

LEE COLLEGE DISTRICT
ANNUAL FINANCIAL AND
COMPLIANCE REPORT

For the Year Ended August 31, 2020 and 2019



LEE COLLEGE DISTRICT
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LEE COLLEGE DISTRICT

ORGANIZATIONAL DATA

For the Fiscal Year Ended August 31, 2020

BOARD OF REGENTS

OFFICERS

Mr. Mark Hall	May 2021	Chairman
Mr. Gilbert Santana	May 2023	Vice Chairman
Mr. Weston Cotten	May 2021	Secretary
Ms. Gina Guillory	May 2023	Assistant Secretary

REGENTS

Mr. Peter C. Alfaro	Baytown, Texas	May 2025
Mr. Daryl Fontenot	Baytown, Texas	May 2025
Mr. Mark Himsel	Baytown, Texas	May 2021
Ms. Judy Jirrels	Baytown, Texas	May 2023
Ms. Susan Moore-Fontenot	Baytown, Texas	May 2025

PRINCIPAL ADMINISTRATIVE OFFICERS

Dr. Lynda Villanueva	President
Ms. Annette Ferguson, CPA	VP of Finance and Administration/Chief Financial Officer
Dr. Douglas Walcerz	VP of Planning, Institutional Effectiveness and Research/Chief Learning Officer
Dr. Donnetta Suchon	VP of Student Affairs
Dr. Angela Oriano	VP, Workforce & Corporate Partnerships
Dr. Carolyn Lightfoot	Chief Information Officer
Dr. Onimi Wilcox	Dean, Academic Studies
Mr. Layton Childress	Dean, Applied Sciences
Ms. Donna Zuniga	Dean, Huntsville Center
Ms. Julie Lee, CPA	Controller



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, 2020 and 2019 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, 2020 and 2019. 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.

Opinions

In our opinion, based on our audit and the report of other auditors, 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, 2020 and 2019, 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.

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 5 through 12 and the pension and OPEB information on pages 58 through 64 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 17, 2020 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.



Houston, Texas
December 17, 2020

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 2020 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, 2020, by \$25,056,944. This is an increase of \$9,076,276. Federal revenues increased in part due to additional funds related to COVID-19 and property tax revenue increased due to an increase in property values. Expenses were slightly higher, driven by an increase in scholarships

The Statement of Net Position

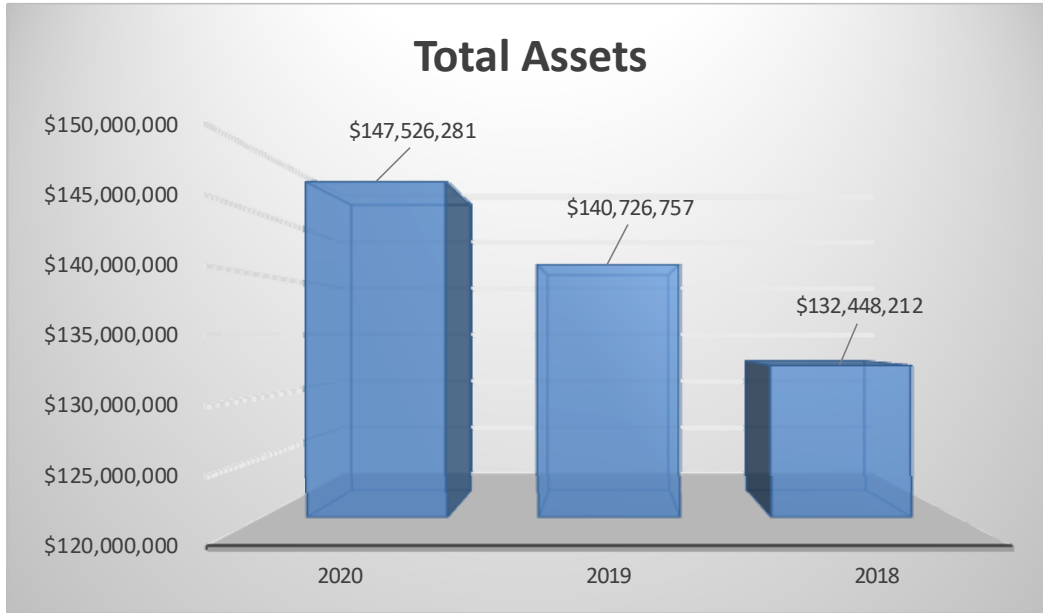
The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the District as of the end of the Fiscal Year. It is a point-in-time financial statement. The purpose of the Statement of Net Position is to give the financial 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, net investment in capital assets, provides the District's equity in property, plant and equipment it owns. The next net position category is restricted net position. These assets have external limitations on the way in which they may be used. The last category is unrestricted net position. It is available to use for any lawful purpose of the District.

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

Total assets of the District for Fiscal Year 2020 are \$147.5 million, an increase of \$6.8 million compared to Fiscal Year 2019 and an increase of \$15.1 million compared to Fiscal Year 2018. Changes in total assets over the past three years are depicted in the following chart:



Current assets are comprised of several categories. Cash and cash equivalents include the District's cash and investments in TexPool and Lone Star Pool. TexPool and Lone Star are statewide investment pools. In Fiscal Year 2020, cash, cash equivalents and short-term investments totaled \$25.2 million, an increase of \$2.0 million from the Fiscal Year 2019 balance of \$23.2 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.

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

Summary data for the Statement of Net Position is provided in the table below for fiscal years 2020, 2019, and 2018.

	2020	2019	2018
Current assets	\$ 33,194,597	\$ 29,356,580	\$ 24,301,504
Capital assets (net)	104,857,926	101,291,143	98,071,695
Other non-current assets	9,473,758	10,079,034	10,075,013
Total assets	<u>147,526,281</u>	<u>140,726,757</u>	<u>132,448,212</u>
Deferred outflows of resources	<u>13,796,862</u>	<u>13,465,397</u>	<u>2,850,152</u>
Current liabilities	14,858,823	14,176,470	12,093,362
Non-current liabilities	107,670,609	110,093,912	106,811,201
Total liabilities	<u>122,529,432</u>	<u>124,270,382</u>	<u>118,904,563</u>
Deferred inflows of resources	<u>13,736,767</u>	<u>13,941,104</u>	<u>8,434,211</u>
Net investment in capital assets	42,440,154	40,928,659	27,192,478
Restricted net position	383,122	379,034	375,013
Unrestricted net position	<u>(17,766,332)</u>	<u>(25,327,025)</u>	<u>(19,607,901)</u>
Total net position	<u>\$ 25,056,944</u>	<u>\$ 15,980,668</u>	<u>\$ 7,959,590</u>

Total liabilities of the District are \$122.5 million in Fiscal Year 2020 as compared to \$124.3 million in Fiscal Year 2019 and \$118.9 million in Fiscal Year 2018 and also include a current and non-current portion. Total liabilities decreased from Fiscal Year 2019 to Fiscal Year 2020 primarily due to a decrease in bonds and leases payable, a decrease in the net pension liability and a decrease in accounts payable. Current liabilities include accounts payable and accrued liabilities, funds held for others, deferred revenue, accrued compensable absences payable and the current portion of bonds payable and leases payable. A liability is considered to be current if it is due within one year

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

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

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.

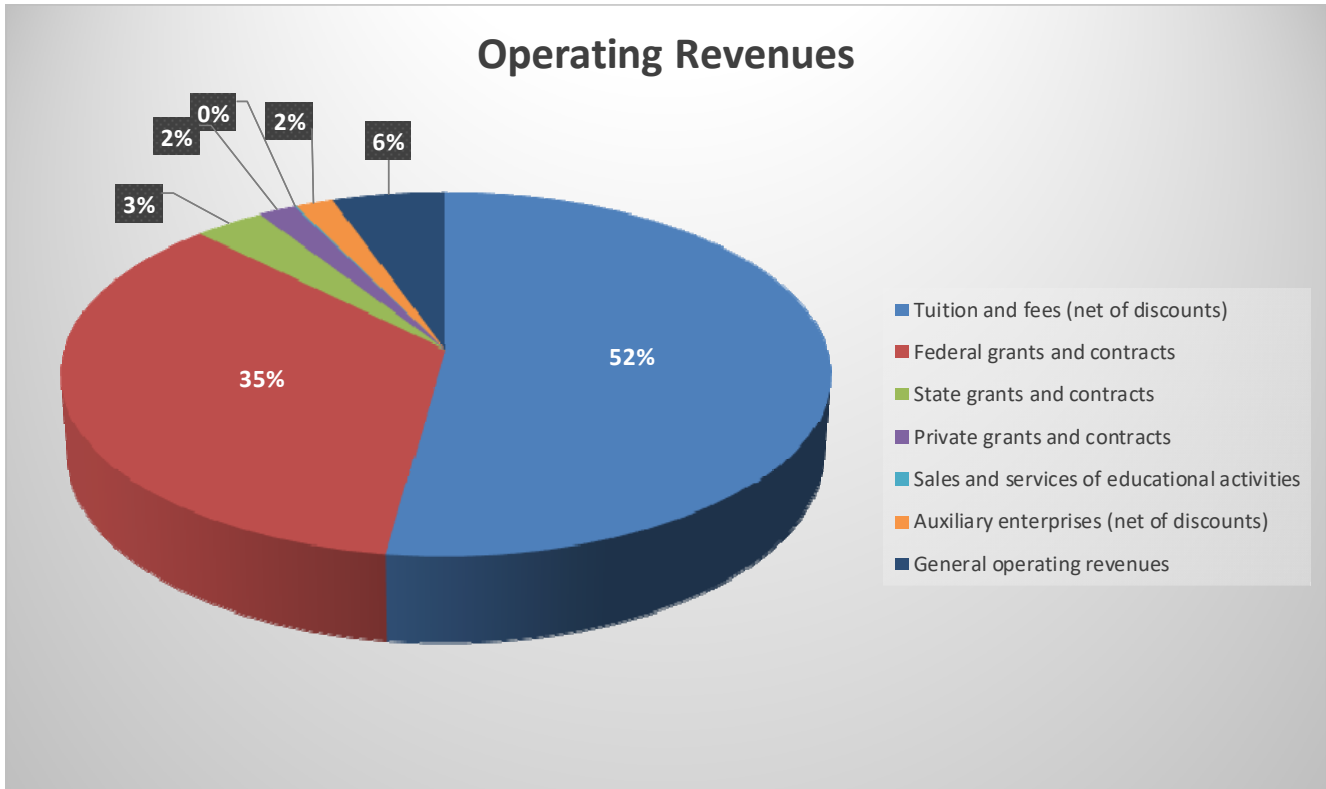
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues:			
Tuition and fees (net of discounts)	\$ 7,961,292	\$ 10,809,240	\$ 8,565,254
Federal grants and contracts	5,402,156	3,417,314	4,004,285
State grants and contracts	513,024	468,239	422,398
Private grants and contracts	271,561	858,461	1,036,601
Local grants and contracts	-	12,000	-
Sales and services of educational activities	15,427	70,209	36,993
Auxiliary enterprises (net of discounts)	274,787	393,943	583,104
General operating revenues	824,354	325,744	406,895
Total operating revenues	<u>15,262,601</u>	<u>16,355,150</u>	<u>15,055,530</u>
Total operating expenses	<u>66,477,729</u>	<u>61,555,674</u>	<u>66,690,626</u>
Operating income (loss)	<u>(51,215,128)</u>	<u>(45,200,524)</u>	<u>(51,635,096)</u>
Non-operating revenues (expenses):			
State appropriations	14,040,314	12,374,736	14,048,294
Maintenance ad valorem taxes	32,645,106	31,325,219	26,557,447
General obligation bond taxes	3,566,932	3,588,224	3,604,373
Federal revenue, non-operating	8,787,913	5,627,362	8,272,414
Investment income	379,310	564,073	152,417
Gifts	943,721	1,022,985	511,570
Payment in lieu of taxes	1,287,791	1,656,593	1,137,125
Interest on capital related debt	(2,615,579)	(2,633,299)	(2,324,587)
Realized/unrealized gain on investments	1,421,386	-	3,103,000
Other non-operating revenues	(165,490)	(304,291)	(481,961)
Net non-operating revenues (expenses)	<u>60,291,404</u>	<u>53,221,602</u>	<u>54,580,092</u>
Total increase (decrease) in net position	<u>\$ 9,076,276</u>	<u>\$ 8,021,078</u>	<u>\$ 2,944,996</u>

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

Operating Revenues (Expenses)

Operating revenues decreased by \$1.1 million from fiscal year 2019 to fiscal year 2020. Operating expenses increased by \$4.9 million compared to the prior year, primarily due to an increase in payroll and benefits due to vacant positions being filled, pay increases and supplies related to COVID-19 precautions.

The table data for operating revenue for 2020 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, realized gain on investments and other revenues. Non-operating expenses consist of interest on capital related debt.

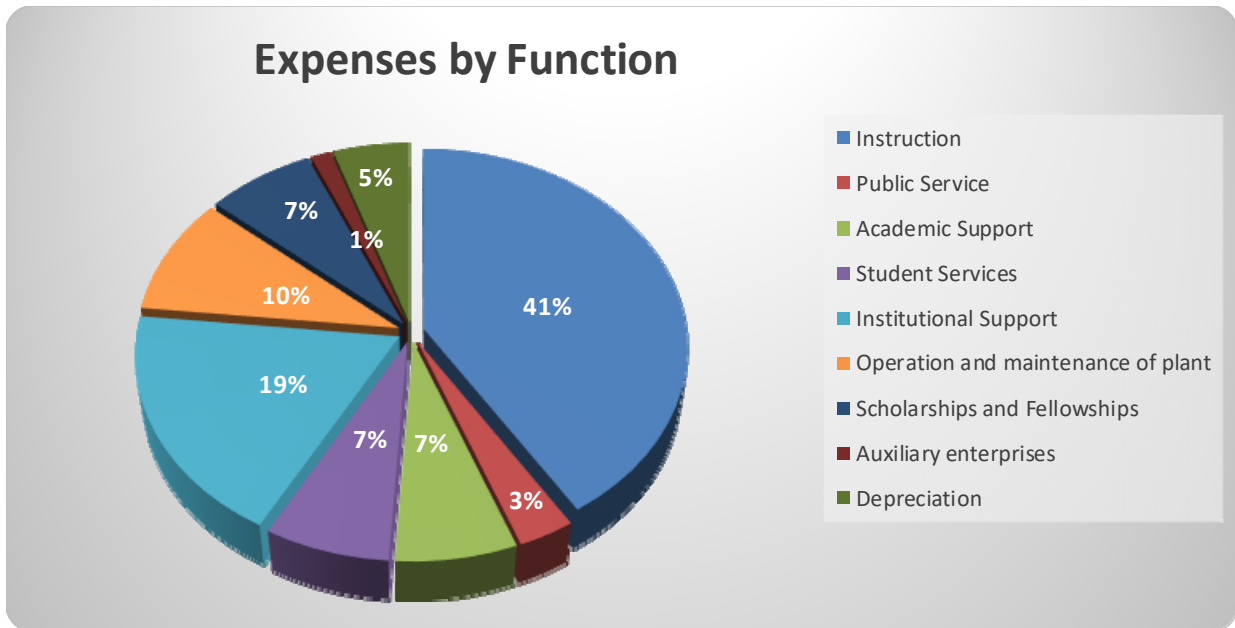
LEE COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Operating Expenses

Operating expenses are reported in the financial statement by functional classification and are presented below in the table for fiscal 2020, 2019, and 2018.

	2020	2019	2018
Instruction	\$ 27,253,419	\$ 26,303,861	\$ 28,022,860
Public service	2,113,988	2,792,720	2,709,991
Academic support	4,546,893	4,321,729	4,386,660
Student services	4,680,187	3,400,092	3,489,390
Institutional support	12,356,241	11,293,174	11,163,233
Operation and maintenance of plant	6,361,919	6,534,319	5,727,692
Scholarships and fellowships	4,828,813	2,711,609	6,603,071
Auxiliary enterprises	923,612	1,073,260	1,398,972
Depreciation expense	3,412,657	3,124,910	3,188,757
Total operating expenses	\$ 66,477,729	\$ 61,555,674	\$ 66,690,626

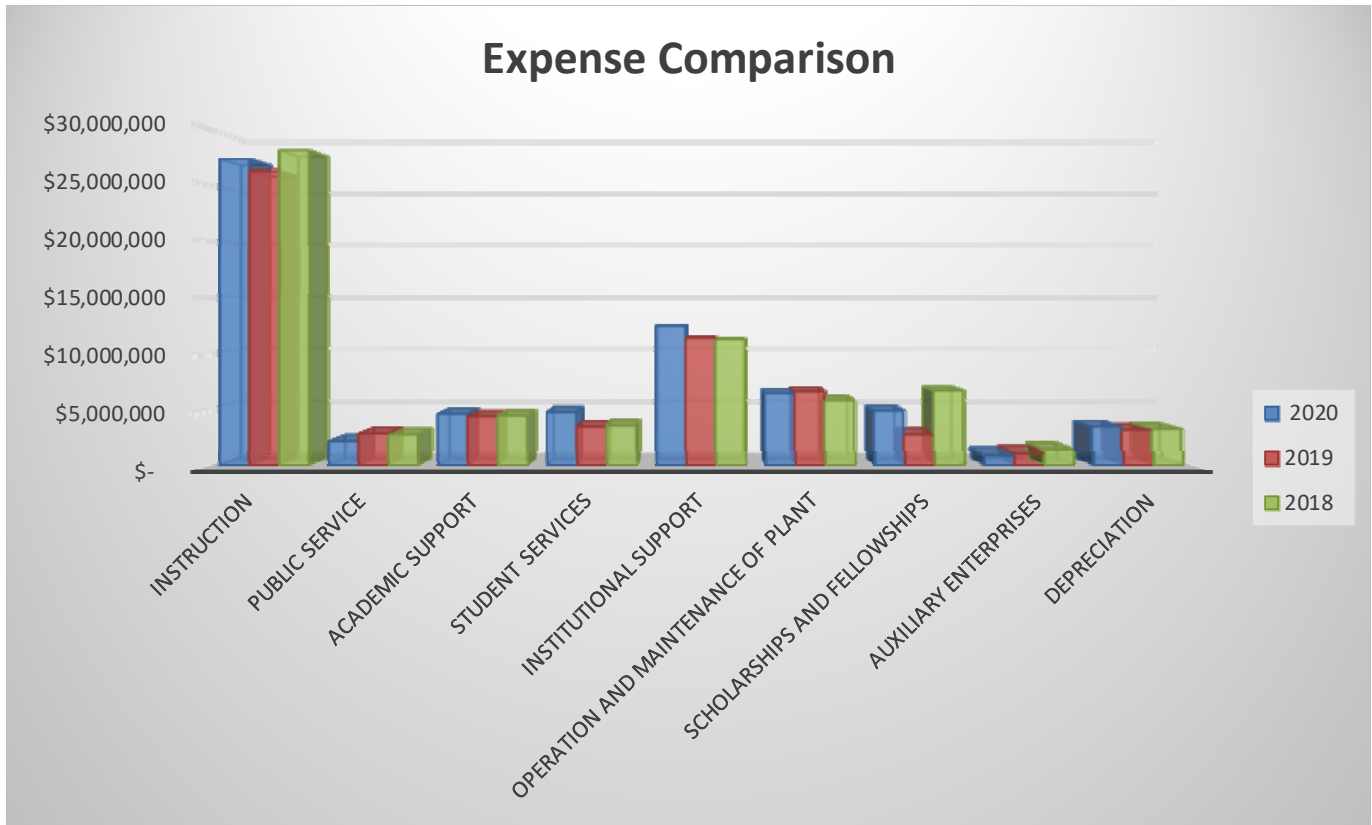
Please see the graphical depiction for the table data above for fiscal year 2020.



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

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 2020 operating expenses in comparison to 2019 and 2018:



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.

	2020	2019	2018
Land	\$ 1,516,551	\$ 1,393,556	\$ 1,393,555
Construction in Progress	18,562	604,381	86,351
Buildings	91,905,600	92,292,031	90,223,443
Land Improvements	5,546,150	1,266,854	700,574
Equipment	4,530,221	4,343,669	4,299,376
Library Books	1,340,842	1,390,652	1,368,396
	<u>\$ 104,857,926</u>	<u>\$ 101,291,143</u>	<u>\$ 98,071,695</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.

	2020	2019	2018
General Obligation Bonds	\$ 39,460,000	\$ 41,115,000	\$ 42,750,000
Revenue Bonds	15,590,000	16,560,000	17,500,000
Bond Premium	1,572,050	1,671,567	1,771,086
Capital Leases	7,631,690	8,567,084	9,060,589
Net Pension Liability	11,082,243	12,771,701	7,597,206
Net OPEB Liability	36,934,168	33,180,649	31,496,284
	<u>\$ 112,270,151</u>	<u>\$ 113,866,001</u>	<u>\$ 110,175,165</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

FY 2020 has presented many challenges for our College, our communities, and surrounding industries. The petrochemical industry in our area is struggling due to the downturn in oil and gas; however, our property values remain strong.

Realizing the effects of COVID-19, we were conservative in preparing FY 2021 operating budget. The College budgeted for decreases in revenues while focusing on controlling costs and streamlining processes to maintain a balanced budget. The College remains committed to providing the best student experience possible.

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



LEE COLLEGE DISTRICT
STATEMENT OF NET POSITION
August 31, 2020 and 2019

Exhibit 1

	<u>2020</u>	<u>2019</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 23,080,017	\$ 15,389,653
Short Term Investments	273,441	866,174
Accounts receivable (net)	5,419,790	2,582,126
Inventories	2,450	8,184
Prepaid expenses	2,691,947	3,115,013
Restricted cash and cash equivalents	1,726,952	7,395,430
Total current assets	<u>33,194,597</u>	<u>29,356,580</u>
Noncurrent assets:		
Endowment Investments	383,122	379,034
Land Held for Investment	9,090,636	9,700,000
Capital assets (net)	104,857,926	101,291,143
Total noncurrent assets	<u>114,331,684</u>	<u>111,370,177</u>
Total Assets	<u>147,526,281</u>	<u>140,726,757</u>
Deferred Outflows of Resources		
Deferred charge for refunding	109,016	155,737
Deferred outflows related to pensions	4,834,395	5,916,890
Deferred outflows related to OPEB	8,853,451	7,392,770
Total deferred outflows of resources	<u>13,796,862</u>	<u>13,465,397</u>
Liabilities		
Current liabilities:		
Accounts payable	746,122	2,477,655
Accrued liabilities	736,242	659,207
Interest payable	105,821	143,256
Funds held for others	556,271	460,866
Unearned revenue	7,202,232	5,874,612
Accrued Compensated Absences	912,593	788,785
Leases Payable - current portion	883,936	835,497
Bonds payable - current portion	2,545,000	2,625,000
OPEB liability - current portion	1,170,606	311,592
Total current liabilities	<u>14,858,823</u>	<u>14,176,470</u>
Noncurrent liabilities:		
Leases payable - noncurrent portion	6,747,754	7,731,587
Bonds payable	54,077,050	56,721,567
Net pension liability	11,082,243	12,771,701
Net OPEB liability	35,763,562	32,869,057
Total noncurrent liabilities	<u>107,670,609</u>	<u>110,093,912</u>
Total Liabilities	<u>122,529,432</u>	<u>124,270,382</u>
Deferred Inflows of Resources		
Deferred inflows related to pensions	2,696,447	1,098,067
Deferred inflows related to OPEB	11,040,320	12,843,037
Total deferred inflows of resources	<u>13,736,767</u>	<u>13,941,104</u>
Net Position		
Net Investment in capital assets	42,440,154	40,928,659
Restricted for:		
Non-Expendable - Endowment	383,122	379,034
Unrestricted	(17,766,332)	(25,327,025)
Total Net Position	<u>\$ 25,056,944</u>	<u>\$ 15,980,668</u>

LEE COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNIT
STATEMENTS OF FINANCIAL POSITION

Lee College Foundation, Inc. - Fiscal Years August 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 2,121,110	\$ 917,088
Contributions receivable, net	100	71,070
Investments	12,269,828	12,642,162
Accrued Interest Receivable	-	38,125
Total Assets	<u>\$ 14,391,038</u>	<u>\$ 13,668,445</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 17,829	\$ 6,750
Deferred revenue	-	73,125
Funds Held for the benefit of others	7,048	98,598
Total liabilities	<u>24,877</u>	<u>178,473</u>
Net Assets:		
Without donor restrictions		
Board designated	101,328	
Unrestricted	901,637	941,955
Total without donor restriction	<u>1,002,965</u>	<u>941,955</u>
With donor restrictions		
Purpose restriction	493,225	553,165
Perpetual in nature	7,410,757	7,271,082
Accumulated investment gains available for spending pollicy	5,459,214	4,723,770
Total with donor restrictions	<u>13,363,196</u>	<u>12,548,017</u>
Total Net Assets	<u>14,366,161</u>	<u>13,489,972</u>
Total Liabilities and Net Assets	<u>\$ 14,391,038</u>	<u>\$ 13,668,445</u>

LEE COLLEGE DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended August 31, 2020 and 2019

Exhibit 2

	2020	2019
Operating Revenues		
Tuition and fees (net of discounts)	\$ 7,961,292	\$ 10,809,240
Federal grants and contracts	5,402,156	3,417,314
State grants and contracts	513,024	468,239
Private grants and contracts	271,561	858,461
Local grants and contracts	-	12,000
Sales and services of educational activities	15,427	70,209
Auxiliary enterprises (net of discounts)	274,787	393,943
General operating revenues	824,354	325,744
Total operating revenues (Schedule A)	<u>15,262,601</u>	<u>16,355,150</u>
Operating Expenses		
Instruction	27,253,419	26,303,861
Public service	2,113,988	2,792,720
Academic support	4,546,893	4,321,729
Student services	4,680,187	3,400,092
Institutional support	12,356,241	11,293,174
Operation and maintenance of plant	6,361,919	6,534,319
Scholarships and fellowships	4,828,813	2,711,609
Auxiliary enterprises	923,612	1,073,260
Depreciation expense	3,412,657	3,124,910
Total operating expenses (Schedule B)	<u>66,477,729</u>	<u>61,555,674</u>
Operating income (loss)	<u>(51,215,128)</u>	<u>(45,200,524)</u>
Non-operating revenues (expenses)		
State appropriations	14,040,314	12,374,736
Maintenance ad valorem taxes	32,645,106	31,325,219
General obligation bond taxes	3,566,932	3,588,224
Federal revenue, non-operating	8,787,913	5,627,362
Investment income	379,310	564,073
Gifts	943,721	1,022,985
Payments in lieu of taxes	1,287,791	1,656,593
Interest on capital related debt	(2,615,579)	(2,633,299)
Gain on sale of investment	1,421,386	-
Other non-operating revenues (expenses)	(165,490)	(304,291)
Net non-operating revenues (expenses) (Schedule C)	<u>60,291,404</u>	<u>53,221,602</u>
Increase (decrease) in net position	9,076,276	8,021,078
Net position - beginning of year	<u>15,980,668</u>	<u>7,959,590</u>
Net position - end of year	<u>\$ 25,056,944</u>	<u>\$ 15,980,668</u>

LEE COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNIT
STATEMENTS OF ACTIVITIES

Lee College Foundation, Inc. - Fiscal Year Ended August 31, 2020 with Comparative Totals for 2019

	Without Donor Restrictions	With Donor Restrictions	Year Ended August 31,	
			2020	2019
Revenue and Support:				
Contributions	\$ 288,509	\$ 629,576	\$ 918,085	\$ 951,206
Special events, net of fundraising expenses (\$19,135 for fiscal year 2020 and \$26,190 for fiscal year 2019)	164,953	-	164,953	208,200
Net investment return	7,702	1,227,260	1,234,962	433,321
Net assets released from restrictions	1,041,657	(1,041,657)	-	-
Total Revenue and Other Support	1,502,821	815,179	2,318,000	1,592,727
Expenses:				
Program Expenses:				
Scholarships	820,557	-	820,557	768,229
Capital facilities assistance	225,500	-	225,500	341,759
Emergency assistance expenses	168,226	-	168,226	-
Management and general	227,528	-	227,528	217,075
Total Expenses	1,441,811	-	1,441,811	1,327,063
Change in Net Assets	61,010	815,179	876,189	265,664
Net Assets, at beginning of year	941,955	12,548,017	13,489,972	13,224,308
Net Assets, at end of year	\$ 1,002,965	\$ 13,363,196	\$ 14,366,161	\$ 13,489,972

LEE COLLEGE DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ended August 31, 2020 and 2019

Exhibit 3
Page 1 of 2

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Receipts from students and other customers	\$ 7,649,934	\$ 13,128,151
Receipts from grants and contracts	5,489,608	5,732,076
Payments to suppliers for goods and services	(15,257,487)	(18,770,591)
Payments to or on behalf of employees	(39,877,734)	(34,113,295)
Payments for scholarships and fellowships	(4,828,813)	(2,716,159)
Other receipts	824,354	325,744
Net cash (used) by operating activities	<u>(46,000,138)</u>	<u>(36,414,074)</u>
Cash flows from non-capital financing activities:		
Receipts from state appropriations	11,125,834	9,480,447
Receipts from ad valorem taxes	33,914,648	33,005,786
Receipts from gifts	943,721	1,022,985
Receipts from Federal Grants	8,787,913	5,627,362
Receipts from student organizations and other agency transactions	95,405	348,247
Other receipts	(165,490)	(30,264)
Net cash provided by non-capital financing activities	<u>54,702,031</u>	<u>49,454,563</u>
Cash flows from capital and related financing activities:		
Receipts from ad valorem taxes	3,566,932	3,588,224
Purchases of capital assets	(6,978,504)	(6,344,338)
Payments on capital debt and leases	(6,266,204)	(5,801,651)
Net cash (used) by capital and related financing activities	<u>(9,677,776)</u>	<u>(8,557,765)</u>
Cash flows from investing activities:		
Proceeds from sale of land held for investment	2,030,750	4,726,694
Proceeds from sales and maturities of investments	591,797	
Interest on investments	375,222	569,857
Net cash provided by investing activities	<u>2,997,769</u>	<u>5,296,551</u>
Increase (decrease) in cash and cash equivalents	2,021,886	9,779,275
Cash and cash equivalents, beginning of year	<u>22,785,083</u>	<u>13,005,808</u>
Cash and cash equivalents, end of year	<u>\$ 24,806,969</u>	<u>\$ 22,785,083</u>
Components of cash and cash equivalents		
Cash and cash equivalents	\$ 23,080,017	\$ 15,389,653
Restricted cash and cash equivalents	1,726,952	7,395,430
	<u>\$ 24,806,969</u>	<u>\$ 22,785,083</u>

LEE COLLEGE DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ended August 31, 2020 and 2019

Exhibit 3
Page 2 of 2

	<u>2020</u>	<u>2019</u>
Reconciliation of net operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (51,215,128)	\$ (45,200,524)
Adjustments:		
Depreciation expense	3,412,657	3,124,910
Payments made directly by state for benefits	2,914,480	2,894,289
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
(Increase) decrease in receivables, net	(2,819,415)	3,132,988
(Increase) decrease in inventories	5,734	(1,919)
(Increase) decrease in prepaid expenses	423,066	(3,023,779)
(Increase) decrease in deferred outflows related to pensions	1,082,495	(4,124,088)
(Increase) decrease in deferred outflows related to OPEB	(1,460,681)	(6,537,878)
Increase (decrease) accounts payable	(1,731,533)	1,428,495
Increase (decrease) in accrued liabilities	77,035	301,770
Increase (decrease) in compensated absences	123,808	27,863
Increase (decrease) in unearned revenue	1,327,620	(527,927)
Increase (decrease) in deferred inflows related to pensions	1,598,380	(372,165)
Increase (decrease) in deferred inflows related to OPEB	(1,802,717)	5,879,058
Increase (decrease) in net pension liability	(1,689,458)	5,174,495
Increase (decrease) in net OPEB Liability	3,753,519	1,684,365
Net cash (used) by operating activities	<u>\$ (46,000,138)</u>	<u>\$ (36,140,047)</u>

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 Foundation, Inc. (the Foundation) as a component unit of the District. This component unit, which has a fiscal year-end of August 31, 2020, 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.

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.

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

Note 2 - Summary of Significant Accounting Policies (continued)

Tuition Discounting (continued)

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, investment pools 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*.

Inventories

Inventories, consisting of food service supplies are valued at the lower of cost (under the "first-in, first-out" method) or market.

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

Tuition, fees, and other revenues received that are related to the period after August 31, 2020 are reported as unearned revenues.

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 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 of 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 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 – Non-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 represents 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.

Reclassifications

Certain amounts for 2019 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.

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

Note 4 - Deposits and Investments

At August 31, 2020 and 2019 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>2020</u>	<u>2019</u>
<i>Cash and Cash Equivalents:</i>		
Demand deposits - unrestricted	\$ 1,205,519	\$ 1,172,782
Demand deposits - restricted	568,935	610,214
Investment Pools - unrestricted	21,868,028	14,210,401
Investment Pools - restricted	1,158,017	6,785,216
Investment Pools - endowment	383,122	379,034
Petty cash on hand	6,470	6,470
Total Cash and cash equivalents:	<u>\$ 25,190,091</u>	<u>\$ 23,164,117</u>

Reconciliation of Deposits and Investments to Exhibit 1:

<u>Type of Security</u>	<u>Amortized cost/Fair Value</u>	
	<u>2020</u>	<u>2019</u>
<i>Investments:</i>		
Money Market	\$ 273,441	\$ 866,174
Land Held for Investment	9,090,636	9,700,000
Total Investments	<u>9,364,077</u>	<u>10,566,174</u>
Total Cash and Cash Equivalents	<u>25,190,091</u>	<u>23,164,117</u>
Total Deposits and Investments	<u>\$ 34,554,168</u>	<u>\$ 33,730,291</u>
Cash and temporary investments (Exhibit 1):		
Cash and cash equivalents	\$ 23,080,017	\$ 15,389,653
Cash and cash equivalents - endowment	383,122	379,034
Short term investments	273,441	866,174
Land held for investment	9,090,636	9,700,000
Restricted cash and cash equivalents	1,726,952	7,395,430
Total Deposits and Investments	<u>\$ 34,554,168</u>	<u>\$ 33,730,291</u>

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

Note 4 - Deposits and Investments (continued)

As of August 31, 2020, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Amortized Cost/Fair</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less than 1</u>	<u>1 to 5</u>
Money Market	\$ 273,441	\$ 273,441	\$ -
Investment Pools:			
Investment in Tex Pool	1,431,458	1,431,458	-
Investment in Lone Star Pool	21,868,028	21,868,028	-
Land Held for Investment	9,090,636	-	9,090,636
Total Fair Value	\$ 32,663,563	\$ 23,572,927	\$ 9,090,636

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.

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.

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

Note 4 - Deposits and Investments (continued)

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.

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 the Foundation, Component Unit of the District, consist of:

	<u>August 31, 2020</u>	<u>August 31, 2019</u>
<u>Bank Deposits</u>		
Demand Deposits	\$ 2,121,110	\$ 917,088
<u>Type of Security</u>		
Investments, at market value:		
Mutual Funds	12,269,828	12,642,162
Total Investments	<u>12,269,828</u>	<u>12,642,162</u>
Total Cash and Investments	<u>\$ 14,390,938</u>	<u>\$ 13,559,250</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, 2020</u>				<u>August 31, 2019</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Total</u>
Land Held for Investment	\$ -	\$ -	\$ 9,090,636	\$ 9,090,636	\$ 9,700,000
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,090,636</u>	<u>\$ 9,090,636</u>	<u>\$ 9,700,000</u>

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

Note 4 - Deposits and Investments (continued)

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

	August 31, 2020			August 31, 2019
	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 12,269,828	\$ -	\$ -	\$ 12,269,828
Total	\$ 12,269,828	\$ -	\$ -	\$ 12,269,828

Note 5 - Disaggregation of Receivables and Payables Balances

Accounts receivable at August 31, 2020 and 2019, consisted of the following:

	2020	2019
<u>Receivables:</u>		
Student Receivables	\$ 4,598,972	\$ 2,528,875
Taxes Receivable	1,505,744	1,457,721
Federal Receivables	1,443,297	746,164
Accounts Receivable	655,684	455,633
Total	8,203,697	5,188,393
Allowance for Uncollectibles	(2,783,907)	(2,606,267)
Total receivables, net	\$ 5,419,790	\$ 2,582,126

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:

	2020	2019
Student Receivable	\$ 1,844,330	\$ 1,696,648
Taxes Receivable	933,561	903,787
Accounts Receivable	6,016	5,832
Total	\$ 2,783,907	\$ 2,606,267

Payables at August 31, 2020 and 2019, consisted of the following:

	2020	2019
Accrued wages payable	\$ 136,173	\$ 112,070
Vendor's payable	746,122	2,477,655
Accrued Interest	105,821	143,256
Other accrued liabilities	600,069	547,137
Total	1,588,185	3,280,118

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

Note 6 - Capital Assets

Capital assets activity for the year ended August 31, 2020, was as follows:

	Balance 08/31/19	Additions	Retirements and Transfers	Balance 08/31/20
Not depreciated:				
Land	\$ 1,393,556	\$ 122,995	\$ -	\$ 1,516,551
Construction in progress	604,381	4,797,029	(5,382,848)	18,562
Total not depreciated assets	1,997,937	4,920,024	(5,382,848)	1,535,113
Buildings and other capital assets:				
Buildings and building improvements	120,578,416	1,634,076	20,773	122,233,265
Improvements other than buildings	2,554,275	-	4,460,042	7,014,317
Total buildings and other real estate improvements	123,132,691	1,634,076	4,480,815	129,247,582
Furniture, equipment and vehicles	24,245,030	231,137	-	24,476,167
Telecommunication equipment	8,686,793	112,418	902,969	9,702,180
Library books	3,381,346	80,849	-	3,462,195
Total buildings and other capital assets	159,445,860	2,058,480	5,383,784	166,888,124
Accumulated depreciation:				
Buildings and building improvements	(28,286,385)	(2,041,280)		(30,327,665)
Improvements other than buildings	(1,287,421)	(180,727)		(1,468,148)
Total buildings and other real estate improvements	(29,573,806)	(2,222,007)	-	(31,795,813)
Furniture, equipment and vehicles	(20,374,410)	(632,792)	-	(21,007,202)
Telecommunication equipment	(8,213,744)	(427,180)	-	(8,640,924)
Library books	(1,990,694)	(130,678)	-	(2,121,372)
Total Accumulated depreciation	(60,152,654)	(3,412,657)	-	(63,565,311)
Net capital assets	\$ 101,291,143	\$ 3,565,847	\$ 936	\$ 104,857,926

At August 31, 2020, the District has the following active construction and estimated construction commitments with contractors as follows:

<u>Project</u>	Approved Construction Budget	Construction in Progress	Estimated Remaining Commitment
Other	\$ 1,014,932	\$ 18,562	\$ 996,370
	<u>\$ 1,014,932</u>	<u>\$ 18,562</u>	<u>\$ 996,370</u>

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

Note 6 - Capital Assets (continued)

Capital assets activity for the year ended August 31, 2019, was as follows:

	<u>Balance 08/31/18</u>	<u>Additions</u>	<u>Retirements and Transfers</u>	<u>Balance 08/31/19</u>
Not depreciated:				
Land	\$ 1,393,556	\$	-	\$ 1,393,556
Construction in progress	86,351	5,208,907	(4,690,877)	604,381
Total not depreciated assets	<u>1,479,907</u>	<u>5,208,907</u>	<u>(4,690,877)</u>	<u>1,997,937</u>
Buildings and other capital assets:				
Buildings and building improvements	116,519,967		4,058,449	120,578,416
Improvements other than buildings	1,921,847		632,428	2,554,275
Total buildings and other real estate improvements	<u>118,441,814</u>		<u>4,690,877</u>	<u>123,132,691</u>
Furniture, equipment and vehicles	23,261,910	983,120	-	24,245,030
Telecommunication equipment	8,686,793		-	8,686,793
Library books	3,229,015	152,331	-	3,381,346
Total buildings and other capital assets	<u>153,619,532</u>	<u>1,135,451</u>	<u>4,690,877</u>	<u>159,445,860</u>
Accumulated depreciation:				
Buildings and building improvements	(26,296,524)	(1,989,861)	-	(28,286,385)
Improvements other than buildings	(1,221,273)	(66,148)	-	(1,287,421)
Total buildings and other real estate improvements	<u>(27,517,797)</u>	<u>(2,056,009)</u>	<u>-</u>	<u>(29,573,806)</u>
Furniture, equipment and vehicles	(19,741,237)	(633,173)	-	(20,374,410)
Telecommunication equipment	(7,908,090)	(305,654)	-	(8,213,744)
Library books	(1,860,620)	(130,074)	-	(1,990,694)
Total Accumulated depreciation	<u>(57,027,744)</u>	<u>(3,124,910)</u>		<u>(60,152,654)</u>
Net capital assets	<u>\$ 98,071,695</u>	<u>\$ 3,219,448</u>	<u>\$</u>	<u>\$ 101,291,143</u>

At August 31, 2019, 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>
Pool	\$ 1,119,401	\$ 55,207	\$ 1,137,800
Site	420,076	137,300	282,776
MEP	2,689,337	359,373	2,329,964
Tech	950,000	52,501	897,499
	<u>\$ 6,572,602</u>	<u>\$ 604,381</u>	<u>\$ 6,041,827</u>

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

Note 7 - Noncurrent Liabilities

Noncurrent liabilities activity for the year ended August 31, 2020, was as follows:

	<u>Balance 09/01/19</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 08/31/20</u>	<u>Current Portion</u>
Bonds and Leases					
General Obligation Bonds	\$ 41,115,000	\$ -	\$ (1,655,000)	\$ 39,460,000	\$ 1,570,000
Revenue bonds	16,560,000	-	(970,000)	15,590,000	975,000
Bond Premiums	1,671,567	-	(99,517)	1,572,050	-
Capital lease payable	8,567,084	-	(935,394)	7,631,690	883,936
Total Bonds and Leases	<u>67,913,651</u>	<u>-</u>	<u>(3,659,911)</u>	<u>64,253,740</u>	<u>3,428,936</u>
Other Liabilities					
Compensated absences payable	788,785	912,593	(788,785)	912,593	912,593
Net Pension Liability	12,771,701	-	(1,689,458)	11,082,243	-
Net OPEB Liability	33,180,649	6,980,543	(3,227,024)	36,934,168	1,170,606
Total Other Liabilities	<u>46,741,135</u>	<u>7,893,136</u>	<u>(5,705,267)</u>	<u>48,929,004</u>	<u>2,083,199</u>
Total noncurrent liabilities	<u>\$ 114,654,786</u>	<u>\$ 7,893,136</u>	<u>\$ (9,365,178)</u>	<u>\$ 113,182,744</u>	<u>\$ 5,512,135</u>

Noncurrent liabilities activity for the year ended August 31, 2019, was as follows:

	<u>Balance 09/01/18</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 08/31/19</u>	<u>Current Portion</u>
Bonds and Leases					
General Obligation Bonds	\$ 42,750,000	\$ -	\$ (1,635,000)	\$ 41,115,000	\$ 1,655,000
Revenue bonds	17,500,000	-	(940,000)	16,560,000	970,000
Bond Premiums	1,771,086	-	(99,519)	1,671,567	-
Capital lease payable	9,060,589	-	(493,505)	8,567,084	835,497
Total Bonds and Leases	<u>71,081,675</u>	<u>-</u>	<u>(3,168,024)</u>	<u>67,913,651</u>	<u>3,460,497</u>
Other Liabilities					
Compensated absences payable	760,922	788,785	(760,922)	788,785	788,785
Net Pension Liability	7,597,206	5,956,158	(781,663)	12,771,701	-
Net OPEB Liability	37,631,362	1,025,545	(5,476,258)	33,180,649	311,592
Total Other Liabilities	<u>45,989,490</u>	<u>7,770,488</u>	<u>(7,018,843)</u>	<u>46,741,135</u>	<u>1,100,377</u>
Total noncurrent liabilities	<u>\$ 117,071,165</u>	<u>\$ 7,770,488</u>	<u>\$ (10,186,867)</u>	<u>\$ 114,654,786</u>	<u>\$ 4,560,874</u>

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, 2020 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 8/31/19</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
					<u>39,460,000</u>
<u>Revenue Bonds</u>					
New Revenue Financing System Bonds, Series 2015	10/8/2015	8,575,000	2.42%	8/15/2027	5,270,000
New Revenue Financing System Bonds, Series 2018	8/16/2018	10,320,000	3.25% to 5%	8/15/2037	10,320,000
					<u>15,590,000</u>
					<u>\$ 55,050,000</u>

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, 2020, were as follows:

<u>Year Ending August 31,</u>	<u>General Obligation Bonds</u>			<u>Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 1,570,000	\$ 1,850,206	\$ 3,420,206	\$ 975,000	\$ 583,672	\$ 1,558,672
2022	1,645,000	1,771,706	3,416,706	1,000,000	555,732	1,555,732
2023	1,730,000	1,689,456	3,419,456	1,030,000	527,029	1,557,029
2024	1,815,000	1,602,856	3,417,856	1,060,000	497,442	1,557,442
2025	1,905,000	1,512,206	3,417,206	1,095,000	463,921	1,558,921
2026 - 2030	10,845,000	6,245,744	17,090,744	4,365,000	1,788,139	6,153,139
2031 - 2035	13,570,000	3,522,813	17,092,813	4,160,000	898,813	5,058,813
2036 - 2037	6,380,000	458,138	6,838,138	1,905,000	115,000	2,020,000
	<u>\$ 39,460,000</u>	<u>\$ 18,653,125</u>	<u>\$ 58,113,125</u>	<u>\$ 15,590,000</u>	<u>\$ 5,429,748</u>	<u>\$ 21,019,748</u>

<u>Year Ending August 31,</u>	<u>Total Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	2,875,000	2,100,298	4,975,298
2025	3,000,000	1,976,127	4,976,127
2026 - 2030	15,210,000	8,033,883	23,243,883
2031 - 2035	17,730,000	4,421,626	22,151,626
2036 - 2037	8,285,000	573,138	8,858,138
	<u>\$ 55,050,000</u>	<u>\$ 24,082,873</u>	<u>\$ 79,132,873</u>

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

Note 7 - Noncurrent Liabilities (continued)

The District did not have any defeased bonds outstanding at August 31, 2020.

Note 8 - Compensated Absences

Sick Leave - Employees of the District are awarded 108 hours of sick leave per year and may accumulate up to 960 hours 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 can earn between 108 and 216 hours per year paid vacation, depending on position and length of service. Earned vacation hours are credited to the employee on a monthly basis. The maximum accumulated vacation hours allowed are between 148 hours and 232 hours, depending on position and length of service. Accumulated vacation hours in excess of the maximums are forfeited.

At August 31, 2020 and 2019 the value of all accumulated vested employee vacation benefits was \$912,593 and \$788,785, respectively, and is included in accrued compensable absences on the balance sheet. The following is a summary of changes in vacation leave payable:

	<u>2020</u>	<u>2019</u>
Balance, September 1	\$ 788,785	\$ 760,922
Additions	912,593	788,785
Retirements	(788,785)	(760,922)
Balance, August 31	<u>\$ 912,593</u>	<u>\$ 788,785</u>
Current	<u>\$ 912,593</u>	<u>\$ 788,785</u>
	<u>\$ 912,593</u>	<u>\$ 788,785</u>

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</u> <u>August 31,</u>	<u>Minimum</u> <u>Payment</u>
	2021	\$ 1,045,582
	2022	1,076,011
	2023	1,107,353
	2024	1,139,635
	2025	1,172,885
	2026-2028	<u>2,762,486</u>
Total minimum capital lease payments		8,303,952
Less: amount representing interest costs (rate 2.21%)		<u>(672,262)</u>
Present value of future minimum capital lease payments		<u>\$ 7,631,690</u>

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

Note 10 - Operating Lease Commitments and Rental Agreements

As of August 31, 2020, the District had no significant commitments under non-cancelable operating lease agreements. Total rental expenditures under operating leases for the year ended August 31, 2020 was approximately \$127,000 and \$157,000 for the year ended August 31, 2019.

Note 11 - Employees Retirement Plan

Defined Benefit Pension Plan

A. Plan Description

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

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

B. Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at https://www.trs.texas.gov/TRS%20Documents/cafr_2019.pdf (select About TRS, then Publications, then Financial Reports); or write to TRS at 1000 Red River Street, Austin, TX 78701- 2698

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.

In May 2019, the 86th Texas Legislature approved the TRS Pension Reform Bill (Senate Bill 12) that provides for gradual contribution increases from the State, participating employers and active employees to make the pension fund actuarially sound. Because this action causes the pension fund to be actuarially sound, the Legislature approved funding for a 13th check in September 2019. All eligible members retired as of December 31, 2018 received an extra annuity check in either the matching amount of their monthly annuity or \$2,000, whichever was less.

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

Note 11 - Employees Retirement Plan (continued)

Defined Benefit Pension Plan (continued)

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. The TRS Pension Reform Bill (Senate Bill 12) of the 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2020 thru 2025.

	Contribution Rates	
	2019	2020
Member (Employee)	7.70%	7.70%
District (Employer)	6.80%	7.50%
Non-employer contributing agency (State)	6.80%	7.50%

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).

	Measurement Year (2019)		Fiscal Year (2020)
	Contributions Required and Made	Pension Expense	TRS Contributions
Member (Employee)	\$ 1,414,472	\$	\$ 1,512,753
Non-employer contributing agency (State)	511,947	1,194,428	629,585
District (Employer)	765,220	1,844,240	871,855

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

Note 11 - Employees Retirement Plan (continued)

Defined Benefit Pension Plans (continued)

D. Contributions (continued)

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.

E. Actuarial Assumptions

The total pension liability in the August 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2018 rolled forward to August 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Discount Rate	7.25%
Long-term expected Investment Rate of Return	7.25%
Municipal Bond Rate*	2.63%
Inflation	2.30%
Salary Increases	3.05% to 9.05% including inflation
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

* 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."

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

Note 11 - Employees Retirement Plan (continued)

Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions (continued)

The actuarial methods and assumptions were selected by the Board of Trustees based upon analysis and recommendations by the system's actuary. The Board of Trustees has sole authority to determine the actuarial assumptions used for the plan. The actuarial methods and assumptions were primarily based on a study of actual experience for the three-year period ending August 31, 2017 and were adopted in July 2018.

F. Discount Rate

The single discount rate used to measure the total pension liability was 7.25%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25%. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers, and the non-employer contributing entity will be made at the rates set by the Legislature during the 2019 session. It is assumed that future employer and state contributions will be 8.50% of payroll in fiscal year 2020 gradually increasing to 9.55% of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

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.

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)

The long-term rate of return on pension plan investments is 7.25%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the system’s target asset allocations of August 31, 2019 are summarized below:

<u>Asset Class</u>	<u>FY 2019 Target Allocation¹</u>	<u>New Target Allocation²</u>	<u>Long-term Expected Geometric Real Rate of Return³</u>
Global Equity			
U.S.	18.00%	18.00%	6.40%
Non-U.S. Developed	13.00%	13.00%	6.30%
Emerging Markets	9.00%	9.00%	7.30%
Directional Hedge Funds	4.00%	0.00%	0.00%
Private Equity	13.00%	14.00%	8.40%
Stable Value			
U.S. Treasuries ⁴	11.00%	16.00%	3.10%
Stable Value Hedge Funds	4.00%	5.00%	4.50%
Absolute Return (Including Credit Sensitive Investments)	0.00%	0.00%	0.00%
Real Return			
Global Inflation Linked Bonds	3.00%	0.00%	0.00%
Real Estate	14.00%	15.00%	8.00%
Energy, Natural Resources and Infrastructure	5.00%	6.00%	7.30%
Commodities	0.00%	0.00%	1.00%
Risk Parity	0.00%		0.00%
Risk Parity	5.00%	8.00%	5.8%/6.5% ⁵
Asset Allocation Leverage Cash	1.00%	2.00%	2.50%
Asset Allocation Leverage	0.00%	-6.00%	2.70%
Expected Return			7.23%
Total	<u>100.00%</u>		

¹ Target allocations based on the Strategic Asset Allocation dated 10/1/2018

² New target allocation based on the Strategic Asset Allocation dated 10/1/2019

³ 10-Year annualized geometric nominal returns include the real rate of return and inflation of 2.1%

⁴ New Target Allocation groups Government Bonds within the stable value allocation. This includes global sovereign

⁵ 5.8%/(6.5%) return expectation corresponds to Risk Parity with a 10% (12%) target volatility

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

Note 11 - Employees Retirement Plan (continued)

Defined Benefit Pension Plans (continued)

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 (7.250%) in measuring the 2019 net pension liability.

	Discount Rate		
	1% Decrease	Current	1% Increase
	(6.250%)	Rate (7.250%)	(8.250%)
District's proportional share of the net pension liability	\$ 17,035,017	\$ 11,082,243	\$ 6,259,347

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 (6.907%) in measuring the 2018 net pension liability.

	Discount Rate		
	1% Decrease	Current	1% Increase
	(5.907%)	Rate (6.907%)	(7.907%)
District's proportional share of the net pension liability	\$ 19,275,559	\$ 12,771,701	\$ 7,506,442

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

At August 31, 2020, the District reported a liability of \$11,082,243 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	0.02132%
District's proportionate share of the net pension liability	\$ 11,082,243
State's proportionate share of the net pension liability associated with the District	7,603,663
Total	<u>\$ 18,685,906</u>

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 (continued)

At August 31, 2019, the District reported a liability of 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	0.02320%
District's proportionate share of the net pension liability	\$ 12,771,701
State's proportionate share of the net pension liability associated with the District	8,653,437
Total	<u>\$ 21,425,138</u>

The net pension liability was measured as of August 31, 2019 and 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. 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 periods September 1, 2018 thru August 31, 2019 and September 1, 2017 thru August 31, 2018, respectively.

At August 31, 2019 the employer’s proportion of the collective net pension liability was 0.02132% which was a decrease from its proportion measured as of August 31, 2018 of .

At August 31, 2018, the employer’s proportion of the collective net pension liability was , which was a decrease from its proportion measured as of August 31, 2017, of 0.02376%.

Changes since the Prior Actuarial Valuation

The following were changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

- The total pension liability as of August 31, 2019 was developed using a roll-forward method from the August 31, 2018 valuation.
- The single discount rate as of August 31, 2018, was a blended rate of 6.907%, and that has changed to the long-term rate of return of 7.25% as of August 31, 2019.
- With the enactment of SB 3 by the 86th Texas Legislature, 2019, an assumption has been made about how this would impact future salaries. It is assumed that eligible active members will each receive a \$2,700 increase in fiscal year 2020. This is in addition to the salary increase expected in the actuarial assumptions.
- The Texas Legislature approved funding for a 13th check in September 2019. All eligible members retired as of December 31, 2018 received an extra annuity check in September 2019 in either the matching amount of their monthly annuity payment or \$2,000, whichever was less.

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, 2020, the District recognized pension expense of \$2,166,813 as well as on behalf revenue and pension expense of \$1,194,428 representing pension expense incurred by the State on behalf of the District.

For the year ended August 31, 2019, the District recognized pension expense of \$2,314,047 as well as on behalf revenue and pension expense of \$856,460 representing pension expense incurred by the State on behalf of the District.

At August 31, 2020, 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	\$ 46,555	\$ (384,793)
Changes in assumptions	3,438,256	(1,420,850)
Difference between projected and actual investment earnings	111,279	-
Changes in proportion and differences between District contributions and proportionate share of contributions	366,450	(890,804)
District contributions subsequent to the measurement date	871,855	-
	<u>\$ 4,834,395</u>	<u>\$ (2,696,447)</u>

The \$871,855 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, 2021. 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
2021	\$ 210,495
2022	114,935
2023	543,728
2024	488,984
2025	50,652
Thereafter	(142,701)
	<u>\$ 1,266,093</u>

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)

At August 31, 2019, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 79,608	\$ (313,367)
Changes in assumptions	4,604,813	(143,901)
Difference between projected and actual investment earnings	-	(242,334)
Changes in proportion and differences between District contributions and proportionate share of contributions	467,249	(398,465)
District contributions subsequent to the measurement date	765,220	-
Total	<u>\$ 5,916,890</u>	<u>\$ (1,098,067)</u>

The \$12,771,701 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, 2020. 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:

<u>Year ended August 31,</u>	<u>Amount</u>
2020	\$ 1,011,514
2021	501,547
2022	396,840
2023	857,475
2024	800,666
Thereafter	485,561
	<u>\$ 4,053,603</u>

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

Note 11 - Employees Retirement Plan (continued)

Defined Benefit Pension Plans (continued)

I. 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. Since individual annuity contracts are purchased, the state and the District have no additional or unfunded liability for this program. Senate Bill 1812, effective September 1, 2013, limits the amount of the state’s contribution to 50% of eligible employees in the reporting district. The percentages of participant salaries currently contributed by the state and each participant are 6.60% and 6.65%, respectively. The District supplements an additional 1.9%. In certain instances, the District is required to make all or a portion of the state’s contribution.

Contribution rates as a percentage of compensation and contributions made for ORP for 2020, 2019, and 2018 are shown in the table below.

<u>Year</u>	<u>Employee</u>		<u>District/State</u>		<u>District</u>	
	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>
2020	6.65%	\$576,155	6.6%	\$276,176	1.9%	\$ 66,745
2019	6.65%	585,449	6.6%	279,631	1.9%	68,848
2018	6.65%	622,768	6.6%	297,351	1.9%	78,551

The total payroll for all District employees was \$32,456,954 and \$30,823,810 for fiscal years 2020 and 2019, respectively. The total payroll of employees covered by the Teacher Retirement System was \$19,646,796 and \$18,369,764 for fiscal years 2020 and 2019, respectively. The total payroll of employees covered by the Optional Retirement System was \$8,663,977 and \$8,803,779 for fiscal years 2020 and 2019, 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.

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

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 on the Internet at <https://ers.texas.gov/About-ERS/Reports-and-Studies/Reports-on-https://ers.texas.gov/About-ERS/Reports-and-Studies/Reports-on-Overall-ERS-Operations-and-Financial-Management/2019-CAFR.pdf>; or by writing to ERS at: 200 East 18th Street, Austin, TX 78701; or by calling (877) 275-4377.

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 2019	
Retiree Only	\$ 624.82
Retiree & Spouse	\$ 982.82
Retiree & Children	\$ 864.52
Retiree & Family	\$ 1,222.52

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

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

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 Plan Years Ended August 31, 2019 and 2018		
	2019	2018
Employer	\$ 428,819	\$ 343,731
Members (Employees)	224,234	227,405
Nonemployer Contributing Entity (State of Texas)	\$21,568	18,568

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of August 31, 2019 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Assumptions
ERS Group Benefits Program Plan

Valuation Date	August 31, 2019
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll, Open
Remaining Amortization Period	30 Years
Asset Valuation Method	N/A, plan operates on a pay-as-you-go basis
Actuarial Assumptions:	
Discount Rate	2.97%
Projected Annual Salary Increase	2.50% to 9.50%
Healthcare cost trend rates	
HealthSelect	7.30% for FY 2021, 7.40% for FY 2022, 7.00% for FY 2023, decreasing 0.50% per year to an ultimate rate of 4.50% for FY 2028 and later years
HealthSelect Medicare Advantage	10.80% for FY 2021, 7.40% for FY 2022, 7.00% for FY 2023, decreasing 0.50% per year to an ultimate rate of 4.50% for FY 2028 and later years
Inflation Assumption Rate	2.50%
Ad hoc Post-employment Benefit Changes	None

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

Actuarial Assumptions
ERS Group Benefits Program Plan

Mortality Assumptions:

Service retirees, survivors and other inactive members	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018
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Disability retirees	Tables based on TRS experience with Ultimate MP Projection Scale projected from the year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per female members
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Active members	Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the year 2014
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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.

Changes to Actuarial Assumptions since prior Actuarial Valuation

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:

- Demographic assumptions (including rates of retirement, disability, termination, mortality, and assumed salary increases) for higher education members have been updated to reflect assumptions recently adopted by the trustees from the Teachers Retirement System of Texas.
- Assumed expenses, assumed per capita health benefit costs, and assumed health benefit cost, retiree contribution, and expense trends have been updated to reflect recent experience and its effects on our short-term expectations.
- The percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence.
- The percentage of future male retirees assumed to be married and electing coverage for their spouse.
- The percentage of future retirees and future retiree spouses assumed to use tobacco have been updated to reflect recent plan experience and expected trends.
- The discount rate assumption was increased from 3.96% as of August 31, 2018 to 2.97% as of August 31, 2019 as a result of requirements by GASB No. 74 to utilize the yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

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

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

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

- The valuation reflects the benefit change that will become effective January 1, 2020. The change to HealthSelect retirees and dependents for whom Medicare is not primary is an increase in the out-of-pocket maximum for both HealthSelect and Consumer Directed HealthSelect (CDHP) from \$6,650 to \$6,750 for individuals and from \$13,300 to \$13,500 for families in order to remain consistent with Internal Revenue maximums.

These benefit changes have been reflected in the fiscal year 2019 assumed per capita health it costs.

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%.

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 3.96%. The discount rate used to measure the total OPEB liability as of the end of the measurement year was 2.97%, which amounted to a decrease of 0.99%. 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 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 (2.97%) in measuring the 2019 net OPEB Liability.

	<u>1% Decrease</u> <u>1.97%</u>	<u>Rate</u> <u>2.97%</u>	<u>1% Increase</u> <u>3.97%</u>
District's proportional share of the net OPEB liability	\$ 44,073,951	\$ 36,934,168	\$ 31,440,365

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 (3.96%) in measuring the 2018 net OPEB Liability.

	<u>1% Decrease</u> <u>(2.96%)</u>	<u>Current Discount</u> <u>Rate</u> <u>(3.96%)</u>	<u>1% Increase</u> <u>(4.96%)</u>
District's proportional share of the net OPEB liability	\$ 39,393,156	\$ 33,180,649	\$ 28,478,488

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

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

Healthcare Trend Rate Sensitivity Analysis. The initial healthcare trend rate is 7.3% and the ultimate rate is 4.5%. The following schedule shows the impact on the District’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 (7.3% decreasing to 4.5%) in measuring the 2019 net OPEB Liability.

	1% Decrease (6.30% decreasing to 3.50%)	Current Healthcare Cost Trend Rates (7.30% decreasing to 4.50%)	1% Increase (8.30% decreasing to 5.50%)
District's proportional share of the net OPEB liability	\$ 31,013,294	\$ 36,934,168	\$ 44,671,395

The initial healthcare trend rate is 8.5% and the ultimate rate is 4.5%. The following schedule shows the impact on the District’s proportionate share of the collective 2017 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 (7.3%), decreasing to 4.5% in measuring the 2018 net OPEB liability.

	1% Decrease (6.30% decreasing to 3.50%)	Current Healthcare Cost Trend Rates (7.3% decreasing to 4.50%)	1% Increase (8.30% decreasing to 5.50%)
District's proportional share of the net OPEB liability	\$ 28,099,725	\$ 33,180,649	\$ 39,735,064

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

At August 31, 2020, the District reported a liability of \$36,934,168 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	0.10686143%
District's proportionate share of the net OPEB liability	\$ 36,934,168
State's proportionate share of the net OPEB liability associated with the District	<u>23,836,151</u>
Total	<u><u>\$ 60,770,319</u></u>

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 (continued)

At August 31, 2019, the District reported a liability of \$33,180,649 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	0.11195404%
District's proportionate share of the net OPEB liability	\$ 33,180,649
State's proportionate share of the net OPEB liability associated with the District	21,563,230
Total	<u>\$ 54,743,879</u>

The net OPEB liability was measured as of August 31, 2019, 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, 2018, through August 31, 2019.

At the measurement date of August 31, 2019, the employer’s proportion of the collective net OPEB liability was 0.10686143%, which was a decrease of 0.0050926% from its proportion measured as of August 31, 2018.

At the measurement date of August 31, 2018, the employer’s proportion of the collective net OPEB liability was 0.11195404%, which was an increase of 0.019516% from its proportion measured as of August 31, 2017.

For the year ended August 31, 2020, the District recognized OPEB expense of \$1,172,068 and as well as revenue of \$27,004 representing OPEB expense incurred by the State on behalf of the District.

For the year ended August 31, 2019, the District recognized OPEB expense of \$1,338,724 and as well as revenue of \$128,185 representing OPEB expense incurred by the State on behalf of the District.

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 (continued)

At August 31, 2020, 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	\$	\$ (961,060)
Changes in assumptions	2,628,408	(8,253,386)
Difference between projected and actual investment earnings	15,185	-
Changes in proportion and differences between District contributions and proportionate share of contributions	5,529,492	(1,825,874)
District contributions subsequent to the measurement date	680,366	-
Total	<u>\$ 8,853,451</u>	<u>\$ (11,040,320)</u>

The \$680,366 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, 2021. 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
2021	\$ (1,419,612)
2022	(1,419,612)
2023	(406,913)
2024	298,379
2025	80,523
Thereafter	-
	<u>\$ (2,867,235)</u>

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 (continued)

At August 31, 2019, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$	\$ (1,215,632)
Changes in assumptions		(11,627,407)
Difference between projected and actual investment earnings	15,713	-
Changes in proportion and differences between District contributions and proportionate share of contributions	7,065,465	-
District contributions subsequent to the measurement date	<u>311,592</u>	<u>-</u>
Total	<u>\$ 7,392,770</u>	<u>\$ (12,843,039)</u>

The \$311,592 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, 2020. 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:

<u>Year ended August 31,</u>	<u>Amount</u>
2020	\$ (1,730,393)
2021	(1,730,393)
2022	(1,730,393)
2023	(669,432)
2024	98,750
Thereafter	<u>-</u>
	<u>\$ (5,761,861)</u>

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

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.

	<u>2020</u>	<u>2019</u>
Assessed Valuation of the District:	\$ 19,224,859,160	\$ 16,439,033,894
Less: Exemptions	<u>(3,356,041,339)</u>	<u>(2,908,796,878)</u>
Net Assessed Valuation of the District	<u>\$ 15,868,817,821</u>	<u>\$ 13,530,237,016</u>

	<u>2020</u>			<u>2019</u>		
	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Authorized Tax Rate per \$100 Valuation	\$ 0.280000	\$ 0.500000	\$ 0.780000	\$ 0.280000	\$ 0.500000	\$ 0.780000
Assessed Tax Rate per \$100 Valuation	\$ 0.207100	\$ 0.023000	\$ 0.230100	\$ 0.224100	\$ 0.026000	\$ 0.250100

Taxes levied for the year ended August 31, 2020 and 2019, amounted to \$36,115,204 and \$34,956,820, 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, 2020 and 2019 approximated 99.58% of the current year levy for 2020 and 99.21% for 2019. 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.

	<u>2020</u>			<u>2019</u>		
	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Current Taxes Collected	\$ 32,068,470	\$ 3,561,443	\$ 35,629,913	\$ 30,705,223	\$ 3,562,409	\$ 34,267,632
Delinquent Taxes Collected	294,627	38,651	333,278	361,934	51,893	413,827
Penalties & Interest Collected	<u>90,001</u>	<u>132,756</u>	<u>222,757</u>	<u>278,611</u>	<u>35,990</u>	<u>314,601</u>
Total Collections	<u>\$ 32,453,098</u>	<u>\$ 3,732,850</u>	<u>\$ 36,185,948</u>	<u>\$ 31,345,768</u>	<u>\$ 3,650,292</u>	<u>\$ 34,996,060</u>

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

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, 2020, there were no contract or grant awards funds already committed e.g., multi-year awards, or funds awarded during fiscal year 2020 for which monies have not been received nor funds expended.

Note 16 - Unearned Revenues

Unearned revenues consists of the following at August 31, 2020 and 2019, respectively.

	<u>2020</u>	<u>2019</u>
Tuition and fees	\$ 6,496,854	\$ 5,399,210
Other	705,378	475,402
	<u>\$ 7,202,232</u>	<u>\$ 5,874,612</u>

Note 17 - 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.

As of August 31, 2020, 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 18 - 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, 2020 and 2019.

Note 19 - Subsequent Events

The District has evaluated subsequent events from the date of the statements of net position through December 17, 2019, the date on which the financial statements were available to be issued, and has determined that there are no other items to disclose. However, due to the worldwide coronavirus pandemic, the United States and global markets may experience additional fluctuations in value resulting from the uncertainty. It is unknown the effect this will have on operations in fiscal year 2021.



REQUIRED SUPPLEMENTARY INFORMATION
(RSI) SCHEDULES

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
District's proportion of the net pension liability	0.02132%	0.02320%	0.02376%	0.02203%
District's proportionate share of the net pension liability	\$ 11,082,243	\$ 12,771,701	\$ 7,597,206	\$ 8,326,286
State's proportionate share of the net pension liability associated with the District	<u>7,603,663</u>	<u>8,653,437</u>	<u>5,034,217</u>	<u>5,601,675</u>
Total	<u>\$ 18,685,906</u>	<u>\$ 21,425,138</u>	<u>\$ 12,631,423</u>	<u>\$ 13,927,961</u>
District's covered payroll (for Measurement Year)	\$ 18,369,764	\$ 19,092,692	\$ 18,635,605	\$ 16,825,244
District's proportionate share of the net pension liability as a percentage of it's covered payroll	60.33%	66.89%	40.77%	49.49%
Plan fiduciary net position as a percentage of the total pension liability*	75.24%	73.74%	82.17%	78.00%
Plan's net pension liability as a percentage of covered payroll *	114.93%	126.11%	75.93%	92.75%
	<u>2015</u>	<u>2014</u>		
District's proportion of the net pension liability	0.02155%	0.02359%		
District's proportionate share of the net pension liability	\$ 7,617,638	\$ 6,300,281		
State's proportionate share of the net pension liability associated with the District	<u>5,069,116</u>	<u>4,073,639</u>		
Total	<u>\$ 12,686,754</u>	<u>\$ 10,373,920</u>		
District's covered payroll (for Measurement Year)	\$ 15,191,023	\$ 14,140,263		
District's proportionate share of the net pension liability as a percentage of it's covered payroll	50.15%	44.56%		
Plan fiduciary net position as a percentage of the total pension liability *	78.43%	83.25%		
Plan's net pension liability as a percentage of covered payroll *	91.94%	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 Six Fiscal Years Ended August 31

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contributions	\$ 871,855	\$ 764,401	\$ 768,816	\$ 777,440	\$ 700,073
Contributions in relation to the contractually required contributions	<u>(871,855)</u>	<u>(764,401)</u>	<u>(768,816)</u>	<u>(777,440)</u>	<u>(700,073)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 19,646,796	\$ 18,369,764	\$ 19,092,692	\$ 18,635,605	\$ 16,825,244
Contributions as a percentage of covered payroll	4.44%	4.16%	4.03%	4.17%	4.16%
	<u>2015</u>				
Contractually required contributions	\$ 611,357				
Contributions in relation to the contractually required contributions	<u>(611,357)</u>				
Contribution deficiency (excess)	<u>\$ -</u>				
District's covered payroll	\$ 15,191,023				
Contributions as a percentage of covered payroll	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, 2020

Changes of Assumptions

Assumptions, methods, and plan changes which are specific to the Pension Trust Fund were updated from the prior year's report. The net pension liability increased significantly since the prior measurement date due to a change in the following actuarial assumptions:

- The total pension liability as of August 31, 2019 was developed using a roll-forward method from the August 31, 2018 valuation.
- The single discount rate as of August 31, 2018, was a blended rate of 6.907%, and that has changed to the long-term rate of return of 7.25% as of August 31, 2019.
- With the enactment of SB 3 by the 86th Texas Legislature, 2019, an assumption has been made about how this would impact future salaries. It is assumed that eligible active members will each receive a \$2,700 increase in fiscal year 2020. This is in addition to the salary increase expected in the actuarial assumptions.

Changes in Benefit Terms

The Texas Legislature approved funding for a 13th check in September 2019. All eligible members retired as of December 31, 2018 received an extra annuity check in September 2019 in either the matching amount of their monthly annuity payment or \$2,000, whichever was less.

LEE COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE FO THE NET OPEB LIABILITY

Employee Retirement System of Texas – State Retiree Health Plan

For the last Three Measurement Years Ended August 31

	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability	0.10686%	0.11195%	0.09244%
District's proportionate share of the net OPEB liability	\$ 36,934,168	\$ 33,180,649	\$ 31,496,284
State's proportionate share of the net OPEB liability associated with the District	<u>23,836,151</u>	<u>21,563,230</u>	<u>26,506,425</u>
Total	<u>\$ 60,770,319</u>	<u>\$ 54,743,879</u>	<u>\$ 58,002,709</u>
District's covered payroll (for Measurement Year)	\$ 18,369,764	\$ 19,092,692	\$ 18,635,605
District's proportionate share of the net OPEB liability as a percentage of it's covered payroll	201.06%	173.79%	169.01%
Plan fiduciary net position as a percentage of the total OPEB liability*	0.17%	1.27%	2.04%
Plan's net OPEB liability as a percentage of covered payroll *	280.54%	246.00%	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 Five Fiscal Years Ended August 31

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contributions	\$ 680,366	\$ 311,592	\$ 845,567	\$ 729,108	\$ 671,540
Contributions in relation to the contractually required contributions	<u>(680,366)</u>	<u>(311,592)</u>	<u>(845,567)</u>	<u>(729,108)</u>	<u>(671,540)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 District's covered payroll	 \$ 19,646,796	 \$ 18,369,764	 \$ 19,092,692	 \$ 18,635,605	 \$ 16,825,244
 Contributions as a percentage of covered payroll	 3.46%	 1.70%	 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, 2020

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:

- Demographic assumptions (including rates of retirement, disability, termination, mortality, and assumed salary increases) for higher education members have been updated to reflect assumptions recently adopted by the trustees from the Teachers Retirement System of Texas.
- Assumed expenses, assumed per capita health benefit costs, and assumed health benefit cost, retiree contribution, and expense trends have been updated to reflect recent experience and its effects on our short-term expectations.
- The percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence.
- The percentage of future male retirees assumed to be married and electing coverage for their spouse.
- The percentage of future retirees and future retiree spouses assumed to use tobacco have been updated to reflect recent plan experience and expected trends.
- The discount rate assumption was increased from 3.96% as of August 31, 2018 to 2.97% as of August 31, 2019 as a result of requirements by GASB No. 74 to utilize the yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

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

- The valuation reflects the benefit change that will become effective January 1, 2020. The change to HealthSelect retirees and dependents for whom Medicare is not primary is an increase in the out-of-pocket maximum for both HealthSelect and Consumer Directed HealthSelect (CDHP) from \$6,650 to \$6,750 for individuals and from \$13,300 to \$13,500 for families in order to remain consistent with Internal Revenue maximums.

These benefit changes have been reflected in the fiscal year 2019 assumed per capita health it costs.

LEE COLLEGE DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – OPEB (continued)
Year Ended August 31, 2020

Changes in Demographic Assumptions

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.
- Percentage of future retirees assumed to be married and electing coverage for their spouse.
- Percentage of future retirees and future retiree spouses assumed to use tobacco

Changes in Economic Assumptions

Assumed Per Capita Health Benefit Costs and Health Benefit Cost and Retiree Contribution trends have been updated since the previous valuation to reflect recent health plan experience and its effect on our short-term expectations.

The discount rate was changed from 3.96% to 2.97% 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 in effect on the measurement date.

Minor benefit changes have been reflected in the FY 2020 Assumed Per Capita Health Benefits Costs.

SUPPLEMENTAL SCHEDULES

LEE COLLEGE DISTRICT
SCHEDULE OF OPERATING REVENUES

Schedule A

For the Year Ended August 31, 2020

With Memorandum Totals for the Year Ended August 31, 2019

	Educational Activities			Auxiliary Enterprises	Total	
	Unrestricted	Restricted	Total		2020	2019
Tuition						
State funded credit courses:						
In-district resident tuition	\$ 4,283,343	\$ -	\$ 4,283,343	\$ -	\$ 4,283,343	\$ 3,679,552
Out-of-district resident tuition	5,838,647	-	5,838,647	-	5,838,647	5,707,709
TPEG- credit (set aside)*	424,180	-	424,180	-	424,180	515,988
Non-resident tuition	454,212	-	454,212	-	454,212	400,399
State funded continuing education	-	-	-	-	-	118,479
Non-state funded educational programs	1,974,850	-	1,974,850	-	1,974,850	2,397,937
Total tuition	<u>12,975,232</u>	<u>-</u>	<u>12,975,232</u>	<u>-</u>	<u>12,975,232</u>	<u>12,820,064</u>
Fees						
General fees	689,390	-	689,390	-	689,390	703,567
Student service fees	327,570	-	327,570	-	327,570	295,653
Laboratory fees	689,763	-	689,763	-	689,763	651,544
Building use fees	2,424,929	-	2,424,929	-	2,424,929	2,231,170
Other fees	1,203,747	-	1,203,747	-	1,203,747	1,086,491
Total fees	<u>5,335,399</u>	<u>-</u>	<u>5,335,399</u>	<u>-</u>	<u>5,335,399</u>	<u>4,968,425</u>
Scholarship allowances and discounts						
Scholarship allowances	(886,255)	-	(886,255)	-	(886,255)	(798,865)
Remissions and exemptions	(3,707,725)	-	(3,707,725)	-	(3,707,725)	(1,688,408)
TPEG allowance	(222,619)	-	(222,619)	-	(222,619)	(273,388)
State Grants to Students	(196,779)	-	(196,779)	-	(196,779)	(204,570)
Federal Grants to students	(4,837,378)	-	(4,837,378)	-	(4,837,378)	(3,855,734)
Other	-	-	-	(498,583)	(498,583)	(158,284)
Total scholarship allowances and discounts	<u>(9,850,756)</u>	<u>-</u>	<u>(9,850,756)</u>	<u>(498,583)</u>	<u>(10,349,339)</u>	<u>(6,979,249)</u>
Total net tuition and fees	<u>8,459,875</u>	<u>-</u>	<u>8,459,875</u>	<u>(498,583)</u>	<u>7,961,292</u>	<u>10,809,240</u>
Additional operating revenues						
Federal grants and contracts	-	5,402,156	5,402,156	-	5,402,156	3,417,314
State grants and contracts	-	513,024	513,024	-	513,024	468,239
Private grants and contracts	271,561	-	271,561	-	271,561	858,461
Local grants and contracts	-	-	-	-	-	12,000
Nongovernmental grants and contracts	15,427	-	15,427	-	15,427	70,209
Other operating revenues	824,354	-	824,354	-	824,354	325,744
Total additional operating revenues	<u>1,111,342</u>	<u>5,915,180</u>	<u>7,026,522</u>	<u>-</u>	<u>7,026,522</u>	<u>5,151,967</u>
Auxiliary Enterprises						
Other auxiliary	-	-	-	274,787	274,787	393,943
Total net auxiliary	<u>-</u>	<u>-</u>	<u>-</u>	<u>274,787</u>	<u>274,787</u>	<u>393,943</u>
Total operating revenues	<u>\$ 9,571,217</u>	<u>\$ 5,915,180</u>	<u>\$ 15,486,397</u>	<u>\$ (223,796)</u>	<u>\$ 15,262,601</u>	<u>\$ 16,355,150</u>
					(Exhibit 2)	(Exhibit 2)

*In accordance with Education Code 56.033, \$424,180 and \$515,988 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, 2020
With Memorandum Totals for the Year Ended August 31, 2019

Schedule B

	Operating Expenses				Total	
	Salaries and Wages	Benefits		Other expenses	2020	2019
		State	Local			
Unrestricted - Educational Activities						
Instruction	\$ 17,745,671	\$ -	\$ 5,095,844	\$ 1,640,153	\$ 24,481,668	\$ 23,386,783
Public service	1,262,602	-	354,130	383,877	2,000,609	2,185,143
Academic support	2,486,633	-	722,554	971,725	4,180,912	3,893,173
Student services	2,110,130	-	696,923	168,033	2,975,086	2,859,262
Institutional support	4,445,681	-	1,479,445	3,440,940	9,366,066	10,092,687
Operation and maintenance of plant	2,328,589	-	653,114	3,171,114	6,152,817	6,255,286
Total Unrestricted Educational Activities	30,379,306	-	9,002,010	9,775,842	49,157,158	48,672,334
Restricted - Educational Activities						
Instruction	422,860	1,631,494	-	717,397	2,771,751	3,019,619
Public service		113,379	-		113,379	277,506
Academic support	89,533	231,334	-	45,114	365,981	480,320
Student services	374,652	223,128	-	1,107,321	1,705,101	684,470
Institutional support	830,007	473,661	-	1,686,507	2,990,175	1,361,203
Operation and maintenance of plant		209,102	-		209,102	165,032
Scholarships and fellowships		-	-	4,828,813	4,828,813	2,716,159
Total Restricted Educational Activities	1,717,052	2,882,098	-	8,385,152	12,984,302	8,704,309
Total Educational Activities	32,096,358	2,882,098	9,002,010	18,160,994	62,141,460	57,376,643
Auxiliary Enterprises	360,606	32,382	101,141	429,483	923,612	1,054,144
Depreciation Expense:						
Building and other real estate improvements		-	-	2,222,007	2,222,007	2,056,007
Equipment and furniture		-	-	1,190,650	1,190,650	1,068,881
Total Depreciation Expense		-	-	3,412,657	3,412,657	3,124,888
Total Operating Expenses	\$ 32,456,964	\$ 2,914,480	\$ 9,103,151	\$ 22,003,134	\$ 66,477,729	\$ 61,555,675
					(Exhibit 2)	(Exhibit 2)

LEE COLLEGE DISTRICT
SCHEDULE OF NON- OPERATING REVENUES AND EXPENSES
For the Year Ended August 31, 2020
With Memorandum Totals for the Year Ended August 31, 2019

Schedule C

	Unrestricted	Restricted	Total	Auxiliary Enterprises	Total	
					2020	2019
Non-operating revenues						
State appropriations:						
Education and general state support	\$ 11,125,834	\$ -	\$ 11,125,834	\$ -	\$ 11,125,834	\$ 9,480,447
State group insurance	-	2,010,070	2,010,070	-	2,010,070	2,091,085
State retirement matching	-	904,410	904,410	-	904,410	803,204
Total state appropriations	11,125,834	2,914,480	14,040,314	-	14,040,314	12,374,736
Maintenance and ad valorem taxes	32,645,106	-	32,645,106	-	32,645,106	31,325,219
General obligation bond taxes	-	3,566,932	3,566,932	-	3,566,932	3,588,224
Federal non-operating grants	-	8,787,913	8,787,913	-	8,787,913	5,627,362
Investment income	379,310	-	379,310	-	379,310	564,073
Gifts	943,721	-	943,721	-	943,721	1,022,985
Payments in lieu of taxes	1,287,791	-	1,287,791	-	1,287,791	1,656,593
Gain on investments	1,421,386	-	1,421,386	-	1,421,386	-
Other non-operating revenue	105,963	-	105,963	-	105,963	93,683
Total non-operating revenues	47,909,111	15,269,325	63,178,436	-	63,178,436	56,252,875
Non-operating expenses						
Interest and fees on capital-related debt	-	2,615,579	2,615,579	-	2,615,579	2,633,299
Other non-operating expenses	-	271,453	271,453	-	271,453	397,974
Total non-operating expenses	-	2,887,032	2,887,032	-	2,887,032	3,031,273
Net non-operating revenues (expenses)	\$ 47,909,111	\$ 12,382,293	\$ 60,291,404	\$ -	\$ 60,291,404	\$ 53,221,602
					(Exhibit 2)	(Exhibit 2)

LEE COLLEGE DISTRICT
SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY
For the Year Ended August 31, 2020

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 Liability	\$ (8,944,295)	\$ -	\$ -	\$ -	\$ (8,944,295)	\$ -	\$ (8,944,295)
Net OPEB Liability	(39,121,037)	-	-	-	(39,121,037)	-	(39,121,037)
Other	30,299,000	-	-	-	30,299,000	30,299,000	-
Restricted	-	-	383,122	-	383,122	-	383,122
Plant:							
Investment in plant	-	-	-	42,440,154	42,440,154	-	42,440,154
Total Net Position, end of year	(17,766,332)	-	383,122	42,440,154	25,056,944 (Exhibit 1)	30,299,000	(5,242,056)
Total Net Position, beginning of the year	(25,327,025)	-	379,034	40,928,659	15,980,668 (Exhibit 1)	28,652,199	(12,671,531)
Net increase (decrease) in net position	\$ 7,560,693	\$ -	\$ 4,088	\$ 1,511,495	\$ 9,076,276 (Exhibit 2)	\$ 1,646,801	\$ 7,429,475



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



**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, 2020, 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 17, 2020. 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) as a basis for designing 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. 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 financial statements. 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.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive style with a large, stylized "P" for "Penn".

Houston, Texas
December 17, 2020

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 programs for the year ended August 31, 2020. 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, 2020.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



Houston, Texas
December 17, 2020

LEE COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2020

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?	No
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)?	No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Numbers</u>
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US Department of Education

Student Financial Assistance Programs Cluster:

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

COVID-19 Higher Education Emergency Relief Fund for Direct Student Aid	84.425E
COVID-19 Higher Education Emergency Relief Fund – Institutional Portion	84.425F

Dollar Threshold Considered Between Type A and B:	\$750,000
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Auditee qualified as low risk auditee?	Yes
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LEE COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended August 31, 2020

II. Financial Statement Findings

None reported.

III. Federal Award Findings and Questioned Costs

None reported.

LEE COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2020

Schedule E

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Grant Award #	Expenditures
U.S. Department of Education			
Direct Programs:			
Student Financial Assistance Cluster:			
<i>Federal Supplemental Educational Opportunity Grant 2018-19</i>	84.007	P007A184054	\$ 3,347
<i>Federal Supplemental Educational Opportunity Grant 2019-20</i>	84.007	P007A194054	123,946
<i>Federal College Workstudy Program 2019-20</i>	84.033	P033A194054	175,412
<i>Federal College Workstudy Program 2020-21</i>	84.033	P033A204054	1,483
<i>Federal Pell 2018-19</i>	84.063	P063P182284	(9,516)
<i>Federal Pell 2019-20</i>	84.063	P063P192284	8,493,241
<i>Direct Loan Program 2018-19</i>	84.268	P268K192284	(10,840)
<i>Direct Loan Program 2019-20</i>	84.268	P268K202284	3,429,224
Total Student Financial Assistance Cluster (CFDA # 84.007, 84.033, 84.063, 84.268)			<u>12,206,297</u>
<i>Title III - LC STEM Project</i>	84.031C	P031C160135	869,667
<i>Title V - Lee College Title V Project</i>	84.031S	P031S160051	490,699
<i>Title V - Lee College Title V Pathways Project</i>	84.031S	P031S190296	104,078
Total CFDA # 84.031			<u>1,464,444</u>
TRIO Cluster:			
<i>Student Support Services</i>	84.042A	P042A151114	271,202
<i>Educational Opportunity Center</i>	84.066A	P066A160293	259,214
Total TRIO Cluster (CFDA # 84.042, 84.066)			<u>530,417</u>
CARES Act Higher Education Emergency Relief Fund (HEERF) Cluster:			
<i>COVID-19 Higher Education Emergency Relief Fund for Direct Student Aid</i>	84.425E	P425E201421	961,500
<i>COVID-19 Higher Education Emergency Relief Fund -Institutional Portion</i>	84.425F	P425F201633	1,477,043
Total CARES Act Higher Education Emergency Relief Fund (HEERF) Cluster (CFDA # 84.425)			<u>2,438,543</u>
Passed through from Texas Workforce Commission			
<i>Accelerate Texas IV: Integrated Education and Training</i>	84.002A	2819AEL001	254,741
Passed through from Texas Higher Education Coordinating Board:			
<i>Carl Perkins Vocational Education - Basic 19-20</i>	84.048	22108	550,764
Total U.S. Department of Education			<u><u>17,445,206</u></u>
U.S. Department of Agriculture			
Direct Program:			
<i>Hispanic Serving Institutions Education Grants Program</i>	10.223	2017-38422-27110	45,149
Total U.S. Department of Agriculture			<u>45,149</u>
U.S. Department of Labor			
Direct Program:			
<i>Job Corps Experimental Projects and Technical Assistance</i>	17.287	JC-34676-20-60-O-48	3,735
Passed through from American Association of Community Colleges			
<i>Expanding Community College Apprenticeship Initiative</i>	17.285	AP-3305-19-75-A-11	25,449
Total U.S. Department of Labor			<u>29,184</u>
U.S. Small Business Administration			
Passed through from University of Houston			
<i>Small Business Development Center 2018-19</i>	59.037	9-603001-EZ-0020	780
<i>Small Business Development Center 2019-20</i>	59.037	7-603001-EZ-0020	88,134
Total CFDA # 59.037			<u>88,914</u>
Total U.S. Small Business Administration			<u>88,914</u>
Total Expenditures of Federal Awards			<u><u>\$ 17,608,453</u></u>

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 - Federal Assistance Reconciliation

Federal Grants and Contracts Revenues per Schedule A	5,402,156
Federal Grants and Contracts Revenues per Schedule C	8,787,913
Add: Direct Student Loans	<u>3,418,384</u>
Total Federal Revenues per Schedule of Expenditures of Federal Awards (Schedule E)	<u><u>\$ 17,608,453</u></u>

LEE COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended August 31, 2020

Schedule F

Grantor Agency / Program Title	Grantor / Project Number	Expenditures
Texas Higher Education Coordinating Board		
<i>Texas College Work Study 19-20</i>	N/A	\$ 24,084
<i>Texas Education Opportunity Grant 19-20</i>	N/A	488,940
Total Texas Higher Education Coordinating Board		<u>513,024</u>
Total State Financial Assistance		<u><u>\$ 513,024</u></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>\$ 513,024</u>
Total State Revenues per Schedule A	<u><u>\$ 513,024</u></u>

LEE COLLEGE DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended August 31, 2020

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, 2020 has been prepared to address these requirements.

I. Prior Audit Findings

None

LEE COLLEGE DISTRICT LEE COLLEGE DISTRICT
CORRECTIVE ACTION PLAN
For the Year Ended August 31, 2020

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, 2020 has been prepared to address these requirements.

I. Corrective Action Plan

Not applicable