds. The serial bonds carry interest rates of 3.875% to 5.000% and mature between August 15, 2021 and August 15, 2034. The term bonds were divided into three lots with \$2,975,000 paying 4.750% due on August 15, 2035; \$3,115,000 paying 4.750% due on August 15, 2036; and \$3,265,000 paying 4.750% due on August 15, 2037. The District has reserved the right to redeem at its option the Bonds maturing on August 15, 2024, in whole or from time to time in part, before their respective scheduled maturity dates, on August 15, 2023, or on any date thereafter. The Bonds designated as "Term Bonds" are subject to scheduled mandatory redemption and will be redeemed by the District, in part, at a price equal to the principal amount thereof, without premium, plus accrued interest to the redemption date, out of moneys available for such purpose in the interest and sinking fund.

Long-term liability activity for the year ended August 31, 2013 was as follows:

	Balance August 31, 2012	Additions	Reductions	Balance August 31, 2013	Current Portion
<u>Bonds, Leases and Note</u>					
General Obligation Bonds	12,045,000	39,460,000	1,270,000	50,235,000	1,320,000
Revenue Bonds	11,925,000	-	700,000	11,225,000	725,000
Deferred amount	(637,539)	-	(80,109)	(557,430)	-
Bond premiums	709,276	964,793	82,079	1,591,990	-
Capital Leases	12,535,024	-	458,687	12,076,337	479,348
Total Bonds and Note	<u>36,576,761</u>	<u>40,424,793</u>	<u>2,430,657</u>	<u>74,570,897</u>	<u>2,524,348</u>
<u>Other Liabilities</u>					
Compensated absences	453,574	523,918	484,681	492,811	492,811
 Total Long-term Liabilities	 <u>37,030,335</u>	 <u>40,948,711</u>	 <u>2,915,338</u>	 <u>75,063,708</u>	 <u>3,017,159</u>

LEE COLLEGE DISTRICT  
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Long-term liability activity for the year ended August 31, 2012 was as follows:

	Balance August 31, 2011	Additions	Reductions	Balance August 31, 2012	Current Portion
<b>Bonds, Leases and Note</b>					
General Obligation Bonds	13,265,000	-	1,220,000	12,045,000	1,270,000
Revenue Bonds	12,595,000	-	670,000	11,925,000	700,000
Deferred amount	(717,648)	-	(80,109)	(637,539)	-
Bond premiums	791,355	-	82,079	709,276	-
Capital Leases	12,967,409	-	432,385	12,535,024	458,776
<b>Total Bonds and Note</b>	<b>38,901,116</b>	<b>-</b>	<b>2,324,355</b>	<b>36,576,761</b>	<b>2,428,776</b>
<b>Other Liabilities</b>					
Compensated absences	469,057	431,030	446,513	453,574	453,574
Early retirement incentive	356,040	-	356,040	-	-
<b>Total Other Liabilities</b>	<b>825,097</b>	<b>431,030</b>	<b>802,553</b>	<b>453,574</b>	<b>453,574</b>
<b>Total Long-term Liabilities</b>	<b>39,726,213</b>	<b>431,030</b>	<b>3,126,908</b>	<b>37,030,335</b>	<b>2,882,350</b>

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

Bond Issue Name:	Series 2005	Series 2006	Series 2010	Series 2013
Purpose of Issue:	Advance Refunding	Capital Improvements	Advance Refunding	Capital Improvements
Original Amount Authorized:	13,688,672	12,000,000	2,425,000	39,460,000
Amount Issued:	13,688,672	12,000,000	2,425,000	39,460,000
Issue Date:	July 14, 2005	July 20, 2006	June 17, 2010	August 29, 2013
Type of Bond:	General Obligation	Revenue	Revenue	General Obligation
Maturity Date Range:	2011-2020	2008-2027	2011-2020	2021-2037
Source of Revenue for Debt Service:	Tax Revenues	Pledged Revenues	Pledged Revenues	Tax Revenues
Outstanding Balance:				
August 31, 2013	10,775,000	9,435,000	1,790,000	39,460,000
August 31, 2012	12,045,000	9,910,000	2,015,000	-

LEE COLLEGE DISTRICT  
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Bonds payable are due in annual installments varying from \$230,000 to \$3,265,000 with the final installment due in 2037.

Interest rates for the General Obligation Bonds vary from 3.875% to 5.000% and on the Revenue Bonds from 3.00% to 5.00%.

Debt Service requirements at August 31, 2013, were as follows:

Year Ended August 31,	General Obligation Bonds			Revenue Bonds			Total Bonds	
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest
2014	1,320,000	2,382,356	3,702,356	725,000	508,363	1,233,363	2,045,000	2,890,719
2015	1,385,000	2,322,957	3,707,957	750,000	479,187	1,229,187	2,135,000	2,802,144
2016	1,460,000	2,253,707	3,713,707	785,000	447,675	1,232,675	2,245,000	2,701,382
2017	1,530,000	2,180,706	3,710,706	825,000	414,675	1,239,675	2,355,000	2,595,381
2018	1,610,000	2,104,206	3,714,206	860,000	378,825	1,238,825	2,470,000	2,483,031
2019-2023	8,415,000	9,274,031	17,689,031	3,950,000	1,337,225	5,287,225	12,365,000	10,611,256
2024-2028	9,960,000	7,127,831	17,087,831	3,330,000	426,250	3,756,250	13,290,000	7,554,081
2029-2033	12,355,000	4,735,581	17,090,581	-	-	-	12,355,000	4,735,581
2034-2037	12,200,000	1,478,444	13,678,444	-	-	-	12,200,000	1,478,444
<b>TOTAL</b>	<b>50,235,000</b>	<b>33,859,819</b>	<b>84,094,819</b>	<b>11,225,000</b>	<b>3,992,200</b>	<b>15,217,200</b>	<b>61,460,000</b>	<b>37,852,019</b>

Defeased bonds outstanding:

The District did not have any defeased bonds outstanding at August 31, 2013.

#### Capital Leases

During 2009, the District entered into a lease agreement for the construction of energy efficiency improvements at a cost of \$9,972,735. In 2011, the District refinanced the lease to include additional funding of \$2,797,012 to cover the cost of Phase II of the energy improvement project. Total proceeds from the refinancing were \$12,923,784. Interest incurred during the construction phase is reflected in the capitalized value of the energy improvement project. Capitalized interest for 2011 was \$149,858 and \$212,025 on the initial 2009 lease agreement. The scheduled maturity date of the final lease payment is June 25, 2028. During 2010 the District entered into a lease agreement for the purchase of Sleeper Tractor for \$87,333. The scheduled maturity date for the final payment is October 1, 2012. The lease agreements qualify as capital leases for accounting purposes and, therefore, have 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
	2014	923,318
	2015	934,250
	2016	961,339
	2017	989,241
	2018	1,017,979
	2019-2023	5,232,343
	2024-2028	6,013,839
Total		16,072,309
Less Amount Representing Interest (Rate 3.7315%)		(3,995,972)
Present Value of Future Minimum Lease Payments		<u>12,076,337</u>

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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, 2013, the value of all accumulated vested employee vacation benefits was \$492,811 which is included in the accompanying statement of net assets.

During 2008 the District offered an early retirement incentive program to all qualified employees. Under the plan, benefits were 75% of base contract salary. The retirement benefit will be paid to participants on a monthly basis prorated over a period of forty-eight months commencing on September 15, 2008. This liability was paid in full in 2012.

(8) OPERATING LEASE COMMITMENTS AND RENTAL AGREEMENTS

As of August 31, 2013, the District had no significant commitments under non-cancelable operating lease agreements. Total rental expenditures under operating leases for the year ended August 31, 2013 was approximately \$69,750 and \$58,660 for 2012.

(9) EMPLOYEES' RETIREMENT PLAN

The State of Texas has joint contributory retirement plans for almost all its employees.

**Teacher Retirement System of Texas**

*Plan Description.* Lee College District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan. TRS issues a publicly available financial report with required supplementary information which can be obtained from [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications heading.

*Funding Policy.* Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a 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. State law provides for a member contribution rate of 6.4 percent for fiscal years 2013, 2012 and 2011 and a state contribution rate of 6.4 percent for fiscal year 2013; 6.4 percent for fiscal year 2012; and 6.644 percent for 2011. In certain instances the reporting district is required to make all or a portion of the state's 6.4 percent contribution for fiscal year 2013; 6.4 percent for fiscal year 2012; and 6.644 percent for fiscal year 2011.

*Contingent Liability.* For fiscal year 2012, the State of Texas limited the amount of funding that community colleges received for the employer portion of the retirement contributions for eligible employees. The Teacher Retirement System of Texas (TRS) requested that community colleges make up the difference. The Texas Association of Community Colleges (TACC) and most of the community colleges in the state contended that the amount owed to TRS was the state's liability and not a liability of the community college

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2013 and 2012

districts. Management of the Lee College District did not believe it was legally responsible for the payment and chose not to report a liability for the difference in the financial statements. The estimated contingent liability was \$544,202. During 2013, it was determined that the College Districts were, in fact, responsible for paying the difference and Lee College did submit payment for \$544,202 to the State of Texas.

**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 6.4% and 6.65%, respectively. The college contributes 2.1% 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 \$1,161,020 and \$1,085,255 for the fiscal years ended August 31, 2013 and 2012, 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 \$24,806,532 and \$24,360,693 for fiscal years 2013 and 2012, respectively. The total payroll of employees covered by the Teacher Retirement System was \$12,503,325 and \$11,996,285, and the total payroll of employees covered by the Optional Retirement Program was \$1,172,421 and \$9,065,371 for fiscal years 2013 and 2012, respectively.

(10) 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.

(11) 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 \$470 to \$1,369 per month for the year ended August 31, 2013 (\$438 to \$1,276 per month for 2012) and totaled \$1,255,670 for 2013 (\$1,191,128 for the year ended 2012). The cost of providing those benefits for 187 retirees in the year ended 2013 was \$1,130,845 (retiree benefits for 174 retirees cost \$1,046,436 in 2012). For 353 active employees, the cost of providing benefits was \$124,824 for the year ended 2013 (active employee benefits for 348 active employees cost \$144,692 for the year ended 2012).

LEE COLLEGE DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 AUGUST 31, 2013 and 2012

(12) 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.

(13) AD VALOREM TAXES

Delinquent taxes receivable are shown in the accompanying statement of net assets net of the allowance for doubtful taxes of \$1,057,375 and \$1,022,192 for fiscal years 2013 and 2012, 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:

	2013	2012
Assessed Valuation of the District	11,377,688,775	10,594,269,267
Less: Exemptions	(2,622,016,668)	(2,479,954,600)
Less: Abatements	-	-
Net Assessed Valuation of the District	8,755,672,107	8,114,314,667

	2013			2012		
	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	0.219500	0.021500	0.241000	0.229100	0.022900	0.252000

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2013 and 2012

Taxes levied for the year ended August 31, 2013 and 2012 amounted to \$21,115,140 and 20,448,074, respectively including any penalty and interest assessed. Tax collections follow:

	2013			2012		
	Current Operations	Debt Service	Total	Current Operations	Debt Service	Total
Current Taxes Collected	18,906,428	1,851,885	20,758,313	18,238,135	1,823,613	20,061,748
Delinquent Taxes Collected	279,327	28,970	308,297	268,298	22,603	290,901
Penalties & Interest Collected	190,955	35,523	226,478	143,040	66,024	209,064
Total Collections	19,376,710	1,916,378	21,293,088	18,649,473	1,912,240	20,561,713

Total tax collections for the year ended August 31, 2013 and 2012 were 100% 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 2013, tax collections from one petrochemical complex within the District's taxing authority represented approximately 28% of total tax revenues.

(14) CONTRACT AND GRANT AWARDS

At August 31, 2013, there were no contract or grant awards funds already committed, e.g., multi-year awards, or funds awarded during fiscal year 2013 for which monies have not been received nor funds expended.

(15) ON-BEHALF PAYMENTS

Certain retirement and health insurance fringe benefits are funded by the State of Texas on behalf of the District (see Notes 9 and 11). For 2013, revenues and expenses in the accompanying Statement of Revenues, Expenses, and Changes in Net Position include \$1,255,670 for health insurance (\$1,191,128 for 2012) and \$1,161,020 for retirement benefits (\$1,085,255 for 2012) which were funded by the State on behalf of the District.

(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.

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2013 and 2012

(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 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, 2013, the District was not involved in any lawsuits or other legal actions which, in Administration's opinion (based on discussions with legal counsel) would result in any direct loss to the District which would be material to its financial position.

(19) CONSTRUCTION COMMITMENTS

At August 31, 2013, the District is in the early planning stages for construction, acquisition and equipping of school buildings, as a result of the issuance of \$39,460,000 Limited Tax General Obligation Bonds, Series 2013 as disclosed in Note 7.



## **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.

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## SCHEDULES

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Lee College District  
Schedule A  
Schedule of Detailed Operating Revenues  
For the Year Ended August 31, 2013 (With Memorandum Totals for the Year Ended August 31, 2012)

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	FY 2013 Total	FY 2012 Total
<b>Tuition</b>						
State Funded Courses						
In-District Resident Tuition	\$ 3,361,294	\$ -	\$ 3,361,294	\$ -	\$ 3,361,294	\$ 3,407,611
Out-of-District Resident Tuition	3,191,110	-	3,191,110	-	3,191,110	3,376,528
TPEG-Credit (set aside)*	393,704	-	393,704	-	393,704	428,021
Non-Resident Tuition	356,800	-	356,800	-	356,800	394,894
State-Funded Continuing Education	516,118	-	516,118	-	516,118	556,243
TPEG Non-Credit (set aside)*	-	-	-	-	-	-
Non-State Funded Continuing Education	220,131	-	220,131	-	220,131	434,335
Total Tuition	<u>\$ 8,039,157</u>	<u>\$ -</u>	<u>\$ 8,039,157</u>	<u>\$ -</u>	<u>\$ 8,039,157</u>	<u>\$ 8,597,633</u>
<b>Fees</b>						
General Fee	419,300	-	419,300	-	419,300	428,628
Student Service Fee	-	-	-	277,836	277,836	286,843
Lab Fee	447,989	-	447,989	-	447,989	516,068
Building Use Fees	1,874,357	-	1,874,357	-	1,874,357	1,966,308
Other Fees	246,014	-	246,014	-	246,014	287,500
Total Fees	<u>\$ 2,987,660</u>	<u>\$ -</u>	<u>\$ 2,987,660</u>	<u>\$ 277,836</u>	<u>\$ 3,265,496</u>	<u>\$ 3,485,347</u>
<b>Scholarship Allowances and Discounts</b>						
Scholarship Allowances	(528,235)	-	(528,235)	-	(528,235)	(464,488)
Remissions and Exemptions	(1,489,634)	-	(1,489,634)	-	(1,489,634)	(1,273,128)
TPEG Allowances	(240,767)	-	(240,767)	-	(240,767)	(170,734)
State Grants to Students	-	-	-	-	-	-
Federal Grants to Students	(2,736,348)	-	(2,736,348)	-	(2,736,348)	(3,610,894)
Other	(26,091)	-	(26,091)	-	(26,091)	(30,879)
Total Scholarship Allowances and Discounts	<u>\$ (5,021,075)</u>	<u>\$ -</u>	<u>\$ (5,021,075)</u>	<u>\$ -</u>	<u>\$ (5,021,075)</u>	<u>\$ (5,550,123)</u>
<b>Total Net Tuition and Fees</b>	<u>\$ 6,005,742</u>	<u>\$ -</u>	<u>\$ 6,005,742</u>	<u>\$ 277,836</u>	<u>\$ 6,283,578</u>	<u>\$ 6,532,856</u>
<b>Additional Operating Revenues</b>						
Federal Grants and Contracts	-	608,024	608,024	-	608,024	1,648,568
State Grants and Contracts	-	426,196	426,196	-	426,196	1,191,115
Local Grants and Contracts	-	-	-	-	-	-
Nongovernmental Grants and Contracts	-	-	-	-	-	20,844
Sales and Services of Educational Activities	30,533	-	30,533	-	30,533	36,077
Investment Income (program restricted)	-	-	-	-	-	-
Other Operating Revenues	609,681	-	609,681	-	609,681	579,663
Total Additional Operating Revenues	<u>\$ 640,214</u>	<u>\$ 1,034,220</u>	<u>\$ 1,674,434</u>	<u>\$ -</u>	<u>\$ 1,674,434</u>	<u>\$ 3,476,067</u>
<b>Auxiliary Enterprises</b>						
Bookstore	-	-	-	1,863,092	1,863,092	1,125,756
Food Service	-	-	-	461,858	461,858	421,166
Other Auxiliary Services	-	-	-	122,769	122,769	-
Total Net Auxiliary Enterprises	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,447,719</u>	<u>\$ 2,447,719</u>	<u>\$ 1,546,922</u>
<b>Total Operating Revenues</b>	<u>\$ 6,645,956</u>	<u>\$ 1,034,220</u>	<u>\$ 7,680,176</u>	<u>\$ 2,725,555</u>	<u>\$ 10,405,731</u>	<u>\$ 11,555,846</u>
					(Exhibit 2)	(Exhibit 2)

\* In accordance with Education Code 56.033, \$393,704 and \$428,021 for years August 31, 2013 and 2012 respectively, of tuition was set aside for Texas Public Educational Grants (TPEG)

Lee College District  
Schedule B  
Schedule of Operating Expenses By Object  
For the Year Ended August 31, 2013  
(with Memorandum Totals for the Year ended August 31, 2012)

	Operating Expenses					
	Benefits			Other Expenses	FY 2013 Total	FY 2012 Total
	Salaries and Wages	State	Local			
<b>Educational Activities</b>						
Instruction	\$ 12,778,196	\$	\$ 3,048,722	\$ 1,389,300	\$17,217,502	\$ 16,283,627
Public Service	477,937		114,030	435,731	1,027,698	1,040,281
Academic Support	1,880,881		448,755	453,476	2,804,395	2,808,987
Student Services	2,141,799		511,007	364,469	3,017,275	2,451,374
Institutional Support	4,310,271		1,028,378	3,797,305	9,113,386	7,386,674
Operation and Maintenance of Plant	1,597,155		381,062	3,658,031	5,636,247	5,025,427
Scholarships and Fellowships	-		-	-	-	-
<b>Total Unrestricted Educational Activities</b>	<b>23,186,238</b>	<b>-</b>	<b>5,531,954</b>	<b>10,098,312</b>	<b>38,816,504</b>	<b>34,996,370</b>
Instruction	203,915	1,141,035	23,207	114,465	1,482,621	1,929,300
Public Service	-	37,936	-	55,755	93,691	601,086
Academic Support	-	149,294	-	434	149,728	148,678
Student Services	552,476	170,004	134,414	1,024,019	1,880,913	1,177,692
Institutional Support	321,759	342,125	70,952	121,167	856,003	1,145,912
Operation and Maintenance of Plant	-	-	-	-	-	-
Scholarships and Fellowships	115,949	-	-	6,967,922	7,083,870	8,324,490
<b>Total Restricted Educational Activities</b>	<b>1,194,099</b>	<b>1,840,394</b>	<b>228,572</b>	<b>8,283,761</b>	<b>11,546,826</b>	<b>13,327,158</b>
<b>Total Educational Activities</b>	<b>24,380,337</b>	<b>1,840,394</b>	<b>5,760,526</b>	<b>18,382,073</b>	<b>50,363,330</b>	<b>48,323,528</b>
Auxiliary Enterprises	446,223		109,609	2,813,464	3,369,297	4,266,266
Depreciation Expense-Buildings and Improvements				1,264,533	1,264,533	1,264,533
Depreciation Expense-Equipment and Furniture				643,593	643,593	621,936
<b>Total Operating Expenses</b>	<b>\$ 24,826,560</b>	<b>\$ 1,840,394</b>	<b>\$ 5,870,135</b>	<b>\$ 23,103,663</b>	<b>\$55,640,753</b>	<b>\$ 54,476,263</b>
					(Exhibit 2)	(Exhibit 2)

Lee College District  
Schedule C  
Schedule of Non-Operating Revenues and Expenses  
For the Year Ended August 31, 2013  
With Comparative Data for the Year Ended August 31, 2012

	Unrestricted	Restricted	Auxiliary Enterprises	FY 2013 Total	FY 2012 Total
<b>NON-OPERATING REVENUES</b>					
Education and General State Support	\$ 8,686,592	\$ -	\$ -	\$ 8,686,592	\$ 9,446,827
State Group Insurance		1,255,670		1,255,670	1,191,128
State Retirement Matching		584,724		584,724	559,842
<b>Total State Support</b>	<u>8,686,592</u>	<u>1,840,394</u>	-	<u>10,526,986</u>	<u>11,197,797</u>
Maintenance Ad Valorem Taxes	19,395,554			19,395,554	18,657,446
General Obligation Bond Taxes		1,919,195		1,919,195	1,915,382
Federal Non-Operating Grants	-	11,283,638		11,283,638	14,290,142
Gifts	1,525,813			1,525,813	767,785
Investment Income	17,804	-		17,804	44,097
Payments in Lieu of Taxes	2,278,392	-		2,278,392	1,936,577
<b>Total Non-Operating Revenues</b>	<u>31,904,155</u>	<u>15,043,227</u>	-	<u>46,947,382</u>	<u>48,809,226</u>
<b>NON-OPERATING EXPENSES</b>					
Interest on Capital Related Debt		1,581,658		1,581,658	1,587,307
Other Non-Operating Expenses		-		-	
<b>Total Non-Operating Expenses</b>	<u>-</u>	<u>1,581,658</u>	-	<u>1,581,658</u>	<u>1,587,307</u>
<b>Net Non-Operating Revenues</b>	<u>\$ 31,904,155</u>	<u>\$ 13,461,569</u>	<u>\$ -</u>	<u>\$ 45,365,724</u>	<u>\$ 47,221,919</u>
				(Exhibit 2)	(Exhibit 2)

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Lee College District  
Schedule D  
Schedule of Net Position by Source and Availability  
For the Year Ended August 31, 2013  
With Memorandum Totals for the Year Ended August 31, 2012

	Detail by Source					Available for Current Operations		
	Restricted			Capital Assets Net of Depreciation and Related Debt		Total	Yes	No
	Unrestricted	Expendable	Non-Expendable					
<b>Current</b>								
Unrestricted	\$ 12,097,997	\$ -	\$ -	\$ -	\$ 12,097,997	\$ 12,097,997	\$ -	
Restricted		1,307,235			1,307,235	1,307,235		
Auxiliary Enterprises	-				-			
<b>Loan</b>								
Endowment			375,013		375,013		375,013	
<b>Plant</b>								
Unexpended	-	-		-	-			
Debt Service				-	-			
Investment in Plant				31,257,991	31,257,991		31,257,991	
<b>Total Net Position, August 31, 2013</b>	<b>\$ 12,097,997</b>	<b>\$ 1,307,235</b>	<b>\$ 375,013</b>	<b>\$ 31,257,991</b>	<b>\$ 45,038,236</b>	<b>\$ 13,405,232</b>	<b>\$ 31,633,004</b>	
					(Exhibit 1)			
<b>Total Net Position, August 31, 2012</b>	<b>\$ 13,087,066</b>	<b>\$ 1,054,275</b>	<b>\$ 375,013</b>	<b>\$ 30,391,180</b>	<b>\$ 44,907,534</b>	<b>\$ 13,988,880</b>	<b>\$ 30,918,654</b>	
					(Exhibit 1)			
<b>Net Increase (Decrease) in Net Position</b>	<b>\$ (989,069)</b>	<b>\$ 252,960</b>	<b>\$ -</b>	<b>\$ 866,811</b>	<b>\$ 130,702</b>	<b>\$ (583,648)</b>	<b>\$ 714,350</b>	
					(Exhibit 2)			

LEE COLLEGE DISTRICT  
SCHEDULE E  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended August 31, 2013

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass Through Grantor's Number	Pass Through Disbursements and Expenditures
U.S. Department of Education			
Direct Programs:			
Student Financial Assistance Cluster			
SEOG 2012-13	84.007		\$ 125,278
SEOG 2013-14	84.007		250
Federal Family Education Loan Program 2006-07	84.032		(3,313)
Federal Family Education Loan Program 2007-08	84.032		(1,750)
Federal Family Education Loan Program 2008-09	84.032		(2,087)
Federal Family Education Loan Program 2009-10	84.032		26
Federal College Workstudy Program 2012-13	84.033		101,342
Federal College Workstudy Program 2013-14	84.033		1,818
Federal PELL 2007-08	84.063		(14,019)
Federal PELL 2008-09	84.063		(815)
Federal PELL 2010-11	84.063		(1,236)
Federal PELL 2011-12	84.063		(9,523)
Federal PELL 2012-13	84.063		6,512,484
Federal PELL 2013-14	84.063		88,783
Direct Loan Program 2011-12	84.268		(849)
Direct Loan Program 2012-13	84.268		2,727,828
Direct Loan Program 2013-14	84.268		18,208
Title V - STEM and Articulation Transformation (SAT) Program	84.031C		940,363
TRIO Cluster			
Student Support Services	84.042A		243,477
Educational Opportunity Center	84.066A		217,962
Pass-Through From:			
Texas Higher Education Coordinating Bd.			
Carl Perkins Vocational Education - Basic 12-13	84.048	09850	329,552
College Access Challenge Grant	84.378A	P378A120023	9,859
Total U.S. Department of Education			<u>11,283,638</u>
U.S. Department of Commerce			
Pass-Through From:			
University of Houston Clear Lake			
Coastal Zone Management Administration Awards	11.419	13-039-000-6906	26,351
Total U.S. Department of Commerce			<u>26,351</u>
U.S. Department of Labor			
Direct Programs:			
Community-Based Job Training (note 3)	17.269	CB-18226-09-60-A-48	69,891
Pass-Through From:			
San Jacinto College			
Community-Based Job Training	17.269	DOL531708003	237,602
WTP High Growth and Emerging Industry Sectors	17.275	DOL5317021009	37,190
Pass-Through From:			
Texas Workforce Commission			
WIA Title V Incentive Grant	17.267	2913WSW015	17
WIA Adult Program & Dislocated Workers	17.278	2811WSW002	26,651
Total U.S. Department of Labor			<u>371,351</u>
National Science Foundation			
Direct Programs:			
NSF ATE Workshops for Physics Faculty	47.076		131,057
Total National Science Foundation			<u>131,057</u>
U.S. Small Business Administration			
Pass-Through From:			
University of Houston			
Small Business Development Center 2011-12	59.037	2-603001-Z-0047-28	6,947
Small Business Development Center 2012-13	59.037	4-603001-Z-0047-30	72,317
Total Small Business Administration			<u>79,264</u>
Total Federal Financial Assistance			<u>\$ 11,891,661</u>

Schedule Continued on Following Page.

SCHEDULE E (Continued)

Note 1: Federal Assistance Reconciliation

Federal Grants and Contracts Revenues per Schedule A	608,024
Federal Grants and Contracts Revenues per Schedule C	11,283,637
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>11,891,661</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 agencies are prepared on the award period basis. The expenditures reported above represent f been expended by the college for the purposes of the award. The expenditures reported above reimbursed by the funding agencies as of the end of the fiscal year. Some amounts reported in differ from amounts used in the preparation of the basic financial statements. Separate account for the different awards to aid in the observance of limitations and restrictions imposed by the fu The District has followed all applicable guidelines issued by various entities in the preparation of

Note 3: Subrecipients

The following amounts were passed-through to the listed subrecipients by the college. These at Community-Based Job Training program CFDA 17.269 from U. S. Department of Labor:

College of the Mainland	\$ 21,254
	<hr/>
Total amount passed-through	<u>\$ 21,254</u>

LEE COLLEGE DISTRICT  
SCHEDULE F  
SCHEDULE OF EXPENDITURES OF STATE AWARDS  
For the Year Ended August 31, 2013

<u>Grantor Agency/Program Title</u>	<u>Grant Contract Number</u>	<u>Expenditures</u>
Texas Higher Education Coordinating Board		
Texas College Work Study 12-13		\$ 21,573
Texas Grant Program 12-13		174,844
Texas Education Opportunity Grant 12-13		55,579
Nursing Innovation Grant Program	5680	21,582
Developmental Education S3		69,313
Texas - STEM Challenge Scholarship Program		23,750
Pass Through From:		
Trinity Valley Community College		
Nursing Innovation Grant Program TC-BNC		2,000
Total Texas Higher Education Coordinating Board		368,641
Texas Workforce Commission		
Small Business Program	2811SSD000	10,764
Partnership with FlexSteel Pipeline Technologies	2813SDF001	44,991
Total Texas Workforce Commission		55,755
Texas Comptroller of Public Accounts		
Texas Commission on the Arts 12-13		1,800
Total Texas Comptroller of Public Accounts		1,800
Total State Financial Assistance		\$ 426,196

Note 1: State Assistance Reconciliation

State Revenues - per Schedule A		
State Financial Assistance		
Per Schedule of expenditures of state awards		\$ 426,196
State Financial Assistance		
Continuing Education tuition and fees included in Schedule A captioned "Tuition and Fees"		-
Total State Revenues per Schedule 2-A		\$ 426,196

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

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**Lovvorn & Kieschnick**

CERTIFIED PUBLIC ACCOUNTANTS

418 Peoples Street, Suite 308 tele 361-884-8897  
Corpus Christi, TX 78401 fax 361-884-3457

**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, 2013 and 2012, 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 16, 2013.

**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, 2013, no instances of noncompliance were found.

### **Purpose of this Report**

This 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 16, 2013





**Lovvorn & Kieschnick**

CERTIFIED PUBLIC ACCOUNTANTS

418 Peoples Street, Suite 308    tele 361-884-8897  
Corpus Christi, TX 78401        fax 361-884-3457

Independent Auditor's Report on Compliance for Each Major Program  
and on Internal Control over Compliance in Required with OMB Circular A-133

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 Circular A-133 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, 2013. Lee College District's major federal and 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state 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 identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended August 31, 2013.

### **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 a major federal or program that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in cursive script that reads "Lovvorn & Kieschnick, LLP".

Lovvorn & Kieschnick, LLP  
December 16, 2013

**LEE COLLEGE DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED AUGUST 31, 2013**

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

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: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?  Yes  No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
	Student Financial Assistance Programs Cluster:
	Federal Supplemental Education Opportunity Grant Program
84.007	
84.032	Family Education Loan Program
84.033	Federal Work Study Program
84.063	Federal Pell Grant Program
84.268	Direct Loan Program
84.031C	Title V-STEM and Articulation Transformation (SAT) Program
84.048	Carl Perkins Vocational Education-Basic
17.269	Community-Based Job Training

Dollar threshold used to distinguish between type A and type B programs: \$300,000

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, 2013**

Program

N/A

Corrective Action Plan

No Corrective Action Required

**LEE COLLEGE DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**YEAR ENDED AUGUST 31, 2013**

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