

LEE COLLEGE DISTRICT

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

For the Year Ended August 31, 2018

LEE COLLEGE DISTRICT
TABLE OF CONTENTS

	<u>Page</u>
Organizational Data	1
Report of Independent Auditors	3
Management's Discussion and Analysis	9
 Basic Financial Statements	
Exhibit 1 Statements of Net Position	17
Discretely Presented Component Unit Statements of Financial Position	18
Exhibit 2 Statements of Revenues, Expenses, and Changes in Net Position	19
Discretely Presented Component Unit Statements of Activities	20
Exhibit 3 Statements of Cash Flows	21
Notes to the Basic Financial Statements	23
 Required Supplementary Information (RSI) Schedules	
Schedule of the District's Proportionate Share of the Net Pension Liability	56
Schedule of the District's Contributions - Pension	57
Notes to Required Supplementary Information - Pension	58
Schedule of the District's Proportionate Share of the Net OPEB Liability	59
Schedule of the District's Contributions - OPEB	60
Notes to Required Supplementary Information - OPEB	61
 Supplemental Schedules	
Schedule A Schedule of Operating Revenues	64
Schedule B Schedule of Operating Expenses by Object	65
Schedule C Schedule of Non-Operating Revenues and Expenses	66
Schedule D Schedule of Net Position by Source and Availability	67
 Overall Compliance, Internal Controls and Federal and State Awards Section	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	71
Report on Compliance for Each Major Program and Report on Internal Control over Compliance Required by the <i>Uniform Guidance</i>	73
Schedule of Findings and Questioned Costs	76
Schedule E Schedule of Expenditures of Federal Awards	78
Notes to Schedule of Expenditures of Federal Awards	80
Schedule F Schedule of Expenditures of State Awards	81
Notes to Schedule of Expenditures of State Awards	82
Summary Schedule of Prior Audit Findings	83
Corrective Action Plan.....	84

ORGANIZATIONAL DATA

For the Fiscal Year Ended August 31, 2018

BOARD OF REGENTS

OFFICERS

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

REGENTS

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

PRINCIPAL ADMINISTRATIVE OFFICERS

Dr. Dennis Brown	President
Dr. Christina Ponce	Executive Vice President
Ms. Annette Ferguson, CPA	Vice President of Finance and Administration
Dr. Veronique Tran	Vice President of Instruction
Dr. Donnetta Suchon	Vice President of Student Affairs
Dr. Angela Oriano	Vice President of Workforce & Corporate Partnerships
Dr. Carolyn Lightfoot	Chief Information Officer
Dr. Onimi Wilcox	Dean of Academic Studies
Mr. Layton Childress	Dean of Applied Sciences
Ms. Donna Zuniga	Dean of Huntsville Center
Ms. Julie Lee, CPA	Controller

(This page intentionally left blank.)

REPORT OF INDEPENDENT AUDITORS

Board of Regents
Lee College District
Baytown, Texas 77520

We have audited the accompanying financial statements of the business-type activities of Lee College District (the “District”) as of and for the year ended August 31, 2018 and the related notes to the financial statements, 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 the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the discretely presented component unit financial statements of Lee College Foundation, Inc. (the “Foundation”) as of and for the years ended August 31, 2018 and 2017. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audit 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 whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

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 risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’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 the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

The Foundation presents its net assets in three separate categories - unrestricted, temporarily restricted and permanently restricted. The Foundation's auditors were unable to obtain sufficient appropriate audit evidence to ensure amounts were allocated to the appropriate net asset categories at the beginning of the year because such detail information was unavailable. Consequently, the Foundation's auditors were unable to determine whether any adjustments to these amounts were necessary.

Opinions

In our opinion, based on our audit and the report of other auditors and except for the possible effects of the other matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Lee College District as of August 31, 2018, and the respective changes in financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 and Note 18 to the financial statements, the District adopted the provisions of Government Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of August 31, 2018. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

The financial statements of Lee College District as of August 31, 2017, and for the year then ended were audited by a predecessor auditor and, accordingly, we express no opinion or provide no assurance on it. The predecessor auditor expressed an unmodified opinion on those financial statements in their report dated December 11, 2017.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 9 through 14 and the pension and OPEB information on pages 56 through 62 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 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 the sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Supplemental Schedules A through F as required by the Texas Higher Education Coordinating Board's (THECB) *Budget Requirements and Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards (Schedule E), as required by Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is also presented for additional analysis and is not a required part of the basic financial statements.

The Supplemental Schedules A through F, as listed in the table of contents, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Schedules A through F are fairly stated, in all material respects, in relation to the basic 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 19, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, 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 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 the District's internal control over financial reporting and compliance.

Whitley Penn LLP

Houston, Texas
December 19, 2018

(This page intentionally left blank.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

(This page intentionally left blank.)

LEE COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements and Financial Analysis

Lee College District (the District) is proud to present its financial statements for Fiscal Year 2018 which are in conformance with Governmental Accounting Standards Board (GASB) standards. There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. These statements should be read in conjunction with the notes to the basic financial statements. The following summary and management's discussion and analysis of the results is intended to provide readers with an overview of the basic financial statements.

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

Assets and Deferred Outflows of Resources of the District exceeded Liabilities and Deferred Inflows of Resources at the close of the Fiscal Year on August 31, 2018, by \$7,959,590. During fiscal year 2018, the District implemented GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which resulted in a prior period adjustment of \$36.8 million to decrease net position for the change in accounting principle.

During fiscal year 2018, the District issued New Revenue Financing System Bonds, Series 2018 in the amount of \$10,320,000. The bonds were issued with a premium of \$993,203.

The Statement of Net Position

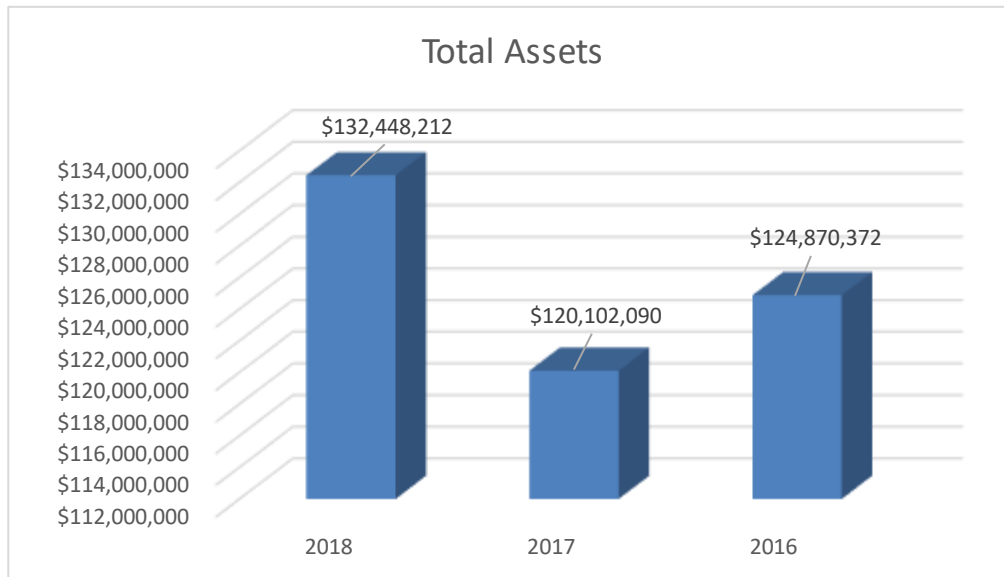
The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the District as of the end of the Fiscal Year. It is a point-in-time financial statement. The purpose of the Statement of Net Position is to give the financial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

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

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

Total assets of the District for Fiscal Year 2018 are \$132.4 million, an increase of \$12.3 million compared to Fiscal Year 2017 and an increase of \$7.6 million compared to Fiscal Year 2016. Changes in total assets over the past three years are depicted in the following chart:

LEE COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)



Current assets are comprised of several categories. Cash and cash equivalents include the District's cash and investments in TexPool and Lone Star Pool. TexPool and Lone Star are statewide investment pools. In Fiscal Year 2018, cash, cash equivalents and short-term investments totaled \$18.5 million, an increase of \$15.6 million from the Fiscal Year 2017 balance of \$2.8 million. Receivables include tuition and fees receivable, accounts receivable, and taxes receivable. Prepaid expenses and inventories are also assets of the District. Non-current assets consist of capital assets, funds held in endowments, and land held for investments. Capital assets include land, land improvements, buildings, equipment, and library books. These items are reflected in the financial statements net of accumulated depreciation.

Summary data for the Statement of Net Position is provided in the table below for fiscal years 2018, 2017, and 2016.

	2018	2017 (Restated)	2016
Current assets	\$ 24,301,504	\$ 12,318,736	\$ 25,101,578
Capital assets (net)	98,071,695	100,811,341	92,796,781
Other non-current assets	10,075,013	6,972,013	6,972,013
Total assets	132,448,212	120,102,090	124,870,372
Deferred outflows of resources	2,850,152	3,049,910	1,631,961
Current liabilities	12,093,362	11,301,151	11,132,031
Non-current liabilities	106,811,201	105,968,925	70,826,297
Total liabilities	118,904,563	117,270,076	81,958,328
Deferred inflows of resources	8,434,211	867,330	1,031,610
Net investment in capital assets	27,192,478	37,722,304	35,466,164
Restricted net position	375,013	375,013	375,013
Unrestricted net position	(19,607,901)	(33,082,723)	7,671,218
Total net position	\$ 7,959,590	\$ 5,014,594	\$ 43,512,395

LEE COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Total liabilities of the District are \$118.9 million in Fiscal Year 2018 as compared to \$117.3 million in Fiscal Year 2017 and \$82 million in Fiscal Year 2016 and also include a current and non-current portion. Total liabilities increased from Fiscal Year 2017 to Fiscal Year 2018 primarily due to the issuance of the new \$10.3 million bonds. Current liabilities include accounts payable and accrued liabilities, funds held for others, deferred revenue, accrued compensable absences payable and the current portion of bonds payable and leases payable. A liability is considered to be current if it is due within one year

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

Statement of Revenues, Expenses, and Changes in Net Position

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

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

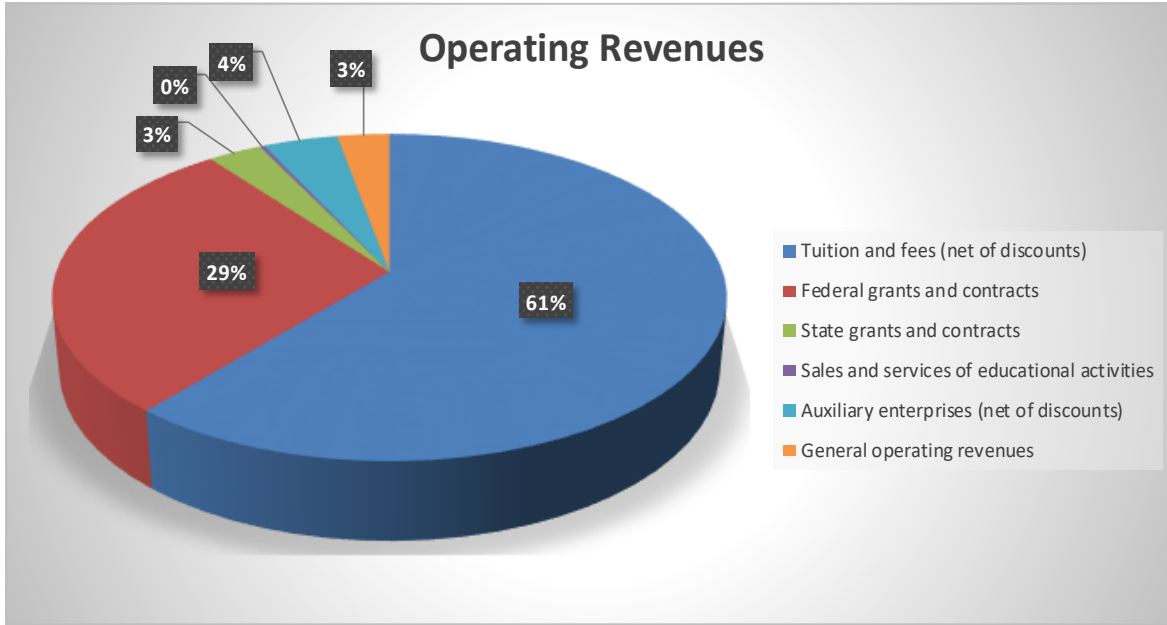
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenues:			
Tuition and fees (net of discounts)	\$ 8,565,254	\$ 9,362,335	\$ 9,965,420
Federal grants and contracts	4,004,285	4,050,634	2,570,352
State grants and contracts	422,398	592,735	513,231
Sales and services of educational activities	36,993	23,502	26,509
Auxiliary enterprises (net of discounts)	583,104	709,728	736,681
General operating revenues	406,895	457,905	483,310
Total operating revenues	<u>14,018,929</u>	<u>15,196,839</u>	<u>14,295,503</u>
Total operating expenses	<u>66,690,626</u>	<u>64,803,138</u>	<u>62,911,609</u>
Operating income (loss)	<u>(52,671,697)</u>	<u>(49,606,299)</u>	<u>(48,616,106)</u>
Non-operating revenues (expenses):			
State appropriations	14,048,294	12,206,244	12,119,516
Maintenance ad valorem taxes	26,557,447	23,410,884	22,448,452
General obligation bond taxes	3,604,373	3,527,955	3,595,267
Federal revenue, non-operating	8,272,414	8,898,608	9,814,833
Investment income	152,417	76,684	76,834
Gifts	511,570	970,042	1,630,962
Payment in lieu of taxes	1,137,125	677,876	1,040,389
Interest on capital related debt	(2,324,587)	(2,475,733)	(2,537,757)
State appropriations	3,103,000	-	-
Other non-operating revenues	554,640	581,319	722,268
Net non-operating revenues (expenses)	<u>55,616,693</u>	<u>47,873,879</u>	<u>48,910,764</u>
Total increase (decrease) in net position	<u>\$ 2,944,996</u>	<u>\$ (1,732,420)</u>	<u>\$ 294,658</u>

LEE COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Operating Revenues (Expenses)

Operating revenues decreased by \$1.2 million from fiscal year 2017 to fiscal year 2018. Operating expenses increased by \$1.9 million compared to the prior year, primarily due to the OPEB expenses recognized during fiscal year 2018.

The table data for operating revenue for 2018 is shown graphically below.



Non-Operating Revenues (Expenses)

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

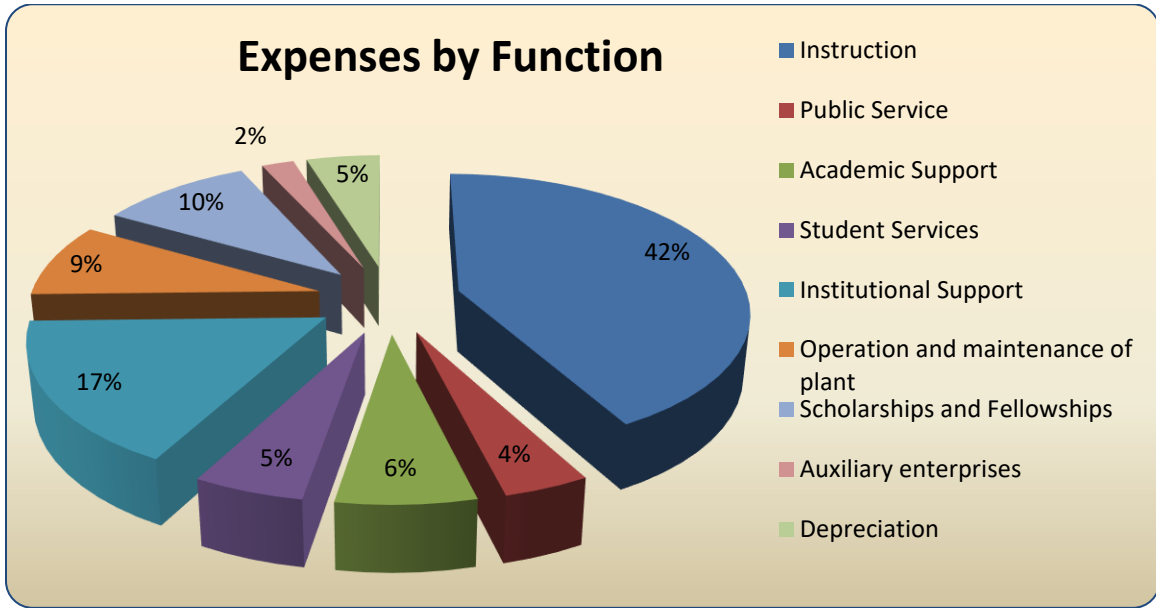
Operating Expenses

Operating expenses are reported in the financial statement by functional classification and are presented below in the table for fiscal 2018, 2017, and 2016.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Instruction	\$ 28,022,860	\$ 23,988,828	\$ 22,106,904
Public service	2,709,991	2,510,055	2,205,378
Academic support	4,386,660	4,169,897	3,577,359
Student services	3,489,390	6,409,553	5,722,149
Institutional support	11,163,233	11,917,688	11,518,575
Operation and maintenance of plant	5,727,692	5,227,398	5,172,563
Scholarships and fellowships	6,603,071	6,064,593	7,466,568
Auxiliary enterprises	1,398,972	1,648,349	2,385,111
Depreciation expense	3,188,757	2,866,777	2,757,001
Total operating expenses	<u>\$ 66,690,626</u>	<u>\$ 64,803,138</u>	<u>\$ 62,911,608</u>

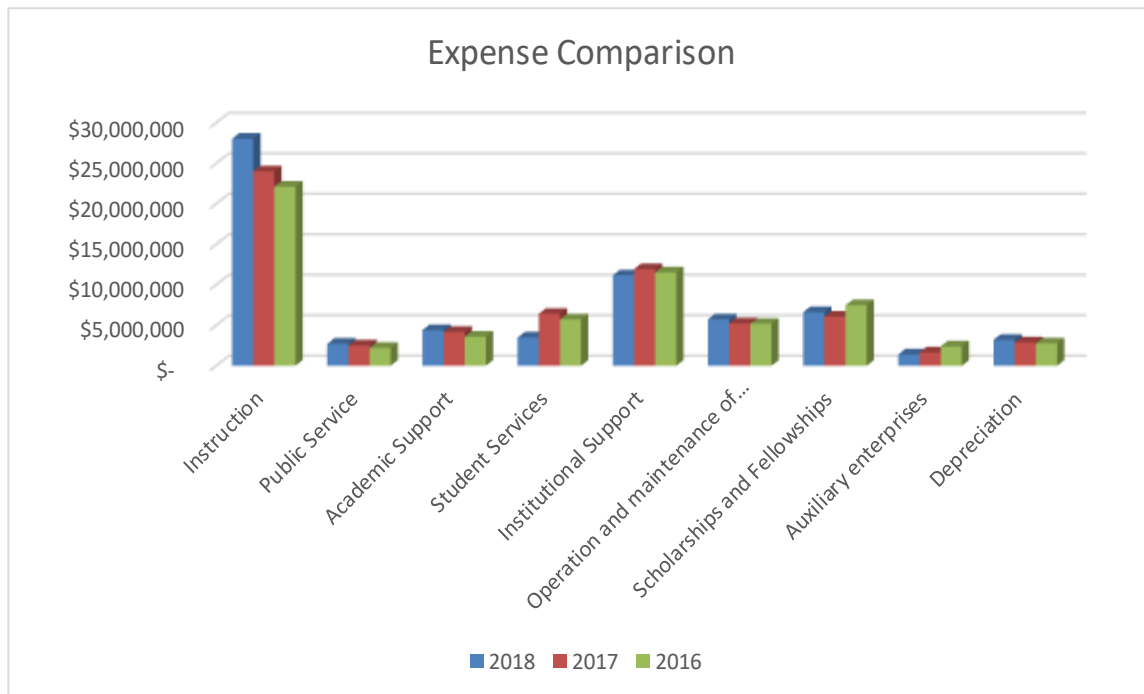
LEE COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Please see the graphical depiction for the table data above for fiscal year 2018.



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 2018 operating expenses in comparison to 2017 and 2016:



LEE COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Capital Assets and Debt Administration

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Land	\$ 1,393,556	\$ 1,393,556	\$ 1,393,555
Construction in Progress	86,351	-	2,269,522
Buildings	90,223,443	92,203,663	81,852,621
Land Improvements	700,574	752,309	804,226
Equipment	4,299,376	5,024,047	5,073,502
Library Books	1,368,395	1,437,766	1,403,356
	<u>\$ 98,071,695</u>	<u>\$ 100,811,341</u>	<u>\$ 92,796,782</u>

Additional information on the District's capital assets can be found in Note 6 of this report.

The District has issued \$75.2 million in capital improvement bonds since FY 1999. Shown in the table below is the outstanding debt at the end of the Fiscal Year as compared to the end of the two previous fiscal years. The District's General Obligation bonds are currently rated Aa3 by Moody's Investor Service.

As a result of the District adopting GASB No. 75 in fiscal year 2018, the District's proportional share of the ERS net OPEB liability is reflected as a long-term liability of the District.

	<u>2018</u>	<u>2017</u> <u>(Restated)</u>	<u>2016</u>
General Obligation Bonds	\$ 42,750,000	\$ 44,355,000	\$ 45,935,000
Revenue Bonds	17,500,000	8,100,000	8,995,000
Bond Premium	1,771,086	825,127	872,371
Capital Leases	9,060,589	10,058,089	10,533,128
Net Pension Liability	7,597,206	8,326,286	7,617,638
Net OPEB Liability	31,496,284	37,631,362	-
	<u>\$ 110,175,165</u>	<u>\$ 109,295,864</u>	<u>\$ 66,335,499</u>

Additional information on the District's long-term debt can be found in Note 7 of this report.

Economic Factors for Next Year's Budget

The economic outlook for the District is promising. The fall of 2018 enrollment was the highest in the history of the school. Additionally, we expect our tax base to be expanding over the next several years, due to major expansion within the petrochemical industry within our taxing district. There is also substantial commercial development in progress within our city limits.

The financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for funds the District receives. If you have questions about this report or need additional financial information, contact the Lee College District Business Office via written request to P. O. Box 818, Baytown, Texas 77522-0818.

BASIC FINANCIAL STATEMENTS

(This page intentionally left blank.)

LEE COLLEGE DISTRICT
STATEMENTS OF NET POSITION
August 31, 2018 and 2017

Exhibit 1

	2018	2017 (Restated)
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,707,608	\$ 642,418
Short Term Investments	5,483,083	2,201,697
Accounts receivable (net)	5,715,114	9,280,578
Inventories	6,265	7,021
Prepaid expenses	91,234	187,022
Restricted cash and cash equivalents	11,298,200	-
Total current assets	24,301,504	12,318,736
Noncurrent assets:		
Endowment Investments	375,013	375,013
Land Held for Investment	9,700,000	6,597,000
Capital assets (net)	98,071,695	100,811,341
Total noncurrent assets	108,146,708	107,783,354
Total Assets	132,448,212	120,102,090
Deferred Outflows of Resources		
Deferred charge for refunding	202,458	249,179
Deferred outflows related to pensions	1,792,802	1,934,750
Deferred outflows related to OPEB	854,892	865,981
Total deferred outflows of resources	2,850,152	3,049,910
Liabilities		
Current liabilities:		
Accounts payable	912,123	1,285,807
Accrued liabilities	541,195	665,949
Funds held for others	112,619	93,819
Unearned revenue	6,402,539	5,265,731
Accrued Compensated Absences	760,922	662,906
Leases Payable - current portion	788,964	801,939
Bonds payable - current portion	2,575,000	2,525,000
Total current liabilities	12,093,362	11,301,151
Noncurrent liabilities:		
Leases payable - noncurrent portion	8,271,625	9,256,150
Bonds payable	59,446,086	50,755,127
Net pension liability	7,597,206	8,326,286
Net OPEB liability	31,496,284	37,631,362
Total noncurrent liabilities	106,811,201	105,968,925
Total Liabilities	118,904,563	117,270,076
Deferred Inflows of Resources		
Deferred inflows related to pensions	1,470,232	867,330
Deferred inflows related to OPEB	6,963,979	-
Total deferred inflows of resources	8,434,211	867,330
Net Position		
Net Investment in capital assets	27,192,478	37,722,304
Restricted for:		
Non-Expendable - Endowment	375,013	375,013
Unrestricted	(19,607,901)	(33,082,723)
Total Net Position	\$ 7,959,590	\$ 5,014,594

The accompanying notes are an integral part of the financial statements.

LEE COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNIT
STATEMENTS OF FINANCIAL POSITION

Lee College Foundation, Inc. - Fiscal Years August 31, 2018 and 2017

	2018	2017 (Restated)
Assets		
Cash and cash equivalents	\$ 1,078,805	\$ 1,299,547
Contributions receivable, net	26,330	46,355
Investments	12,376,103	11,266,786
Accrued Interest Receivable	33,492	32,220
Total Assets	\$ 13,514,730	\$ 12,644,908
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 68,643	\$ -
Due to affiliated organization	5,429	1,275
Deferred revenue	97,925	59,125
Funds Held for the benefit of others	118,425	47,000
Total liabilities	290,422	107,400
Net Assets:		
Unrestricted	752,803	623,957
Temporarily restricted	5,483,525	4,984,422
Permanently restricted	6,987,980	6,929,129
Total Net Assets	13,224,308	12,537,508
Total Liabilities and Net Assets	\$ 13,514,730	\$ 12,644,908

The accompanying notes are an integral part of the financial statements.

LEE COLLEGE DISTRICT

Exhibit 2

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Years Ended August 31, 2018 and August 31, 2017

	2018	2017 (Restated)
Operating Revenues		
Tuition and fees (net of discounts)	\$ 8,565,254	\$ 9,362,335
Federal grants and contracts	4,004,285	4,050,634
State grants and contracts	422,398	592,735
Sales and services of educational activities	36,993	23,502
Auxiliary enterprises (net of discounts)	583,104	709,728
General operating revenues	406,895	457,905
Total operating revenues (Schedule A)	<u>14,018,929</u>	<u>15,196,839</u>
Operating Expenses		
Instruction	28,022,860	23,988,828
Public service	2,709,991	2,510,055
Academic support	4,386,660	4,169,897
Student services	3,489,390	6,409,553
Institutional support	11,163,233	11,917,688
Operation and maintenance of plant	5,727,692	5,227,398
Scholarships and fellowships	6,603,071	6,064,593
Auxiliary enterprises	1,398,972	1,648,349
Depreciation expense	3,188,757	2,866,777
Total operating expenses (Schedule B)	<u>66,690,626</u>	<u>64,803,138</u>
Operating income (loss)	<u>(52,671,697)</u>	<u>(49,606,299)</u>
Non-operating revenues (expenses)		
State appropriations	14,048,294	12,206,244
Maintenance ad valorem taxes	26,557,447	23,410,884
General obligation bond taxes	3,604,373	3,527,955
Federal revenue, non-operating	8,272,414	8,898,608
Investment income	152,417	76,684
Gifts	511,570	970,042
Payments in lieu of taxes	1,137,125	677,876
Interest on capital related debt	(2,324,587)	(2,475,733)
Unrealized gain on investments	3,103,000	-
Other non-operating revenues (expenses)	554,640	581,319
Net non-operating revenues (expenses) (Schedule C)	<u>55,616,693</u>	<u>47,873,879</u>
Increase (decrease) in net position	2,944,996	(1,732,420)
Net position - beginning of year	5,014,594	43,512,395
Change in accounting principle	-	(36,765,381)
Net position - end of year	<u>\$ 7,959,590</u>	<u>\$ 5,014,594</u>

The accompanying notes are an integral part of the financial statements.

LEE COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNIT
STATEMENTS OF ACTIVITIES

Lee College Foundation, Inc. - Fiscal Year Ended August 31, 2018 with Comparative Totals for 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Year Ended August 31,</u>	
				<u>2018</u>	<u>2017 (Restated)</u>
Revenue and Support:					
Contributions	\$ 186,000	\$ 781,859	\$ 58,851	\$ 1,026,710	\$ 1,618,583
Special events, net of fundraising expenses (\$22,707 for fiscal year 2018 and \$20,140 for fiscal year 217)	148,408	-	-	148,408	163,606
Investment income (loss)					
Interest and dividends	-	187,476	-	187,476	166,059
Net investment gains	-	1,149,990	-	1,149,990	1,068,474
Investment Fees	-	(40,673)	-	(40,673)	(36,352)
Net assets released from restrictions	1,579,549	(1,579,549)	-	-	-
Total Revenue and Other Support	<u>1,913,957</u>	<u>499,103</u>	<u>58,851</u>	<u>2,471,911</u>	<u>2,980,370</u>
Expenses:					
Program Expenses:					
Scholarships	883,219	-	-	883,219	575,319
Capital facilities assistance	606,210	-	-	606,210	-
Other Program Expenses - Harvey relief	90,120	-	-	90,120	-
Other Program Expenses	-	-	-	-	65,648
Management and general	205,562	-	-	205,562	154,122
Total Expenses	<u>1,785,111</u>	<u>-</u>	<u>-</u>	<u>1,785,111</u>	<u>795,089</u>
Change in Net Assets	128,846	499,103	58,851	686,800	2,185,281
Net Assets, at beginning of year	<u>623,957</u>	<u>4,984,422</u>	<u>6,929,129</u>	<u>12,537,508</u>	<u>10,352,227</u>
Net Assets, at end of year	<u>\$ 752,803</u>	<u>\$ 5,483,525</u>	<u>\$ 6,987,980</u>	<u>\$ 13,224,308</u>	<u>\$ 12,537,508</u>

The accompanying notes are an integral part of the financial statements.

LEE COLLEGE DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ended August 31, 2018 and 2017

Exhibit 3
(page 1 of 2)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Receipts from students and other customers	\$ 12,500,142	\$ 9,652,105
Receipts from grants and contracts	2,711,164	2,819,894
Payments to suppliers for goods and services	(13,032,865)	(13,711,775)
Payments to or on behalf of employees	(40,435,614)	(39,214,145)
Payments for scholarships and fellowships	(6,603,071)	(5,924,643)
Other receipts	406,895	457,905
Net cash (used) by operating activities	<u>(44,453,349)</u>	<u>(45,920,659)</u>
Cash flows from non-capital financing activities:		
Receipts from state appropriations	11,216,578	9,836,281
Receipts from ad valorem taxes	27,694,572	23,416,625
Receipts from gifts	511,570	970,042
Receipts from Federal Grants	8,272,414	8,898,608
Receipts from student organizations and other agency transactions	18,800	318
Other receipts	352,983	650,988
Net cash provided by non-capital financing activities	<u>48,066,917</u>	<u>43,772,862</u>
Cash flows from capital and related financing activities:		
Proceeds on issuance of capital debt and leases	11,120,613	10,438,218
Receipts from ad valorem taxes	3,604,373	3,527,955
Purchases of capital assets	(449,111)	(10,881,335)
Payments on capital debt and leases	(5,678,470)	(16,070,621)
Net cash (used) by capital and related financing activities	<u>8,597,405</u>	<u>(12,985,783)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	-	34,314,812
Interest on investments	152,417	76,684
Purchase of investments	-	(21,833,178)
Net cash provided by investing activities	<u>152,417</u>	<u>12,558,318</u>
Increase (decrease) in cash and cash equivalents	12,363,390	(2,575,262)
Cash and cash equivalents, beginning of year	642,418	3,217,680
Cash and cash equivalents, end of year	<u>\$ 13,005,808</u>	<u>\$ 642,418</u>
Components of cash and cash equivalents		
Cash and cash equivalents	\$ 1,707,608	\$ 642,418
Restricted cash and cash equivalents	11,298,200	-
	<u>\$ 13,005,808</u>	<u>\$ 642,418</u>

The accompanying notes are an integral part of the financial statements.

LEE COLLEGE DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ended August 31, 2018 and 2017

Exhibit 3
(page 2 of 2)

	<u>2018</u>	<u>2017</u>
Reconciliation of net operating income (loss) to net cash provided (used)		
by operating activities:		
Operating income (loss)	\$ (52,671,697)	\$ (49,606,299)
Adjustments:		
Depreciation expense	3,188,757	2,866,777
Unrealized gain on investments	(3,103,000)	-
Payments made directly by state for benefits	2,831,716	2,369,962
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
(Increase) decrease in receivables, net	3,565,464	(2,266,974)
Decrease in deferred inflows/outflows	-	744,471
Decrease in inventories	756	1,184
Decrease in prepaid expenses	95,788	1,519
Decrease in deferred charge for refunding	46,721	-
Decrease in deferred outflows related to pensions	141,948	-
Decrease in deferred outflows related to OPEB	11,089	-
(Decrease) accounts payable	(373,684)	(216,241)
Increase (decrease) in accrued liabilities	(124,754)	119,243
Increase in compensated absences	98,016	65,659
Increase in unearned revenue	1,136,808	40
Increase in deferred inflows related to pensions	602,902	-
Increase in deferred inflows related to OPEB	6,963,979	-
(Decrease) in net pension liability	(729,080)	-
(Decrease) in net OPEB Liability	(6,135,078)	-
Net cash (used) by operating activities	<u>\$ (44,453,349)</u>	<u>\$ (45,920,659)</u>

The accompanying notes are an integral part of the financial statements.

LEE COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

Note 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 District Foundation, Inc. (the Foundation) as a component unit of the District. This component unit, which has a fiscal year-end of August 31, 2018, 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's 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

Note 2 - Summary of Significant Accounting Policies

Reporting Guidelines

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

Tuition Discounting

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

LEE COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

Tuition Discounting (continued)

Title IV, Higher Education Act (HEA) 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 disbursed 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 amounts are recorded as tuition discounts. If the amount is disbursed directly to the student, the amount is recorded as a scholarship expense.

Basis of Accounting

The basic financial statements of the District have been prepared on the accrual basis of accounting 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 District's Board of Regents adopts the budget, which is prepared on the accrual basis of accounting. 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

Short-term investments have an original maturity greater than three months, but less than one year at the time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase.

The District reports all investments at fair value, except for investment pools. The District's investment pools are valued and reported at amortized cost, which approximates fair value. The District categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's local government investment pools are recorded at amortized costs as permitted by GASB Statement no. 79, *Certain Investment Pools and Pool Participants*.

LEE COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

Inventories

Inventories, consisting of food service 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 an estimated useful life in excess of one year. The District capitalizes renovations of \$100,000 to buildings and infrastructure and land improvements that significantly increase the value or extend the useful life of the structure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets’ lives are charged to operating expense in the year in which the expense is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets applying the half-year convention. The following estimated useful 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

Unearned revenues consists of the following at August 31, 2018 and 2017, respectively.

Those amounts are as follows:

	<u>2018</u>	<u>2017</u>
Tuition and fees	\$ 5,925,054	\$ 5,265,731
Other	477,485	-
	<u>\$ 6,402,539</u>	<u>\$ 5,265,731</u>

Deferred Outflows

A *deferred outflow of resources* is a consumption of a government’s net position (a decrease in assets in excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The District has three items that qualify for reporting in this category:

- ***Deferred outflows of resources for refunding*** – Reported in the government-wide financial statement of net position, this deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

LEE COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

Deferred Outflows (continued)

- ***Deferred outflows of resources for pension*** –This deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results 1) changes in actuarial assumptions; 2) differences between expected and actual actuarial experiences and 3) changes in the District’s proportional share of pension liabilities. The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The remaining pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.
- ***Deferred outflows of resources for other post-employment benefits*** –Reported in the government wide financial statement of net position, this deferred outflow results from other post-employment benefit (OPEB) plan contributions made after the measurement date of the net OPEB liability and the results of 1) differences between projected and actual earnings on OPEB plan investments and 2) changes in the District’s proportional share of OPEB liabilities. The deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on OPEB plan investments will be amortized over a closed five year period. The remaining deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with other post-employment benefits through the other post-employment benefit plan.

Deferred Inflows

A *deferred inflow of resources* is an acquisition of a government’s net position (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The District has two items that qualify for reporting in this category:

- ***Deferred inflows of resources for pension*** – These deferred inflows result primarily from 1) differences between projected and actual earnings on pension plan investments; 2) changes in actuarial assumptions; 3) differences between expected and actual actuarial experiences and 4) changes in the District’s proportional share of pension liabilities. The deferred inflows resulting from differences between projected and actual earnings on pension plan investments will be amortized over a closed five year period. The remaining pension related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.
- ***Deferred inflows of resources for other post-employment benefits*** – These deferred inflows result primarily from 1) changes in actuarial assumptions and 2) differences between expected and actual actuarial experiences. These OPEB related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with other post-employment benefits through the other post-employment benefit plan.

LEE COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

Long-term Obligations

Bond premiums and discounts, 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.

Pensions

The District participates in the Teacher Retirement System of Texas (TRS) pension plan, a multiple-employer cost-sharing-defined benefit pension plan with a special funding situation. The fiduciary net position of TRS has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Other Post-Employment Benefits (OPEB)

The fiduciary net position of the Employees Retirement System of Texas (ERS) State Retiree Health Plan (SRHP) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits; OPEB expense; and information about assets, liabilities and additions to/deductions from SRHP's fiduciary net position. Benefit payments are recognized when due and are payable in accordance with the benefit terms.

Net Position

The District's net position categories are classified as follows:

Net Investment in Capital Assets

This represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component net investment in capital assets.

Restricted Net Position - Expendable

Restricted expendable net position includes resources in which the District is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted Net Position

Unrestricted net position represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff. The pension and OPEB related items such as the deferred outflows and inflows of resources, net pension liability and net OPEB liability, are included in unrestricted net position.

LEE COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

Operating and Non-Operating Revenue and Expense Policy

The District distinguishes operating revenues and expenses from non-operating items. The District reports as a Business-Type Activity (BTA) and as a single, proprietary fund. Operating revenues and expenses generally result from providing services in connection with the District'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, property tax collections and unrealized gain on investments. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Presentation of State Benefit Payments on Cash Flow Statements

In response to guidance from the Texas Higher Education Coordinating Board, benefit payments made by the state directly to the Employees' Retirement System of Texas (ERS) on behalf of the District are excluded from cash flows from operating activities on the Statement of Cash Flows. Instead, these payments are now included as reconciling items in the reconciliation of operating loss to net cash used by operating activities.

Estimates

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

Implementation of New Standards

In the current fiscal year, the District implemented the following new standards. The applicable provisions of these new standards are summarized below. Implementation is reflected in the financial statements and the notes to the financial statements.

- *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This Statement replaces the requirements of Statement 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.
- *GASB Statement No. 85, Omnibus 2017.* This Statement establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

LEE COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

Reclassifications

Certain amounts for 2017 have been reclassified to conform to current year reporting requirements.

Note 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.

Note 4 - Deposits and Investments

At August 31, 2018 and 2017 the carrying amounts of the bank balances were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

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

	<u>2018</u>	<u>2017</u>
<i>Cash and Deposits:</i>		
Bank Deposits:		
Demand deposits	\$ 1,701,138	\$ 635,978
Restricted cash and cash equivalents	11,298,200	-
Cash and cash equivalents:		
Petty cash on hand	6,470	6,440
Total Cash and Deposits	<u>\$ 13,005,808</u>	<u>\$ 642,418</u>

LEE COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 4 - Deposits and Investments (continued)

Reconciliation of Deposits and Investments to Exhibit 1:

<u>Type of Security</u>	<u>Amortized cost/Fair Value</u>	
	<u>2018</u>	<u>2017</u>
<i>Investments:</i>		
Money Market	\$ 5,487,019	\$ 673
Domestic Equities	-	6,884
Investment Pools	371,077	2,569,153
Land Held for Investment	9,700,000	6,597,000
Total Investments	<u>15,558,096</u>	<u>9,173,710</u>
Total Cash and Deposits	<u>13,005,808</u>	<u>642,418</u>
Total Deposits and Investments	<u>\$ 28,563,904</u>	<u>\$ 9,816,128</u>
Cash and temporary investments (Exhibit 1):		
Cash and cash equivalents	\$ 1,707,608	\$ 642,418
Short Term Investments	5,483,083	2,201,697
Endowment Investments	375,013	375,013
Land Held for Investment	9,700,000	6,597,000
Restricted cash and cash equivalents	11,298,200	-
Total Deposits and Investments	<u>\$ 28,563,904</u>	<u>\$ 9,816,128</u>

As of August 31, 2018, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Amortized Cost/Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less than 1</u>	<u>1 to 5</u>
Money Market	\$ 5,487,019	\$ 5,487,019	\$ -
Investment Pools:			
Investment in TexPool	370,424	370,424	-
Investment in Lone Star Pool	653	653	-
Land Held for Investment	9,700,000	-	9,700,000
Total Fair Value	<u>\$ 15,558,096</u>	<u>\$ 5,858,096</u>	<u>\$ 9,700,000</u>

Interest Rate Risk

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

Credit Risk

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

LEE COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 4 - Deposits and Investments (continued)

Credit Risk (continued)

TexPool is a public funds investment pool created by the Texas Treasury Safekeeping Trust Company (Trust Company) to provide a safe environment for the placement of local government funds in authorized short-term, fully collateralized investments, including direct obligations of, or obligations guaranteed by, the United States or State of Texas or their agencies; federally insured certificates of deposit issued by Texas banks or savings and loans; and fully collateralized direct repurchase agreements secured by United States Government agency securities and placed through a primary government securities dealer. The Trust Company was incorporated by the State Treasurer by authority of the Texas Legislature as a special purpose trust company with direct access to the services of the Federal Reserve Bank to manage, disburse, transfer, safe keep, and invest public funds and securities more efficiently and economically. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. TexPool uses amortized cost rather than fair value to report net position to compute share prices. The fair value of the position in TexPool is the same as the value of TexPool shares. Accordingly, the District's investments in TexPool are stated at cost, which approximates fair value. TexPool is currently rated "AAAm" by Standard and Poor's. This rating indicates excellent safety and a superior capacity to maintain principal value and limit exposure to loss.

The First Public (Lone Star Investment Pool) is a public funds investment pool established in accordance with the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 225, Texas Government Code. First Public is governed by trustees comprised of active participants in First Public. The Board of Trustees for First Public has the responsibility for adopting and monitoring compliance with the investment policy, of appointing investment officers, of overseeing the selection of an investment advisor, custodian, investment consultant, administrator and other service providers. Lone Star Investment Pool is marked-to market daily to maintain an accurate net asset value. The District's fair value in Lone Star Investment Pool is the same as the value of the pool shares. First Public is rated "AAAm" by Standard & Poor's.

In accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, the Local Government Investment Pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. These pools do not impose any liquidity fees or redemption gates.

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.

LEE COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 4 - Deposits and Investments (continued)

Custodial Credit Risk (continued)

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

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

	<u>August 31, 2018</u>	<u>August 31, 2017</u>
<u>Bank Deposits</u>		
Demand Deposits	\$ 1,078,805	\$ 1,299,547
<u>Type of Security</u>		
Investments, at market value:		
Mutual Funds	12,376,103	11,266,786
Total Investments	<u>12,376,103</u>	<u>11,266,786</u>
Total Cash and Investments	<u>\$ 13,454,908</u>	<u>\$ 12,566,333</u>

Fair Value Measurements

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

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

	<u>August 31, 2018</u>			Total	<u>August 31, 2017</u>
	Level 1	Level 2	Level 3		Total
Domestic Equities	\$ -	-	-	\$ -	\$ 6,884
Land Held for Investment	-	-	9,700,000	9,700,000	6,597,000
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,700,000</u>	<u>\$ 9,700,000</u>	<u>\$ 6,603,884</u>

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

	<u>August 31, 2018</u>			Total	<u>August 31, 2017</u>
	Level 1	Level 2	Level 3		Total
Mutual Funds	\$ 12,376,103	-	-	\$ 12,376,103	\$ 11,266,786
Total	<u>\$ 12,376,103</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,376,103</u>	<u>\$ 11,266,786</u>

LEE COLLEGE DISTRICT**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)****Note 5 - Disaggregation of Receivables and Payables Balances**

Accounts receivable at August 31, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
<u>Receivables:</u>		
Student Receivables	\$ 4,662,219	\$ 4,606,901
Taxes Receivable	1,520,811	1,518,559
Federal Receivables	1,724,309	2,635,161
Accounts Receivable	279,663	1,463,566
Interest Receivable	5,784	5,784
Total	<u>8,192,786</u>	<u>10,229,971</u>
Allowance for Uncollectibles	<u>(2,477,672)</u>	<u>(949,393)</u>
Total receivables, net	<u><u>\$ 5,715,114</u></u>	<u><u>\$ 9,280,578</u></u>

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

	<u>2018</u>	<u>2017</u>
Student Receivable	\$ 1,528,753	\$ -
Taxes Receivable	942,903	941,507
Accounts Receivable	6,016	7,886
Total	<u><u>\$ 2,477,672</u></u>	<u><u>\$ 949,393</u></u>

Payables at August 31, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Accrued wages payable	\$ 95,261	\$ -
Vendor's payable	912,123	1,285,808
Accrued Interest	183,758	88,838
Other accrued liabilities	262,176	577,111
Total	<u><u>\$ 1,453,318</u></u>	<u><u>\$ 1,951,757</u></u>

LEE COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 6 - Capital Assets

Capital assets activity for the year ended August 31, 2018, was as follows:

	Balance 08/31/17	Additions	Retirements and Transfers	Balance 08/31/18
Not depreciated:				
Land	\$ 1,393,556	\$ -	\$ -	\$ 1,393,556
Construction in progress		86,351	-	86,351
Total not depreciated assets	1,393,556	86,351	-	1,479,907
Buildings and other capital assets:				
Buildings and building improvements	116,519,967	-	-	116,519,967
Improvements other than buildings	1,921,847	-	-	1,921,847
Total buildings and other real estate improvements	118,441,814	-	-	118,441,814
Furniture, equipment and vehicles	22,960,341	301,569	-	23,261,910
Telecommunication equipment	8,686,793			8,686,793
Library books	3,167,824	61,191	-	3,229,015
Total buildings and other capital assets	153,256,772	362,760	-	153,619,532
Accumulated depreciation:				
Buildings and building improvements	(24,316,304)	(1,980,220)		(26,296,524)
Improvements other than buildings	(1,169,538)	(51,735)		(1,221,273)
Total buildings and other real estate improvements	(25,485,842)	(2,031,955)	-	(27,517,797)
Furniture, equipment and vehicles	(18,955,845)	(785,392)	-	(19,741,237)
Telecommunication equipment	(7,667,242)	(240,848)	-	(7,908,090)
Library books	(1,730,058)	(130,562)	-	(1,860,620)
Total Accumulated depreciation	(53,838,987)	(3,188,757)	-	(57,027,744)
Net capital assets	\$ 100,811,341	\$ (2,739,646)	\$ -	\$ 98,071,695

LEE COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 6 - Capital Assets (continued)

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

	<u>Balance 08/31/16</u>	<u>Additions</u>	<u>Retirements and Transfers</u>	<u>Balance 08/31/17</u>
Not depreciated:				
Land	\$ 1,393,556	\$ -	\$ -	\$ 1,393,556
Construction in progress	2,269,522	-	(2,269,522)	-
Total not depreciated assets	<u>3,663,078</u>	<u>-</u>	<u>(2,269,522)</u>	<u>1,393,556</u>
Buildings and other capital assets:				
Buildings and building improvements	104,451,736	12,068,231	-	116,519,967
Improvements other than buildings	1,921,847	-	-	1,921,847
Total buildings and other real estate improvements	<u>106,373,583</u>	<u>12,068,231</u>	<u>-</u>	<u>118,441,814</u>
Furniture, equipment and vehicles	22,624,731	335,610	-	22,960,341
Telecommunication equipment	8,097,401	589,392	-	8,686,793
Library books	3,010,200	157,624	-	3,167,824
Total buildings and other capital assets	<u>140,105,915</u>	<u>13,150,857</u>	<u>-</u>	<u>153,256,772</u>
Accumulated depreciation:				
Buildings and building improvements	(22,599,115)	(1,717,189)	-	(24,316,304)
Improvements other than buildings	(1,117,621)	(51,917)	-	(1,169,538)
Total buildings and other real estate improvements	<u>(23,716,736)</u>	<u>(1,769,106)</u>	<u>-</u>	<u>(25,485,842)</u>
Furniture, equipment and vehicles	(18,200,505)	(755,340)	-	(18,955,845)
Telecommunication equipment	(7,448,125)	(219,117)	-	(7,667,242)
Library books	(1,606,844)	(123,214)	-	(1,730,058)
Total accumulated depreciation	<u>(50,972,210)</u>	<u>(2,866,777)</u>	<u>-</u>	<u>(53,838,987)</u>
Net capital assets	<u>\$ 92,796,783</u>	<u>\$ 10,284,080</u>	<u>\$ (2,269,522)</u>	<u>\$ 100,811,341</u>

At August 31, 2018, the District has the following active construction and estimated construction commitments with contractors as follows:

<u>Project</u>	<u>Approved Construction Budget</u>	<u>Construction in Progress</u>	<u>Estimated Remaining Commitment</u>
Grey Science Bldg	\$ 3,865,068	\$ 75,351	\$ 3,789,717
Pool	1,140,000	2,200	1,137,800
Site	1,060,000	2,200	1,057,800
MEP	2,670,000	6,600	2,663,400
Tech	950,000	-	950,000
Other	1,314,932	-	1,314,932
	<u>\$ 11,000,000</u>	<u>\$ 86,351</u>	<u>\$ 10,913,649</u>

LEE COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 7 - Noncurrent Liabilities

Noncurrent liabilities activity for the year ended August 31, 2018, was as follows:

	Restated Balance 09/01/17	Additions	Reductions	Balance 08/31/18	Current Portion
Bonds and Leases					
General Obligation Bonds	\$ 44,355,000	\$ -	\$ (1,605,000)	\$ 42,750,000	\$ 1,635,000
Revenue bonds	8,100,000	10,320,000	(920,000)	17,500,000	940,000
Bond Premiums	825,127	993,203	(47,244)	1,771,086	-
Capital lease payable	10,058,089	-	(997,500)	9,060,589	788,964
Total Bonds and Leases	63,338,216	11,313,203	(3,569,744)	71,081,675	3,363,964
Other Liabilities					
Compensated absences payable	662,906	760,922	(662,906)	760,922	760,922.00
Net Pension Liability	8,326,286	787,060	(1,516,140)	7,597,206	-
Net OPEB Liability	37,631,362	3,263,346	(9,398,424)	31,496,284	-
Total Other Liabilities	46,620,554	4,811,328	(11,577,470)	39,854,412	760,922
Total noncurrent liabilities	\$ 109,958,770	\$ 16,124,531	\$ (15,147,214)	\$ 110,936,087	\$ 4,124,886

Noncurrent liabilities activity for the year ended August 31, 2017, was as follows:

	Balance 09/01/16	Additions	Retirements	Balance 08/31/17	Current Portion
Bonds and Leases					
General Obligation Bonds	\$ 45,935,000	\$ -	\$ (1,580,000)	\$ 44,355,000	\$ 1,605,000
Revenue bonds	8,995,000	-	(895,000)	8,100,000	920,000
Bond Premiums	872,371	-	(47,244)	825,127	-
Capital lease payable	10,533,128	10,438,218	(10,913,257)	10,058,089	801,939
Total Bonds and Leases	66,335,499	10,438,218	(13,435,501)	63,338,216	3,326,939
Other Liabilities					
Compensated absences payable	597,247	662,906.00	(597,247)	662,906	662,906
Net Pension Liability	7,617,638	1,408,721	(700,073)	8,326,286	-
Total Other Liabilities	8,214,885	2,071,627	(1,297,320)	8,989,192	662,906
Total noncurrent liabilities	\$ 74,550,384	\$ 12,509,845	\$ (14,732,821)	\$ 72,327,408	\$ 3,989,845

LEE COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 7 - Noncurrent Liabilities (continued)

General information related to bonds payable as of August 31, 2018 is summarized below:

<u>Issue</u>	<u>Issue Date</u>	<u>Original Issuance Amount</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Debt Outstanding 8/31/18</u>
<u>General Obligation Bonds:</u>					
Limited Tax General Obligation Bonds, Series 2013	8/29/2013	\$ 39,460,000	3.875% to 5%	8/15/2037	\$ 39,460,000
Limited Tax General Obligation Refunding Bonds, Series 2015	10/8/2015	8,070,000	1.49%	8/15/2020	<u>3,290,000</u>
					<u>42,750,000</u>
<u>Revenue Bonds</u>					
Revenue Financing System Refunding Bonds, Series 2010	6/17/2010	\$ 2,425,000	2% to 4%	8/15/2020	560,000
New Revenue Financing System Bonds, Series 2015	10/8/2015	8,575,000	2.42%	8/15/2027	6,620,000
New Revenue Financing System Bonds, Series 2018	8/16/2018	10,320,000	3.25% to 5%	8/15/2037	<u>10,320,000</u>
					<u>17,500,000</u>
					<u>\$ 60,250,000</u>

During fiscal year 2018, the District issued New Revenue Financing System Bonds, Series 2018 in the amount of \$10,320,000. The bonds were issued with a premium of \$993,203. The purpose of the bonds is (i) to provide funds for the acquisition, purchase, construction, improvement, enlargement, equipment, operation and/or maintenance of property, buildings, structures, activities, operations and facilities for the District, and (ii) to pay the costs of issuing the bonds.

Source of revenue for debt service requirements for General Obligation Bonds are tax revenues and source of revenue for debt service requirements for Revenue Bonds are pledged revenues.

Debt Service requirements at August 31, 2018, were as follows:

<u>Year Ending August 31,</u>	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,635,000	\$ 1,899,227	\$ 3,534,227
2020	1,655,000	1,874,866	3,529,866
2021	1,570,000	1,850,206	3,420,206
2022	1,645,000	1,771,706	3,416,706
2023	1,730,000	1,689,456	3,419,456
2024 - 2028	9,960,000	7,127,831	17,087,831
2029 - 2033	12,355,000	4,735,581	17,090,581
2034 - 2037	12,200,000	1,478,444	13,678,444
	<u>\$ 42,750,000</u>	<u>\$ 22,427,317</u>	<u>\$ 65,177,317</u>

LEE COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 7 - Noncurrent Liabilities (continued)

Year Ending August 31,	Revenue Bonds		
	Principal	Interest	Total
2019	\$ 940,000	\$ 637,474	\$ 1,577,474
2020	970,000	611,649	1,581,649
2021	975,000	583,672	1,558,672
2022	1,000,000	555,732	1,555,732
2023	1,030,000	527,029	1,557,029
2024 - 2028	5,105,000	2,138,626	7,243,626
2029 - 2033	3,810,000	1,250,688	5,060,688
2034 - 2037	3,670,000	374,000	4,044,000
	<u>\$ 17,500,000</u>	<u>\$ 6,678,870</u>	<u>\$ 24,178,870</u>

Year Ending August 31,	Total Bonds		
	Principal	Interest	Total
2019	\$ 2,575,000	\$ 2,536,701	\$ 5,111,701
2020	2,625,000	2,486,515	5,111,515
2021	2,545,000	2,433,878	4,978,878
2022	2,645,000	2,327,438	4,972,438
2023	2,760,000	2,216,485	4,976,485
2024 - 2028	15,065,000	9,266,457	24,331,457
2029 - 2033	16,165,000	5,986,269	22,151,269
2034 - 2037	15,870,000	1,852,444	17,722,444
	<u>\$ 60,250,000</u>	<u>\$ 29,106,187</u>	<u>\$ 89,356,187</u>

The District did not have any defeased bonds outstanding at August 31, 2018.

Note 8 - Compensated Absences

Sick Leave - 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.

Vacation Leave - 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 hours are forfeited.

At August 31, 2018 and 2017 the value of all accumulated vested employee vacation benefits was \$760,922 and \$662,906, respectively, and is included in accrued compensable absences on the balance sheet. The following is a summary of changes in vacation leave payable:

	2018	2017
Balance, September 1	\$ 662,906	\$ 597,247
Additions	760,922	662,906
Retirements	(662,906)	(597,247)
Balance, August 31	<u>\$ 760,922</u>	<u>\$ 662,906</u>
Current	\$ 760,922	\$ 662,906
Noncurrent	-	-
	<u>\$ 760,922</u>	<u>\$ 662,906</u>

LEE COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 9 – Capital Leases

During 2017, the District refinanced a capital lease, resulting in reduced debt service payments of \$938,833 over 10.75 years. Proceeds from the original lease were used for a \$12.9 million energy improvement project. Under the terms of the new lease agreement, the scheduled maturity date of the final lease payment is September 23, 2027. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception. Future minimum lease payments to be paid are as follows:

<u>Year Ending August 31,</u>	<u>Minimum Payment</u>
2019	\$ 740,518
2020	1,016,040
2021	1,045,582
2022	1,076,011
2023	1,107,353
2024-2028	<u>5,075,006</u>
Total minimum capital lease payments	10,060,510
Less: amount representing interest costs (rate 2.21%)	<u>(999,921)</u>
Present value of future minimum capital lease payments	<u>\$ 9,060,589</u>

Note 10 - Operating Lease Commitments and Rental Agreements

As of August 31, 2018, the District had no significant commitments under non-cancelable operating lease agreements. Total rental expenditures under operating leases for the year ended August 31, 2018 was approximately \$162,000 and \$102,000 for the year ended August 31, 2017.

Note 11 - Employees Retirement Plan

Defined Benefit Pension Plan

A. Plan Description

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

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

LEE COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 11 - Employees Retirement Plan (continued)

Defined Benefit Pension Plan (continued)

B. Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System’s fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; on the Internet at https://www.trs.texas.gov/Pages/about_archive_cafr.aspx; or by calling (512) 542-6592.

C. Benefits Provided

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

D. Contributions

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017. The 85th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2018 and 2019.

	Contribution Rates	
	2017	2018
Member (Employee)	7.70%	7.70%
District (Employer)	6.80%	6.80%
Non-employer contributing agency (State)	6.80%	6.80%

LEE COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 11 - Employees Retirement Plan (continued)

Defined Benefit Pension Plans (continued)

D. Contributions (continued)

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

	<u>Measurement Year (2017)</u>		<u>Fiscal Year (2018)</u>
	<u>Contributions Required and Made</u>	<u>Pension Expense</u>	<u>TRS Contributions</u>
Member (Employee)	\$ 1,435,177	\$ -	\$ 1,470,137
Non-employer contributing agency (State)	514,928	383,990	534,306
District (Employer)	778,718	783,083	768,816

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

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

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

LEE COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 11 - Employees Retirement Plan (continued)

Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions

The total pension liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Municipal Bond Rate	N/A*
Inflation	2.5%
Salary Increases	3.5% to 9.5% including inflation
Payroll Growth Rate	2.5%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

*If a municipal bond rate was to be used, the rate would be 3.42% as of August 2017 (i.e. the rate closest to but not later than the Measurement date). The source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index’s “20-Year Municipal GO AA Index.”

The actuarial methods and assumptions are based primarily on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

F. Discount Rate

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

LEE COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 11 - Employees Retirement Plan (continued)

Defined Benefit Pension Plans (continued)

F. Discount Rate (continued)

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long Term Expected Portfolio Real Rate of Return*
Global Equity			
U.S	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	<u>100%</u>		<u>8.7%</u>

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

G. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2017 Net Pension Liability.

	Discount Rate		
	1% Decrease (7%)	Current Rate (8%)	1% Increase (9%)
District's proportional share of the net pension liability	\$ 12,807,388	\$ 7,597,206	\$ 3,258,883

LEE COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 11 - Employees Retirement Plan (continued)

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

At August 31, 2018, the District reported a liability of \$7,597,206 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportion of the net pension liability		0.02376%
District's proportionate share of the net pension liability	\$	7,597,206
State's proportionate share of the net pension liability associated with the District		<u>5,034,217</u>
Total	\$	<u><u>12,631,423</u></u>

The net pension liability was measured as of August 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2016 through August 31, 2017.

At August 31, 2017, the employer's proportion of the collective net pension liability was 0.02376%, which was a decrease from its proportion measured as of August 31, 2016, of 0.220339%.

Changes since the Prior Actuarial Valuation

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

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

LEE COLLEGE DISTRICT**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)****Note 11 - Employees Retirement Plan (continued)****Defined Benefit Pension Plans (continued)****H. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

For the year ended August 31, 2018, the District recognized pension expense of \$1,167,073 and revenue of \$383,990 for support provided by the State.

At August 31, 2018, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 111,151	\$ (409,707)
Changes in assumptions	346,065	(198,114)
Difference between projected and actual investment	-	(553,668)
Changes in proportion and differences between District contributions and proportionate share of contributions	568,048	(308,743)
District contributions subsequent to the measurement date	767,538	-
Total	<u>\$ 1,792,802</u>	<u>\$ (1,470,232)</u>

The \$767,538 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2018. The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended August 31,	Amount
2018	\$ (226,603)
2019	258,346
2020	(263,858)
2021	(371,267)
2022	98,775
Thereafter	59,639
	<u>\$ (444,968)</u>

In fiscal year, 2017 the District reported a net pension liability of \$8,326,286 and deferred outflows and deferred inflows of resources of \$1,934,750 and \$867,330, respectively.

LEE COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 11 - Employees Retirement Plan (continued)

Optional Retirement Plan

Plan Description. The state has also established an optional retirement program for institutions of higher education. 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 state legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.6% and 6.65%, respectively. The District contributes 8.5% 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 District was \$297,351 and \$314,217 for the fiscal years ended August 31, 2018 and 2017, respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the District.

The total payroll for all District employees was \$32,331,202 and \$32,115,673 for fiscal years 2018 and 2017, respectively. The total payroll of employees covered by the Teacher Retirement System was \$19,092,692 and \$18,635,605 for fiscal years 2018 and 2017, respectively. The total payroll of employees covered by the Optional Retirement System was \$9,364,926 and \$9,700,686 for fiscal years 2018 and 2017, respectively.

Note 12 - 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.

Note 13 - Other Post-Employment Benefit Plan (OPEB)

Plan Description. The District participates in a cost-sharing, multiple-employer, other post-employment benefit (OPEB) plan with a special funding situation. The Texas Employees Group Benefits Program (GBP) is administered by the Employees Retirement System of Texas (ERS). The GBP provides certain postemployment health care, life and dental insurance benefits to retired employees of participating universities, community colleges, and State agencies in accordance with Chapter 1551, Texas Insurance Code. Almost all employees may become eligible for those benefits if they reach normal retirement age while working for the State and retire with at least 10 years of service to eligible entities. Surviving spouses and dependents of these retirees are also covered. Benefit and contribution provisions of the GBP are authorized by State law and may be amended by the Texas Legislature.

OPEB Plan Fiduciary Net Position. Detailed information about the GBP's fiduciary net position is available in the separately issued ERS Comprehensive Annual Financial Report (CAFR) that includes financial statements, notes to the financial statements and required supplementary information. That report may be obtained on the Internet at <https://ers.texas.gov/About-ERS/Reports-and-Studies/Reports-on-Overall-ERS-Operations-and-Financial-Management>; or by writing to ERS at: 200 East 18th Street, Austin, TX 78701; or by calling (877) 275-4377.

LEE COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 13 - Other Post-Employment Benefit Plan (OPEB) (continued)

Benefits Provided. Retiree health benefits offered through the GBP are available to most State of Texas retirees and their eligible dependents. Participants need at least ten years of service credit with an agency or institution that participates in the GBP to be eligible for GBP retiree insurance. The GBP provides self-funded group health (medical and prescription drug) benefits for eligible retirees under HealthSelect. The GBP also provides a fully insured medical benefit option for Medicare-primary participants under the HealthSelect Medicare Advantage Plan and life insurance benefits to eligible retirees via a minimum premium funding arrangement. The authority under which the obligations of the plan members and employers are established and/or may be amended is Chapter 1551, Texas Insurance Code.

Contributions. Section 1551.055 of Chapter 1551, Texas Insurance Code, provides that contribution requirements of the plan members and the participating employers are established and may be amended by the ERS Board of Trustees. The employer and member contribution rates are determined annually by the ERS Board of Trustees based on the recommendations of ERS staff and its consulting actuary. The contribution rates are determined based on (i) the benefit and administrative costs expected to be incurred, (ii) the funds appropriated and (iii) the funding policy established by the Texas Legislature in connection with benefits provided through the GBP. The Trustees revise benefits when necessary to match expected benefit and administrative costs with the revenue expected to be generated by the appropriated funds.

The following table summarizes the maximum monthly employer contribution toward eligible retirees' health and basic life premium. Retirees pay any premium over and above the employer contribution. The employer does not contribute toward dental or optional life insurance. Surviving spouses and their dependents do not receive any employer contribution. As the non-employer contributing entity (NECE), the State of Texas pays part of the premiums for the junior and community colleges.

**Employer Contribution Rates Retiree
Health and Basic Life Premium
Measurement Year 2017**

Retiree Only	\$ 617.30
Retiree & Spouse	970.98
Retiree & Children	854.10
 Retiree & Family	 1,207.78

Contributions of premiums to the GBP plan for the current and prior fiscal year by source is summarized in the following table.

**Premium Contributions by Source
Group Benefits Program Plan
For the Year Ended August 31, 2017**

Employer	\$ 823,374
Members (Employees)	180,999
Nonemployer Contributing Entity (State of Texas)	729,108

LEE COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 13 - Other Post-Employment Benefit Plan (OPEB) (continued)

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of August 31, 2017 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	August 31, 2017
Actuarial Cost Method	Entry Age
Amortization Method	Level of Percent of Pay, Open
Remaining Amortization Period	30 Years
Asset Valuation Method	Not Applicable
Actuarial Assumptions:	
Discount Rate:	3.51%
Projected Annual Salary Increase:	2.50% to 9.50%
Annual Healthcare Trend Rate:	8.50 for FY 2019, decreasing 0.5% per year to
Inflation Assumption Rate:	4.50% 2.50%
Ad hoc Post-employment Benefit Changes:	None
Mortality Assumptions:	
Service retirees, survivors and other inactive members	Tables based on TRS experience with full generational projection using Scale BB from Base Year 2014.
Disability retirees	Tables based on TRS experience with full generational projection using Scale BB from Base Year 2014 using a 3- year set forward and minimum mortality rates of four per 100 male members and two per 100 female members.
Active Members	Sex Distinct RP-2014 Employee Mortality multiplied by 90% with full generational projection using Scale BB.

Many of the actuarial assumptions used in this valuation were based on the results of actuarial experience studies performed by the ERS and TRS retirement plan actuaries for the period (ex. September 1, 2010 to August 31, 2014) for higher education members.

Investment Policy. The State Retiree Health Plan is a pay-as-you-go plan and does not accumulate funds in advance of retirement. The System’s Board of Trustees adopted the amendment to the investment policy in August 2017 to require that all funds in the plan be invested in short-term fixed income securities and specify that the expected rate of return on these investments is 2.4%.

LEE COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 13 - Other Post-Employment Benefit Plan (OPEB) (continued)

Discount Rate. Because the GBP does not accumulate funds in advance of retirement, the discount rate that was used to measure the total OPEB liability is the municipal bonds rate. The discount rate used to determine the total OPEB liability as of the beginning of the measurement year was 2.84%. The discount rate used to measure the total OPEB liability as of the end of the measurement year was 3.51%, which amounted to an increase of 0.67%. The source of the municipal bond rate was the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality. The bonds average credit quality is roughly equivalent to Moody’s Investors Service’s Aa2 rating and Standard & Poor’s Corp’s AA rating. Projected cash flows into the plan are equal to projected benefit payments out of the plan. Because the plan operates on a pay-as-you-go (PAYGO) basis and is not intended to accumulate assets, there is no long-term expected rate of return on plan assets and therefore the years of projected benefit payments to which the long-term expected rate of return is applicable is zero years.

Discount Rate Sensitivity Analysis. The following schedule shows the impact on the District’s proportionate share of the collective net OPEB Liability if the discount rate used was 1 percent less than and 1 percent greater than the discount rate that was used (3.51%) in measuring the net OPEB Liability.

	1% Decrease (2.51%)	Current Discount Rate (3.51%)	1% Increase (4.51%)
District's proportional share of the net OPEB liability	\$ 37,597,361	\$ 31,496,284	\$ 26,770,455

Healthcare Trend Rate Sensitivity Analysis. The initial healthcare trend rate is 8.5% and the ultimate rate is 4.5%. The following schedule shows the impact on the College’s proportionate share of the collective net OPEB Liability if the healthcare cost trend rate used was 1 percent less than and 1 percent greater than the healthcare cost trend rate that was used 8.5% decreasing to 4.5% in measuring the net OPEB liability.

	1% Decrease (7.50% decreasing to 3.50%)	Current Healthcare Cost Trend Rates (8.5% decreasing to 4.50%)	1% Increase (9.50% decreasing to 5.50%)
District's proportional share of the net OPEB liability	\$ 26,477,979	\$ 31,496,284	\$ 38,007,823

LEE COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 13 - Other Post-Employment Benefit Plan (OPEB) (continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At August 31, 2018, the District reported a liability of \$31,496,284 for its proportionate share of the ERS's net OPEB liability. This liability reflects a reduction for State support provided to the District for OPEB. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportion of the net OPEB liability	0.09243763%
District's proportionate share of the net OPEB liability	\$ 31,496,284
State's proportionate share of the net OPEB liability associated with the District	<u>26,506,425</u>
Total	<u>\$ 58,002,709</u>

The net OPEB liability was measured as of August 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The employer's proportion of the net OPEB liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2016, through August 31, 2017.

At the measurement date of August 31, 2017, the employer's proportion of the collective net OPEB liability was 0.09243763%, which was the same proportion measured as of August 31, 2016.

For the year ended August 31, 2018, the District recognized OPEB expense of \$1,685,557 and as well as revenue of \$1,418,520 representing OPEB expense incurred by the State on behalf of the District.

Changes Since the Prior Actuarial Valuation – Changes to the actuarial assumptions or other inputs that affected measurement of the total OPEB liability since the prior measurement period were as follows:

- Additional demographic assumptions (aggregate payroll increases and rate of general inflation) to reflect an experience study;
- The percentage of current and future retirees and retirees' spouses not yet eligible to participate in the HealthSelect Medicare Advantage plan who will elect to participate at the earliest date at which coverage can commence has been updated to reflect recent plan experience and expected trends;
- Assumptions for administrative expenses, assumed per Capita Health Benefit Costs, Health Benefit Cost and Retiree Contribution trends to reflect recent health plan experience;
- Effects in short-term expectations and revised assumed rate of general inflation.

Changes of Benefit Terms Since Prior Measurement Date – The following benefit revisions have been adopted since the prior valuation:

- An increase in the out-of-pocket cost applicable to services obtained at a free-standing emergency facility;
- An elimination of the copayment for virtual visits;
- A copay reduction for Airrosti and for out-of-state participants;
- Elimination of the deductible for in-network services and application of a copayment rather than coinsurance to certain services like primary care and specialist visits.

LEE COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 13 - Other Post-Employment Benefit Plan (OPEB) (continued)

These minor benefit changes have been reflected in the fiscal year 2018 Assumed Per Capita Health Benefit Costs.

At August 31, 2018, the District reported its proportionate share of the ERS plan’s collective deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (378,484)
Changes in assumptions	-	(6,585,495)
Difference between projected and actual investment	9,325	-
District contributions subsequent to the measurement date	845,567	-
Total	\$ 854,892	\$ (6,963,979)

The \$845,567 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended August 31, 2019. The net amounts of the employer’s balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended August 31,	Amount
2019	\$ (1,566,133)
2020	(1,566,133)
2021	(1,566,133)
2022	(1,566,133)
2023	(690,122)
Thereafter	-
	\$ (6,954,654)

Note 14 - Property Tax

The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District.

	2018	2017
Assessed Valuation of the District:	\$ 12,420,717,550	\$ 13,291,171,816
Less: Exemptions	(476,177,614)	(2,271,981,461)
Net Assessed Valuation of the District	\$ 11,944,539,936	\$ 11,019,190,355

LEE COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 14 - Property Tax (continued)

	2018			2017		
	Current Operations	Debt Service	Total	Current Operations	Debt Service	Total
Authorized Tax Rate per \$100 Valuation	\$ 0.280000	\$ 0.500000	\$ 0.780000	\$ 0.280000	\$ 0.500000	\$ 0.780000
Assessed Tax Rate per \$100 Valuation	\$ 0.220500	\$ 0.029900	\$ 0.250400	\$ 0.213200	\$ 0.032100	\$ 0.245300

Taxes levied for the year ended August 31, 2018 and 2017, amounted to \$29,909,128 and \$27,030,077, respectively, including any penalty and interest assessed. 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.

Tax collections for the years ended August 31, 2018 and 2017 approximated 99.71% of the current year levy for 2018 and 98.68% for 2017. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted for the use of maintenance and/or general obligation debt service.

	2018			2017		
	Current Operations	Debt Service	Total	Current Operations	Debt Service	Total
Current Taxes Collected	\$ 25,877,284	\$ 3,508,983	\$ 29,386,267	\$ 22,786,951	\$ 3,432,070	\$ 26,219,021
Delinquent Taxes Collected	384,508	52,140	436,648	390,649	62,488	453,137
Penalties & Interest Collected	92,021	208,830	300,851	234,720	37,545	272,265
Total Collections	<u>\$ 26,353,813</u>	<u>\$ 3,769,953</u>	<u>\$ 30,123,766</u>	<u>\$ 23,412,320</u>	<u>\$ 3,532,103</u>	<u>\$ 26,944,423</u>

Note 15 - Contract and Grant Awards

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, *Audits of Colleges and Universities*. Funds received, but not expended during the reporting period, are unearned. Revenues are recognized on Exhibit 2 as funds are actually expended. For federal and state contract and grant awards, funds expended, but not collected, are reported as Accounts Receivable on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. At August 31, 2018, there were no contract or grant awards funds already committed e.g., multi-year awards, or funds awarded during fiscal year 2018 for which monies have not been received nor funds expended.

Note 16 - Commitments and Contingencies

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects any such amounts to be immaterial.

LEE COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 16 - Commitments and Contingencies (continued)

As of August 31, 2018, 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.

Note 17 - 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 the years ended August 31, 2018 and 2017.

Note 18 - Prior Period Adjustments

Lee College District

Effective for fiscal year 2018, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Accordingly, a restatement to beginning net position was required for the recording of the beginning net OPEB liability and for the recording of deferred outflows of resources related to OPEB for contributions made to the ERS OPEB plan subsequent to the measurement date of the beginning net OPEB liability.

Because audited beginning balances could not be obtained for all of the deferred outflows of resources and deferred inflows of resources related to OPEB, the District determined it was impractical to restate its fiscal year 2017 financial statements. As such, the District recorded a restatement to beginning net position in the fiscal year 2018 financial statements as a cumulative effect of a change in accounting principle.

Beginning net position as of September 1, 2017 has been restated as follows for the implementation of GASB Statement No. 75:

	<u>2018</u>
Beginning net position as originally presented	\$ 41,779,975
Prior period restatement:	
Net OPEB liability (measurement date as of August 31, 2016)	(37,631,362)
Deferred outflow - contributions made to TRS-Care	865,981
Total prior period restatement	<u>(36,765,381)</u>
Beginning net position as restated	<u>\$ 5,014,594</u>

LEE COLLEGE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 18 - Prior Period Adjustments (continued)

Lee College Foundation

An adjustment of \$83,045 has been made to decrease unrestricted net assets as previously reported at August 31, 2017 to properly record deferred revenue of \$59,125 and write-off an accounts receivable of \$23,920.

Note 19 - Subsequent Events

The District has evaluated subsequent events from the date of the statements of net position through December 19, 2018, the date on which the financial statements were available to be issued, and has determined that there are no other items to disclose.

REQUIRED SUPPLEMENTARY INFORMATION
(RSI) SCHEDULES

LEE COLLEGE DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
Teacher Retirement System of Texas
For the Last Four Measurement Years Ended August 31

	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.02376%	0.220339%	0.215500%
District's proportionate share of the net pension liability	\$ 7,597,206	\$ 8,326,286	\$ 7,617,638
State's proportionate share of the net pension liability associated with the District	<u>5,034,217</u>	<u>5,601,675</u>	<u>5,069,116</u>
Total	<u>\$ 12,631,423</u>	<u>\$ 13,927,961</u>	<u>\$ 12,686,754</u>
District's covered payroll (for Measurement Year)	\$ 18,635,605	\$ 16,825,244	\$ 15,191,023
District's proportionate share of the net pension liability as a percentage of it's covered payroll	40.77%	49.49%	50.15%
Plan fiduciary net position as a percentage of the total pension liability*	82.17%	78.00%	78.43%
Plan's net pension liability as a percentage of covered payroll *	75.93%	92.75%	91.94%
	<u>2014</u>		
District's proportion of the net pension liability	0.235865%		
District's proportionate share of the net pension liability	\$ 6,300,281		
State's proportionate share of the net pension liability associated with the District	<u>4,073,639</u>		
Total	<u>\$ 10,373,920</u>		
District's covered payroll (for Measurement Year)	\$ 14,140,263		
District's proportionate share of the net pension liability as a percentage of it's covered payroll	44.56%		
Plan fiduciary net position as a percentage of the total pension liability *	83.25%		
Plan's net pension liability as a percentage of covered payroll *	72.89%		

Note: Ten years of data should be presented in this schedule but data was unavailable prior to 2014.
Net pension liability and related ratios will be presented prospectively as data becomes available.

* Per Teacher Retirement System of Texas' Comprehensive Annual Financial Report.

LEE COLLEGE DISTRICT
SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS
Teacher Retirement System of Texas
For the Last Four Fiscal Years Ended August 31

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 768,816	\$ 777,440	\$ 700,073	\$ 611,357
Contributions in relation to the contractually required contributions	<u>(768,816)</u>	<u>(777,440)</u>	<u>(700,073)</u>	<u>(611,357)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 District's covered payroll	 \$ 19,092,692	 \$ 18,635,605	 \$ 16,825,244	 \$ 15,191,023
 Contributions as a percentage of covered payroll	 4.03%	 4.17%	 4.16%	 4.02%

Note: Ten years of data should be presented in this schedule but data was unavailable prior to 2015.
Net pension liability and related ratios will be presented prospectively as data becomes available.

LEE COLLEGE DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION

Year Ended August 31, 2018

Effective September 1, 2014, employers who did not contribute Social Security for TRS-eligible employees were required to contribute an additional 1.5% of TRS-eligible compensation which nearly doubled the District's contributions into the Plan. Because the District's proportional share of the plan is determined by its proportional share of contributions, the District recognized a corresponding increase in its share of net pension liability.

Changes of Assumptions

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

Changes of Benefit Terms

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

LEE COLLEGE DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY
Employee Retirement System of Texas - State Retiree Health Plan
For the Last Measurement Year Ended August 31

	<u>2017</u>
District's proportion of the net OPEB liability	0.09244%
District's proportionate share of the net OPEB liability	\$ 31,496,284
State's proportionate share of the net OPEB liability associated with the District	<u>26,506,425</u>
Total	<u>\$ 58,002,709</u>
District's covered payroll (for Measurement Year)	\$ 18,635,605
District's proportionate share of the net OPEB liability as a percentage of it's covered payroll	169.01%
Plan fiduciary net position as a percentage of the total OPEB liability*	2.04%
Plan's net OPEB liability as a percentage of covered payroll *	290.10%

Note: Ten years of data should be presented in this schedule but data was unavailable prior to 2017
Net OPEB liability and related ratios will be presented prospectively as data becomes available.

* Per Employees Retirement System of Texas' comprehensive annual financial report.

LEE COLLEGE DISTRICT
SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS
Employee Retirement System of Texas - State Retiree Health Plan
For the Last Three Fiscal Years Ended August 31

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contributions	\$ 845,567	\$ 729,108	\$ 671,540
Contributions in relation to the contractually required contributions	<u>(845,567)</u>	<u>(729,108)</u>	<u>(671,540)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 District's covered payroll	 \$ 19,092,692	 \$ 18,635,605	 \$ 16,825,244
 Contributions as a percentage of covered payroll	 4.43%	 3.91%	 3.99%

Note: Ten years of data should be presented in this schedule but data was unavailable prior to 2016.
Net OPEB liability and related ratios will be presented prospectively as data becomes available.

LEE COLLEGE DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - OPEB
Year Ended August 31, 2018

Changes in Benefit Terms

Under Q/A #4.107 of GASB's *Implementation Guide No. 2017-2, Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*, any plan changes that have been adopted and communicated to plan members by the time the valuation is prepared must be included in the valuation. Accordingly, the latest valuation reflects the benefit changes that became effective September 1, 2017, since these changes were communicated to plan members in advance of the preparation of the latest valuation report. The benefit changes for HealthSelect retirees and dependents for whom Medicare is not primary include:

- An increase in the out-of-pocket cost applicable to services obtained at a free-standing emergency facility;
- Elimination of the copayment for virtual visits;
- A reduction in the copayment for Airrosti; and
- For out-of-state participants, (i) elimination of the deductible for in-network services and (ii) application of a copayment rather than coinsurance to certain services like primary care and specialist office visits.

These minor benefit changes are provided for in the FY 2018 Assumed Per Capita Health Benefit Costs. There are no benefit changes for HealthSelect retirees and dependents for whom Medicare is Primary.

Changes in Assumptions

Demographic Assumptions

Since the last valuation was prepared for this plan, demographic assumptions (including rates of retirement, disability, termination, and mortality, assumed salary increases and assumed age difference for future retirees and their spouses for selected classes of State Agency employees), assumed aggregate payroll increases and the assumed rate of general inflation have been updated to reflect assumptions recently adopted by the ERS Trustees. These new assumptions were adopted to reflect an experience study on the ERS retirement plan performed by the ERS retirement plan actuary.

In addition, the following assumptions have been updated since the previous valuation to reflect recent plan experience and expected trends:

- Percentage of current retirees and retiree spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and retiree spouses who will elect to participate in the plan at the earliest date at which coverage can commence.
- Proportion of future retirees covering dependent children.
- Percentage of future retirees assumed to be married and electing coverage for their spouse.

LEE COLLEGE DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – OPEB (continued)
Year Ended August 31, 2018

Changes in Assumptions (continued)

Economic Assumptions

The assumed rate of general inflation has been updated since the previous valuation to remain consistent with the ERS retirement plan assumption previously adopted by the ERS Trustees.

Assumptions for Expenses, Assumed Per Capita Health Benefit Costs and Health Benefit Cost, Retiree Contribution and Expense trends have been updated since the previous valuation to reflect recent health plan experience and its effects on our short-term expectations and the revised assumed rate of general inflation.

The discount rate was lowered as a result of requirements by GASB No. 74 to utilize the yield or index rate for 20-year, tax-exempt general obligation bonds rated AA/Aa (or equivalent) or higher.

Minor benefit changes have been reflected in the fiscal year 2018 Assumed Per Capita Health Benefit Costs.

SUPPLEMENTAL SCHEDULES

LEE COLLEGE DISTRICT
SCHEDULE OF OPERATING REVENUES
For the Year Ended August 31, 2018
With Memorandum Totals for the Year Ended August 31, 2017

Schedule A

	Educational Activities			Auxiliary Enterprises	Total	
	Unrestricted	Restricted	Total		2018	2017
Tuition						
State funded credit courses:						
In-district resident tuition	\$ 4,723,271	\$ -	\$ 4,723,271	\$ -	\$ 4,723,271	\$ 5,041,061
Out-of-district resident tuition	3,674,887	-	3,674,887	-	3,674,887	3,324,310
TPEG- credit (set aside)*	514,398	-	514,398	-	514,398	491,837
Non-resident tuition	346,647	-	346,647	-	346,647	313,126
State funded continuing education	60,467	-	60,467	-	60,467	117,967
TPEG- noncredit (set aside)*	-	-	-	-	-	-
Non-state funded educational programs	1,596,853	-	1,596,853	-	1,596,853	1,413,178
Total tuition	<u>10,916,523</u>	<u>-</u>	<u>10,916,523</u>	<u>-</u>	<u>10,916,523</u>	<u>10,701,479</u>
Fees						
General fees	702,819	-	702,819	-	702,819	597,002
Student service fees	-	-	-	302,180	302,180	313,698
Laboratory fees	730,701	-	730,701	-	730,701	900,085
Building use fees	1,927,928	-	1,927,928	-	1,927,928	1,737,100
Other fees	745,271	-	745,271	-	745,271	310,982
Total fees	<u>4,106,719</u>	<u>-</u>	<u>4,106,719</u>	<u>302,180</u>	<u>4,408,899</u>	<u>3,858,867</u>
Scholarship allowances and discounts						
Scholarship allowances	(242,645)	-	(242,645)	-	(242,645)	(776,308)
Remissions and exemptions	(1,235,593)	-	(1,235,593)	-	(1,235,593)	(1,101,720)
TPEG allowance	(435,979)	-	(435,979)	-	(435,979)	(313,237)
State Grants to Students	(197,309)	-	(197,309)	-	(197,309)	-
Federal Grants to students	(4,470,002)	-	(4,470,002)	-	(4,470,002)	(2,857,506)
Other	(178,640)	-	(178,640)	-	(178,640)	(149,240)
Total scholarship allowances and discounts	<u>(6,760,168)</u>	<u>-</u>	<u>(6,760,168)</u>	<u>-</u>	<u>(6,760,168)</u>	<u>(5,198,011)</u>
Total net tuition and fees	<u>8,263,074</u>	<u>-</u>	<u>8,263,074</u>	<u>302,180</u>	<u>8,565,254</u>	<u>9,362,335</u>
Additional operating revenues						
Federal grants and contracts	-	4,004,285	4,004,285	-	4,004,285	4,050,634
State grants and contracts	-	422,398	422,398	-	422,398	592,735
Sales and services of educational activities	36,993	-	36,993	-	36,993	23,502
Other operating revenues	406,895	-	406,895	-	406,895	457,905
Total additional operating revenues	<u>443,888</u>	<u>4,426,683</u>	<u>4,870,571</u>	<u>-</u>	<u>4,870,571</u>	<u>5,124,776</u>
Auxiliary Enterprises						
Bookstore	-	-	-	-	-	600,724
Other auxiliary	-	-	-	583,104	583,104	109,004
Total net auxiliary	<u>-</u>	<u>-</u>	<u>-</u>	<u>583,104</u>	<u>583,104</u>	<u>709,728</u>
Total operating revenues	<u>\$ 8,706,962</u>	<u>\$ 4,426,683</u>	<u>\$ 13,133,645</u>	<u>\$ 885,284</u>	<u>\$ 14,018,929</u>	<u>\$ 15,196,839</u>
					(Exhibit 2)	(Exhibit 2)

*In accordance with Education Code 56.033, \$514,398 and \$491,837 of tuition was set aside for Texas Public Education Grants (TPEG) for the current and prior year, respectively.

LEE COLLEGE DISTRICT
 SCHEDULE OF OPERATING EXPENSES BY OBJECT
 For the Year Ended August 31, 2018
 With Memorandum Totals for the Year Ended August 31, 2017

Schedule B

	Operating Expenses				Total	
	Salaries and Wages	Benefits			2018	2017
		State	Local	Other expenses		
Unrestricted - Educational Activities						
Instruction	\$ 17,657,875	\$ -	\$ 5,229,528	\$ 1,272,357	\$ 24,159,760	\$ 21,144,902
Public service	1,279,357	-	378,892	844,225	2,502,474	2,335,907
Academic support	2,211,801	-	655,043	981,478	3,848,322	3,641,194
Student services	2,185,662	-	647,302	241,085	3,074,049	4,221,523
Institutional support	4,323,232	-	1,280,362	3,788,884	9,392,478	10,613,619
Operation and maintenance of plant	2,227,871	-	659,803	2,683,474	5,571,148	5,185,924
Scholarships and fellowships	-	-	-	-	-	-
Total Unrestricted Educational Activities	<u>29,885,798</u>	<u>-</u>	<u>8,850,930</u>	<u>9,811,503</u>	<u>48,548,231</u>	<u>47,143,069</u>
Restricted - Educational Activities						
Instruction	1,102,629	1,380,459	109,534	1,270,478	3,863,100	2,843,926
Public service	52,667	97,238	-	57,612	207,517	174,147
Academic support	134,201	256,859	-	147,278	538,338	528,702
Student services	149,067	195,777	-	70,497	415,341	2,188,030
Institutional support	537,677	343,922	68,432	820,724	1,770,755	1,304,069
Operation and maintenance of plant	-	156,544	-	-	156,544	41,474
Scholarships and fellowships	127,684	-	-	6,475,387	6,603,071	6,064,593
Total Restricted Educational Activities	<u>2,103,925</u>	<u>2,430,799</u>	<u>177,966</u>	<u>8,841,976</u>	<u>13,554,666</u>	<u>13,144,941</u>
Total Educational Activities	<u>31,989,723</u>	<u>2,430,799</u>	<u>9,028,896</u>	<u>18,653,479</u>	<u>62,102,897</u>	<u>60,288,011</u>
Auxiliary Enterprises	<u>341,479</u>	<u>109,402</u>	<u>101,133</u>	<u>846,958</u>	<u>1,398,972</u>	<u>1,648,349</u>
Depreciation Expense:						
Building and other real estate improvements	-	-	-	2,031,955	2,031,955	1,769,106
Equipment and furniture	-	-	-	1,156,802	1,156,802	1,097,671
Total Depreciation Expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,188,757</u>	<u>3,188,757</u>	<u>2,866,777</u>
Total Operating Expenses	<u>\$ 32,331,202</u>	<u>\$ 2,540,201</u>	<u>\$ 9,130,029</u>	<u>\$ 22,689,194</u>	<u>\$ 66,690,626</u>	<u>\$ 64,803,137</u>
				(Exhibit 2)	(Exhibit 2)	

LEE COLLEGE DISTRICT
SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES
For the Year Ended August 31, 2018
With Memorandum Totals for the Year Ended August 31, 2017

Schedule C

	Unrestricted	Restricted	Total	Auxiliary Enterprises	Total	
					2018	2017
Non-operating revenues						
State appropriations:						
Education and general state support	\$ 9,948,374	\$ -	\$ 9,948,374	\$ -	\$ 9,948,374	\$ 9,522,065
State group insurance	-	3,418,579	3,418,579	-	3,418,579	1,853,939
State retirement matching	-	681,341	681,341	-	681,341	830,240
Total state appropriations	9,948,374	4,099,920	14,048,294	-	14,048,294	12,206,244
Maintenance and ad valorem taxes	26,557,447	-	26,557,447	-	26,557,447	23,410,884
General obligation bond taxes	-	3,604,373	3,604,373	-	3,604,373	3,527,955
Federal non-operating grants	-	8,272,414	8,272,414	-	8,272,414	8,898,608
Investment income	152,417	-	152,417	-	152,417	76,684
Gifts	511,570	-	511,570	-	511,570	970,042
Payments in lieu of taxes	1,137,125	-	1,137,125	-	1,137,125	677,876
Unrealized gain on investments	-	3,103,000	3,103,000	-	3,103,000	-
Other non-operating revenue	-	1,085,836	1,085,836	-	1,085,836	581,319
Total non-operating revenues	38,306,933	20,165,543	58,472,476	-	58,472,476	50,349,612
Non-operating expenses						
Interest and fees on capital-related debt	-	2,324,587	2,324,587	-	2,324,587	2,475,734
Other non-operating expenses	-	531,196	531,196	-	531,196	-
Total non-operating expenses	-	2,855,783	2,855,783	-	2,855,783	2,475,734
Net non-operating revenues (expenses)	\$ 38,306,933	\$ 17,309,760	\$ 55,616,693	\$ -	\$ 55,616,693	\$ 47,873,878
					(Exhibit 2)	(Exhibit 2)

LEE COLLEGE DISTRICT
SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY
For the Year Ended August 31, 2018

Schedule D

	Detail by Source				Available for Current		
	Unrestricted	Restricted		Net Investment in Capital Assets	Total	Yes	No
		Expendable	Non-Expendable				
Current							
Unrestricted							
Net Pension Obligation	\$ (7,274,636)	\$ -	\$ -	\$ -	\$ (7,274,636)	\$ -	\$ (7,274,636)
Net OPEB Obligation	(37,605,371)	-	-	-	(37,605,371)	-	(37,605,371)
Other	25,272,106	-	-	-	25,272,106	25,272,106	-
Restricted	-	-	375,013	-	375,013	-	375,013
Plant:							
Investment in plant	-	-	-	27,192,478	27,192,478	-	27,192,478
Total Net Position, end of year	(19,607,901)	-	375,013	27,192,478	7,959,590 (Exhibit 1)	25,272,106	(17,312,516)
Total Net Position, beginning of the year (as restated)	(33,082,723)	-	375,013	37,722,304	5,014,594 (Exhibit 1)	3,682,658	1,331,936
Net increase (decrease) in net position	\$ 13,474,822	\$ -	\$ -	\$ (10,529,826)	\$ 2,944,996 (Exhibit 2)	\$ 21,589,448	\$ (18,644,452)

(This page intentionally left blank.)

**OVERALL COMPLIANCE, INTERNAL CONTROLS
AND FEDERAL AND STATE AWARDS SECTION**

(This page intentionally left blank)

**INDEPENDENT AUDITORS' 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**

To the Board of Regents
Lee College District
Baytown, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Lee College District (the "District"), as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 19, 2018. Our report includes a reference to other auditors who audited the financial statements of Lee College Foundation (the "Foundation"), as described in our report on the District's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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.

To the Board of Regents
Lee College District

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 and 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 the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the *Public Funds Investment Act* (Chapter 2256, Texas Government Code), noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Whitley Penn LLP

Houston, Texas
December 19, 2018

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE *UNIFORM GUIDANCE*

To the Board of Regents
Lee College District
Baytown, Texas

Report on Compliance for Each Major Federal Program

We have audited Lee College District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal program for the year ended August 31, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal programs

Auditor's Responsibility

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

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

To the Board of Regents
Lee College District

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as findings 2018-001 and 2018-002. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control over Compliance

Management of the 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 the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified the deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as findings 2018-001 and 2018-002, which we consider to be significant deficiencies.

To the Board of Regents
Lee College District

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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

Whitley Penn LLP

Houston, Texas
December 19, 2018

LEE COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2018

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal and State Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes Findings 2018-001 and 2018-002
Type of auditors' report issued on compliance with major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	Yes Findings 2018-001 and 2018-002

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Numbers</u>
---	---------------------

US Department of Education

Student Financial Assistance Programs Cluster:

Supplemental Education Opportunity Grant	84.007
Federal College Work-Study Program	84.033
Federal Pell Grant	84.063
Federal Direct Loan Program	84.268

Title III - STEM and Articulation Transformation (SAT) Program	84.031C
Title III - LC STEM Project	84.031C
Title III - HSI STEM and Articulation Program	84.031C
Title V - Lee College Title V Project	84.031S
Lee College Weekend College – FITW	84.116F

Dollar Threshold Considered Between Type A and B:	\$750,000
---	-----------

Auditee qualified as low risk auditee?	No
--	----

LEE COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

II. Financial Statement Findings

None reported.

III. Federal Award Findings and Questioned Costs

Finding 2018-001 – Title III – Subrecipient Monitoring (CFDA 84.031C)

Criteria: The OMB Compliance Supplement of the Uniform Guidance notes that a pass-through entity is required to monitor subrecipient activities to provide reasonable assurance that the subrecipient administered the sub-award in compliance with the terms and conditions of the sub-award. The requirements for subrecipient monitoring for sub-awards and contained in 31 USC 7502(f)(2), 2 CFR sections 200.330, .331, and .501(h).

Condition: During our audit of the Title III major federal program, we noted that the District did not have internal controls in place to monitor subrecipient compliance requirements.

Cause: The District personnel was unaware of the compliance requirement.

Effect: The District is not in compliance with the subrecipient monitoring compliance requirements as established in the OMB Compliance Supplement of the Uniform Guidance.

Questioned Cost: None.

Recommendation: The District should take appropriate steps to implement effective internal controls over subrecipient monitoring to ensure compliance with the Uniform Guidance.

Finding 2018-002 – Student Financial Aid Cluster (SFA) – Eligibility – Calculation of Benefits (CFDA 84.007, 84.033, 84.063, 84.268)

Criteria: The OMB Compliance Supplement of the Uniform Guidance notes that the District should follow the student eligibility requirements contained in Appendix A of the OMB Compliance Supplement to determine the eligibility and benefits to be disbursed to students.

Condition: During our audit of the SFA, we noted 5 eligible students out of 40 selected students that were awarded the incorrect Federal Pell Grant amount (CFDA 84.063), and 6 eligible students out of 40 selected students with a student needs summary (cost of attendance) not properly calculated for the Federal Pell Grant (CFDA 84.063).

Cause: The District did not have proper controls in place to calculate awarded aid to students.

Effect: The District is not in compliance with the eligibility – calculation of benefits compliance requirement as established in the OMB Compliance Supplement of the Uniform Guidance.

Questioned Cost: Unknown.

Recommendation: The District should take appropriate steps to implement effective internal controls to ensure compliance with the Uniform Guidance.

LEE COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2018

Schedule E
(1 of 2)

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Passed Through to Subrecipients</u>	<u>Expenditures</u>
U.S. Department of Education				
<i>Direct Programs:</i>				
<i>Student Financial Assistance Cluster</i>				
Supplemental Education Opportunity Grant 2016-17	84.007	P007A164054	\$ -	\$ (750)
Supplemental Education Opportunity Grant 2017-18	84.007	P007A174054	-	71,907
Supplemental Education Opportunity Grant 2018-19	84.007	P007A184054	-	1,750
Federal College Workstudy Program 2017-18	84.033	P033A174054	-	91,381
Federal College Workstudy Program 2018-19	84.033	P033A184054	-	1,173
Federal PELL 2015-16	84.063	P063P152284	-	(1,896)
Federal PELL 2016-17	84.063	P063P162284	-	(11,190)
Federal PELL 2017-18	84.063	P063P172284	-	4,452,009
Federal PELL 2018-19	84.063	P063P182284	-	1,582,209
Direct Loan Program 2016-17	84.268	P268K172284	-	(7,452)
Direct Loan Program 2017-18	84.268	P268K182284	-	2,093,273
<i>Total Student Financial Assistance Cluster</i>			-	8,272,414
Title III - STEM and Articulation Transformation (SAT) Program	84.031C	P031C110051	-	42,511
Title III - LC STEM Project	84.031C	P031C160135	-	467,335
Title III - HSI STEM and Articulation Program	84.031C	P031C160135-SA	98,003	-
Title V - Lee College Title V Project	84.031S	P031S160051	-	822,520
Total CFDA 84.031			98,003	1,332,366
<i>TRIO Cluster</i>				
Student Support Services	84.042A	P042A151114	-	225,234
Educational Opportunity Center	84.066A	P066A160293	-	244,787
<i>Total TRIO Cluster</i>			-	470,021
Lee College Weekend College - FITW	84.116F	P116F140214	-	800,399
Total Direct Programs:			98,003	10,875,200
<i>Pass-Through From:</i>				
<i>Texas Higher Education Coordinating Board</i>				
Carl Perkins Vocational Education - Basic 17-18	84.048	184231	-	246,542
Total U.S. Department of Education			98,003	11,121,742
U.S. Department of Agriculture				
<i>Direct Program:</i>				
Hispanic Serving Institutions Education Grants Program	10.223	2017-38422-27110	-	38,571
Total U.S. Department of Agriculture			-	38,571
U.S. Department of Labor				
<i>Pass-Through From:</i>				
<i>San Jacinto College</i>				
H-1B Ready to Work Job Training Grant	17.268	DOL531713003	-	719,061
<i>Pass-Through From:</i>				
<i>Texas Workforce Commission</i>				
WIOA National Dislocated Worker Grant-Harvey	17.277	2818NDW005	-	115,867
WIOA Dislocated Worker Formula Grant-CCH	17.278	2817WOS000	-	9,989
<i>Total Texas Workforce Commission</i>			-	125,856
Total U.S. Department of Labor			-	844,917

LEE COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2018

Schedule E
(2 of 2)

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Passed Through to Subrecipients</u>	<u>Disbursements and Expenditures</u>
National Foundation on the Arts and the Humanities:				
<i>Pass-Through From:</i>				
<i>Texas State Library & Archives Commission:</i>				
Special Projects Grant Program	45.310	478-18014	-	68,498
TexTreasures Grant Program	45.310	723-18007	-	11,092
<i>Total Texas State Library & Archives Commission:</i>			-	79,590
Total National Foundation on the Arts and the Humanities			-	79,590
U.S. Small Business Administration				
<i>Pass-Through From:</i>				
<i>University of Houston</i>				
Small Business Development Center 2016-17	59.037	7-603001-EZ-0020	-	2,968
Small Business Development Center 2017-18	59.037	7-603001-EZ-0016	-	81,689
<i>Total Pass-Through University of Houston</i>			-	84,657
Total U.S. Small Business Administration			-	84,657
Department of Homeland Security				
<i>Pass-Through From:</i>				
<i>Texas Department of Public Safety</i>				
Emergency Protective Measures	97.036	4332DRTXP0000001	-	9,219
Total Department of Homeland Security			-	9,219
Total Expenditures of Federal Awards			\$ 98,003	\$ 12,178,696

LEE COLLEGE DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1 - Significant accounting policies used in preparing the schedule

The expenditures included in Schedule E are reported for the District’s fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported on Schedule E represent funds that have been expended by the District for the purposes of the award. The expenditures reported on Schedule E may not have been reimbursed by the funding agencies as of the end of the fiscal year. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The District has followed all applicable guidelines issued by various entities in the preparation of the schedule. The District did not use the 10 percent de Minimis indirect cost rate allowed under the Uniform Guidance.

Note 2 - Subrecipients

The following funds were passed-through to Lamar University:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Passed Through to Subrecipients</u>
Title III - HSI STEM and Articulation Program	84.031C	P031C160135-SA	\$ 98,003

Note 3 - Federal Assistance Reconciliation

Federal Grants and Contracts Revenues per Schedule A	\$ 4,004,285
Federal Grants and Contracts Revenues per Schedule C	8,272,414
Less: grants passed through to subrecipient	<u>(98,003)</u>
 Total Federal Revenues per Schedule of Expenditures of Federal Awards (Schedule E)	 <u><u>\$ 12,178,696</u></u>

LEE COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended August 31, 2018

Schedule F

Grantor Agency / Program Title	Grantor / Project Number	Expenditures
<i>Texas Higher Education Coordinating Board</i>		
Texas College Work Study 2017-18	N/A	\$ 42,345
Texas Education Opportunity Grant 16-17	N/A	356
Texas Education Opportunity Grant 17-18	N/A	259,642
Texas - STEM Challenge Scholarship Program	19030	48,752
Nursing & Allied Health - NIGP Lab & Sim Grant	18023	34,474
<i>Total Texas Higher Education Coordinating Board</i>		<u>385,569</u>
<i>Texas Workforce Commission</i>		
TWC Small Business Program	2817SSD001	35,343
TWC Skills for Small Business	2818SSD001	1,486
<i>Total Texas Workforce Commission</i>		<u>36,829</u>
Total State Financial Assistance		<u>\$ 422,398</u>

LEE COLLEGE DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS

Note 1 - Significant accounting policies used in preparing the schedule

The expenditures included in Schedule F are reported for the District’s fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported on Schedule F represent funds that have been expended by the District for the purposes of the award. The expenditures reported on Schedule F may not have been reimbursed by the funding agencies as of the end of the fiscal year. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The District has followed all applicable guidelines issued by various entities in the preparation of the schedule.

Note 2 - State Assistance Reconciliation

State Revenues:	
State Financial Assistance	
Per Schedule of Expenditures of State Awards (Schedule F)	<u>\$ 422,398</u>
 Total State Revenues per Schedule A	 <u><u>\$ 422,398</u></u>

LEE COLLEGE DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended August 31, 2018

Federal regulations, Title 2 U.S. Code of Federal Regulations §200.511 states, “The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings.” The summary schedule of prior audit findings must report the status of the following:

- All audit findings included in the prior audit’s schedule of findings and questioned costs and
- All audit findings reported in the prior audit’s summary schedule of prior audit findings except audit findings listed as corrected.

The Summary Schedule of Prior Audit Findings for the year ended August 31, 2018 has been prepared to address these requirements.

I. Prior Audit Findings

None Noted

LEE COLLEGE DISTRICT
CORRECTIVE ACTION PLAN
For the Year Ended August 31, 2018

Federal regulations, Title 2 U.S. Code of Federal Regulations §200.511 states, “At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in §200.516 Audit findings, a corrective action plan to address each audit finding included in the current year auditor's reports.”

The Corrective Action Plan for the year ended August 31, 2018 has been prepared to address these requirements.

I. Corrective Action Plan

Finding 2018-001 – Title III – Subrecipient Monitoring (84.031C)

Response: We will Review invoices submitted and ensure all cost are allowable and expensed properly. Ensure that the Single Audit is submitted and reviewed for any internal control issues. We will also check equipment purchases to ensure all equipment is tagged and inventoried and being used for the classes intended. We will spot check payroll on the graduate students including time and effort.

Contact Person: Laurie Oehler, Director of Grant Management

Estimated Completion Date: August 31, 2019

Finding 2018-002 – Student Financial Aid Cluster (SFA) – Eligibility – Calculation of Benefits (CFDA 84.007, 84.033, 84.063, 84.268)

Response: Summer Pell calculations were performed with a grid that was constructed with the rationale of summer courses as terms being of variable lengths, i.e. 10 week, 5 week. Pell calculations should be for terms and credit hours within the terms. Lee College will not be using the variable grid and now allow for the embedded official Pell grid in PeopleSoft to calculate awards for summer and any other terms for students.

Contact Person: Felipe Leal, Director of Financial Aid

Estimated Completion Date: August 31, 2019