

LEE COLLEGE DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2012



Lovvorn & Kieschnick

CERTIFIED PUBLIC ACCOUNTANTS

LOVVORN & KIESCHNICK, LLP

**LEE COLLEGE DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2012**

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ORGANIZATIONAL DATA

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LEE COLLEGE DISTRICT
ORGANIZATIONAL DATA
FOR THE FISCAL YEAR 2012

Board of Regents

Officers

Mr. Mark Himsel
Mr. Mark Hall
Judy Jirrels
Mr. Pete C. Alfaro

Chairman
Vice-Chairman
Secretary
Assistant Secretary

Members

Pete C. Alfaro	Baytown, Texas	May 2013
Susan Moore-Fontenot	Baytown, Texas	May 2013
Dr. Keith Coburn	Baytown, Texas	May 2013
Don Coffey	Baytown, Texas	May 2015
Mark Himsel	Baytown, Texas	May 2015
Mark Hall	Baytown, Texas	May 2015
Wayne Gray	Baytown, Texas	May 2017
Ronald Haddox	Baytown, Texas	May 2017
Judy Jirrels	Baytown, Texas	May 2017

Principal Administrative Officers

Dr. Dennis Brown	President
Mr. Steve Evans	VP of Finance and Administration
Dr. Cathy Kemper	VP of Learning
Dr. Jeff Thies	Dean, Academic Studies
Dr. David Jaroszewski	Interim Dean, Applied Sciences
Mrs. Donna Zuniga	Dean, Huntsville Center
Dr. Donnetta Suchon	VP of Student Affairs
Mrs. Mary Ann Amelang	Exec. Director, Institutional Advancement
Dr. Carolyn Lightfoot	Exec. Director, Tech., Research & Planning

THE NATIONAL ARCHIVES
COLLECTION OF DOCUMENTS
RELATIVE TO THE
AMERICAN REVOLUTION

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FINANCIAL 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

Board of Regents
Lee College District
Baytown, Texas 77520

Members of the Board of Regents:

We have audited the accompanying statements of net assets of Lee College District (the District) as of August 31, 2012 and 2011 and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended, and the discretely presented component unit financial statements of Lee College District, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2012 and 2011, and the respective changes in net assets and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2012 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* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 10 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.

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 supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedules of expenditures of federal and state awards are 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 the provisions of the State of Texas, *Uniform Grant and Contract Management Standards (UGCMS)* and are also not a required part of the basic financial statements of the District. The supplemental schedules and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Lovvorn + Kieschnick, LLP

Lovvorn & Kieschnick, LLP
December 12, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Management's Discussion and Analysis
Fiscal Year Ended August 31, 2012**

Overview of the Financial Statements and Financial Analysis

Lee College District (the District) is proud to present its financial statements for Fiscal Year 2012 which are in conformance with Governmental Accounting Standards Board (GASB) standards. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; 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, 2012, by \$44.9 million (net assets). Of this amount, \$14.1 million (unrestricted and expendable net assets) may be used to meet the District's ongoing obligations.
- Total net assets increased by \$4.3 million from Fiscal Year 2011 to Fiscal Year 2012. This increase can be attributed to a greater than expected increase in foreign trade zone receipts as well as savings from unfilled positions and deferred spending in anticipation of future dramatic reductions in state funding.

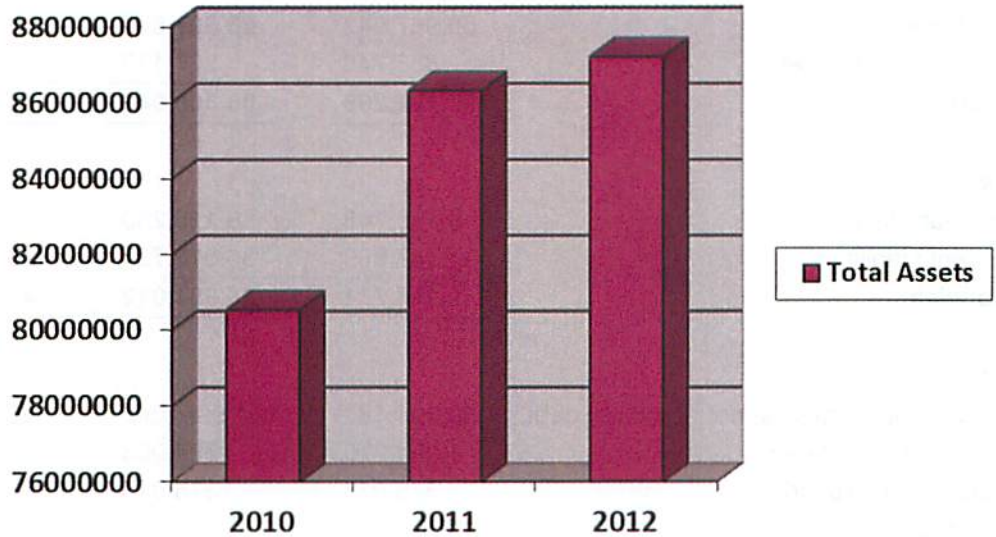
Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets 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 Assets 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 Assets (Assets minus Liabilities). Also shown is the sum of Total Liabilities and Net Assets 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 assets and their availability for expenditure can be determined as well.

Net assets are 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 asset category is restricted net assets. These assets have external limitations on the way in which they may be used. The last category is unrestricted net assets. They are available to use for any lawful purpose of the District.

Total assets of the District for Fiscal Year 2012 are \$87,192,268, an increase from \$86,300,045 in Fiscal Year 2011 and an increase from \$80,525,264 in Fiscal Year 2010. 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 2012, cash, cash equivalents, and short-term investments totaled \$11,317,870, an increase of \$672,885 from the Fiscal Year 2011 amount of \$10,644,985. 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 \$42,284,734 in Fiscal Year 2012 as compared with \$45,694,012 in Fiscal Year 2011 and \$43,631,575 in Fiscal Year 2010 and also include a current and non-current portion. Total liabilities increased from Fiscal Year 2011 to Fiscal Year 2012 due to an increase in deferred revenue comprised of student tuition and fees for the fall 2012 semester credited to student accounts before August 31, 2012. The tuition and fees reflected in deferred revenue will be recognized as revenue in fiscal year 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 assets represents the District's equity, some of which is restricted for certain uses and some of which is unrestricted.

LEE COLLEGE

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets:			
Current Assets	19,387,578	18,525,339	15,562,587
Capital Assets	66,967,942	66,897,574	64,199,894
Other Noncurrent Assets	836,748	877,132	762,783
Total Assets	<u>87,192,268</u>	<u>86,300,045</u>	<u>80,525,264</u>
Liabilities:			
Current Liabilities	8,136,748	9,115,280	7,463,790
Noncurrent Liabilities	34,147,986	36,578,732	36,167,785
Total Liabilities	<u>42,284,734</u>	<u>45,694,012</u>	<u>43,631,575</u>
Net Assets			
Invested in capital assets, net of related debt	30,391,180	27,996,458	26,648,174
Restricted – Expendable	1,054,275	904,003	700,504
Restricted-Non-Expendable	375,013	375,013	345,013
Unrestricted	13,087,066	11,330,559	9,199,998
Total Net Assets	<u>44,907,534</u>	<u>40,606,033</u>	<u>36,893,689</u>
Total Liabilities. and Net Assets	<u><u>87,192,268</u></u>	<u><u>86,300,045</u></u>	<u><u>80,525,264</u></u>

Statement of Revenues, Expenses and Changes in Net Assets

The purpose of the Statement of Revenues, Expenses and Changes in Net Assets 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

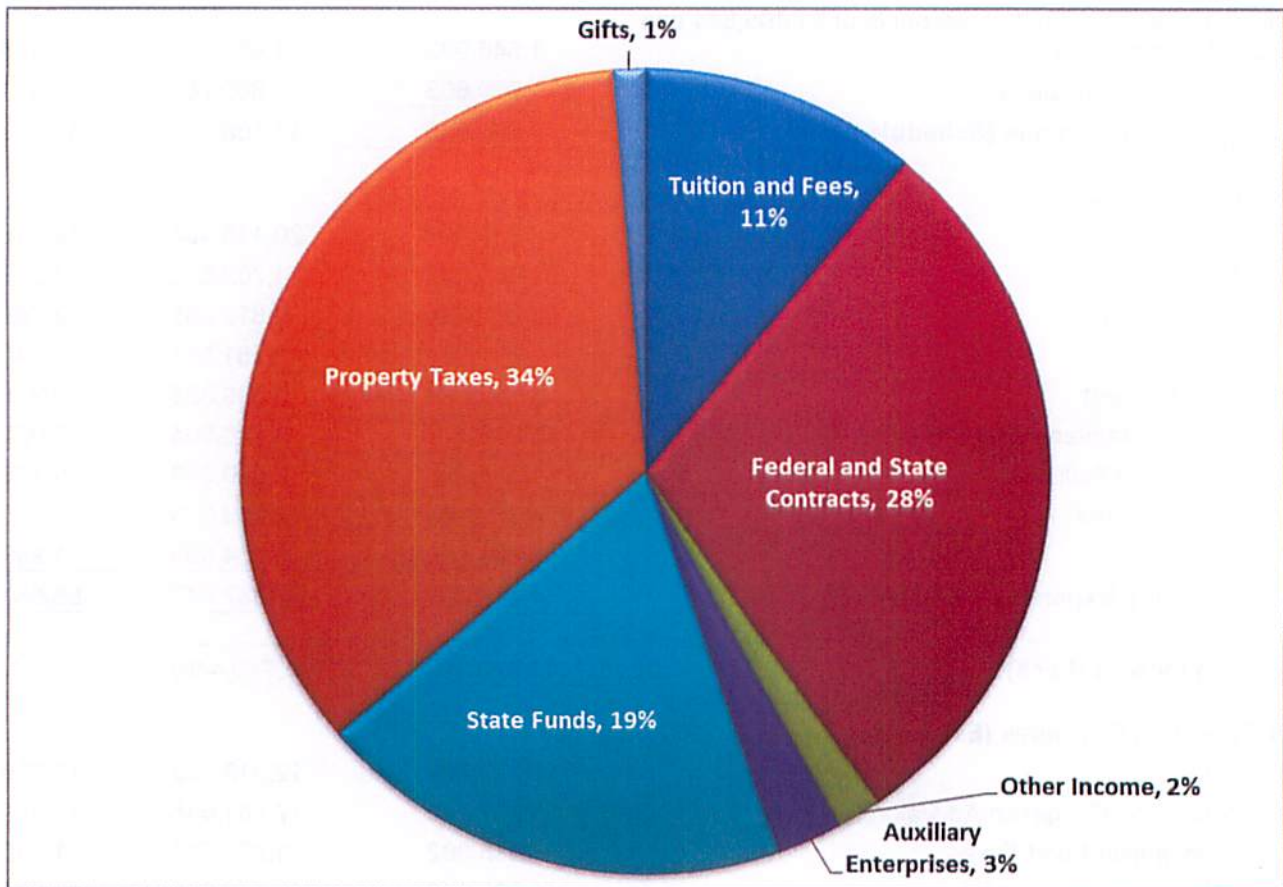
	2012	2011	2010
Operating Revenues			
Tuition and Fees, (net of discounts of \$5,550,123 and \$4,109,554 respectively)	6,532,856	6,650,894	6,055,799
Federal Grants and Contracts	1,648,568	2,630,900	3,134,212
State Grants and Contracts	1,191,115	1,008,770	737,532
Non-Governmental Grants and Contracts	20,644	28,516	17,502
Sales and Services of Educational Activities	36,077	35,180	33,701
Auxiliary Enterprises, (net of discounts of \$1,405,824 and 1,422,575 respectively)	1,546,922	1,933,162	2,284,828
Other Operating Revenues	579,663	880,784	431,565
Total Operating Revenue (Schedule A)	11,555,845	13,168,207	12,695,139
Operating Expenses			
Instruction	18,212,927	20,116,433	19,716,114
Public Service	1,641,367	1,702,552	1,587,486
Academic Support	2,957,665	2,812,005	2,795,841
Student Services	3,629,067	3,151,591	3,240,079
Institutional Support	8,532,586	8,699,325	9,218,385
Operation and Maintenance of Plant	5,025,427	5,126,904	6,052,753
Scholarships and Fellowships	8,324,490	10,060,298	9,156,659
Auxiliary Enterprises	4,266,266	4,263,639	4,335,951
Depreciation	1,886,469	1,954,899	1,986,617
Total Operating Expenses (Schedule B)	54,476,264	57,887,647	58,089,885
Operating Income (Loss)	(42,920,418)	(44,719,440)	(45,394,746)
Non-Operating Revenues (Expenses)			
State Funds	11,197,797	12,912,168	13,239,092
Maintenance and Obligation Ad-Valorem Taxes	18,657,446	17,881,845	17,251,128
General Obligation Bond Taxes	1,915,382	1,855,764	1,713,072
Federal Non-Operating Grants	14,290,142	15,570,891	12,893,803
Gifts	767,785	404,297	549,914
Investment Income (net of Investment Expense)	44,097	42,756	73,026
Interest on Capital Related Debt, net of amount capitalized	(1,587,307)	(1,853,957)	(1,862,621)
Payments in Lieu of Taxes	1,936,577	1,618,019	712,071
Total Non-Operating Revenue (Schedule C)	47,221,919	48,431,784	44,569,485
Increase (Decrease) in Net Assets	4,301,501	3,712,344	(825,261)
Net Assets			
Net Assets-Beginning of Year	40,606,033	36,893,689	37,718,951
Net Assets-End of Year	44,907,534	40,606,033	36,893,690

LEE COLLEGE

Total revenues for the District were \$60,365,071, \$63,453,947 and \$59,127,244 in 2012, 2011, and 2010, respectively. Total expenses were \$56,063,570, \$59,741,604 and \$59,952,506 in 2012, 2011, and 2010, 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 2012:

2012 Revenues



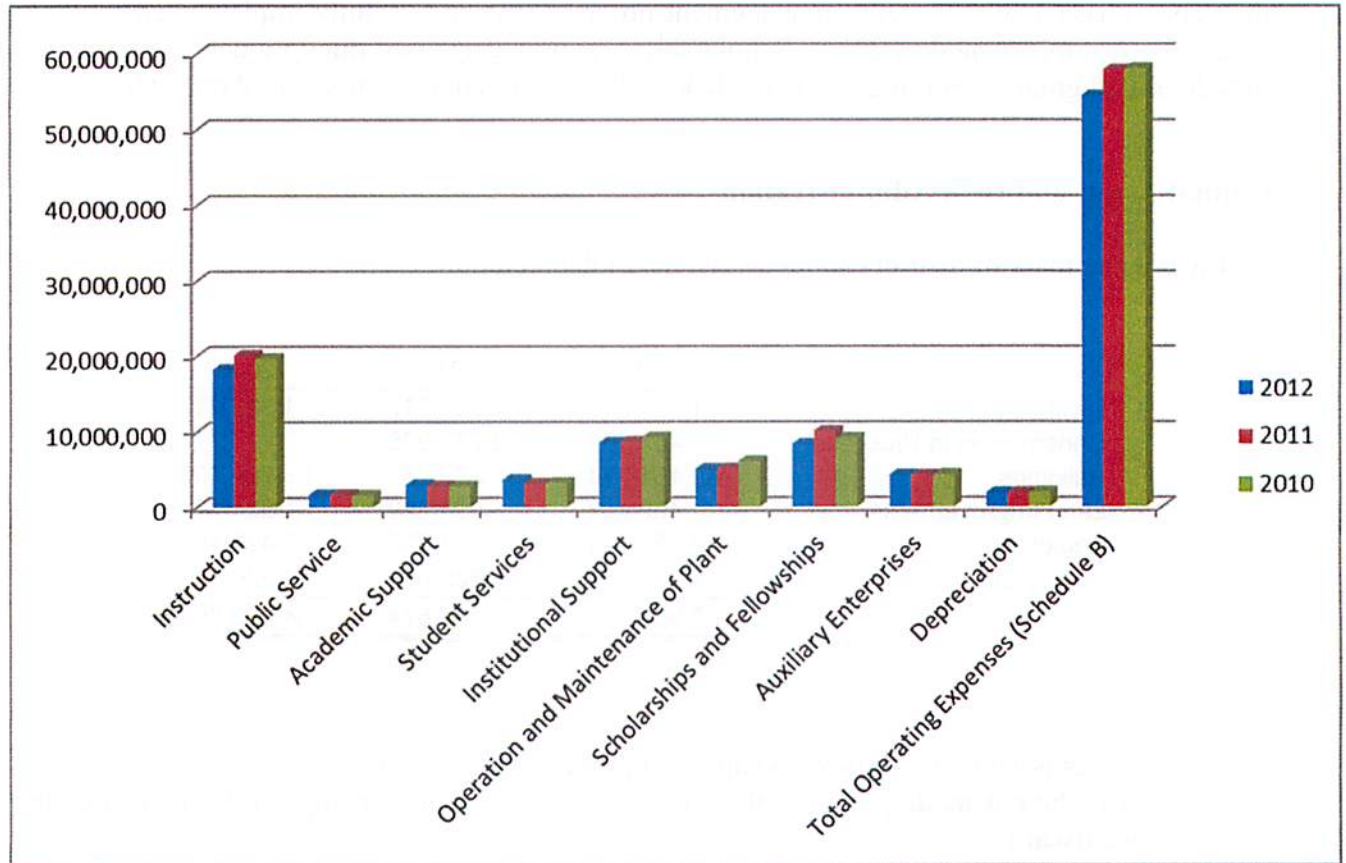
Non-operating revenues consist of the following: state appropriations, tax revenue, gifts, net investment income, payments in lieu of taxes, federal non operating grants, and other revenues. Non-operating expenses consist of interest on capital related debt.

Operating revenues decreased from Fiscal Year 2011 to Fiscal Year 2012 primarily due to a decrease in federal operating grants. Federal non-operating grants decreased by \$1.2 million due to several factors including a reduction in Pell grant funds for student assistance attributable to new federal eligibility requirements placed on students and reduced state funding for operations and employee benefits.

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 2012 operating expenses in comparison to 2011 and 2010:

2010 / 2011 / 2012 Expense Comparison



Operating Expenses	2012	2011	2010
Instruction	18,212,927	20,116,433	19,716,114
Public Service	1,641,367	1,702,552	1,587,486
Academic Support	2,957,665	2,812,005	2,795,841
Student Services	3,629,067	3,151,591	3,240,079
Institutional Support	8,532,586	8,699,325	9,218,385
Operation and Maintenance of Plant	5,025,427	5,126,904	6,052,753
Scholarships and Fellowships	8,324,490	10,060,298	9,156,659
Auxiliary Enterprises	4,266,266	4,263,639	4,335,951
Depreciation	1,886,469	1,954,899	1,986,617
Total Operating Expenses (Schedule B)	54,476,263	57,887,647	58,089,885

LEE COLLEGE

From Fiscal Year 2011 to Fiscal Year 2012 operating expenses for instruction decreased resulting from several faculty positions not being filled due to declining enrollments in some programs, more efficient management of class sizes and reduced state funding for the Huntsville campus program. 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.

	2012	2011	2010
Land	1,327,217	1,327,217	1,327,217
Construction in Progress	457,163	3,743,998	-
Buildings	60,151,224	57,279,437	58,702,760
Land Improvements	459,063	490,322	521,371
Equipment	3,352,541	2,827,527	2,422,145
Library Books	1,220,734	1,229,073	1,226,401
	<u>66,967,942</u>	<u>66,897,574</u>	<u>64,199,894</u>

The District has issued 35.7 million in capital improvement bonds since FY 1999. Shown in the table below is the outstanding debt at the end of the Fiscal Year as compared to the end of the two previous fiscal years.

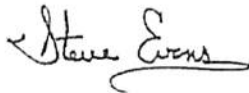
	2012	2011	2010
General obligation bonds	12,045,000	13,265,000	14,183,672
Revenue bonds	11,925,000	12,595,000	13,225,000
	<u>23,970,000</u>	<u>25,860,000</u>	<u>27,408,672</u>

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 is limiting the amount of funding that community colleges receive for the employer portion of the retirement contributions for eligible employees. The Teachers Retirement System of Texas (TRS) has requested that community colleges make up the difference. The Texas Association of Community Colleges (TACC) and most of the community colleges in the state contend that the amount owed to TRS is the state's liability and not a liability of the community college districts. Management of the Lee College District does not believe it is legally responsible for the payment and has chosen not to report a liability for the difference in the financial statements. The estimated contingent liability is \$544,202.

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

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BASIC FINANCIAL STATEMENTS

Lee College District
Exhibit 1
Statements of Net Assets
Year Ended August 31, 2012 and 2011

ASSETS	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash and Cash Equivalents	\$ 1,888,910	\$ 1,129,594
Short-Term Investments (Note 4)	9,053,947	9,140,378
Accounts Receivable (net)	4,917,342	4,193,334
Inventories	1,542,736	1,437,310
Prepaid Expenses	1,984,643	2,624,723
Total Current Assets	<u>19,387,578</u>	<u>18,525,339</u>
Noncurrent Assets		
Endowment Investments	375,013	375,013
Other Assets	461,734	502,119
Capital Assets, net of accumulated depreciation (Note 6)	66,967,942	66,897,574
Total Noncurrent Assets	<u>67,804,690</u>	<u>67,774,706</u>
TOTAL ASSETS	<u>87,192,268</u>	<u>86,300,045</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,226,988	1,233,752
Accrued Liabilities	228,096	492,358
Funds Held for Others	87,981	72,631
Deferred Revenue	3,711,333	4,169,061
Accrued Compensable Absences	453,574	469,057
Other Liabilities-Current Portion	-	356,037
Leases Payable-Current Portion	458,776	432,384
Bonds Payable-Current Portion	1,970,000	1,890,000
Total Current Liabilities	<u>8,136,748</u>	<u>9,115,280</u>
Noncurrent Liabilities		
Leases Payable-Noncurrent Portion	12,076,249	12,535,025
Bonds Payable-Noncurrent Portion (Note 7)	22,071,737	24,043,707
Total Noncurrent Liabilities	<u>34,147,986</u>	<u>36,578,732</u>
TOTAL LIABILITIES	<u>42,284,734</u>	<u>45,694,012</u>
NET ASSETS		
Invested in capital assets, net of related debt	30,391,180	27,996,458
Restricted:		
Nonexpendable	375,013	375,013
Expendable-		
Student Aid	901,814	773,447
Debt Service	152,461	130,556
Unrestricted	13,087,066	11,330,559
TOTAL NET ASSETS	<u>\$ 44,907,534</u>	<u>\$ 40,606,033</u>

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, 2012 and 2011**

	2012	2011
Assets		
Cash and cash equivalents	\$ 120,972	\$ 135,271
Investments	7,020,582	6,448,362
Accrued Interest	24,795	23,921
Other Receivables	46,050	6,680
Total Assets	\$ 7,212,399	\$ 6,614,234
Liabilities		
Accounts Payable	40	-
Due to Lee College	50	-
Total Liabilities	\$ 90	\$ -
Net Assets		
Unrestricted - Board Designated	427,905	447,076
Temporarily Restricted	1,452,742	1,171,278
Permanently Restricted	5,331,662	4,995,880
Total Net Assets	7,212,309	6,614,234
Total Liabilities and Net Assets	\$ 7,212,399	\$ 6,614,234

The accompanying notes are an integral part of this statement.

Lee College District
Exhibit 2
Statements of Revenues, Expenses, and Changes in Net Assets
For the Year Ended
August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Tuition and Fees, (net of discounts of \$5,550,123 and \$4,780,022 respectively)	\$ 6,532,856	\$ 6,650,894
Federal Grants and Contracts	1,648,568	2,630,900
State Grants and Contracts	1,191,115	1,008,770
Non-Governmental Grants and Contracts	20,644	28,516
Sales and Services of Educational Activities	36,077	35,180
Auxiliary Enterprises (net of discounts of \$1,405,824 and \$1,422,575 respectively)	1,546,922	1,933,162
Other Operating Revenues	579,663	880,784
Total Operating Revenue (Schedule A)	<u>11,555,845</u>	<u>13,168,207</u>
Operating Expenses		
Instruction	18,212,927	20,116,433
Public Service	1,641,367	1,702,552
Academic Support	2,957,665	2,812,005
Student Services	3,629,067	3,151,591
Institutional Support	8,532,586	8,699,325
Operation and Maintenance of Plant	5,025,427	5,126,904
Scholarships and Fellowships	8,324,490	10,060,298
Auxiliary Enterprises	4,266,266	4,263,639
Depreciation	1,886,469	1,954,899
Total Operating Expenses (Schedule B)	<u>54,476,263</u>	<u>57,887,647</u>
Operating Income (Loss)	<u>(42,920,418)</u>	<u>(44,719,440)</u>
Non-Operating Revenues (Expenses)		
State Funds	11,197,797	12,912,168
Maintenance and Obligation Ad-Valorem Taxes	18,657,446	17,881,845
General Obligation Bond Taxes	1,915,382	1,855,764
Federal Non-Operating Grants	14,290,142	15,570,891
Gifts	767,785	404,297
Investment Income (net of Investment Expense)	44,097	42,756
Interest on Capital Related Debt, net of amount capitalized	(1,587,307)	(1,853,957)
Payments in Lieu of Taxes	1,936,577	1,618,019
Total Non-Operating Revenue (Schedule C)	<u>47,221,919</u>	<u>48,431,784</u>
Increase (Decrease) in Net Assets	<u>4,301,501</u>	<u>3,712,344</u>
Net Assets		
Net Assets-Beginning of Year	40,606,033	36,893,689
Net Assets-End of Year	<u>\$ 44,907,534</u>	<u>\$ 40,606,033</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, 2012
With Comparative Totals For The Fourteen-Month Period Ended August 31, 2011

	2012			2011	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Totals
Support, Revenue and Gains:					
Private Gifts	\$ -	\$ -	\$ 238,559	\$ 238,559	\$ 252,907
Corporate Matching	-	-	97,223	97,223	60,518
Interest/Dividends Income	-	150,254	-	150,254	169,239
Unrealized Gain (Loss) on Holdings	-	381,767	-	381,767	612,914
Net Assets Released from Restriction	250,557	(250,557)	-	-	-
Total Support, Revenue and Gains	<u>250,557</u>	<u>281,464</u>	<u>335,782</u>	<u>867,803</u>	<u>1,095,578</u>
Expenses and Losses:					
Contract Services-Audit Fees	2,500	-	-	2,500	2,500
Lee College Scholarship Breakfast	3,370	-	-	3,370	2,988
Lee College Library	10,557	-	-	10,557	22,310
Gala Banquet	11,527	-	-	11,527	10,646
Outstanding Honor Awards	500	-	-	500	-
Bank Charges	1,274	-	-	1,274	185
Lee College District Scholarships	240,000	-	-	240,000	241,000
Total Program and Support Expenses	<u>269,728</u>	<u>-</u>	<u>-</u>	<u>269,728</u>	<u>279,629</u>
Increase (Decrease) in Net Assets	(19,171)	281,464	335,782	598,075	815,949
Net Assets, beginning of year	<u>447,076</u>	<u>1,171,278</u>	<u>4,995,880</u>	<u>6,614,234</u>	<u>5,798,285</u>
Net Assets, end of year	<u>\$ 427,905</u>	<u>\$ 1,452,742</u>	<u>\$ 5,331,662</u>	<u>\$ 7,212,309</u>	<u>\$ 6,614,234</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, 2012 and 2011**

Cash Flows From Operating Activities	<u>2012</u>	<u>2011</u>
Receipts from students and other customers	\$ 6,513,270	\$ 10,074,003
Receipts from grants and contracts	3,290,337	3,172,458
Payments to suppliers for goods or services	(12,238,911)	(15,101,364)
Payments to or on behalf of employees	(30,879,462)	(31,961,213)
Payments of scholarships and fellowships	(9,579,312)	(9,916,206)
Other Receipts	579,663	880,784
Net cash provided (used) by operating activities	<u>(42,314,414)</u>	<u>(42,851,537)</u>
Cash Flows From Non-capital Financing Activities		
Receipts from state appropriations	11,197,797	12,912,168
Receipts from Ad Valorem taxes	18,646,331	17,864,378
Receipts from gifts and grants for other than capital purposes	767,785	404,297
Receipts from Federal grants	14,290,142	15,570,891
Receipts from student organizations and other agency transactions	15,350	3,092
Other receipts (payments)	1,936,577	1,618,019
Net cash provided (used) by non-capital financing activities	<u>46,853,982</u>	<u>48,372,845</u>
Cash Flows From Financing Activities		
Receipts from Ad Valorem tax revenues	1,915,382	1,855,764
Proceeds on Issuance of Capital Debt	-	3,148,043
Purchases of capital assets	(1,956,837)	(4,736,928)
Payments on capital debt and leases	(3,896,485)	(3,649,358)
Net cash provided (used) by capital and related financing activities	<u>(3,937,940)</u>	<u>(3,382,478)</u>
Cash Flows From Investing Activities		
Receipts from sales and maturities of investments	15,717,774	13,540,678
Receipts from interest on investments	39,914	42,756
Purchases of investments	(15,600,000)	(15,661,232)
Net cash provided (used) by investing activities	<u>157,688</u>	<u>(2,077,797)</u>
Increase (decrease) in cash and cash equivalents	759,316	61,033
Cash and cash equivalents - September 1, 2011	<u>1,129,594</u>	<u>1,068,561</u>
Cash and cash equivalents - August 31, 2012	<u>\$ 1,888,910</u>	<u>\$ 1,129,594</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, 2012 and 2011**

	2012	2011
Reconciliation of net operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	\$(42,920,418)	\$(44,719,440)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation Expense	1,886,469	1,954,899
Changes in Assets and Liabilities:		
Receivables (net)	(714,847)	110,835
Inventories	(105,426)	145,948
Prepaid Expenses	640,080	(1,056,979)
Accounts payable	(6,764)	(35,157)
Accrued Liabilities	(264,259)	252,999
Compensated absences	(15,483)	3,191
Deferred revenue	(457,728)	848,204
Early retirement incentive	(356,038)	(356,037)
Net cash Provided (used) by operating activities	\$(42,314,414)	\$(42,851,537)

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

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 and 2011

(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, 2012, 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. In August 2010, the Trustees approved changing the Foundation's fiscal year end to August 31, effective for the fourteen-month period ending August 31, 2011.

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 and all applicable Financial Accounting Standard Board (FASB) statements and interpretations issued on or before November 30, 1989, unless they conflict or contradict GASB pronouncements. The District has elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB. The District is reported as a special-purpose government engaged in business-type activities.

Tuition Discounting:

Texas Public Education Grants

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

Tuition Discounting:

Title IV, Higher Education Act Program Funds

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

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 and 2011

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

Deferred Revenues: Tuition and fees of \$3,711,333 and \$4,169,061 have been reported as deferred revenues at August 31, 2012 and 2011, 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, 2012 and 2011

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 Assets: Net assets represent the difference between assets and liabilities. Net assets 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 assets are reported as restricted when there are limitations imposed on their 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 assets 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 assets are 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 Assets, consist of the items reported below:

Cash and Deposits		
	<u>2012</u>	<u>2011</u>
Bank Deposits		
Demand Deposits	1,878,670	1,119,454
Cash and Cash Equivalents		
Petty Cash on Hand	<u>10,240</u>	<u>10,140</u>
Total Cash and Deposits	<u>1,888,910</u>	<u>1,129,594</u>

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 and 2011

During the year ended August 31, 2012, deposits were entirely covered by FDIC insurance or by pledged collateral held by the College's agent bank in the College's name.

Reconciliation of Deposits and Investments to Exhibit 1

<u>Type of Security</u>	<u>Market Value August 31, 2012</u>	<u>Market Value August 31, 2011</u>
Investments		
Certificates of Deposit	761,375	1,762,350
Domestic Equities	6,760	5,738
Investment Pools	8,660,189	7,747,303
Total Investments	9,428,960	9,515,391
Total Cash and Deposits	1,888,910	1,129,594
Total Deposits and Investments	11,317,870	10,644,985
Cash and Cash Equivalents	(Exhibit 1) 1,888,910	1,129,594
Short Term Investments	(Exhibit 1) 9,053,947	9,140,378
Endowment Investments	(Exhibit 1) 375,013	375,013
Total Deposits and Investments	(Exhibit 1) 11,317,870	10,644,985

As of August 31, 2012, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>			
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 3</u>	<u>4 to 5</u>
Certificates of Deposit	761,375	761,375	-	-
Domestic Equities	6,670	6,760	-	-
Investment Pools:				
Investment in TexPool	8,660,189	8,660,189	-	-
Investment in Lone Star Pool	636	636	-	-
Total Fair Value	9,428,960	9,428,960	-	-

Interest Rate Risk

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

Credit Risk

In accordance with state law and the District's investment policy, investments in mutual funds and investment pools must be rated at least AAA, commercial paper must be rated at least A-1 or P-1, and investments in

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 and 2011

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, 2012</u>	<u>August 31, 2011</u>
<u>Bank Deposits</u>		
Demand Deposits	<u>120,972</u>	<u>135,270</u>
<u>Type of Security</u>		
Investments, at market value:		
Mutual Funds	<u>7,020,582</u>	<u>6,448,363</u>
Total Investments	<u>7,020,582</u>	<u>6,448,363</u>
Total Cash and Investments	<u><u>7,141,554</u></u>	<u><u>6,583,633</u></u>

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 and 2011

(5) DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES

Receivables

Receivables at year-end were as follows:

	District <u>August 31, 2012</u>	District <u>August 31, 2011</u>
Student Receivables	2,462,767	1,739,535
Taxes Receivable	1,648,696	1,619,445
Federal Receivables	1,324,898	1,754,908
Accounts Receivable	506,865	85,241
Interest Receivable	4,011	5,963
	<hr/>	<hr/>
TOTAL	5,947,237	5,205,092
Allowance for Uncollectibles	<u>(1,029,894)</u>	<u>(1,011,758)</u>
Accounts Receivable, net	<u><u>4,917,343</u></u>	<u><u>4,193,334</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, 2012</u>	District <u>August 31, 2011</u>
Taxes Receivable	1,022,192	1,004,056
Accounts Receivable	<u>7,702</u>	<u>7,702</u>
TOTAL	<u><u>1,029,894</u></u>	<u><u>1,011,758</u></u>

Payables

Payables at year-end were as follows:

<u>Description</u>	District <u>August 31, 2012</u>	District <u>August 31, 2011</u>
Vendor's Payable	1,226,988	1,230,237
Accrued Interest	49,460	49,462
Other Accruals	<u>178,636</u>	<u>446,411</u>
TOTAL	<u><u>1,455,084</u></u>	<u><u>1,726,110</u></u>

LEE COLLEGE DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2012 and 2011

(6) CAPITAL ASSETS

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, 2012 and 2011

Capital asset activity for the year ended August 31, 2011 was as follows:

	Balance August 31, 2010	Increases	Decreases	Balance August 31, 2011
Not Depreciated:				
Land	1,327,217	-	-	1,327,217
Construction in Process	-	3,743,998	-	3,743,998
Subtotal	1,327,217	3,743,998	-	5,071,215
Other Capital Assets:				
Buildings	73,465,709	-	-	73,465,709
Land Improvements	1,451,906	-	-	1,451,906
Furniture, Machinery, Vehicles and Other Equipment	17,626,495	828,544	-	18,455,039
Telecommunications and Peripheral Equipment	6,281,930	-	-	6,281,930
Library Books	2,242,130	80,037	-	2,322,167
Subtotal	101,068,170	908,581	-	101,976,751
Accumulated Depreciation:				
Buildings	(14,762,947)	(1,423,326)	-	(16,186,273)
Land Improvements	(930,515)	(31,088)	-	(961,603)
Furniture, Machinery, Vehicles and Other Equipment	(15,158,127)	(415,349)	-	(15,573,476)
Telecommunications and Peripheral Equipment	(6,328,155)	(7,811)	-	(6,335,966)
Library Books	(1,015,749)	(77,325)	-	(1,093,074)
Subtotal	(38,195,493)	(1,954,899)	-	(40,150,392)
Net Other Capital Assets	62,872,677	(1,046,318)	-	61,826,359
Net Capital Assets	64,199,894	2,697,680	-	66,897,574

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 and 2011

(7) LONG-TERM LIABILITIES

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
<u>Bonds, Leases and Note</u>					
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
Total Bonds and Note	<u>38,901,116</u>	<u>-</u>	<u>2,324,355</u>	<u>36,576,761</u>	<u>2,428,776</u>
<u>Other Liabilities</u>					
Compensated absences	469,057	431,030	446,513	453,574	-
Early retirement incentive	356,040	-	356,040	-	-
Total Other Liabilities	<u>825,097</u>	<u>431,030</u>	<u>802,553</u>	<u>453,574</u>	<u>-</u>
Total Long-term Liabilities	<u>39,726,213</u>	<u>431,030</u>	<u>3,126,908</u>	<u>37,030,335</u>	<u>2,428,776</u>

Long-term liability activity for the year ended August 31, 2011 was as follows:

	Balance August 31, 2010	Additions	Reductions	Balance August 31, 2011	Current Portion
<u>Bonds, Leases and Note</u>					
General Obligation Bonds	14,183,672	-	918,672	13,265,000	1,220,000
Revenue Bonds	13,225,000	-	630,000	12,595,000	670,000
Deferred amount	(797,757)	-	(80,109)	(717,648)	-
Bond premiums	875,659	-	84,304	791,355	-
Accretion	245,780	25,548	271,328	-	-
Capital Leases	9,819,366	12,923,784	9,775,741	12,967,409	432,384
Total Bonds and Note	<u>37,551,720</u>	<u>12,949,332</u>	<u>11,599,936</u>	<u>38,901,116</u>	<u>2,322,384</u>
<u>Other Liabilities</u>					
Compensated absences	465,867	461,783	458,593	469,057	469,057
Early retirement incentive	712,078	-	356,038	356,040	356,040
Total Other Liabilities	<u>1,177,945</u>	<u>461,783</u>	<u>814,631</u>	<u>825,097</u>	<u>825,097</u>
Total Long-term Liabilities	<u>38,729,665</u>	<u>13,411,115</u>	<u>12,414,567</u>	<u>39,726,213</u>	<u>3,147,481</u>

**LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 and 2011**

General information related to bonds payable as of August 31, 2012 is summarized below:

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

Bonds payable are due in annual installments varying from \$225,000 to \$1,775,000 with the final installment due in 2027.

Interest rates for the General Obligation Bonds vary from 3.500% to 5.000% and on the Revenue Bonds from 2.00% to 5.00%.

Debt Service requirements at August 31, 2012, were as follows:

Year Ended	General Obligation Bonds			Revenue Bonds			Total Bonds	
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest
August 31, 2013	1,270,000	583,050	1,853,050	700,000	536,487	1,236,487	1,970,000	1,119,537
2014	1,320,000	532,150	1,852,150	725,000	508,363	1,233,363	2,045,000	1,040,513
2015	1,385,000	472,750	1,857,750	750,000	479,187	1,229,187	2,135,000	951,937
2016	1,460,000	403,500	1,863,500	785,000	447,675	1,232,675	2,245,000	851,175
2017	1,530,000	330,500	1,860,500	825,000	414,675	1,239,675	2,355,000	745,175
2018-2022	5,080,000	516,250	5,596,250	4,070,000	1,516,250	5,586,250	9,150,000	2,032,500
2023-2027	-	-	-	4,070,000	626,050	4,696,050	4,070,000	626,050
TOTAL	12,045,000	2,838,200	14,883,200	11,925,000	4,528,687	16,453,687	23,970,000	7,366,887

Defeased bonds outstanding:

The District did not have any defeased bonds outstanding at August 31, 2012.

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 and 2011

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:

<u>Year Ending August 31</u>	
2013	920,633
2014	923,318
2015	934,250
2016	961,339
2017	989,241
2018-2022	5,142,969
2023-2027	5,869,415
2028	<u>1,251,777</u>
Total	16,992,942
Less Amount Representing Interest (Rate 3.7315% to 4.51%)	<u>(4,457,918)</u>
Present Value of Future Minimum Lease Payments	<u><u>12,535,024</u></u>

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, 2012, the value of all accumulated vested employee vacation benefits was \$453,574 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. At August 31, 2011, the liability for the 2008 program was \$356,040. This liability was paid in full in 2012.

(8) OPERATING LEASE COMMITMENTS AND RENTAL AGREEMENTS

As of August 31, 2012, the District had no significant commitments under non-cancelable operating lease agreements. Total rental expenditures under operating leases for the year ended August 31, 2012 was approximately \$58,660 and \$68,490 for 2011.

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 and 2011

(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.trstate.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 2012, 2011 and 2010 and a state contribution rate of 6.4 percent for Fiscal Year 2012; 6.644 percent for Fiscal Year 2011; and 6.644 percent for Fiscal Year 2010. 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 2012; 6.644 percent for Fiscal Year 2011; and 6.644 percent for Fiscal Year 2010.

Contingent Liability. For fiscal year 2012, the State of Texas is limiting the amount of funding that community colleges receive for the employer portion of the retirement contributions for eligible employees. The Teacher Retirement System of Texas (TRS) has requested that community colleges make up the difference. The Texas Association of Community Colleges (TACC) and most of the community colleges in the state contend that the amount owed to TRS is the state's liability and not a liability of the community college districts. Management of the Lee College District does not believe it is legally responsible for the payment and has chosen not to report a liability for the difference in the financial statements. The estimated contingent liability is \$544,202.

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 \$1,085,255 and \$1,225,923 for the fiscal years ended August 31, 2012 and 2011, respectively. This amount represents the portion of expended appropriations made by the state legislature on behalf of the college.

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 and 2011

The total payroll for all college employees was \$24,360,693 and \$25,277,837 for fiscal years 2012 and 2011, respectively. The total payroll of employees covered by the Teacher Retirement System was \$11,996,285 and \$12,234,767, and the total payroll of employees covered by the Optional Retirement Program was \$9,065,371 and \$9,524,018 for fiscal years 2012 and 2011, 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 \$438 to \$1,276 per month for the year ended August 31, 2012 (\$413 to \$1,202 per month for 2011) and totaled \$1,191,128 for 2012 (\$2,083,895 for the year ended 2011). The cost of providing those benefits for 174 retirees in the year ended 2012 was \$1,046,436 (retiree benefits for 177 retirees cost \$900,834 in 2011). For 348 active employees, the cost of providing benefits was \$144,692 for the year ended 2012 (active employee benefits for 372 active employees cost \$1,183,577 for the year ended 2011).

(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 \$1,022,192 and \$1,004,056 for fiscal years 2012 and 2011, 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.

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 and 2011

At August 31:

	2012	2011
Assessed Valuation of the District	10,594,269,267	10,223,732,693
Less: Exemptions	(2,479,954,600)	(2,383,199,485)
Less: Abatements	-	-
Net Assessed Valuation of the District	8,114,314,667	7,840,533,208

	2012			2011		
	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	0.229100	0.022900	0.252000	0.228500	0.023500	0.252000

Taxes levied for the year ended August 31, 2012 and 2011 amounted to \$20,448,074 and 19,758,145, respectively including any penalty and interest assessed. Tax collections follow:

	2012			2011		
	Current Operations	Debt Service	Total	Current Operations	Debt Service	Total
Current Taxes Collected	18,238,135	1,823,613	20,061,748	17,560,458	1,800,576	19,361,034
Delinquent Taxes Collected	268,298	22,603	290,901	187,551	14,704	202,255
Penalties & Interest Collected	143,040	66,024	209,064	150,619	23,701	174,320
Total Collections	18,649,473	1,912,240	20,561,713	17,898,628	1,838,981	19,737,609

Total tax collections for the year ended August 31, 2012 and 2011 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 2012, tax collections from one petrochemical complex within the District's taxing authority represented approximately 28% of total tax revenues.

LEE COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012 and 2011

(14) CONTRACT AND GRANT AWARDS

At August 31, 2012, there were no contract or grant awards funds already committed, e.g., multi-year awards, or funds awarded during fiscal year 2012 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 2012, revenues and expenses in the accompanying *Statement of Revenues, Expenses, and Changes in Net Assets* include \$1,191,128 for health insurance (\$2,083,895 for 2011) and \$1,085,255 for retirement benefits (\$1,225,923 for 2011) 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.

(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, 2012, 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.

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

Lee College District
Schedule A
Schedule of Detailed Operating Revenues
For the Year Ended August 31, 2012 (With Memorandum Totals for the Year Ended August 31, 2011)

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	FY 2012 Total	FY 2011 Total
Tuition						
State Funded Courses						
In-District Resident Tuition	\$ 3,407,611	\$ -	\$ 3,407,611	\$ -	\$ 3,407,611	\$ 3,157,816
Out-of-District Resident Tuition	3,376,528	-	3,376,528	-	3,376,528	2,840,934
TPEG-Credit (set aside)*	428,021	-	428,021	-	428,021	392,689
Non-Resident Tuition	394,894	-	394,894	-	394,894	291,639
State-Funded Continuing Education	556,243	-	556,243	-	556,243	761,493
TPEG Non-Credit (set aside)*	-	-	-	-	-	-
Non-State Funded Continuing Education	434,335	-	434,335	-	434,335	377,975
Total Tuition	\$ 8,597,632	\$ -	\$ 8,597,632	\$ -	\$ 8,597,632	\$ 7,822,547
Fees						
General Fee	428,628	-	428,628	-	428,628	465,060
Student Service Fee	-	-	-	286,843	286,843	302,076
Lab Fee	516,068	-	516,068	-	516,068	429,577
Building Use Fees	1,966,308	-	1,966,308	-	1,966,308	2,080,506
Other Fees	287,500	-	287,500	-	287,500	331,151
Total Fees	\$ 3,198,504	\$ -	\$ 3,198,504	\$ 286,843	\$ 3,485,347	\$ 3,608,370
Scholarship Allowances and Discounts						
Scholarship Allowances	(464,488)	-	(464,488)	-	(464,488)	(421,799)
Remissions and Exemptions	(1,273,128)	-	(1,273,128)	-	(1,273,128)	(768,093)
TPEG Allowances	(170,734)	-	(170,734)	-	(170,734)	(198,354)
State Grants to Students	-	-	-	-	-	-
Federal Grants to Students	(3,610,894)	-	(3,610,894)	-	(3,610,894)	(3,277,034)
Other	(30,879)	-	(30,879)	-	(30,879)	(114,742)
Total Scholarship Allowances and Discounts	\$ (5,550,123)	\$ -	\$ (5,550,123)	\$ -	\$ (5,550,123)	\$ (4,780,022)
Total Net Tuition and Fees	\$ 6,246,013	\$ -	\$ 6,246,013	\$ 286,843	\$ 6,532,856	\$ 6,650,894
Additional Operating Revenues						
Federal Grants and Contracts	-	1,648,568	1,648,568	-	1,648,568	2,630,900
State Grants and Contracts	-	1,191,115	1,191,115	-	1,191,115	1,008,770
Local Grants and Contracts	-	-	-	-	-	-
Nongovernmental Grants and Contracts	20,644	-	20,644	-	20,644	28,516
Sales and Services of Educational Activities	36,077	-	36,077	-	36,077	35,180
Investment Income (program restricted)	-	-	-	-	-	-
Other Operating Revenues	579,663	-	579,663	-	579,663	880,784
Total Additional Operating Revenues	\$ 636,384	\$ 2,839,683	\$ 3,476,067	\$ -	\$ 3,476,067	\$ 4,584,150
Auxiliary Enterprises						
Bookstore (net of discounts \$1,405,824)	-	-	-	-	1,125,756	1,521,741
Food Service	-	-	-	-	421,166	411,421
Other Auxiliary Services	-	-	-	-	-	-
Total Net Auxiliary Enterprises	\$ -	\$ -	\$ -	\$ -	\$ 1,546,922	\$ 1,933,162
Total Operating Revenues	\$ 6,882,397	\$ 2,839,683	\$ 9,722,080	\$ 286,843	\$ 11,555,845	\$ 13,168,207
					(Exhibit 2)	(Exhibit 2)

* In accordance with Education Code 56.033, \$428,021 and \$392,689 for years August 31, 2012 and 2011 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, 2012
(with Memorandum Totals for the Year ended August 31, 2011)

	Operating Expenses					
	Benefits			Other Expenses	FY 2012 Total	FY 2011 Total
	Salaries and Wages	State	Local			
Educational Activities						
Instruction	\$ 12,528,236		\$ 2,121,964	\$ 1,633,427	\$ 16,283,627	\$ 16,107,022
Public Service	470,138		79,629	490,514	1,040,281	1,189,582
Academic Support	1,906,115		322,847	580,026	2,808,987	2,534,885
Student Services	1,841,066		311,830	298,479	2,451,374	2,324,050
Institutional Support	4,281,413		725,162	2,380,099	7,386,674	6,390,320
Operation and Maintenance of Plant	1,520,655		257,560	3,247,212	5,025,427	5,126,904
Scholarships and Fellowships	-		-	-	-	-
Total Unrestricted Educational Activities	22,547,621	-	3,818,993	8,629,757	34,996,370	33,672,763
Instruction	326,103	972,899	34,843	595,455	1,929,300	4,009,411
Public Service	22,803	36,509	2,872	538,902	601,086	512,970
Academic Support	-	148,022	-	656	148,678	277,120
Student Services	427,887	142,971	98,001	508,834	1,177,692	827,541
Institutional Support	396,504	450,569	83,996	214,843	1,145,912	2,309,005
Operation and Maintenance of Plant	-	-	-	-	-	-
Scholarships and Fellowships	151,002	-	-	8,173,488	8,324,490	10,060,298
Total Restricted Educational Activities	1,324,298	1,750,970	219,712	10,032,178	13,327,158	17,996,345
Total Educational Activities	23,871,919	1,750,970	4,038,705	18,661,936	48,323,529	51,669,108
Auxiliary Enterprises	469,261		112,827	3,684,177	4,266,266	4,263,639
Depreciation Expense-Buildings and Improvements				1,264,533	1,264,533	1,454,414
Depreciation Expense-Equipment and Furniture				621,936	621,936	500,485
Total Operating Expenses	\$ 24,341,180	\$ 1,750,970	\$ 4,151,532	\$ 24,232,582	\$ 54,476,263	\$ 57,887,647
				(Exhibit 2)	(Exhibit 2)	

Lee College District
Schedule C
Schedule of Non-Operating Revenues and Expenses
For the Year Ended August 31, 2012
With Comparative Data for the Year Ended August 31, 2011

	Unrestricted	Restricted	Auxiliary Enterprises	FY 2012 Total	FY 2011 Total
NON-OPERATING REVENUES					
Education and General State Support	\$ 9,446,827	\$ -		\$ 9,446,827	\$ 9,599,267
State Group Insurance		1,191,128		1,191,128	2,086,979
State Retirement Matching		559,842		559,842	1,225,923
Total State Support	9,446,827	1,750,970	-	11,197,797	12,912,169
Maintenance Ad Valorem Taxes	18,657,446			18,657,446	17,881,845
General Obligation Bond Taxes		1,915,382		1,915,382	1,855,764
Federal Non-Operating Grants	-	14,290,142		14,290,142	15,570,891
Gifts	767,785			767,785	404,297
Investment Income	44,097	-		44,097	42,756
Payments in Lieu of Taxes	1,936,577	-		1,936,577	1,618,019
Total Non-Operating Revenues	30,852,732	17,956,494	-	48,809,226	50,285,741
NON-OPERATING EXPENSES					
Interest on Capital Related Debt		1,587,307		1,587,307	1,853,957
Other Non-Operating Expenses		-		-	
Total Non-Operating Expenses	-	1,587,307	-	1,587,307	1,853,957
Net Non-Operating Revenues	\$ 30,852,732	\$ 16,369,187	\$ -	\$ 47,221,919	\$ 48,431,784
				(Exhibit 2)	(Exhibit 2)

Lee College District
 Schedule D
 Schedule of Net Assets by Source and Availability
 For the Year Ended August 31, 2012
 With Memorandum Totals for the Year Ended August 31, 2011

	Detail by Source					Available for Current Operations	
	Restricted			Capital Assets Net of Depreciation and Related Debt	Total	Yes	No
	Unrestricted	Expendable	Non-Expendable				
Current							
Unrestricted	\$ 13,087,066	\$ -	\$ -	\$ -	13,087,066	\$ 13,087,066	\$ -
Restricted		901,814			901,814	901,814	
Auxiliary Enterprises	-				-		
Loan							
Endowment			375,013		375,013		375,013
Plant							
Unexpended							
Debt Service		152,461			152,461		152,461
Investment in Plant				30,391,180	30,391,180		30,391,180
Total Net Assets, August 31, 2012	\$ 13,087,066	\$ 1,054,275	\$ 375,013	\$ 30,391,180	\$ 44,907,534	\$ 13,988,880	\$ 30,918,654
Total Net Assets, August 31, 2011	\$ 11,330,559	\$ 904,003	\$ 375,013	\$ 27,996,458	\$ 40,606,033	\$ 12,104,006	\$ 28,502,027
Net Increase (Decrease) in Net Assets	\$ 1,756,507	\$ 150,272	\$ -	\$ 2,394,722	\$ 4,301,501	\$ 1,884,874	\$ 2,416,627

LEE COLLEGE DISTRICT
SCHEDULE E
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2012

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 2011-12	84.007		\$ 68,626
SEOG 2012-13	84.007		1,250
Federal College Workstudy Program 2011-12	84.033		87,999
Federal College Workstudy Program 2012-13	84.033		29,303
Federal PELL 2009-10	84.063		(365)
Federal PELL 2010-11	84.063		(10,801)
Federal PELL 2011-12	84.063		8,563,998
Federal PELL 2012-13	84.063		133,760
Direct Loan Program 2010-11	84.268		(3,663)
Direct Loan Program 2011-12	84.268		4,236,472
Direct Loan Program 2012-13	84.268		62,848
Academic Competitiveness 2010-11	84.375		(519)
Title IV - STEM and Articulation Transformation (SAT) Program	84.031C		203,551
Title V	84.031S		137,233
TRIO Cluster			
Student Support Services	84.042A		230,809
Educational Opportunity Center	84.066A		226,072
Pass-Through From:			
Texas Higher Education Coordinating Bd.			
Carl Perkins Vocational Education - Basic 10-11	84.048		(125)
Carl Perkins Vocational Education - Basic 11-12	84.048	06639	323,694
Total U.S. Department of Education			14,290,142
U.S. Department of Housing and Urban Development			
Pass-Through From:			
Harris County			
Community Development Block Grant	14.218	B-2010-UC-48-0002	345,121
Total U.S. Department of Housing and Urban Development			345,121
U.S. Department of Labor			
Direct Programs:			
Community-Based Job Training (note 3)	17.269	CB-18226-09-60-A-48	481,351
Pass-Through From:			
San Jacinto College			
Community-Based Job Training	17.269	DOL531708003	234,348
WTP High Growth and Emerging Industry Sectors	17.275	DOL5317021009	109,460
Pass-Through From:			
Texas Workforce Commission			
WIA Adult Program & Dislocated Workers	17.278	2811WSW002	213,644
Total U.S. Department of Labor			1,038,804
National Science Foundation			
Direct Programs:			
NSF ATE Program for Physics Faculty	47.076		24,031
NSF ATE Workshops for Physics Faculty	47.076		112,279
NSF Analyzer Technician Opportunities Project (note 3)	47.076		55,177
Total National Science Foundation			191,487
U.S. Small Business Administration			
Pass-Through From:			
University of Houston			
Small Business Development Center 2010-11	59.037	1-603001-Z-0047-27	6,023
Small Business Development Center 2011-12	59.037	2-603001-Z-0047-28	67,133
Total Small Business Administration			73,157
Total Federal Financial Assistance			15,938,710

Schedule Continued on Following Page.

SCHEDULE E (Continued)

Note 1: Federal Assistance Reconciliation

Federal Grants and Contracts Revenues per Schedule A	1,648,568
Federal Grants and Contracts per Schedule C	14,290,142
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>15,938,710</u>

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

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

Note 3: Subrecipients

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

Brazosport College	\$ 143,887
College of the Mainland	35,008
San Jacinto College	<u>126,775</u>
	<hr/>
Total amount passed-through	<u>\$ 305,670</u>

The following amounts were passed-through to the listed subrecipients by the college. These amounts were from NSF Analyzer Technician Opportunities Project CFDA 47.076 from National Science Foundation:

San Jacinto College	\$ <u>48,506</u>
	<hr/>
Total amount passed-through	<u>\$ 48,506</u>

LEE COLLEGE DISTRICT
SCHEDULE F
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended August 31, 2012

<u>Grantor Agency/Program Title</u>	<u>Grant Contract Number</u>	<u>Expenditures</u>
Texas Higher Education Coordinating Board		
Texas College Work Study 11-12		\$ 41,546
Texas Grant Program 11-12		156,799
Texas Education Opportunity Grant 11-12		42,402
Nursing Innovation Grant Program	5680	68,226
Total Texas Higher Education Coordinating Board		<u>308,972</u>
Texas Workforce Commission		
Small Business Program	2811SSD000	1,723
Pass Through From:		
San Jancinto College		
Skills Development - EHCMA 11-12	TWC551005001	562,854
Total Texas Workforce Commission		<u>564,577</u>
Texas Comptroller of Public Accounts		
JET Equipment Grant 12-13	6095-03	314,193
Texas Commission on the Arts 11-12		2,018
Total Texas Comptroller of Public Accounts		<u>316,211</u>
Pass-Through From:		
Texas Education Agency		
Goose Creek Consolidated Independent School District		
Communities In Schools/21st Century Community Learning Centers 11-12		1,355
Texas Education Agency		<u>1,355</u>
Total State Financial Assistance		<u>\$ 1,191,115</u>

Note 1: State Assistance Reconciliation

State Revenues - per Schedule A		
State Financial Assistance		
Per Schedule of expenditures of state awards		\$ 1,191,115
State Financial Assistance		
Continuing Education tuition and fees included in Schedule A captioned "Tuition and Fees"		<u>-</u>
Total State Revenues per Schedule A		<u>\$ 1,191,115</u>

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

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Corpus Christi, TX 78401 fax 361-884-3457

Independent Auditor's Report

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 the basic financial statements of Lee College District (the District) as of and for the years ended August 31, 2012 and 2011, and have issued our report thereon dated December 12, 2012. 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 and the provisions of the State of Texas, *Uniform Grant and Contract Management Standards (UGCMS)*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Lee College District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses.

We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses, as defined above.

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 and UGCMS*.

This report is intended solely for the information and use of management, others within the entity, the Board of Regents, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Lovvorn & Kieschnick, LLP

Lovvorn & Kieschnick, LLP
December 12, 2012



Lovvorn & Kieschnick

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

Report on Compliance with Requirements that
Could Have a Direct and Material Effect on
Each Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133

Board of Regents
Lee College District
Baytown, Texas 77520

Members of the Board of Regents:

Compliance

We have audited the compliance of Lee College District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* and the provisions of the State of Texas, *Uniform Grant and Contract Management Standards (UGCMS)* that are applicable to each of its major federal and state programs for the year ended August 31, 2012. The District's major federal and state programs are identified in the summary of auditor's result section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of the major federal and state programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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* and the provisions of the State of Texas, *Uniform Grant and Contract Management Standards (UGCMS)*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance 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. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, Lee College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the year ended August 31, 2012.

Internal Control Over Compliance

The management of Lee College District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered Lee College District's internal control over compliance with the requirements that could have a direct and material effect on a major federal or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 or state 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 or state program will not be prevented, or detected and corrected, on a timely basis.

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, as defined above.

This report is intended solely for the information and use of management, others within the organization, the Board of Regents, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lovvorn + Kieschnick, LLP

Lovvorn & Kieschnick, LLP
December 12, 2012

**LEE COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2012**

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:

CFDA Number(s)

Name of Federal Program or Cluster

84.007
84.032
84.033
84.063
84.268
84.375

Student Financial Assistance Programs Cluster:
Federal Supplemental Education Opportunity Grant Program
Federal Family Education Loan Program
Federal Work Study Program
Federal Pell Grant Program
Direct Loan Program
Academic Competitiveness Grant
TRIO Cluster:
Student Support Services
Educational Opportunity Center
WIA Adult Program & Dislocated Workers

84.042A
84.066A
17.278

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 FINDINGS AND QUESTIONED COSTS (Continued)
 FOR THE YEAR ENDED AUGUST 31, 2012

3. State Awards

Internal control over major programs:

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

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X 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 State of Texas Single Audit Circular Yes X No

Identification of major programs:

<u>Grant Number</u>	<u>Name of State Program</u>
6095-03	Jet Equipment Grant 12-13

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

Auditee qualified as low-risk auditee? X Yes No

B. Financial Statement Findings

NONE

C. Federal/State Award Findings and Questioned Costs

NONE

**LEE COLLEGE DISTRICT
SCHEDULE OF CORRECTIVE ACTION PLAN
YEAR ENDED AUGUST 31, 2012**

Program

N/A

Corrective Action Plan

No Corrective Action Required

**LEE COLLEGE DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED AUGUST 31, 2012**

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

