

**LEE COLLEGE DISTRICT**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED AUGUST 31, 2014**



**Lovvorn & Kieschnick**

CERTIFIED PUBLIC ACCOUNTANTS

LOVVORN & KIESCHNICK, LLP

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**LEE COLLEGE DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2014**

**TABLE OF CONTENTS**

ORGANIZATIONAL DATA	<u>Page</u>
FINANCIAL SECTION	
Independent Auditor's Report .....	1
Management's Discussion and Analysis (Required Supplementary Information) .....	4
<u>Basic Financial Statements</u>	
Government-wide Financial Statements:	
Exhibits	
1 Statement of Net Position .....	12
Component Unit Statement of Financial Position .....	13
2 Statement of Revenues, Expenses, and Changes in Net Position .....	14
Component Unit Statement of Activities .....	15
3 Statement of Cash Flows .....	16
Notes to the Basic Financial Statements .....	18
OTHER SUPPLEMENTARY INFORMATION SECTION	
<u>Schedules</u>	
A Schedule of Operating Revenues .....	34
B Schedule of Operating Expenses by Object .....	35
C Schedule of Non-Operating Revenues and Expenses .....	36
D Schedule of Net Position by Source and Availability .....	37
E Schedule of Expenditures of Federal Awards .....	38
F Schedule of Expenditures of State Awards .....	40
<u>Single Audit Section</u>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	41
Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133 .....	43
Schedule of Findings and Questioned Costs .....	46
Schedule of Corrective Action Plan .....	48
Summary Schedule of Prior Audit Findings .....	49

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## **ORGANIZATIONAL DATA**

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**LEE COLLEGE DISTRICT  
ORGANIZATIONAL DATA  
FOR THE FISCAL YEAR 2014**

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**Board of Regents**

Officers

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

Members

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

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**Principal Administrative Officers**

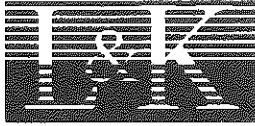
Dr. Dennis Brown	President
Mr. Steve Evans	Vice President of Finance and Administration
Dr. Cathy Kemper	Vice President of Learning
Dr. Jeff Thies	Dean, Academic Studies
Mr. Layton Childress	Dean, Applied Sciences
Mrs. Donna Zuniga	Dean, Huntsville Center
Dr. Donnetta Suchon	Vice President of Student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

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## **FINANCIAL SECTION**

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

**Independent Auditor's Report**

Board of Regents  
Lee College District  
Baytown, Texas 77520

Members of the Board of Regents:

**Report on the Financial Statements**

We have audited the accompanying financial statements of Lee College District (the District) as of and for the years ended August 31, 2014 and 2013, the related notes to the financial statements, and the discretely presented component unit financial statements of Lee College Foundation, Inc., which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lee College District, and the discretely presented component unit, as of August 31, 2014 and 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

### *Change in Accounting Principle*

As described in Note 2 to the financial statements, in 2014, Lee College District adopted new accounting guidance, Government Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

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

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lee College District's basic financial statements. The 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. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2014 on our consideration of Lee College District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lee College District's internal control over financial reporting and compliance.

Respectfully submitted,



Lovvorn & Kieschnick, LLP  
December 16, 2014

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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**Management's Discussion and Analysis  
Fiscal Year Ended August 31, 2014**

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

Lee College District (the District) is proud to present its financial statements for Fiscal Year 2014 which are in conformance with Governmental Accounting Standards Board (GASB) standards. There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. These statements should be read in conjunction with the notes to the basic financial statements. The following summary and management's discussion and analysis of the results is intended to provide readers with an overview of the basic financial statements.

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

- Assets and Deferred Outflows of Resources of the District exceeded liabilities at the close of the Fiscal Year on August 31, 2014, by \$44.2 million (net position). Of this amount, \$12.1 million (unrestricted and expendable net position) may be used to meet the District's ongoing obligations.
- Total net position increased by \$59,828 from Fiscal Year 2013 to Fiscal Year 2014. The District operated on a balanced budget for 2014 with no budgeted increase to fund balances. Through careful management the District met its budgetary obligations for the year.

**Restatement of Net Position**

The August 31, 2012 Ending Net Position was restated to implement Governmental Accounting Standards Board (GASB) Statement No. 65 that eliminated Capitalized Bond and Other Debt Issuance Costs from Assets on the Statement of Net Position. The restatement is as follows:

	September 1, 2013 Beginning Net Position
Beginning Net Position as previously reported	\$44,907,533
Restatement for Capitalized Bonds and Other Debt Issuance Costs, net of amortization	(461,734)
Beginning Net Position as Restated	\$44,445,799

**Statement of Net Position**

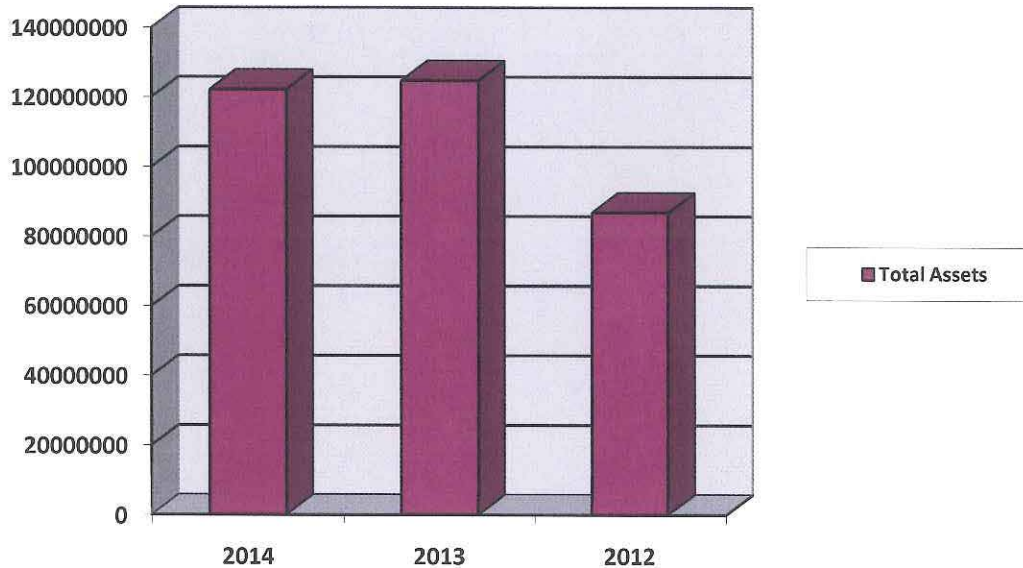
The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, and net position of the District as of the end of the Fiscal Year. It is a point in time financial statement. The purpose of the Statement of Net Position is to give the financial statement readers a snapshot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

Deferred Outflows of Resources, Current and Noncurrent Liabilities, and Net Position (Assets plus Deferred Outflows of Resources minus Liabilities).

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

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

Total assets of the District for Fiscal Year 2014 are \$122.0 million a decrease of \$2.5 million compared to Fiscal Year 2013 and an increase of \$35.3 million compared to Fiscal Year 2012. The change in total assets between fiscal year 2014 and fiscal year 2013 can be attributed to payments during the year which reduced long-term debt by \$2.7 million. 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 2014, cash, cash equivalents, and short-term investments totaled \$40.0 million a decrease of \$11.1 million from the Fiscal Year 2013 balance of \$51.1 million. Receivables include tuition and fees receivable, accounts receivable, and taxes receivable. Prepaid expenses and inventories are also assets of the District. Non-current assets consist of capital assets and funds held in endowments. Capital assets include land, land improvements, buildings, equipment, and library books. These items are reflected in the financial statements net of accumulated depreciation.

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Total liabilities of the District are \$78.3 million in Fiscal Year 2014 as compared to \$81.0 million in Fiscal Year 2013 and \$42.9 million in Fiscal Year 2012 and also include a current and non-current portion. Total liabilities decreased from Fiscal Year 2014 to Fiscal Year 2013 due to a reduction in bonds payable resulting from payments on both general obligation and revenue bonds in 2014. Current liabilities include accounts payable and accrued liabilities, funds held for others, deferred revenue, accrued compensable absences payable and the current portion of bonds payable and leases payable. A liability is considered to be current if it is due within one year.

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

	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Assets:</b>			
Current Assets	46,857,521	58,518,155	19,387,578
Capital Assets	74,861,755	65,756,847	66,967,942
Other Noncurrent Assets	375,013	375,013	375,013
<b>Total Assets</b>	<b>122,094,289</b>	<b>124,650,015</b>	<b>86,730,534</b>
<b>Deferred Outflows</b>	<b>477,320</b>	<b>557,428</b>	<b>637,539</b>
<b>Liabilities:</b>			
Current Liabilities	8,490,026	8,410,870	4,425,415
Noncurrent Liabilities	69,829,161	72,603,980	38,496,858
<b>Total Liabilities</b>	<b>78,319,187</b>	<b>81,014,850</b>	<b>42,922,273</b>
<b>Net Position</b>			
Net Investment in Capital Assets	31,766,853	31,257,991	30,391,180
Restricted – Expendable	53,499	1,307,235	1,054,275
Restricted-Non-Expendable	375,013	375,013	375,013
Unrestricted	12,057,057	11,252,354	12,625,332
<b>Total Net Position</b>	<b>44,252,422</b>	<b>44,192,593</b>	<b>44,445,800</b>

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

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

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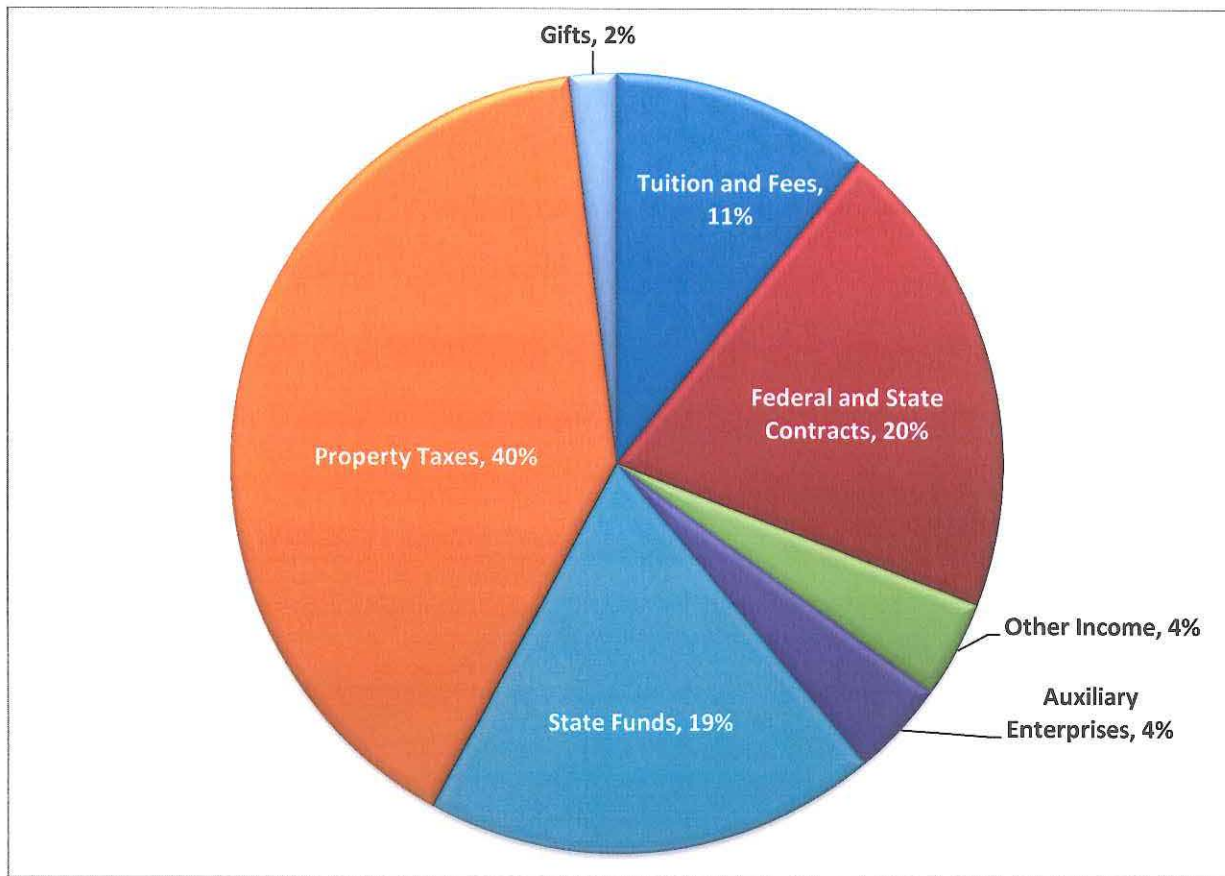
Operating expenses are those paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the District's mission. Non-operating revenues are funds received for which goods and services are not provided.

	2014	2013	2012
<b>Operating Revenues</b>			
Tuition and Fees, (net)	6,355,384	6,283,578	6,532,856
Federal Grants and Contracts	367,707	608,024	1,648,568
State Grants and Contracts	549,773	426,196	1,191,115
Non-Governmental Grants and Contracts	-	-	20,644
Sales and Services of Educational Activities	28,491	30,533	36,077
Auxiliary Enterprises	2,355,312	2,447,719	1,546,922
Other Operating Revenues	543,395	609,681	579,663
<b>Total Operating Revenue (Schedule A)</b>	<b>10,200,062</b>	<b>10,405,731</b>	<b>11,555,845</b>
<b>Operating Expenses</b>			
Instruction	18,902,333	18,700,123	18,212,927
Public Service	1,766,151	1,121,389	1,641,367
Academic Support	2,888,849	2,954,123	2,957,665
Student Services	5,020,746	4,898,188	3,629,067
Institutional Support	10,309,642	9,969,389	8,532,586
Operation and Maintenance of Plant	4,704,905	5,636,247	5,025,427
Scholarships and Fellowships	6,089,155	7,083,870	8,324,490
Auxiliary Enterprises	3,541,597	3,369,297	4,266,266
Depreciation	2,039,755	1,908,126	1,886,469
<b>Total Operating Expenses (Schedule B)</b>	<b>55,263,134</b>	<b>55,640,752</b>	<b>54,476,264</b>
<b>Operating Income (Loss)</b>	<b>(45,063,072)</b>	<b>(45,235,021)</b>	<b>(42,920,419)</b>
<b>Non-Operating Revenues (Expenses)</b>			
State Funds	11,106,093	10,526,986	11,197,797
Maintenance and Obligation Ad-Valorem Taxes	19,719,673	19,395,554	18,657,446
General Obligation Bond Taxes	3,772,346	1,919,195	1,915,382
Federal Non-Operating Grants	10,507,847	11,283,638	14,290,142
Gifts	1,406,737	1,525,813	767,785
Investment Income (net of investment Expenses)	(239,294)	17,804	44,097
Interest on Capital Related Debt, net of amount capitalized	(3,267,545)	(1,965,566)	(1,506,538)
Payments in Lieu of Taxes	2,117,043	2,278,392	1,936,577
<b>Total Non-Operating Revenue (Schedule C)</b>	<b>45,122,900</b>	<b>44,981,816</b>	<b>47,302,688</b>
<b>Increase (Decrease) in Net Position</b>	<b>59,828</b>	<b>(253,206)</b>	<b>4,382,269</b>
<b>Net Position</b>			
Net Position-Beginning of Year	44,192,593	44,445,799	40,063,530
<b>Net Position-End of Year</b>	<b>44,252,421</b>	<b>44,192,593</b>	<b>44,445,799</b>

Total revenues for the District were \$58.6 million, \$57.3 million, and \$60.3 in 2014, 2013, and 2012, respectively. Total expenses were \$58.5 million, \$57.6 million, and \$55.9 million in 2014, 2013, and 2012, 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 2014:

### 2014 Revenues



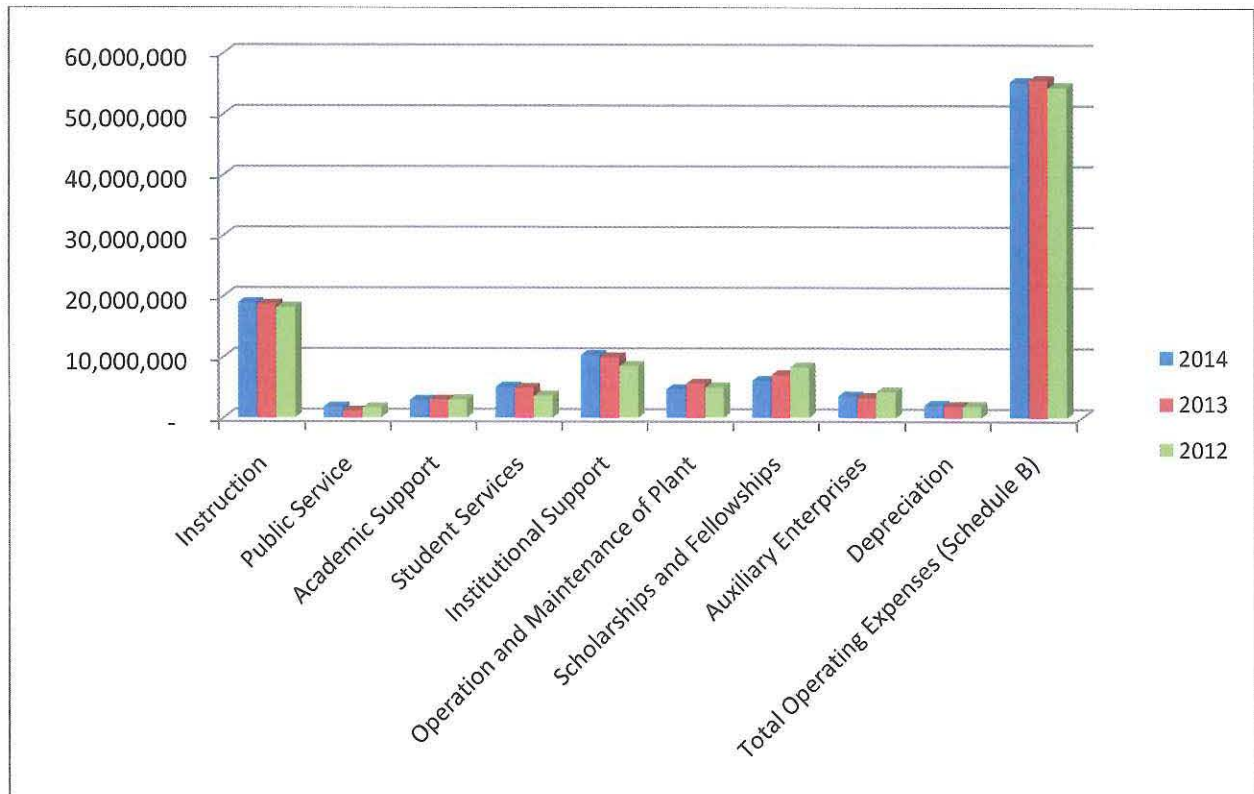
Non-operating revenues consist of the following: state appropriations, tax revenue, gifts, net investment income, payments in lieu of taxes, federal non-operating grants, and other revenues. Non-operating expenses consist of interest on capital related debt.

Operating revenues remained relatively unchanged from Fiscal Year 2013 to Fiscal Year 2014 as state and local operating funds including tuition and fees were level. Federal non-operating grants comprised mainly of federal student assistance funds such as Pell grants also remained relatively unchanged when comparing fiscal year 2014 to fiscal year 2013.

**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 2014 operating expenses in comparison to 2013 and 2012:

**2012 / 2013 / 2014 Expense Comparison**



<b>Operating Expenses</b>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Instruction	18,902,333	18,700,123	18,212,927
Public Service	1,766,151	1,121,389	1,641,367
Academic Support	2,888,849	2,954,123	2,957,665
Student Services	5,020,746	4,898,188	3,629,067
Institutional Support	10,309,642	9,969,389	8,532,586
Operation and Maintenance of Plant	4,704,905	5,636,247	5,025,427
Scholarships and Fellowships	6,089,155	7,083,870	8,324,490
Auxiliary Enterprises	3,541,597	3,369,297	4,266,266
Depreciation	2,039,755	1,908,126	1,886,469
<b>Total Operating Expenses (Schedule B)</b>	<b>55,263,134</b>	<b>55,640,752</b>	<b>54,476,264</b>

From Fiscal Year 2013 to Fiscal Year 2014, operating expenses for instruction increased resulting from faculty raises and filling open faculty positions in high demand programs. The District continues to achieve operational and utility savings attributable to energy management programs implemented since 2010 whereby repairs and replacement of infrastructure items are financed with debt repayment funded from energy savings. This program allows new equipment, major repairs and retrofits to be financed over a 17 year term with energy savings derived from equipment replacement, repairs and retrofits utilized to fund the debt. Phase 1 of the energy management program was successfully implemented in 2010. Phase 2 was implemented in 2012. Scholarship expenses decreased due to a decreased amount of federal Pell grants stemming from new federal Pell grant requirements placed on students.

**Capital Assets and Debt Administration**

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

	2014	2013	2012
Land	1,393,555	1,393,555	1,327,217
Construction in Progress	11,162,474	694,906	457,163
Buildings	57,684,638	58,917,931	60,151,224
Land Improvements	396,583	427,823	459,063
Equipment	2,890,484	3,043,118	3,352,541
Library Books	1,334,020	1,279,514	1,220,734
	<u>74,861,754</u>	<u>65,756,847</u>	<u>66,967,942</u>

The District has issued 75.2 million in capital improvement bonds since FY 1999. Shown in the table below is the outstanding debt at the end of the Fiscal Year as compared to the end of the two previous fiscal years.

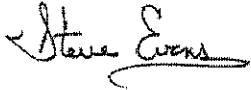
	2014	2013	2012
General obligation bonds	48,915,000	50,235,000	12,045,000
Revenue bonds	10,500,000	11,225,000	11,925,000
	<u>59,415,000</u>	<u>61,460,000</u>	<u>23,970,000</u>

For more detailed information on the District's capital assets and long-term debt, see Notes 5-8 in the Notes to the Basic Financial Statements.

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Financial information can be obtained from the Lee College District Business Office via written request to P.O. Box 818, Baytown, TX 77522-0818.

A handwritten signature in black ink that reads "Steve Evans". The signature is written in a cursive style with a prominent initial "S" and a long, sweeping underline.

Steve Evans  
Vice President of Finance and Administration



BASIC FINANCIAL STATEMENTS

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Lee College District  
Exhibit 1  
Statements of Net Position  
Year Ended August 31, 2014 and 2013

<b>ASSETS</b>	<b>2014</b>	<b>2013</b>
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 1,544,850	\$ 41,245,034
Short-Term Investments (note 4)	38,500,189	9,923,823
Accounts Receivable (net)	4,200,511	4,727,504
Inventories	935,664	1,028,873
Prepaid Expenses	1,676,307	1,592,921
Total Current Assets	<u>46,857,521</u>	<u>58,518,155</u>
<b>Noncurrent Assets</b>		
Endowment Investments	375,013	375,013
Capital Assets, net of accumulated depreciation (Note 6)	74,861,755	65,756,847
Total Noncurrent Assets	<u>75,236,768</u>	<u>66,131,860</u>
<b>TOTAL ASSETS</b>	<u><b>122,094,289</b></u>	<u><b>124,650,015</b></u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Charge for Refunding	<u>477,320</u>	<u>557,428</u>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable	815,491	1,096,329
Accrued Liabilities	357,694	441,892
Funds Held for Others	70,283	85,089
Unearned Revenue	4,059,821	3,770,401
Accrued Compensable Absences	543,164	492,811
Leases Payable-Current Portion	508,573	479,348
Bonds Payable-Current Portion	2,135,000	2,045,000
Total Current Liabilities	<u>8,490,026</u>	<u>8,410,870</u>
<b>Noncurrent Liabilities</b>		
Leases Payable-Noncurrent Portion	11,088,416	11,596,989
Bonds Payable-Noncurrent Portion (Note 7)	58,740,745	61,006,991
Total Noncurrent Liabilities	<u>69,829,161</u>	<u>72,603,980</u>
<b>TOTAL LIABILITIES</b>	<u><b>78,319,187</b></u>	<u><b>81,014,850</b></u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	31,766,853	31,257,991
Restricted for:		
Nonexpendable	375,013	375,013
Expendable-		
Student Aid	53,499	1,307,235
Unrestricted	12,057,057	11,252,354
<b>TOTAL NET POSITION (Schedule D)</b>	<u><b>\$ 44,252,422</b></u>	<u><b>\$ 44,192,593</b></u>

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

**Lee College District**  
**Component Unit**  
**Lee College Foundation**  
**Statements of Financial Position**  
**August 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 450,989	\$ 661,397
Investments	9,153,492	7,889,253
Accrued Interest	30,636	24,932
Other Receivables	24,525	39,825
Due From Lee College	200	100
<b>Total Assets</b>	<u>\$ 9,659,842</u>	<u>\$ 8,615,507</u>
<b>Liabilities</b>		
Accounts Payable	\$ -	\$ 40
Due to Lee College	-	468,523
<b>Total Liabilities</b>	<u>-</u>	<u>468,563</u>
<b>Net Assets</b>		
Unrestricted - Board Designated	372,685	407,482
Temporarily Restricted	3,203,807	2,065,630
Permanently Restricted	6,083,350	5,673,832
<b>Total Net Assets</b>	<u>\$ 9,659,842</u>	<u>\$ 8,146,944</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 9,659,842</u>	<u>\$ 8,615,507</u>

The accompanying notes are an integral part of this statement.

Lee College District  
Exhibit 2  
Statements of Revenues, Expenses, and Changes in Net Position  
For the Year Ended  
August 31, 2014 and 2013

<b>Operating Revenues</b>	2014	2013
Tuition and Fees, (Net)	\$ 6,355,384	\$ 6,283,578
Federal Grants and Contracts	367,707	608,024
State Grants and Contracts	549,773	426,196
Sales and Services of Educational Activities	28,491	30,533
Auxiliary Enterprises	2,355,312	2,447,719
Other Operating Revenues	543,395	609,681
<b>Total Operating Revenues (Schedule A)</b>	<u>10,200,063</u>	<u>10,405,731</u>
<b>Operating Expenses</b>		
Instruction	18,902,333	18,700,123
Public Service	1,766,151	1,121,389
Academic Support	2,888,849	2,954,123
Student Services	5,020,746	4,898,188
Institutional Support	10,309,642	9,969,389
Operation and Maintenance of Plant	4,704,905	5,636,247
Scholarships and Fellowships	6,089,155	7,083,870
Auxiliary Enterprises	3,541,597	3,369,297
Depreciation	2,039,755	1,908,126
<b>Total Operating Expenses (Schedule B)</b>	<u>55,263,134</u>	<u>55,640,752</u>
<b>Operating Loss</b>	<u>(45,063,072)</u>	<u>(45,235,021)</u>
<b>Non-Operating Revenues (Expenses)</b>		
State Funds	11,106,093	10,526,986
Maintenance and Obligation Ad-Valorem Taxes, (Net)	19,719,673	19,395,554
General Obligation Bond Taxes	3,772,346	1,919,195
Federal Non-Operating Grants	10,507,847	11,283,638
Gifts	1,406,737	1,525,813
Investment Income (Loss), net of Investment Expense	(239,294)	17,804
Interest on Capital Related Debt, net of amount capitalized	(3,267,545)	(1,965,566)
Payments in Lieu of Taxes	2,117,043	2,278,392
<b>Total Non-Operating Revenues (Schedule C)</b>	<u>45,122,900</u>	<u>44,981,816</u>
<b>Increase (Decrease) in Net Position</b>	<u>59,828</u>	<u>(253,206)</u>
<b>Net Position</b>		
Net Position-Beginning of Year	44,192,593	44,445,799
<b>Net Position-End of Year</b>	<u>\$ 44,252,421</u>	<u>\$ 44,192,593</u>

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

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**Lee College District**  
**Component Unit**  
**Lee College Foundation**  
**Statement of Activities**  
**For the Year Ended August 31, 2014**  
**With Comparative Totals for the Year Ended, August 31, 2013**

	2014			2013	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Totals
<b>Support, Revenue and Gains:</b>					
Private Gifts	\$ -	\$ -	\$ 329,793	\$ 329,793	\$ 311,825
Corporate Matching	-	-	79,725	79,725	30,345
In-Kind Donations	86,851	-	-	86,851	79,588
Interest/Dividends Income	-	173,939	-	173,939	159,217
Unrealized Gain (Loss) on Holdings	-	1,264,238	-	1,264,238	718,671
Net Assets Released from Restriction	300,000	(300,000)	-	-	-
<b>Total Support, Revenue and Gains</b>	<b>386,851</b>	<b>1,138,177</b>	<b>409,518</b>	<b>1,934,546</b>	<b>1,299,646</b>
<b>Expenses and Losses:</b>					
Contract Services - Audit Fees	2,500	-	-	2,500	2,500
In-Kind Expenses	86,851	-	-	86,851	79,588
Lee College Scholarship Breakfast	3,366	-	-	3,366	3,994
Gala Banquet	13,767	-	-	13,767	11,243
Outstanding Honor Awards	1,000	-	-	1,000	1,000
Bank Charges	1,523	-	-	1,523	1,686
Liability Insurance	1,891	-	-	1,891	-
Lee College District Scholarships	300,000	-	-	300,000	265,000
Donation to Lee College Veteran's Center	10,000	-	-	10,000	-
Other	750	-	-	750	-
<b>Total Program and Support Expenses</b>	<b>421,648</b>	<b>-</b>	<b>-</b>	<b>421,648</b>	<b>365,011</b>
<b>Increase (Decrease) in Net Assets</b>	<b>(34,797)</b>	<b>1,138,177</b>	<b>409,518</b>	<b>1,512,898</b>	<b>934,635</b>
<b>Net Assets, beginning of year</b>	<b>407,482</b>	<b>2,065,630</b>	<b>5,673,832</b>	<b>8,146,944</b>	<b>7,212,309</b>
<b>Net Assets, end of year</b>	<b>\$ 372,685</b>	<b>\$ 3,203,807</b>	<b>\$ 6,083,350</b>	<b>\$ 9,659,842</b>	<b>\$ 8,146,944</b>

The accompanying notes are an integral part of this statement.

Lee College District  
Exhibit 3  
Statements of Cash Flows  
For the Year Ended August 31, 2014 and 2013

<b>Cash Flows From Operating Activities</b>	<b>2014</b>	<b>2013</b>
Receipts from students and other customers	\$ 9,145,953	\$ 8,546,446
Receipts from grants and contracts	1,298,826	1,516,160
Payments to suppliers for goods or services	(13,637,761)	(13,452,686)
Payments to or on behalf of employees	(33,905,186)	(32,358,192)
Payments of scholarships and fellowships	(5,979,400)	(6,967,922)
Payments for Loans issued to students		
Other Receipts	543,395	650,066
Net cash used by operating activities	<u>(42,534,174)</u>	<u>(42,066,129)</u>
 <b>Cash Flows From Non-capital Financing Activities</b>		
Receipts from state appropriations	11,106,093	10,526,986
Receipts from Ad Valorem taxes	19,766,030	19,373,893
Receipts from gifts and grants for other than capital purposes	1,406,737	1,525,813
Receipts from Federal grants	10,507,847	11,283,638
Receipts from student organizations and other agency transactions	(12,957)	(2,052)
Other receipts (payments)	2,117,043	2,278,392
Net cash provided (used) by non-capital financing activities	<u>44,890,794</u>	<u>44,986,670</u>
 <b>Cash Flows From Capital Financing Activities</b>		
Receipts from Ad Valorem tax revenues	3,772,346	1,919,195
Proceeds on Issuance of Capital Debt	-	40,071,952
Purchases of capital assets	(11,144,663)	(697,031)
Payments on capital debt and leases	(5,843,029)	(4,010,434)
Net cash provided (used) by capital and related financing activities	<u>(13,215,346)</u>	<u>37,283,682</u>
 <b>Cash Flows From Investing Activities</b>		
Receipts from sales and maturities of investments	32,025,586	21,491,341
Receipts from interest on investments	31,887	10,402
Purchases of investments	(60,898,931)	(22,349,843)
Net cash provided (used) by investing activities	<u>(28,841,458)</u>	<u>(848,100)</u>
 Increase (decrease) in cash and cash equivalents	(39,700,184)	39,356,124
 Cash and cash equivalents - September 1, 2013	<u>41,245,034</u>	<u>1,888,910</u>
 Cash and cash equivalents - August 31, 2014	<u>\$ 1,544,850</u>	<u>\$ 41,245,034</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, 2014 and 2013

	2014	2013
<b>Reconciliation of net operating income (loss) to net cash provided (used) by operating activities</b>		
Operating loss	\$ (45,063,072)	\$ (45,235,022)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation Expense	2,039,755	1,908,126
<b>Changes in Assets and Liabilities:</b>		
Receivables (net)	498,691	247,874
Inventories	93,209	513,863
Prepaid Expenses	(83,386)	391,722
Accounts payable	(280,838)	(130,657)
Accrued Liabilities	(78,306)	139,660
Compensated absences	50,353	39,237
Unearned revenue	289,420	59,068
 Net cash used by operating activities	 \$ (42,534,174)	 \$ (42,066,129)

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

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LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2014 and 2013

(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, 2014, has been discretely presented on separate pages to emphasize that it is legally separate from the District. The foundation was established to "... solicit and receive donations, gifts and grant... on behalf of Lee College, its departments and activities..." Although the Foundation is a legally separate, tax-exempt entity, it meets the criteria of GASB Statement No. 39 to be considered a component unit of the District. That is, the Foundation's economic resources are for the direct benefit of the District or its students. By the Foundation charter, the District is entitled to a majority of the Foundation's economic resources, and such economic resources are material to the District. Historically, the Foundation has made no direct contributions to the District, but has awarded scholarships to students attending the District. The Foundation is governed by a 25-member board of trustees, which includes two District regents.

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

Lee College Foundation  
511 South Whiting  
Baytown, Texas 77522

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Report Guidelines:

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

Implementation of GASB Statement No. 65:

GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. The district has implemented the new requirements for the Fiscal Year Ended, August 31, 2014 financial statements.

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.

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2014 and 2013

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.

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.

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2014 and 2013

The following lives are used:

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

Unearned Revenues:

Tuition and fees of \$4,059,821 and \$3,770,401 have been reported as unearned revenues at August 31, 2014 and 2013, respectively.

Use of Estimates:

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

Operating and Non-Operating Revenue and Expense Policy:

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

Long-term Obligations:

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

Net Position:

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

(3) AUTHORIZED INVESTMENTS

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

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2014 and 2013

(4) DEPOSITS AND INVESTMENTS

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

<b>Cash and Deposits</b>		
	2014	2013
Bank Deposits		
Demand Deposits	1,534,610	41,234,794
Cash and Cash Equivalents		
Petty Cash on Hand	10,240	10,240
Total Cash and Deposits	1,544,850	41,245,034

During the year ended August 31, 2014, deposits were entirely covered by FDIC insurance or by pledged collateral held by the College's agent bank in the College's name.

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

Type of Security	Market Value August 31, 2014	Market Value August 31, 2013
<b>Investments</b>		
Certificates of Deposit	27,851,323	-
Money Market	1,289,853	2,220,848
Domestic Equities	7,857	6,886
Investment Pools	9,726,169	8,071,102
Total Investments	38,875,202	10,298,836
Total Cash and Deposits	1,544,850	41,245,034
Total Deposits and Investments	40,420,052	51,543,870
Cash and Cash Equivalents	1,544,850	41,245,034
Short Term Investments	38,500,189	9,923,823
Endowment Investments	375,013	375,013
Total Deposits and Investments	40,420,052	51,543,870

As of August 31, 2014, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less than 1	1 to 3	4 to 5
Certificates of Deposit	27,851,323	27,851,323	-	-
Money Market	1,289,853	1,289,853	-	-
Domestic Equities	7,857	7,857	-	-
Investment Pools:				
Investment in TexPool	9,725,532	9,725,532	-	-
Investment in Lone Star Pool	637	637	-	-
Total Fair Value	38,875,202	38,875,202	-	-

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2014 and 2013

**Interest Rate Risk**

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

**Credit Risk**

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

**Concentration of Credit Risk**

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

**Custodial Credit Risk**

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

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

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

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

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2014 and 2013

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

	<u>August 31, 2014</u>	<u>August 31, 2013</u>
<u>Bank Deposits</u>		
Demand Deposits	450,989	661,397
<u>Type of Security</u>		
Investments, at market value:		
Mutual Funds	9,153,492	7,889,253
Total Investments	9,153,492	7,889,253
Total Cash and Investments	<u>9,604,481</u>	<u>8,550,650</u>

(5) DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES

Receivables

Receivables at year-end were as follows:

	<u>District August 31, 2014</u>	<u>District August 31, 2013</u>
Student Receivables	3,059,789	2,712,655
Taxes Receivable	1,583,707	1,705,543
Federal Receivables	461,613	842,958
Accounts Receivable	66,048	531,428
Interest Receivable	18,955	-
TOTAL	5,190,112	5,792,584
Allowance for Uncollectibles	<u>(989,601)</u>	<u>(1,065,080)</u>
Accounts Receivable, net	<u>4,200,511</u>	<u>4,727,504</u>



LEE COLLEGE DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 AUGUST 31, 2014 and 2013

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

Description	District August 31, 2014	District August 31, 2013
Taxes Receivable	981,899	1,057,378
Accounts Receivable	<u>7,702</u>	<u>7,702</u>
<b>TOTAL</b>	<b><u>989,601</u></b>	<b><u>1,065,080</u></b>

Payables

Payables at year-end were as follows:

Description	District August 31, 2014	District August 31, 2013
Vendor's Payable	815,491	1,096,329
Accrued Interest	116,751	123,594
Other Accruals	<u>240,943</u>	<u>318,298</u>
<b>TOTAL</b>	<b><u>1,173,185</u></b>	<b><u>1,538,221</u></b>

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2014 and 2013

(6) CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2014 was as follows:

	Balance August 31, 2013	Increases	Decreases	Balance August 31, 2014
<u>Not Depreciated:</u>				
Land	1,393,555	-	-	1,393,555
Construction in Process	694,906	10,467,569	-	11,162,475
Subtotal	2,088,461	10,467,569	-	12,556,030
<u>Other Capital Assets:</u>				
Buildings	77,570,789		-	77,570,789
Land Improvements	1,451,906		-	1,451,906
Furniture, Machinery, Vehicles and Other Equipment	18,898,139	271,203	-	19,169,342
Telecommunications and Peripheral Equipment	7,145,330	248,548	-	7,393,878
Library Books	2,547,207	157,343	-	2,704,550
Subtotal	107,613,371	677,094	-	108,290,465
<u>Accumulated Depreciation:</u>				
Buildings	(18,652,858)	(1,233,293)	-	(19,886,151)
Land Improvements	(1,024,083)	(31,240)	-	(1,055,323)
Furniture, Machinery, Vehicles and Other Equipment	(16,359,578)	(442,185)	-	(16,801,763)
Telecommunications and Peripheral Equipment	(6,640,773)	(230,200)	-	(6,870,973)
Library Books	(1,267,693)	(102,837)	-	(1,370,530)
Subtotal	(43,944,985)	(2,039,755)	-	(45,984,740)
Net Other Capital Assets	63,668,386	(1,362,661)	-	62,305,725
Net Capital Assets	65,756,847	9,104,908	-	74,861,755

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2014 and 2013

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

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

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2014 and 2013

(7) LONG-TERM LIABILITIES

Long-term liability activity for the year ended August 31, 2014 was as follows:

	Balance August 31, 2013	Additions	Reductions	Balance August 31, 2014	Current Portion
<u>Bonds and Leases</u>					
General Obligation Bonds	50,235,000	-	1,320,000	48,915,000	1,385,000
Revenue Bonds	11,225,000	-	725,000	10,500,000	750,000
Bond premiums	1,591,990	-	122,279	1,469,711	-
Capital Leases	12,076,337	-	479,348	11,596,989	508,573
Total Bonds and Leases	<u>75,128,327</u>	<u>-</u>	<u>2,646,627</u>	<u>72,481,700</u>	<u>2,643,573</u>
<u>Other Liabilities</u>					
Compensated absences	492,811	543,164	492,811	543,164	543,164
<b>Total Long-term Liabilities</b>	<u><u>75,621,138</u></u>	<u><u>543,164</u></u>	<u><u>3,139,438</u></u>	<u><u>73,024,864</u></u>	<u><u>3,186,737</u></u>

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

	Balance August 31, 2012	Additions	Reductions	Balance August 31, 2013	Current Portion
<u>Bonds and Leases</u>					
General Obligation Bonds	12,045,000	3,946,000	1,270,000	50,235,000	1,320,000
Revenue Bonds	11,925,000	-	700,000	11,225,000	725,000
Bond premiums	709,276	964,793	82,079	1,591,990	-
Capital Leases	12,535,024	-	458,687	12,076,337	479,348
Total Bonds and Leases	<u>37,214,300</u>	<u>40,424,793</u>	<u>2,510,766</u>	<u>75,128,327</u>	<u>2,524,348</u>
<u>Other Liabilities</u>					
Compensated absences	453,574	523,918	484,681	492,811	492,811
<b>Total Long-term Liabilities</b>	<u><u>37,667,874</u></u>	<u><u>40,948,711</u></u>	<u><u>2,995,447</u></u>	<u><u>75,621,138</u></u>	<u><u>3,017,159</u></u>

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2014 and 2013

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

Bond Issue Name:	Series 2005	Series 2006	Series 2010	Series 2013
Purpose of Issue:	Advance Refunding	Capital Improvements	Advance Refunding	Capital Improvements
Original Amount Authorized:	13,688,672	12,000,000	2,425,000	39,460,000
Amount Issued:	13,688,672	12,000,000	2,425,000	39,460,000
Issue Date:	July 14, 2005	July 20, 2006	June 17, 2010	August 29, 2013
Type of Bond:	General Obligation	Revenue	Revenue	General Obligation
Maturity Date Range:	2011-2020	2008-2027	2011-2020	2021-2037
Source of Revenue for Debt Service:	Tax Revenues	Pledged Revenues	Pledged Revenues	Tax Revenues
Outstanding Balance:				
August 31, 2014	9,455,000	8,940,000	1,560,000	39,460,000
August 31, 2013	10,775,000	9,435,000	1,790,000	39,460,000

Bonds payable are due in annual installments varying from \$235,000 to \$3,265,000 with the final installment due in 2037.

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

Debt Service requirements at August 31, 2014, were as follows:

Year Ended August 31,	General Obligation Bonds			Revenue Bonds			Total Bonds	
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest
2015	1,385,000	2,322,957	3,707,957	750,000	479,187	1,229,187	2,135,000	2,802,144
2016	1,460,000	2,253,707	3,713,707	785,000	447,675	1,232,675	2,245,000	2,701,382
2017	1,530,000	2,180,706	3,710,706	825,000	414,675	1,239,675	2,355,000	2,595,381
2018	1,610,000	2,104,206	3,714,206	860,000	378,825	1,238,825	2,470,000	2,483,031
2019	1,695,000	2,023,706	3,718,706	895,000	341,450	1,236,450	2,590,000	2,365,156
2010-2024	8,535,000	8,853,281	17,388,281	3,830,000	1,162,275	4,992,275	12,365,000	10,015,556
2025-2029	10,400,000	6,689,331	17,089,331	2,555,000	259,750	2,814,750	12,955,000	6,949,081
2030-2034	12,945,000	4,147,069	17,092,069	-	-	-	12,945,000	4,147,069
2035-2037	9,355,000	902,500	10,257,500	-	-	-	9,355,000	902,500
<b>TOTAL</b>	<b>48,915,000</b>	<b>31,477,463</b>	<b>80,392,463</b>	<b>10,500,000</b>	<b>3,483,837</b>	<b>13,983,837</b>	<b>59,415,000</b>	<b>34,961,300</b>

LEE COLLEGE DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 AUGUST 31, 2014 and 2013

Defeased bonds outstanding:

The District did not have any defeased bonds outstanding at August 31, 2014.

Capital Leases

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

	Year Ending August 31	Minimum Payment
	2015	934,250
	2016	961,339
	2017	989,241
	2018	1,017,979
	2019	987,357
	2020-2024	5,384,621
	2025-2028	4,874,204
Total		15,148,991
Less Amount Representing Interest (Rate 3.7315%)		(3,552,002)
Present Value of Future Minimum Lease Payments		11,596,989

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, 2014, the value of all accumulated vested employee vacation benefits was \$543,164 which is included in the accompanying statement of net assets.

(8) OPERATING LEASE COMMITMENTS AND RENTAL AGREEMENTS

As of August 31, 2014, the District had no significant commitments under non-cancelable operating lease agreements. Total rental expenditures under operating leases for the year ended August 31, 2014 was approximately \$71,125 and \$69,750 for 2013.

(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

LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2014 and 2013

annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan. TRS issues a publicly available financial report with required supplementary information which can be obtained from [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications heading.

*Funding Policy.* Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4 percent for fiscal years 2014, 2013 and 2012 and a state contribution rate of 6.4 percent for fiscal year 2014; 6.4 percent for fiscal year 2013; and 6.4 percent for 2012. 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 2014; 6.4 percent for fiscal year 2013; and 6.4 percent for fiscal year 2012.

#### **Optional Retirement Plan**

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

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

The retirement expense to the state for the college was \$1,346,939 and \$1,161,020 for the fiscal years ended August 31, 2014 and 2013, respectively. This amount represents the portion of expended appropriations made by the state legislature on behalf of the college.

The total payroll for all college employees was \$26,080,217 and \$24,806,532 for fiscal years 2014 and 2013, respectively. The total payroll of employees covered by the Teacher Retirement System was \$14,140,263 and \$12,503,325, and the total payroll of employees covered by the Optional Retirement Program was \$8,979,738 and \$ 9,172,421 for fiscal years 2014 and 2013, 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

LEE COLLEGE DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 AUGUST 31, 2014 and 2013

state recognizes the cost of providing these benefits by expending the annual insurance premiums. The state's contribution per full-time employee was \$503 to \$1,465 per month for the year ended August 31, 2014 (\$470 to \$1,369 per month for 2013) and totaled \$1,675,626 for 2014 (\$1,255,670 for the year ended 2013). The cost of providing those benefits for 187 retirees in the year ended 2014 was \$1,192,612 (retiree benefits for 187 retirees cost \$1,046,436 in 2013). For 374 active employees, the cost of providing benefits was \$483,014 for the year ended 2014 (active employee benefits for 353 active employees cost \$124,824 for the year ended 2013).

(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 \$981,899 and \$1,057,375 for fiscal years 2014 and 2013, respectively. Allowances for uncollectibles are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

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

At August 31:

	2014	2013
Assessed Valuation of the District	11,575,746,370	11,377,688,775
Less: Exemptions	(2,496,631,546)	(2,622,016,668)
Less: Abatements	-	-
Net Assessed Valuation of the District	9,079,114,824	8,755,672,107

	2014			2013		
	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	0.220700	0.040000	0.260700	0.219500	0.021500	0.241000



LEE COLLEGE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2014 and 2013

Taxes levied for the year ended August 31, 2014 and 2013 amounted to \$23,479,607 and \$21,115,140, respectively including any penalty and interest assessed. Tax collections follow:

	2014			2013		
	Current Operations	Debt Service	Total	Current Operations	Debt Service	Total
Current Taxes Collected	19,404,660	3,696,126	23,100,786	18,906,428	1,851,885	20,758,313
Delinquent Taxes Collected	164,185	31,273	195,273	279,327	28,970	308,297
Penalties & Interest Collected	203,390	38,741	242,131	190,955	35,523	226,478
Total Collections	19,772,235	3,766,140	23,538,375	19,376,710	1,916,378	21,293,088

Total tax collections for the year ended August 31, 2014 and 2013 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 2014, tax collections from one petrochemical complex within the District's taxing authority represented approximately 28% of total tax revenues.

(14) CONTRACT AND GRANT AWARDS

At August 31, 2014, there were no contract or grant awards funds already committed, e.g., multi-year awards, or funds awarded during fiscal year 2014 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 2014, revenues and expenses in the accompanying Statement of Revenues, Expenses, and Changes in Net Position include \$1,675,626 for health insurance (\$1,255,670 for 2013) and \$1,346,939 for retirement benefits (\$1,161,020 for 2013) 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.

LEE COLLEGE DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 AUGUST 31, 2014 and 2013

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, 2014, the District was not involved in any lawsuits or other legal actions which, in Administration’s opinion (based on discussions with legal counsel) would result in any direct loss to the District which would be material to its financial position.

(19) CONSTRUCTION COMMITMENTS

At August 31, 2014, the District has approximately \$30 million committed for construction, acquisition and equipping of school buildings.

(20) RESTATEMENT OF NET POSITION

The August 31, 2012 Ending Net Position was restated to implement the Governmental Accounting Standards Board (GASB) Statement No. 65 that eliminated Capitalized Bond and Other Debt Issuance Costs from Assets on the Statement of Net Position. Restatement is as follows:

	September 1, 2013 Beginning Net Position
Beginning Net Position, as previously reported	\$ 44,907,533
Restatement for Capitalized Bonds and other Debt Issuance Costs, net of amortization	(461,734)
Beginning Net Position, as restated	\$ 44,445,799

## **OTHER SUPPLEMENTARY INFORMATION**

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

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## SCHEDULES

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Lee College District  
Schedule A  
Schedule of Detailed Operating Revenues  
For the Year Ended August 31, 2014 (With Memorandum Totals for the Year Ended August 31, 2013)

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	FY 2014 Total	FY 2013 Total
<b>Tuition</b>						
State Funded Courses						
In-District Resident Tuition	\$ 3,326,987	\$ -	\$ 3,326,987	\$ -	\$ 3,326,987	\$ 3,361,294
Out-of-District Resident Tuition	3,214,905	-	3,214,905	-	3,214,905	3,191,110
TPEG-Credit (set aside)*	411,871	-	411,871	-	411,871	393,704
Non-Resident Tuition	449,351	-	449,351	-	449,351	356,800
State-Funded Continuing Education	284,926	-	284,926	-	284,926	516,118
TPEG Non-Credit (set aside)*	-	-	-	-	-	-
Non-State Funded Continuing Education	1,072,005	-	1,072,005	-	1,072,005	220,131
<b>Total Tuition</b>	<b>\$ 8,760,046</b>	<b>\$ -</b>	<b>\$ 8,760,046</b>	<b>\$ -</b>	<b>\$ 8,760,046</b>	<b>\$ 8,039,157</b>
<b>Fees</b>						
General Fee	423,267	-	423,267	-	423,267	419,300
Student Service Fee	-	-	-	274,322	274,322	277,836
Lab Fee	507,171	-	507,171	-	507,171	447,989
Building Use Fees	1,849,171	-	1,849,171	-	1,849,171	1,874,357
Other Fees	204,322	-	204,322	-	204,322	246,014
<b>Total Fees</b>	<b>\$ 2,983,930</b>	<b>\$ -</b>	<b>\$ 2,983,930</b>	<b>\$ 274,322</b>	<b>\$ 3,258,252</b>	<b>\$ 3,265,496</b>
<b>Scholarship Allowances and Discounts</b>						
Scholarship Allowances	(426,463)	-	(426,463)	-	(426,463)	(528,235)
Remissions and Exemptions	(1,379,556)	-	(1,379,556)	-	(1,379,556)	(1,489,634)
TPEG Allowances	(274,291)	-	(274,291)	-	(274,291)	(240,767)
State Grants to Students	-	-	-	-	-	-
Federal Grants to Students	(3,432,143)	-	(3,432,143)	-	(3,432,143)	(2,736,348)
Other	(150,462)	-	(150,462)	-	(150,462)	(26,091)
<b>Total Scholarship Allowances and Discounts</b>	<b>\$ (5,662,915)</b>	<b>\$ -</b>	<b>\$ (5,662,915)</b>	<b>\$ -</b>	<b>\$ (5,662,915)</b>	<b>\$ (5,021,075)</b>
<b>Total Net Tuition and Fees</b>	<b>\$ 6,081,061</b>	<b>\$ -</b>	<b>\$ 6,081,061</b>	<b>\$ 274,322</b>	<b>\$ 6,355,384</b>	<b>\$ 6,283,578</b>
<b>Additional Operating Revenues</b>						
Federal Grants and Contracts	-	367,707	367,707	-	367,707	608,024
State Grants and Contracts	-	549,773	549,773	-	549,773	426,196
Local Grants and Contracts	-	-	-	-	-	-
Nongovernmental Grants and Contracts	-	-	-	-	-	-
Sales and Services of Educational Activities	28,491	-	28,491	-	28,491	30,533
Investment Income (program restricted)	-	-	-	-	-	-
Other Operating Revenues	543,395	-	543,395	-	543,395	609,681
<b>Total Additional Operating Revenues</b>	<b>\$ 571,886</b>	<b>\$ 917,481</b>	<b>\$ 1,489,367</b>	<b>\$ -</b>	<b>\$ 1,489,367</b>	<b>\$ 1,674,434</b>
<b>Auxiliary Enterprises</b>						
Bookstore	15,628	-	15,628	1,809,598	1,825,226	1,863,092
Food Service	-	-	-	310,313	310,313	461,858
Other Auxiliary Services	-	-	-	219,773	219,773	122,769
<b>Total Net Auxiliary Enterprises</b>	<b>\$ 15,628</b>	<b>\$ -</b>	<b>\$ 15,628</b>	<b>\$ 2,339,684</b>	<b>\$ 2,355,312</b>	<b>\$ 2,447,719</b>
<b>Total Operating Revenues</b>	<b>\$ 6,668,575</b>	<b>\$ 917,481</b>	<b>\$ 7,586,056</b>	<b>\$ 2,614,006</b>	<b>\$ 10,200,062</b>	<b>\$ 10,405,731</b>

(EXHIBIT 2) (EXHIBIT 2)

In accordance with Education Code 56.033, \$411,871 and \$393,704 for years August 31, 2014 and 2013 respectively, of tuition was set aside for Texas Public Education Grants (TPEG).

Lee College District  
Schedule B  
Schedule of Operating Expenses By Object  
For the Year Ended August 31, 2014  
(with Memorandum Totals for the Year ended August 31, 2013)

	Operating Expenses				FY 2014 Total	FY 2013 Total
	Benefits			Other Expenses		
	Salaries and Wages	State	Local			
Educational Activities						
Instruction	\$ 13,263,458	\$ -	\$ 2,762,580	\$ 1,157,573	\$ 17,183,612	\$ 17,216,218
Public Service	649,013		135,180	840,140	1,624,333	1,027,698
Academic Support	1,831,415		381,456	499,625	2,712,496	2,783,112
Student Services	2,412,786		502,547	323,195	3,238,528	3,017,275
Institutional Support	4,593,856		956,832	3,446,257	8,996,945	9,135,954
Operation and Maintenance of Plant	1,669,611		347,755	2,687,540	4,704,905	5,636,247
Scholarships and Fellowships	-			-	-	-
Total Unrestricted Educational Activities	24,420,139	-	5,086,350	8,954,330	38,460,820	38,816,504
Instruction	107,881	1,436,246	18,247	156,347	1,718,721	1,482,621
Public Service	-	62,421	-	79,397	141,818	93,691
Academic Support	-	176,143	-	209	176,353	149,728
Student Services	635,418	232,059	150,271	764,469	1,782,218	1,880,913
Institutional Support	268,382	441,832	61,703	540,779	1,312,696	856,003
Operation and Maintenance of Plant	-	-	-	-	-	-
Scholarships and Fellowships	109,720		36	5,979,400	6,089,155	7,083,870
Total Restricted Educational Activities	1,121,402	2,348,702	230,257	7,520,601	11,220,962	11,546,826
Total Educational Activities	25,541,541	2,348,702	5,316,607	16,474,931	49,681,781	50,363,330
Auxiliary Enterprises	537,018		133,364	2,871,215	3,541,597	3,369,297
Depreciation Expense-Buildings and Improvements				1,264,533	1,264,533	1,264,533
Depreciation Expense-Equipment and Furniture				775,222	775,222	643,593
Total Operating Expenses	\$ 26,078,560	\$ 2,348,702	\$ 5,449,971	\$ 21,385,901	\$ 55,263,133	\$ 55,640,753
					(Exhibit 2)	(Exhibit 2)



Lee College District  
Schedule C  
Schedule of Non-Operating Revenues and Expenses  
For the Year Ended August 31, 2014  
With Comparative Data for the Year Ended August 31, 2013

	Unrestricted	Restricted	Auxiliary Enterprises	FY 2014 Total	FY 2013 Total
<b>NON-OPERATING REVENUES</b>					
Education and General State Support	\$ 8,757,391	\$ -	\$ -	\$ 8,757,391	\$ 8,686,592
State Group Insurance		1,675,626		1,675,626	1,255,670
State Retirement Matching		673,076		673,076	584,724
<b>Total State Support</b>	<b>8,757,391</b>	<b>2,348,702</b>	<b>-</b>	<b>11,106,093</b>	<b>10,526,986</b>
Maintenance Ad Valorem Taxes	19,719,673			19,719,673	19,395,554
General Obligation Bond Taxes		3,772,346		3,772,346	1,919,195
Federal Non-Operating Grants	-	10,507,847		10,507,847	11,283,638
Gifts	1,406,737			1,406,737	1,525,813
Investment Income	(239,294)	-		(239,294)	17,804
Payments in Lieu of Taxes	2,117,043	-		2,117,043	2,278,392
<b>Total Non-Operating Revenues</b>	<b>31,761,550</b>	<b>16,628,895</b>	<b>-</b>	<b>48,390,445</b>	<b>46,947,382</b>
<b>NON-OPERATING EXPENSES</b>					
Interest on Capital Related Debt		3,267,545		3,267,545	1,965,566
Other Non-Operating Expenses		-		-	-
<b>Total Non-Operating Expenses</b>	<b>-</b>	<b>3,267,545</b>	<b>-</b>	<b>3,267,545</b>	<b>1,965,566</b>
<b>Net Non-Operating Revenues</b>	<b>\$ 31,761,550</b>	<b>\$ 13,361,350</b>	<b>\$ -</b>	<b>\$ 45,122,900</b>	<b>\$ 44,981,816</b>
				(Exhibit 2)	(Exhibit 2)

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Lee College District  
Schedule D  
Schedule of Net Assets by Source and Availability  
For the Year Ended August 31, 2014  
With Memorandum Totals for the Year Ended August 31, 2013

	Detail by Source					Available for Current Operations	
	Restricted			Capital Assets Net of Depreciation and Related Debt	Total	Yes	No
	Unrestricted	Expendable	Non-Expendable				
<b>Current</b>							
Unrestricted	\$ 12,057,056	\$ -	\$ -	\$ -	\$ 12,057,056	\$ 12,057,056	\$ -
Restricted		53,499			53,499	53,499	
Auxiliary Enterprises							
<b>Loan</b>							
<b>Endowment</b>			375,013		375,013		375,013
<b>Plant</b>							
Unexpended							
Debt Service							
Investment in Plant				31,766,853	31,766,853		31,766,853
<b>Total Net Assets, August 31, 2014</b>	<b>\$ 12,057,056</b>	<b>\$ 53,499</b>	<b>\$ 375,013</b>	<b>\$ 31,766,853</b>	<b>\$ 44,252,421</b>	<b>\$ 12,110,555</b>	<b>\$ 32,141,866</b>
<b>Total Net Assets, August 31, 2013</b>	<b>\$ 11,252,354</b>	<b>\$ 1,307,235</b>	<b>\$ 375,013</b>	<b>\$ 31,257,991</b>	<b>\$ 44,192,593</b>	<b>\$ 12,559,589</b>	<b>\$ 31,633,004</b>
<b>Net Increase (Decrease) in Net Assets</b>	<b>\$ 804,702</b>	<b>\$ (1,253,736)</b>	<b>\$ -</b>	<b>\$ 508,862</b>	<b>\$ 59,828</b>	<b>\$ (449,034)</b>	<b>\$ 508,862</b>

(EXHIBIT 2)

LEE COLLEGE DISTRICT  
SCHEDULE E  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended August 31, 2014

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 2013-14	84.007		\$ 67,450
SEOG 2014-15	84.007		1,000
Federal College Workstudy Program 2013-14	84.033		79,334
Federal College Workstudy Program 2014-15	84.033		7,886
Federal PELL 2007-08	84.063		(12,087)
Federal PELL 2011-12	84.063		(2,091)
Federal PELL 2012-13	84.063		(9,449)
Federal PELL 2013-14	84.063		6,020,365
Federal PELL 2014-15	84.063		121,484
Direct Loan Program 2012-13	84.268		(666)
Direct Loan Program 2013-14	84.268		2,734,414
Direct Loan Program 2014-15	84.268		39,987
Title V - STEM and Articulation Transformation (SAT) Program	84.031C		749,230
TRIO Cluster			
Student Support Services	84.042A		204,137
Educational Opportunity Center	84.066A		220,954
Pass-Through From:			
Texas Higher Education Coordinating Bd.			
Carl Perkins Vocational Education - Basic 13-14	84.048	14420206	271,258
Statewide Data Systems	84.372	R372A090010	2,000
College Access Challenge Grant	84.378A	P378A120023	12,641
Total U.S. Department of Education			<u>10,507,847</u>
 U.S. Department of Commerce			
Pass-Through From:			
University of Houston Clear Lake			
Coastal Zone Management Administration Awards	11.419	13-039-000-6906	11,540
Total U.S. Department of Commerce			<u>11,540</u>
 U.S. Department of Labor			
Pass-Through From:			
Texas Workforce Commission			
WIA Title V Incentive Grant	17.267	2913WSW015	19,237
Pass-Through From:			
San Jacinto College			
Community-Based Job Training	17.269	DOL531708003	114,060
Total U.S. Department of Labor			<u>133,297</u>
 U.S. Department of Transportation			
Pass-Through From:			
Texas Department of Transportation			
Texans Standing Tall SBI	20.616		6,175
Total U.S. Department of Transportation			<u>6,175</u>
 National Science Foundation			
Direct Programs:			
NSF ATE Workshops for Physics Faculty	47.076		140,069
Total National Science Foundation			<u>140,069</u>
 U.S. Small Business Administration			
Pass-Through From:			
University of Houston			
Small Business Development Center 2012-13	59.037	4-603001-Z-0047-30	7,697
Small Business Development Center 2013-14	59.037	4-603001-EZ-0016-30	68,929
Total Small Business Administration			<u>76,626</u>
Total Federal Financial Assistance			<u>\$ 10,875,554</u>

Schedule Continued on Following Page.

SCHEDULE E (Continued)

Note 1: Federal Assistance Reconciliation

Federal Grants and Contracts Revenues per Schedule A	367,707
Federal Grants and Contracts Revenues per Schedule C	10,507,847
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>10,875,554</u>

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

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

LEE COLLEGE DISTRICT  
SCHEDULE F  
SCHEDULE OF EXPENDITURES OF STATE AWARDS  
For the Year Ended August 31, 2014

<u>Grantor Agency/Program Title</u>	<u>Grant Contract Number</u>	<u>Expenditures</u>
Texas Higher Education Coordinating Board		
Texas College Work Study 13-14		\$ 26,544
Texas Grant Program 12-13		(1,325)
Texas Grant Program 13-14		254,760
Texas Education Opportunity Grant 13-14		56,760
Developmental Education S3		103,004
Texas - STEM Challenge Scholarship Program		28,850
Pass Through From:		
Trinity Valley Community College		
Nursing Innovation Grant Program TC-BNC		2,000
Total Texas Higher Education Coordinating Board		<u>470,593</u>
Texas Workforce Commission		
Small Business Program	2813SSD001	47,861
Partnership with FlexSteel Pipeline Technologies	2813SDF001	31,319
Total Texas Workforce Commission		<u>79,180</u>
Total State Financial Assistance		<u>\$ 549,773</u>

Note 1: State Assistance Reconciliation

State Revenues - per Schedule A		
State Financial Assistance		
Per Schedule of expenditures of state awards		\$ 549,773
State Financial Assistance		
Continuing Education tuition and fees included in Schedule A captioned "Tuition and Fees"		<u>-</u>
Total State Revenues per Schedule 2-A		<u>\$ 549,773</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, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards**

Board of Regents  
Lee College District  
Baytown, Texas 77520

Members of the Board of Regents:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the provisions of the State of Texas, *Uniform Grant and Contract Management Standards* (UGCMS), the basic financial statements of Lee College District (the District) as of and for the years ended August 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise Lee College District's basic financial statements, and have issued our report thereon dated December 16, 2014.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

Respectfully submitted,



Lovvorn & Kieschnick, LLP  
December 16, 2014



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

**Independent Auditor's Report on Compliance  
for Each Major Program and on Internal Control  
Over Compliance Required by OMB Circular A-133**

Board of Regents  
Lee College District  
Baytown, Texas 77520

Members of the Board of Regents:

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

We have audited Lee College District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the provisions of the State of Texas, *Uniform Grant and Contract Management Standards* (UGCMS) that could have a direct and material effect on each of Lee College District's major federal and state programs for the year ended August 31, 2014. Lee College 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.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Lee College District's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about Lee College District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

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

In our opinion, Lee College District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended August 31, 2014.

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

Management of Lee College District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lee College District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal or state program that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and UGCMS, 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. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than as material weakness in internal control over compliance, yet important enough to merit by those charged with governance

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

consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and UGCMS. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

*Lovvorn + Kieschnick, LLP*

Lovvorn & Kieschnick, LLP  
December 16, 2014

**LEE COLLEGE DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED AUGUST 31, 2014**

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

One or more material weakness(es) identified?

Yes  No

One or more significant deficiencies identified that are not considered to be material weaknesses?

Yes  None Reported

Noncompliance material to financial statements noted?

Yes  No

2. Federal Awards

Internal control over major programs:

One or more material weakness(es) identified?

Yes  No

One or more significant deficiencies identified that are not considered to be material weaknesses?

Yes  None Reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

Yes  No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.007  
84.033  
84.063  
84.268

Student Financial Assistance Programs Cluster:  
Federal Supplemental Education Opportunity Grant Program  
Federal Work Study Program  
Federal Pell Grant Program  
Direct Loan Program

84.042A  
84.066A

Trio Cluster:  
Student Support Services  
Educational Opportunity Center

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, 2014**

3. State Awards

Internal control over major programs:

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

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

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

Any audit findings disclosed that are required to be reported in accordance with State of Texas Single Audit Circular       Yes       No

Identification of major programs:

<u>Grant Number</u>	<u>Name of State Program</u>
N/A	Texas Grant Program
N/A	Development Education S3

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. State Award Findings and Questioned Costs

NONE

**LEE COLLEGE DISTRICT  
SCHEDULE OF CORRECTIVE ACTION PLAN  
YEAR ENDED AUGUST 31, 2014**

Program

N/A

Corrective Action Plan

No Corrective Action Required



**LEE COLLEGE DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**YEAR ENDED AUGUST 31, 2014**

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